The following table is a reconciliation of Distributable Earnings per share of common and equivalents[1] to net distribution per share of common and equivalents for the years ended December 31, 2014, 2013 and 2012.

	For the Year Ended December 31,		
	2014	2013	2012
Distributable Earnings After Taxes and Related Payables	$ 1,356,215	$ 1,829,974	$ 874,663
Add back: Tax related payables attributable to common and equivalents	66,429	32,192	40,800
Distributable Earnings before certain payables[2]	1,422,644	1,862,166	915,463
Percent to common and equivalents	45%	42%	39%
Distributable Earnings before other payables attributable to common and equivalents	633,380	784,268	357,725
Less: Tax related payables attributable to common and equivalents	(66,429)	(32,192)	(40,800)
Distributable Earnings attributable to common and equivalents	566,951	752,076	316,925
Distributable Earnings per share of common and equivalent[3]	$ 3.13	$ 4.49	$ 2.02
Retained capital per share of common and equivalent[3]	(0.24)	(0.51)	(0.08)
Net distribution per share of common and equivalent[3]	$ 2.89	$ 3.98	$ 1.94

(1) Common and equivalents refers to Class A shares and RSUs that participate in distributions.

(2) Distributable Earnings before certain payables represents distributable earnings before the deduction for the estimated current corporate taxes and the payable under Apollo's tax receivable agreement.

(3) Per share calculations are based on total Class A shares outstanding and RSUs that participate in distributions.

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Summary of Fee-Related EBITDA and Fee-Related EBITDA + 100% of Net Realized Carried Interest

Fee-related EBITDA is a non-GAAP performance measure used to understand the performance of our operations and represents management business ENI (pre-tax), with amounts for equity-based compensation, interest expense and depreciation and amortization added to management business ENI. Fee-related EBITDA plus realized carried interest less realized profit sharing (referred to as "fee-related EBITDA +100% of net realized carried interest") is a non-GAAP performance measure that combines operating results of the management business and incentive business. These performance measures are used to compare our current and potential debt service. See note 14 to our consolidated financial statements for more detail on our outstanding debt.

The table below sets forth fee-related EBITDA and fee-related EBITDA + 100% of net realized carried interest for the years ended December 31, 2014, 2013 and 2012, and a reconciliation of net income attributable to Apollo Global Management, LLC to ENI, fee-related EBITDA and fee-related EBITDA + 100% of net realized carried interest.

	Year Ended December 31,		
	2014	**2013**	**2012**
Management Business Economic Net Income	$ 578,156	$ 330,846	$ 222,981
Equity-based compensation[1]	107,112	66,341	68,942
Interest expense	22,393	29,260	37,116
Depreciation and amortization[2]	10,182	11,046	10,227
Fee-Related EBITDA	717,843	437,493	339,266
Total realized carried interest	1,713,108	2,456,404	997,222
Total realized profit sharing expense	(782,216)	(977,957)	(446,035)
Net realized carried interest	930,892	1,478,447	551,187
Fee-Related EBITDA + 100% of Net Realized Carried Interest	1,648,735	1,915,940	890,453
Net unrealized carried interest (loss) income	(841,760)	207,537	740,299
Net investment income	88,258	110,821	119,978
Net interest expense	(22,393)	(29,260)	(37,116)
Depreciation and amortization[2]	(10,182)	(11,046)	(10,227)
Equity-based compensation[1]	(107,112)	(66,341)	(68,942)
Economic Net Income	755,546	2,127,651	1,634,445
Income tax provision	(147,245)	(107,569)	(65,410)
Net (income) attributable to non-controlling interests in Apollo Operating Group	(404,682)	(1,257,650)	(685,357)
Charges related to equity-based compensation[3]	(502)	(59,847)	(529,712)
Amortization of intangible assets	(34,888)	(43,194)	(43,009)
Net income attributable to Apollo Global Management, LLC	$ 168,229	$ 659,391	$ 310,957

(1) Includes RSUs (excluding RSUs granted in connection with the 2007 private placement) and share options. Excludes equity-based compensation expense comprising amortization of AOG Units.

(2) Includes amortization of leasehold improvements.

(3) Includes amortization amounts related to AOG Units.

Liquidity and Capital Resources

Historical

Although we have managed our historical liquidity needs by looking at deconsolidated cash flows, our historical consolidated statements of cash flows reflects the cash flows of Apollo, as well as those of the consolidated Apollo funds.

The primary cash flow activities of Apollo are:

- Generating cash flow from operations;
- Making investments in Apollo funds;
- Meeting financing needs through credit agreements; and
- Distributing cash flow to equity holders and Non-Controlling Interests.

Primary cash flow activities of the consolidated Apollo funds and VIEs are:

- Raising capital from their investors, which have been reflected historically as Non-Controlling Interests of the consolidated subsidiaries in our financial statements;
- Using capital to make investments;
- Generating cash flow from operations through distributions, interest and the realization of investments;
- Distributing cash flow to investors; and
- Issuing debt to finance investments (CLOs).

While primarily met by cash flows generated through fee income and carried interest income received, working capital needs have also been met (to a limited extent) through borrowings as follows:

	As of December 31, 2014		As of December 31, 2013	
	Outstanding Balance	Annualized Weighted Average Interest Rate	Outstanding Balance	Annualized Weighted Average Interest Rate
2013 AMH Credit Facilities - Term Facility	$ 500,000	1.36%	$ 750,000	1.37%
2024 Senior Notes[1]	499,058	4.00	N/A	N/A
2014 AMI Term Facility[2]	16,204	2.34	N/A	N/A
2014 AMI Term Facility II[3]	18,752	1.93	N/A	N/A
Total Debt	$ 1,034,014		$ 750,000	

(1) Includes impact of any amortization of note discount and interest rate hedge.
(2) On July 3, 2014, Apollo Management International LLP ("AMI"), a subsidiary of the Company, entered into a €13.4 million five year credit agreement (the "2014 AMI Term Facility"). Proceeds from the borrowing were used to fund the Company's investment in a CLO.
(3) On December 9, 2014, AMI entered into a €15.5 million five year credit agreement (the "2014 AMI Term Facility II"). Proceeds from the borrowing were used to fund the Company's investment in a CLO.

Additionally the 2013 AMH Credit Facilities provide for a $500 million revolving credit facility, which was undrawn as of December 31, 2014. See note 14 of our consolidated financial statements for information regarding the Company's debt arrangements.

We determine whether to make capital commitments to our funds in excess of our minimum required amounts based on a variety of factors, including estimates regarding our liquidity resources over the estimated time period during which commitments will have to be funded, estimates regarding the amounts of capital that may be appropriate for other funds that we are in the process of raising or are considering raising, and our general working capital requirements.

Cash Flows

Significant amounts from our consolidated statements of cash flows for the years ended December 31, 2014, 2013 and 2012 are summarized and discussed within the table and corresponding commentary below:

	Year Ended December 31,		
	2014	**2013**	**2012**
		(in thousands)	
Operating Activities	$ (372,917)	$ 1,134,458	$ 331,614
Investing Activities	13,432	2,651	(150,854)
Financing Activities	485,611	(1,005,023)	21,960
Net Increase in Cash and Cash Equivalents	$ 126,126	$ 132,086	$ 202,720

Operating Activities

Net cash used in operating activities was $372.9 million during the year ended December 31, 2014. During this period, there was $729.9 million in net income, to which $126.3 million of equity-based compensation and $83.7 million cash distributions of earnings from equity method investments were added to reconcile net income to net cash provided by operating activities. Additional adjustments to reconcile cash provided by operating activities during the year ended December 31, 2014 included $8,509.4 million in proceeds from sales of investments held by consolidated VIEs, $113.4 million in net unrealized losses from investments held by the consolidated funds and VIEs, a $1,375.4 million decrease in carried interest receivable, a $169.8 million increase in other liabilities of Apollo funds and a $34.0 million increase in accounts payable and accrued expenses. These favorable cash adjustments were offset by $10,330.1 million of purchases of investments held by the consolidated VIEs, a $13.8 million increase in cash held at consolidated VIEs, a $24.9 million increase in other assets, a $252.3 million increase in due from affiliates, a $43.5 million increase in other assets of Apollo funds, a $79.9 million decrease in deferred revenue, $101.7 million in net realized gains on debt of the consolidated funds and VIEs, a $97.5 million decrease in due to affiliates, a $518.0 million decrease in profit sharing payable, and $53.9 million of income from equity method investments.

Net cash provided by operating activities was $1,134.5 million during the year ended December 31, 2013. During this period, there was $2,374.0 million in net income, to which $126.2 million of equity-based compensation and a $60.8 million change in fair value of contingent obligations were added to reconcile net loss to net cash provided by operating activities. Additional adjustments to reconcile cash provided by operating activities during the year ended December 31, 2013 included $8,422.2 million in proceeds from sales of investments held by the consolidated VIEs, a $27.3 million change in deferred revenue, $66.8 million of distributions from investment activities, a $232.5 million increase in net unrealized losses on debt, a $587.5 million change in cash held at consolidated VIEs, a $141.2 million increase in profit sharing payable and $109.1 million relating to cash distributions of earnings from equity method investments. These favorable cash adjustments were offset by $309.1 million in net unrealized gains from investments held by the consolidated funds and VIEs, $107.4 million of income from equity method investments, a $44.2 million decrease in due to affiliates, a $130.5 million decrease in due from affiliates, $137.1 million of net realized gains on debt, a $64.1 million change in other liabilities of Apollo funds, a $408.8 million increase in carried interest receivable and $9,841.8 million of purchases of investments held by the consolidated VIEs.

Net cash provided by operating activities was $331.6 million during the year ended December 31, 2012. During this period, there was $3,047.8 million in net income, to which $598.7 million of equity-based compensation and a $1,951.9 million gain on business acquisitions and non-cash expenses were added to reconcile net loss to net cash provided by operating activities. Additional adjustments to reconcile cash provided by operating activities during the year ended December 31, 2012 included $7,182.4 million in proceeds from sales of investments held by the consolidated VIEs, a $497.7 million increase in net unrealized losses on debt, a $361.6 million increase in profit sharing payable and $66.0 million relating to cash distributions of earnings from equity method investments. These favorable cash adjustments were offset by $458.0 million in net unrealized gains from investments held by the consolidated funds and VIEs, a $103.8 million decrease in due to affiliates, a $348.1 million change in cash held at consolidated VIEs, a $973.6 million increase in carried interest receivable and $7,525.5 million of purchases of investments held by the consolidated VIEs.

Investing Activities

Net cash provided by investing activities was $13.4 million for the year ended December 31, 2014, which was primarily comprised of $76.3 million of cash distributions received from equity method investments, $50.0 million of proceeds from sales of investments, primarily offset by $109.9 million of cash contributions to equity method investments. Additional adjustments to reconcile cash provided by investing activities were $5.9 million of purchases of fixed assets. Cash contributions to equity method

investments were primarily related to Fund VIII, EPF II, COF III, AESI, ACSP and AION. Cash distributions from equity method investments were primarily related to Fund VII, Fund VIII, EPF I, EPF II and AION.

Net cash provided by investing activities was $2.6 million for the year ended December 31, 2013, which was primarily comprised of $107.2 million relating to cash distributions received from equity method investments offset by $98.4 million of cash contributions to equity method investments. Cash contributions to equity method investments were primarily related to Fund VII, Fund VIII, COF III, EPF I, EPF II, AESI, ACSP, AION, AGRE U.S. Real Estate Fund, L.P. and Apollo SPN Investments I, L.P. Cash distributions from equity method investments were primarily related to Fund VI, Fund VII, COF I, COF II, Vantium C, ACLF, AIE II, ACSP and EPF II.

Net cash used in investing activities was $150.8 million for the year ended December 31, 2012, which was primarily comprised of $11.3 million in purchases of fixed assets, $99.2 million relating to the acquisition of Stone Tower (see note 3 to our consolidated financial statements), $126.9 million of cash contributions to equity method investments, partially offset by $86.6 million of cash distributions from equity method investments. Cash contributions to equity method investments were primarily related to EPF I, EPF II, ASCP, Fund VII, AINV and AGRE U.S. Real Estate Fund, L.P. Cash distributions from equity method investments were primarily related to Fund VII, ACLF, AGRE U.S. Real Estate Fund, L.P., COF I, COF II, Artus, EPF I and EPF II.

Financing Activities

Net cash provided by financing activities was $485.6 million for the year ended December 31, 2014, which was primarily comprised of $4,225.5 million related to issuance of debt by consolidated VIEs, $534.0 million of issuance of debt by AMH, and $889.7 million in contributions from Non-Controlling Interests in consolidated VIEs. This amount was offset by $2,371.5 million in repayment of debt held by consolidated VIEs, $32.0 million related to satisfaction of tax receivable agreement liabilities, $250 million in principal repayments of debt, $816.4 million of distributions paid to Non-Controlling Interests in the Apollo Operating Group, $506.0 million in distributions, $37.3 million in satisfaction of contingent obligations, $703.0 million in distributions paid to consolidated VIEs and $450.4 million of distributions paid to Non-Controlling Interests in consolidated VIEs.

Net cash used in financing activities was $1,005.0 million for the year ended December 31, 2013, which was primarily comprised of $2,747.0 million related to issuance of debt by consolidated VIEs, $750.0 million related to debt refinancing and $688.9 million in contributions from Non-Controlling Interests in consolidated variable interest entities. This amount was offset by $2,218.1 million in repayment of term loans by consolidated VIEs, $334.2 million in distributions to consolidated VIEs, $147.4 million of distributions paid to Non-Controlling Interests in consolidated VIEs, $975.5 million of distributions paid to Non-Controlling Interests in the Apollo Operating Group, $584.5 million in distributions, $85.9 million related to employee tax withholding payments in connection with deliveries of Class A shares in settlement of RSUs, $12.2 million in distributions to Non-Controlling Interests in consolidated entities, $737.8 million in principal repayments of debt and repurchases of debt, $30.4 million in satisfaction of tax receivable agreements, $67.5 million in satisfaction of contingent obligations and $62.3 million in purchases of AAA units.

Net cash provided by financing activities was $22.0 million for the year ended December 31, 2012, which was primarily comprised of $1,413.3 million related to issuance of debt by consolidated VIEs and $4.1 million in contributions from Non-Controlling Interests in consolidated entities. This amount was offset by $515.9 million in repayment of term loans by consolidated VIEs, $486.7 million in distributions by consolidated VIEs, $335.0 million of distributions paid to Non-Controlling Interests in the Apollo Operating Group, $202.4 million in distributions, $26.0 million related to employee tax withholding payments in connection with deliveries of Class A shares in settlement of RSUs, $8.8 million in distributions to Non-Controlling Interests in consolidated entities and $102.1 million in purchases of AAA units.

Distributions

In addition to other distributions such as payments pursuant to the tax receivable agreement, the table below presents information regarding the quarterly distributions which were made at the sole discretion of the Company's manager during for the years ended December 31, 2014, 2013 and 2012 (in millions, except per share amounts):

Distribution Declaration Date	Distribution per Class A Share	Distribution Payment Date	Distribution to Class A Shareholders	Distribution to Non-Controlling Interest Holders in the Apollo Operating Group	Total Distributions from Apollo Operating Group	Distribution Equivalents on Participating Securities
February 10, 2012	$ 0.46	February 29, 2012	$ 58.1	$ 110.4	$ 168.5	$ 10.3
April 13, 2012	-	April 13, 2012	-	11.0	11.0	-
May 8, 2012	0.25	May 30, 2012	31.6	60.0	91.6	6.2
August 2, 2012	0.24	August 31, 2012	31.2	57.6	88.8	5.3
November 9, 2012	0.40	November 30, 2012	52.0	96.0	148.0	9.4
For the year ended December 31, 2012	$ 1.35		$ 172.9	$ 335.0	$ 507.9	$ 31.2
February 8, 2013	$ 1.05	February 28, 2013	$ 138.7	$ 252.0	$ 390.7	$ 25.0
April 12, 2013	-	April 12, 2013	-	55.2 (1)	55.2	-
May 6, 2013	0.57	May 30, 2013	80.8	131.8	212.6	14.3
August 8, 2013	1.32	August 30, 2013	189.7	305.2	494.9	30.8
November 7, 2013	1.01	November 29, 2013	147.7	231.2	378.9	24.1
For the year ended December 31, 2013	$ 3.95		$ 556.9	$ 975.4	$ 1,532.3	$ 94.2
February 7, 2014	$ 1.08	February 26, 2014	$ 160.9	$ 247.3	$ 408.2	$ 25.5
April 3, 2014	-	April 3, 2014	-	49.5 (1)	49.5	-
May 8, 2014	0.84	May 30, 2014	130.0	188.4	318.4	20.9
June 16, 2014	-	June 16, 2014	-	28.5 (1)	28.5	-
August 6, 2014	0.46	August 29, 2014	73.6	102.5	176.1	10.2
September 11, 2014	-	September 11, 2014	-	12.4 (1)	12.4	-
October 30, 2014	0.73	November 21, 2014	119.0	162.6	281.6	15.5
December 15, 2014	-	December 15, 2014	-	25.2 (1)	25.2	-
For the year ended December 31, 2014	$ 3.11		$ 483.5	$ 816.4	$ 1,299.9	$ 72.1

(1) On April 13, 2012, April 12, 2013, April 3, 2014, June 16, 2014, September 11, 2014 and December 15, 2014, the Company made a $0.05, $0.23, $0.22, $0.13, $0.06 and $0.11 distribution per AOG Unit, respectively, to the non-controlling interest holders in the Apollo Operating Group.

Future Cash Flows

Our ability to execute our business strategy, particularly our ability to increase our AUM, depends on our ability to establish new funds and to raise additional investor capital within such funds. Our liquidity will depend on a number of factors, such as our ability to project our financial performance, which is highly dependent on our funds and our ability to manage our projected costs, fund performance, having access to credit facilities, being in compliance with existing credit agreements, as well as industry and market trends. Also during economic downturns the funds we manage might experience cash flow issues or liquidate entirely. In these situations we might be asked to reduce or eliminate the management fee and incentive fees we charge, which could adversely impact our cash flow in the future.

An increase in the fair value of our funds' investments, by contrast, could favorably impact our liquidity through higher management fees where the management fees are calculated based on the net asset value, gross assets and adjusted assets. Additionally, higher carried interest income not yet realized would generally result when investments appreciate over their cost basis which would not have an impact on the Company's cash flow.

As of December 31, 2014, Fund VI's remaining investments and escrow cash were valued at 104% of the funds unreturned capital, which was below a specified return ratio of 115%. As a result, Fund VI is required to place in escrow all current and future carried interest income distributions to the general partner until the specified return ratio of 115% is met (at the time of a future distribution) or upon liquidation of Fund VI.

On April 20, 2010, the Company announced that it entered into a strategic relationship agreement with CalPERS. The strategic relationship agreement provides that Apollo will reduce fees charged to CalPERS on funds it manages, or in the future will manage, solely for CalPERS by $125 million over a five-year period or as close a period as required to provide CalPERS with that benefit. The agreement further provides that Apollo will not use a placement agent in connection with securing any future capital commitments from CalPERS. As of December 31, 2014, the Company had reduced fees charged to CalPERS on the funds it manages by approximately $95.9 million. Based on the Company's current estimates, the reduction of fees will extend until 2017 in order for CalPERS to receive the full benefit of this arrangement.

The Company granted approximately 7.0 million RSUs during the year ended December 31, 2014. The average estimated fair value per share on the grant date was $21.16, per RSU with a total fair value of the grants of $149.1 million at December 31, 2014. This will impact the Company's compensation expense as these grants are amortized over their vesting term of three to six years. The Company expects to incur annual compensation expenses on all grants, net of forfeitures, of approximately $62.5 million, $50.0 million, $31.3 million, $15.7 million, $13.0 million and $3.4 million during the years ended December 31, 2015, 2016, 2017, 2018, 2019 and thereafter, respectively.

Although we expect to pay distributions according to our distribution policy, we may not pay distributions according to our policy, or at all, if, among other things, we do not have the cash necessary to pay the intended distributions. To the extent we do not have cash on hand sufficient to pay distributions, we may have to borrow funds to pay distributions, or we may determine not to pay distributions. The declaration, payment and determination of the amount of our quarterly distributions are at the sole discretion of our manager.

Carried interest income from our funds can be distributed to us on a current basis, but is subject to repayment by the subsidiaries of the Apollo Operating Group that act as general partner of such funds in the event that certain specified return thresholds are not ultimately achieved. The Managing Partners, Contributing Partners and certain other investment professionals have personally guaranteed, to the extent of their ownership interest, subject to certain limitations, the obligations of these subsidiaries in respect of this general partner obligation. Such guarantees are several and not joint and are limited to a particular Managing Partner's or Contributing Partner's distributions. Pursuant to the shareholders agreement dated July 13, 2007 (the "Managing Partner Shareholders Agreement"), we agreed to indemnify each of our Managing Partners and certain Contributing Partners against all amounts that they pay pursuant to any of these personal guarantees in favor of Fund IV, Fund V and Fund VI (including costs and expenses related to investigating the basis for or objecting to any claims made in respect of the guarantees) for all interests that our Managing Partners and Contributing Partners have contributed or sold to the Apollo Operating Group. See "Item 13. Certain Relationships and Related Party Transactions-Managing Partner Shareholders Agreement."

Accordingly, in the event that our Managing Partners, Contributing Partners and certain investment professionals are required to pay amounts in connection with a general partner obligation to return previously distributed carried interest income with respect to Fund IV, Fund V and Fund VI, we will be obligated to reimburse our Managing Partners and certain Contributing Partners for the indemnifiable percentage of amounts that they are required to pay even though we did not receive the distribution to which that general partner obligation related.

On January 13, 2015, the Company issued 681,421 Class A shares in settlement of vested RSUs. This issuance caused the Company's ownership interest in the Apollo Operating Group to increase from 42.3% to 42.4%.

On February 5, 2015 the Company declared a cash distribution of $0.86 per Class A share, which will be paid on February 27, 2015 to holders of record on February 17, 2015.

Athene

Athene Holding is the ultimate parent of various insurance company operating subsidiaries. Through its subsidiaries, Athene Holding provides insurance products focused primarily on the retirement market and its business centers primarily on issuing or reinsuring fixed indexed annuities.

Apollo, through its consolidated subsidiary, Athene Asset Management, provides asset management services to Athene, including asset allocation and portfolio management strategies, and receives fees from Athene for providing such services. As of December 31, 2014, all of Athene's assets were managed by Athene Asset Management. Athene Asset Management had $60.3 billion of total AUM as of December 31, 2014 in accounts owned by or related to Athene (the "Athene Accounts"), of which approximately $12.6 billion, or approximately 20.9%, was either sub-advised by Apollo or invested in Apollo funds and investment vehicles. The vast majority of such assets are in sub-advisory managed accounts that manage high grade credit asset classes, such as CLO debt, commercial mortgage backed securities and insurance-linked securities. We expect this percentage to increase over time provided that Athene Asset Management continues to perform successfully in providing asset management services to Athene.

Athene Asset Management receives a management fee equal to 0.40% per annum on all assets under management in the Athene Accounts, with certain limited exceptions. In addition, the Company receives sub-advisory management fees and carried interest income with respect to a portion of the assets in the Athene Accounts. With respect to capital invested in an Apollo fund, Apollo receives management fees directly from the relevant funds under the investment management agreements with such funds. Athene Asset Management and other Apollo subsidiaries incur all expenses associated with their provision of services to Athene, including but not limited to, asset allocation services, direct asset management services, risk management, asset and liability matching management, mergers and acquisitions asset diligence, hedging and other services.

Under a transaction advisory services agreement with Athene (the "Athene Services Agreement"), effective February 5, 2013, Apollo earns a quarterly monitoring fee of 0.50% of Athene's capital and surplus as of the end of the applicable quarter multiplied by 2.5, excluding the shares of Athene Holding that were newly acquired (and not in satisfaction of prior commitments to buy such shares) by AAA Investments in the contribution of certain assets by AAA to Athene in October 2012, at the end of each quarter through December 31, 2014, the termination date. This quarterly monitoring fee is not applicable to the amount of invested capital attributable to the Excluded Athene Shares. The Athene Services Agreement was amended in connection with the Athene Private Placement described below (the "Amended Athene Services Agreement"). The Amended Athene Services Agreement adjusts the calculation of Athene Holding's capital and surplus downward by an amount equal to (x) the equity capital raised in the Athene Private Placement and (y) certain disproportionate increases to the statutory capital and surplus of Athene, as compared to the stockholders' equity of Athene calculated on a U.S. GAAP basis, as a result of certain future acquisitions by Athene. Prior to the consummation of the Athene Private Placement, all such monitoring fees were paid pursuant to a derivative contract between Athene and Apollo (the "Athene Services Derivative"). In connection with the Athene Private Placement, the Athene Services Derivative was settled on April 29, 2014 by delivery to Apollo of common shares of Athene Holding, and as a result, such derivative was terminated. Following settlement of the Athene Services Derivative, future monitoring fees paid to Apollo pursuant to the Amended Athene Services Agreement, will be paid on a quarterly basis in arrears by delivery to Apollo of common shares of Athene Holding (unless such payment in shares would violate Section 16(b) of the U.S. Securities Exchange Act of 1934, as amended). Unsettled monitoring fees pursuant to the Amended Athene Services Agreement are recorded as due from affiliates in the consolidated statements of financial condition. For the years ended December 31, 2014, 2013 and 2012 Apollo earned $226.4 million, $107.9 million and $16.8 million, respectively, related to this monitoring fee. The monitoring fee is recorded in advisory and transaction fees from affiliates, net, in the consolidated statements of operations. As of December 31, 2014, Apollo had a $58.2 million receivable recorded in due from affiliates on the consolidated statements of financial condition. As of December 31, 2013, Apollo had a $116.4 million receivable, which was accounted for as a derivative recorded in due from affiliates on the consolidated statements of financial condition.

In accordance with the services agreement among AAA, AAA Investments and the other service recipients party thereto and Apollo (the "AAA Services Agreement"), Apollo receives a management fee for managing the assets of AAA Investments. In connection with each of the contribution of certain assets by AAA to Athene in October 2012, and the initial closing of the Athene Private Placement on April 4, 2014, the AAA Services Agreement was amended (the "Amended AAA Services Agreement"). Pursuant to the Amended AAA Services Agreement, the parties agreed that there will be no management fees payable by AAA Investments with respect to the Excluded Athene Shares. AAA Investments agreed to continue to pay Apollo the same management fee on its investment in Athene (other than with respect to the Excluded Athene Shares), except that Apollo agreed that the obligation to pay the existing management fee terminated on December 31, 2014 (although services will continue through December 31, 2020). Prior to the consummation of the Athene Private Placement, all such management fees were accrued pursuant to a derivative contract between AAA Investments and Apollo (the "AAA Services Derivative"). In connection with the Athene Private Placement, the AAA Services Derivative was settled on April 29, 2014 by delivery to Apollo of common shares of Athene Holding, and as a result, such derivative was terminated. Following settlement of the AAA Services Derivative, future management fees paid to Apollo pursuant to the Amended AAA Services Agreement will be paid on a quarterly basis in arrears by delivery to Apollo of common shares of Athene Holding (unless such payment in shares would violate Section 16(b) of the Exchange Act). Unsettled management fees pursuant to the Amended AAA Services Agreement will be recorded as due from affiliates in the consolidated statements of financial condition. As of December 31, 2014, Apollo had a $3.1 million receivable recorded in due from affiliates related to this management fee on the consolidated statements of financial condition. As of December 31, 2013, Apollo had a $14.3 million receivable related to this management fee, which was accounted for as a derivative recorded in due from affiliates on the consolidated statements of financial condition. The total management fees earned by Apollo related to the Amended AAA Services Agreement for the years ended December 31, 2014, 2013 and 2012 were $1.9 million, $2.2 million and $0.6 million, respectively, which are recorded in management fees from affiliates in the consolidated statements of operations.

Pursuant to the Amended AAA Services Agreement, in the event that AAA (1) makes a tender offer to all of its qualified unitholders in which AAA offers to purchase all of their equity interests in AAA, pay the consideration for such purchase with equivalent equity interests in a new vehicle, of which Apollo will serve as general partner, and transfer to such new investment vehicle a pro rata portion of the common shares of Athene Holding held by AAA Investments, unburdened by the unwind fee, and

(2) thereafter distributes all or any portion of the common shares of Athene Holding held by AAA (or disposes of such shares and distributes the proceeds thereof) to its unitholders, then AAA shall pay Apollo an unwind fee. The unwind fee is payable in pro rata increments to Apollo only when, as and if AAA distributes common shares of Athene Holding (or the proceeds thereof) to its unitholders and shall be equal to $20 million multiplied by the percentage of "net common shares" of Athene Holding held by AAA which are so distributed (or disposed of with the proceeds distributed) by AAA in 2015. There is no assurance that a AAA distribution will be made or that the unwind fee will be paid in 2015.

Prior to the settlement of the Athene Services Derivative and the AAA Services Derivatives, the Amended Athene Services Agreement and the Amended AAA Services Agreement together with the Athene Services Derivative and the AAA Services Derivative, met the definition of derivatives under U.S. GAAP. The Company had classified these derivatives as Level III assets in the fair value hierarchy, as the pricing inputs into the determination of fair value require significant judgment and estimation. After the settlement of the Athene Services Derivative and the AAA Services Derivatives the unsettled shares receivable recorded in due from affiliates related to the Amended Athene Services Agreement and the Amended AAA Services Agreement are valued at fair value based on the price of a common share of Athene Holding. The Company had classified the derivative and the shares receivable as Level III assets in the fair value hierarchy, as the pricing inputs into the determination of fair value require significant judgment and estimation. See note 6 for further discussion regarding fair value measurements.

Prior to the settlement of the Athene Services Derivative and the AAA Services Derivative, the change in unrealized market value of the derivatives was reflected in other income, net in the consolidated statements of operations. For the year ended December 31, 2013, there was $10.2 million of changes in market value recognized related to these derivatives.

In addition, Apollo, as general partner of AAA Investments, is generally entitled to a carried interest that allocates to it 20% of the realized returns (net of related expenses, including borrowing costs) on the investments of AAA Investments, except that Apollo will not be entitled to receive any carried interest in respect of the Excluded Athene Shares. Carried interest receivable from AAA Investments will be paid in common shares of Athene Holding (valued at the then fair market value) if there is a distribution in kind of shares of Athene Holding (unless such payment in shares would violate Section 16(b) of the Exchange Act) or paid in cash if AAA sells the shares of Athene Holding. For the years ended December 31, 2014, 2013 and 2012, the Company recorded carried interest income less the related profit sharing expense of $14.6 million, $27.6 million and $35.3 million, respectively from AAA Investments, which is recorded in the consolidated statements of operations. As of December 31, 2014 and December 31, 2013, the Company had a $121.5 million and a $100.9 million carried interest receivable, respectively, related to AAA Investments. As of December 31, 2014 and December 31, 2013, the Company had a related profit sharing payable of $34.9 million and $28.8 million, respectively, recorded in profit sharing payable in the consolidated statements of financial condition.

For the years ended December 31, 2014, 2013 and 2012, Apollo earned revenues in the aggregate totaling $546.5 million, $435.1 million and $164.7 million, respectively, consisting of management fees, sub-advisory and monitoring fees and carried interest income from Athene after considering the related profit sharing expense and changes in the market value of the Athene shares owned directly by Apollo, which is recorded in the consolidated statements of operations.

On April 4, 2014, Athene Holding completed an initial closing of a private placement offering of common equity in which it raised $1.048 billion of primary commitments from third-party institutional and certain existing investors in Athene Holding (the "Athene Private Placement"). Shares in the Athene Private Placement were offered at a price per common share of Athene Holding of $26. In connection with the Athene Private Placement, Athene raised an additional $80 million of third party capital at $26 per share, all of which was used to buy back a portion of the shares of one of its existing investors at a price of $26 per share in a transaction that was consummated on April 29, 2014. As announced by AAA on June 24, 2014, a second closing of the Athene Private Placement occurred in which Athene Holding raised $170 million of commitments primarily from employees of Athene and its affiliates at a price per common share of Athene Holding of $26. The Investment Partnership did not purchase any additional common shares of Athene Holding as part of the Athene Private Placement.

In connection with the Athene Private Placement, Athene Holding amended its registration rights agreement to provide (i) investors who are party to such agreement, including AAA Investments, the potential opportunity for liquidity on their shares of Athene Holding through sales in registered public offerings over a 15 month period beginning on the date of Athene Holding's initial public offering (the "Athene IPO") and (ii) Athene Holding the right to cause certain investors who are party to the registration rights agreement to include in such offerings a certain percentage of their common shares of Athene Holding subject to the terms and conditions set forth in the agreement. However, pursuant to the registration rights agreement, any shares of Athene Holding held by Apollo will not be subject to such arrangements and instead will be subject to a lock-up period of two years following the effective date of the registration statement relating to the Athene IPO, but Athene Holding will not have the right to cause any shares owned by Apollo to be included in the Athene IPO or any follow-on offering.

As part of its ongoing financial integration of Aviva USA, Athene identified material weaknesses in its internal controls over financial reporting for its U.S. GAAP and statutory financials as of December 31, 2013. A material weakness is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented, or detected and corrected on a timely basis. If Athene fails to maintain effective internal control over financial reporting, it may not be able to accurately report its financial results. In October 2014, Athene informed its shareholders, including the Company, that as part of its ongoing financial integration of Aviva USA and transition towards public company standards for financial controls, it anticipates that delivery of its GAAP financial statements for the quarter ended June 30, 2014 and September 30, 2014 will continue to be delayed. This delay will also cause Athene's year end 2014 and first quarter 2015 GAAP financial statements to be delayed. As such, the Audit Committee of Athene has approved the extension of the delivery of these GAAP financial statements to June 30, 2015. On February 4, 2015, Athene informed its shareholders, including the Company, that Athene's first quarter 2014 GAAP financial statements can no longer be relied upon and therefore these financial statements have been removed from the AAA website. Specifically, Athene discovered the need to change its calculations for reserve balances associated with its indexed products. As a result of this determination, Athene has begun a methodical process of restating their first quarter 2014 GAAP financial statements. The aforementioned delay in delivery of Athene's 2014 GAAP financial statements and the announced restatement of Athene's first quarter 2014 GAAP financial statements is not expected to have an impact on the Company's previously issued financial statements. Athene has continued to meet all regulatory filing deadlines with regard to financial statements prepared in accordance with Statutory Accounting principles and expects to do so for the quarter ended December 31, 2014. As of December 31, 2014 the Company determined the value of its investment in Athene using an embedded value methodology. In doing so, the Company has given appropriate consideration to the control deficiencies and potential adjustments related to Athene and any potential impacts to the Company's financial statements. As the embedded value methodology is based on the projected future cash flows of the business rather than GAAP financials, the delay in the delivery of Athene's GAAP financial statement will not have an impact on the Company's ability to prepare its financial statements. Based on the facts and circumstances as of the date of this report, the Company is not aware of any revisions to the financial statements as presented, or previously issued financial statements, and there is no impact to our ability to produce future financial statements.

See notes 4 and 17 to the consolidated financial statements for discussion regarding the Company's ownership interest in AAA, AAA Investments and Athene.

Distributions to Managing Partners and Contributing Partners

The three Managing Partners who became employees of Apollo on July 13, 2007 are each entitled to a $100,000 base salary. Additionally, our Managing Partners can receive other forms of compensation. Any additional consideration will be paid to them in their proportional ownership interest in Holdings. Additionally, 85% of any tax savings APO Corp. recognizes as a result of the tax receivable agreement will be paid to the Managing Partners.

Subsequent to the 2007 Reorganization, the Contributing Partners retained ownership interests in subsidiaries of the Apollo Operating Group. Therefore, any distributions that flow up to management or general partner entities in which the Contributing Partners retained ownership interests are shared pro rata with the Contributing Partners who have a direct interest in such entities prior to flowing up to the Apollo Operating Group. These distributions are considered compensation expense after the 2007 Reorganization.

The Contributing Partners are entitled to receive the following:

- Profit Sharing related to private equity carried interest income, from direct ownership of advisory entities. Any changes in fair value of the underlying fund investments would result in changes to Apollo Global Management, LLC's profit sharing payable;
- Additional consideration based on their proportional ownership interest in Holdings; and
- Additionally, 85% of any tax savings APO Corp. recognizes as a result of the tax receivable agreement will be paid to the Contributing Partners.

Potential Future Costs

We may make grants of RSUs or other equity-based awards to employees and independent directors that we appoint in the future.

Critical Accounting Policies

This Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates. A summary of our significant accounting policies is presented in note 2 to our consolidated financial statements. The following is a summary of our accounting policies that are affected most by judgments, estimates and assumptions.

Consolidation

The types of entities with which Apollo is involved generally include subsidiaries (i.e., general partners and management companies related to the funds we manage), entities that have all the attributes of an investment company (e.g., funds) and securitization vehicles (e.g., collateralized loan obligations). Each of these entities is assessed for consolidation on a case by case basis depending on the specific facts and circumstances surrounding that entity.

Pursuant to our consolidation policy, we first consider the appropriate consolidation guidance to apply including consideration of whether the entity qualifies for certain scope exceptions and whether the entity should be evaluated under either the previous rules on consolidation of variable interest entities ("VIEs") or the amended consolidation rules depending on whether or not the entity qualifies for the deferral as further described below. We then perform an assessment to determine whether that entity qualifies as a VIE. An entity in which Apollo holds a variable interest is a VIE if any one of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support, (b) the holders of equity investment at risk (as a group) lack either the direct or indirect ability through voting rights or similar rights to make decisions about a legal entity's activities that have a significant effect on the success of the legal entity or the obligation to absorb the expected losses or right to receive the expected residual returns, or (c) the voting rights of some investors are disproportionate to their obligation to absorb the expected losses of the legal entity, their rights to receive the expected residual returns of the legal entity, or both and substantially all of the legal entity's activities either involve or are conducted on behalf of an investor with disproportionately few voting rights. Entities that do not qualify as VIEs are generally assessed for consolidation as voting interest entities ("VOEs") under the voting interest model.

Under the voting interest model, Apollo consolidates those entities it controls through a majority voting interest or through other means, including those VOEs in which the general partner is presumed to have control. Apollo does not consolidate those VOEs in which the presumption of control by the general partner has been overcome through either the granting of substantive rights to the unaffiliated investors to either dissolve the fund or remove the general partner ("kick-out rights") or the granting of substantive participating rights.

As previously indicated, the consolidation assessment, including the determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and therefore certain of our funds may qualify as VIEs whereas others may qualify as VOEs. The granting of substantive kick-out rights is a key consideration in determining whether an entity is a VIE and whether or not that entity should be consolidated. For example, when the unaffiliated holders of equity investment at risk of a fund with sufficient equity to permit the fund to finance its activities without additional subordinated financial support are not granted substantive kick-out rights and the Company is not part of the group of holders of equity investment at risk, the fund is generally determined to be a VIE, as the holders of equity investment at risk as a group lack the direct or indirect ability through voting rights or similar rights to make decisions that have a significant effect on the success of the legal entity. Alternatively, when the unaffiliated holders of equity investment at risk are granted substantive kick-out rights, the fund is generally determined to be a VOE. However, in certain cases where the Company holds a substantive equity investment at risk in the fund, the fund may be determined to be a VOE even though substantive kick-out rights were not granted to the unaffiliated holders of equity investment at risk. In these cases, the Company is part of the group of holders of equity investment at risk and therefore the holders of equity investment at risk as a group do not lack the direct or indirect ability through voting rights or similar rights to make decisions that have a significant effect on the success of the legal entity.

If the entity is determined to be a VIE under the conditions above, we then assess whether the entity should be consolidated by applying either the previous consolidation rules or the amended consolidation rules depending on whether the entity qualifies for the deferral of the amended consolidation rules as further described below.

VIEs that qualify for the deferral of the amended consolidation rules because certain conditions are met, including if the entities have all the fundamental characteristics (and a number of the typical characteristics) of an investment company and are not securitization or asset-backed financing entities, will continue to apply the previous consolidation rules. VIEs that are

securitization or asset-backed financing entities will apply the amended consolidation rules. Under both sets of rules, VIEs for which Apollo is determined to be the primary beneficiary are consolidated.

With respect to VIEs such as our funds that qualify for the deferral of the amended consolidation rules and therefore apply the previous consolidation rules, Apollo is determined to be the primary beneficiary if its involvement, through holding interests directly or indirectly in the VIE or contractually through other variable interests (e.g., carried interest and management fees), would be expected to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. In cases where two or more Apollo related parties hold a variable interest in a VIE, and the aggregate variable interest held by those parties would, if held by a single party, identify that party as the primary beneficiary, then the Company is determined to be the primary beneficiary to the extent it is the party within the related party group that is most closely associated with the VIE.

For VIEs such as our CLOs that apply the amended consolidation rules, Apollo is determined to be the primary beneficiary if it holds a controlling financial interest defined as possessing both (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. CLOs are generally determined to be VIEs if they are formed solely to issue collateralized notes in the legal form of debt and therefore do not have sufficient total equity investment at risk to permit the entity to finance its activities without additional subordinated financial support. With respect to such CLOs, we generally possess a controlling financial interest in, and therefore consolidate, such CLOs in accordance with the amended consolidation rules when our role as collateral manager provides us with the power to direct the activities that most significantly impact the CLO's economic performance and we have the right to receive certain benefits from the CLO (e.g., incentive fees) that could potentially be significant to the CLO.

Under the previous and the amended consolidation rules, Apollo determines whether it is the primary beneficiary of a VIE at the time it becomes initially involved with the VIE and reconsiders that conclusion continuously. Investments and redemptions (either by Apollo, affiliates of Apollo or third parties) or amendments to the governing documents of the respective entity may affect an entity's status as a VIE or the determination of the primary beneficiary.

The assessment of whether an entity is a VIE and the determination of whether Apollo should consolidate such VIE requires judgments. Under both sets of rules, those judgments include, but are not limited to: (i) determining whether the total equity investment at risk is sufficient to permit the entity to finance its activities without additional subordinated financial support, (ii) evaluating whether the holders of equity investment at risk, as a group, can make decisions that have a significant effect on the success of the entity, (iii) determining whether two or more parties' equity interests should be aggregated, (iv) determining whether the equity investors have proportionate voting rights to their obligations to absorb losses or rights to receive the expected residual returns from an entity, and (v) evaluating the nature of the relationship and activities of the parties involved in determining which party within a related-party group is most closely associated with the VIE. Where the VIEs have qualified for the deferral, judgments are also made in estimating cash flows to evaluate which member within the equity group absorbs a majority of the expected losses or residual returns of the VIE. Where the VIEs have not qualified for the deferral, judgments are also made in determining whether a member in the equity group has a controlling financial interest including power to direct activities that most significantly impact the VIEs' economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE.

Certain of the consolidated VIEs were formed to issue collateralized notes in the legal form of debt backed by financial assets. The difference between the fair value of the assets and liabilities of these VIEs is presented within appropriated partners' capital in the consolidated statements of financial condition as these VIEs are funded solely with debt. Changes in the fair value of the assets and liabilities of these VIEs and the related interest and other income is presented within net gains from investment activities of consolidated variable interest entities and net income attributable to Non-Controlling Interests in the consolidated statements of operations. Such amounts are recorded within appropriated partners' capital as, in each case, the VIE's note holders, not Apollo, will ultimately receive the benefits or absorb the losses associated with the VIE's assets and liabilities.

Assets and liabilities of the consolidated VIEs are shown in separate sections within the consolidated statements of financial condition as of December 31, 2014 and 2013.

Revenue Recognition

Carried Interest Income from Affiliates. We earn carried interest income from our funds as a result of such funds achieving specified performance criteria. Such carried interest income generally is earned based upon a fixed percentage of realized and unrealized gains of various funds after meeting any applicable hurdle rate or threshold minimum. Carried interest income from certain of the funds that we manage is subject to contingent repayment and is generally paid to us as particular investments made by the funds are realized. If, however, upon liquidation of a fund, the aggregate amount paid to us as carried interest exceeds

the amount actually due to us based upon the aggregate performance of the fund, the excess (in certain cases net of taxes) is required to be returned by us to that fund. For a majority of our credit funds, once the annual carried interest income has been determined, there generally is no look-back to prior periods for a potential contingent repayment, however, carried interest income on certain other credit funds can be subject to contingent repayment at the end of the life of the fund. We have elected to adopt Method 2 from U.S. GAAP guidance applicable to accounting for management fees based on a formula, and under this method, we accrue carried interest income quarterly based on fair value of the underlying investments and separately assess if contingent repayment is necessary. The determination of carried interest income and contingent repayment considers both the terms of the respective partnership agreements and the current fair value of the underlying investments within the funds. Estimates and assumptions are made when determining the fair value of the underlying investments within the funds and could vary depending on the valuation methodology that is used. See "Investments, at Fair Value" below for further discussion related to significant estimates and assumptions used for determining fair value of the underlying investments in our private equity, credit and real estate funds.

Management Fees from Affiliates. The management fees related to our private equity funds are generally based on a fixed percentage of the committed capital or invested capital. The corresponding fee calculations that consider committed capital or invested capital are both objective in nature and therefore do not require the use of significant estimates or assumptions. Management fees related to our credit funds, by contrast, can be based on net asset value, gross assets, adjusted cost of all unrealized portfolio investments, capital commitments, adjusted assets, capital contributions, or stockholders' equity all as defined in the respective partnership agreements. The credit management fee calculations that consider net asset value, gross assets, adjusted cost of all unrealized portfolio investments and adjusted assets, are normally based on the terms of the respective partnership agreements and the current fair value of the underlying investments within the funds. Estimates and assumptions are made when determining the fair value of the underlying investments within the funds and could vary depending on the valuation methodology that is used. The management fees related to our real estate funds are generally based on a specific percentage of the funds' stockholders' equity or committed or net invested capital or the capital accounts of the limited partners. See "Investments, at Fair Value" below for further discussion related to significant estimates and assumptions used for determining fair value of the underlying investments in our private equity, credit and real estate funds.

Investments, at Fair Value

The Company follows U.S. GAAP attributable to fair value measurements, which among other things, requires enhanced disclosures about investments that are measured and reported at fair value. Investments at fair value represent investments of the consolidated funds, investments of the consolidated VIEs and certain financial instruments for which the fair value option was elected. The unrealized gains and losses resulting from changes in the fair value are reflected as net gains (losses) from investment activities and net gains (losses) from investment activities of the consolidated variable interest entities, respectively, in the consolidated statements of operations. In accordance with U.S. GAAP, investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I-Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed derivatives. As required by U.S. GAAP, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and the sale of such position would likely deviate from the quoted price.

Level II-Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives where the fair value is based on observable inputs. These investments exhibit higher levels of liquid market observability as compared to Level III investments. The Company subjects broker quotes to various criteria in making the determination as to whether a particular investment would qualify for treatment as a Level II investment. These criteria include, but are not limited to, the number and quality of broker quotes, the standard deviation of obtained broker quotes, and the percentage deviation from independent pricing services.

Level III-Pricing inputs are unobservable for the investment and includes situations where there is little observable market activity for the investment. The inputs into the determination of fair value may require significant management judgment or estimation. Investments that are included in this category generally include general and limited partner interests in corporate private equity and real estate funds, opportunistic credit funds, distressed debt and non-investment grade residual interests in securitizations and CDOs and CLOs where the fair value is based on observable inputs as well as unobservable inputs. When a security is valued based on broker quotes, the Company subjects those quotes to various criteria in making the determination as to whether a particular investment would qualify for treatment as a Level II or Level III investment. These criteria include, but are not limited to, the number and quality of the broker

quotes, the standard deviations of the observed broker quotes, and the percentage deviation from independent pricing services.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment where the fair value is based on unobservable inputs.

In cases where an investment or financial instrument measured and reported at fair value is transferred into or out of Level III of the fair value hierarchy, the Company accounts for the transfer as of the end of the reporting period.

Equity Method Investments. For investments in entities over which the Company exercises significant influence but which do not meet the requirements for consolidation, the Company uses the equity method of accounting, whereby the Company records its share of the underlying income or loss of such entities. Income (loss) from equity method investments is recognized as part of other income (loss) in the consolidated statements of operations and income (loss) on available-for-sale securities (from equity method investments) is recognized as part of other comprehensive income (loss), net of tax in the consolidated statements of comprehensive income (loss). The carrying amounts of equity method investments are reflected in investments in the consolidated statements of financial condition. As the underlying entities that the Company manages and invests in are, for U.S. GAAP purposes, primarily investment companies which reflect their investments at estimated fair value, the carrying value of the Company's equity method investments in such entities approximates fair value.

Private Equity Investments. The majority of the illiquid investments within our private equity funds are valued using the market approach, which provides an indication of fair value based on a comparison of the subject company to comparable publicly traded companies and transactions in the industry.

Market Approach. The market approach is driven by current market conditions, including actual trading levels of similar companies and, to the extent available, actual transaction data of similar companies. Judgment is required by management when assessing which companies are similar to the subject company being valued. Consideration may also be given to any of the following factors: (1) the subject company's historical and projected financial data; (2) valuations given to comparable companies; (3) the size and scope of the subject company's operations; (4) the subject company's individual strengths and weaknesses; (5) expectations relating to the market's receptivity to an offering of the subject company's securities; (6) applicable restrictions on transfer; (7) industry and market information; (8) general economic and market conditions; and (9) other factors deemed relevant. Market approach valuation models typically employ a multiple that is based on one or more of the factors described above. Sources for gaining additional knowledge related to comparable companies include public filings, annual reports, analyst research reports, and press releases. Once a comparable company set is determined, we review certain aspects of the subject company's performance and determine how its performance compares to the group and to certain individuals in the group. We compare certain measurements such as EBITDA margins, revenue growth over certain time periods, leverage ratios, and growth opportunities. In addition, we compare our entry multiple and its relation to the comparable set at the time of acquisition to understand its relation to the comparable set on each measurement date.

Income Approach. For investments where the market approach does not provide adequate fair value information, we rely on the income approach. The income approach is also used to value investments or validate the market approach within our private equity funds. The income approach provides an indication of fair value based on the present value of cash flows that a business or security is expected to generate in the future. The most widely used methodology for the income approach is a discounted cash flow method. Inherent in the discounted cash flow method are significant assumptions related to the subject company's expected results and a calculated discount rate, which is normally based on the subject company's weighted average cost of capital, or "WACC." The WACC represents the required rate of return on total capitalization, which is comprised of a required rate of return on equity, plus the current tax-effected rate of return on debt, weighted by the relative percentages of equity and debt that are typical in the industry. The most critical step in determining the appropriate WACC for each subject company is to select companies that are comparable in nature to the subject company and the credit quality of the subject company. Sources for gaining additional knowledge about the comparable companies include public filings, annual reports, analyst research reports, and press releases. The general formula then used for calculating the WACC considers the after-tax rate of return on debt capital and the rate of return on common equity capital, which further considers the risk-free rate of return, market beta, market risk premium and small stock premium, if applicable. The variables used in the WACC formula are inferred from the comparable market data obtained. The Company evaluates the comparable companies selected and concludes on WACC inputs based on the most comparable company or analyzes the range of data for the investment.

The value of liquid investments, where the primary market is an exchange (whether foreign or domestic) is determined using period end market prices. Such prices are generally based on the close price on the date of determination.

On a quarterly basis, Apollo utilizes a valuation committee consisting of members from senior management, to review and approve the valuation results related to our funds' private equity investments. Management also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analysis. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Credit Investments. The majority of investments in Apollo's credit funds are valued based on quoted market prices and valuation models. Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value utilizing recognized pricing services, market participants or other sources. When market quotations are not available, a model based approach is used to determine fair value. The credit funds also enter into foreign currency exchange contracts, total return swap contracts, credit default swap contracts, and other derivative contracts, which may include options, caps, collars and floors. Foreign currency exchange contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. If securities are held at the end of this period, the changes in value are recorded in income as unrealized. Realized gains or losses are recognized when contracts are settled. Total return swap and credit default swap contracts are recorded at fair value as an asset or liability with changes in fair value recorded as unrealized appreciation or depreciation. Realized gains or losses are recognized at the termination of the contract based on the difference between the close-out price of the total return or credit default swap contract and the original contract price.

Forward contracts are valued based on market rates obtained from counterparties or prices obtained from recognized financial data service providers. When determining fair value pricing when no observable market value exists, the value attributed to an investment is based on the enterprise value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation approaches used to estimate the fair value of illiquid credit investments also may include the market approach and the income approach, as previously described above. The valuation approaches used consider, as applicable, market risks, credit risks, counterparty risks and foreign currency risks.

On a quarterly basis, Apollo also utilizes a valuation committee, consisting of members from senior management, to review and approve the valuation results related to our credit investments. For certain publicly traded vehicles, a review is performed by an independent board of directors. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Real Estate Investments. For the CMBS portfolio of Apollo's funds, the estimated fair value of the CMBS portfolio is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. Broker quotes are only indicative of fair value and may not necessarily represent what the funds would receive in an actual trade for the applicable instrument. Additionally, the loans held-for-investment are stated at the principal amount outstanding, net of deferred loan fees and costs. The Company evaluates its loans for possible impairment on a quarterly basis. For Apollo's opportunistic and value added real estate funds, valuations of non-marketable underlying investments are determined using methods that include, but are not limited to (i) discounted cash flow estimates or comparable analysis prepared internally, (ii) third party appraisals or valuations by qualified real estate appraisers, and (iii) contractual sales value of investments/properties subject to bona fide purchase contracts. Methods (i) and (ii) also incorporate consideration of the use of the income, cost, or sales comparison approaches of estimating property values.

On a quarterly basis, Apollo also utilizes a valuation committee, consisting of members from senior management, to review and approve the valuation results related to our real estate investments. For certain publicly traded vehicles, a review is performed by an independent board of directors. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

The fair values of the investments in our private equity, credit and real estate funds can be impacted by changes to the assumptions used in the underlying valuation models. For further discussion on the impact of changes to valuation assumptions see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk-Sensitivity" in this Annual Report on Form 10-K. There have been no material changes to the underlying valuation models during the periods that our financial results are presented.

Fair Value of Financial Instruments

U.S. GAAP guidance requires the disclosure of the estimated fair value of financial instruments. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Except for the Company's debt obligations (as described in note 14 to our consolidated financial statements), Apollo's financial instruments are recorded at fair value or at amounts whose carrying values approximate fair value. See "Investments, at Fair Value" above. While Apollo's valuations of portfolio investments are based on assumptions that Apollo believes are reasonable under the circumstances, the actual realized gains or losses will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may ultimately differ significantly from the assumptions on which the valuations were based. Financial instruments' carrying values generally approximate fair value because of the short-term nature of those instruments or variable interest rates related to the borrowings.

Valuation of Financial Instruments Held by Consolidated VIEs

The consolidated VIEs hold investments that are traded over-the-counter. Investments in securities that are traded on a securities exchange or comparable over-the-counter quotation systems are valued based on the last reported sale price at that date. If no sales of such investments are reported on such date, and in the case of over-the-counter securities or other investments for which the last sale date is not available, valuations are based on independent market quotations obtained from market participants, recognized pricing services or other sources deemed relevant, and the prices are based on the average of the "bid" and "ask" prices, or at ascertainable prices at the close of business on such day. Market quotations are generally based on valuation pricing models or market transactions for similar securities adjusted for security-specific factors such as relative capital structure priority and interest and yield risks, among other factors. When market quotations are not available, a model based approach is used to determine fair value.

The consolidated VIEs also have debt obligations that are recorded at fair value. The primary valuation methodology used to determine fair value for debt obligation is market quotation. Prices are based on the average of the "bid" and "ask" prices. In the event that market quotations are not available, a model based approach is used. The valuation approach used to estimate the fair values of debt obligations for which market quotations are not available is the discounted cash flow method, which includes consideration of the cash flows of the debt obligation based on projected quarterly interest payments and quarterly amortization. Debt obligations are discounted based on the appropriate yield curve given the loan's respective maturity and credit rating. Management uses its discretion and judgment in considering and appraising relevant factors for determining the valuations of its debt obligations.

Fair Value Option. Apollo elected the fair value option for the Company's investment in Athene Holding, the convertible notes issued by HFA and for the assets and liabilities of the consolidated VIEs. Such election is irrevocable and is applied to financial instruments on an individual basis at initial recognition. Apollo applied the fair value option for certain corporate loans, other investments and debt obligations held by these entities that otherwise would not have been carried at fair value. For the convertible notes issued by HFA, Apollo elected to separately present interest income from other changes in the fair value of the convertible notes in the consolidated statements of operations. See notes 4, 5 and 6 to our consolidated financial statements for further disclosure on the investments in Athene Holding, HFA and financial instruments of the consolidated VIEs for which the fair value option has been elected.

Goodwill and Intangible Assets-Goodwill and indefinite-life intangible assets must be reviewed annually for impairment or more frequently if circumstances indicate impairment may have occurred. Identifiable finite-life intangible assets, by contrast, are amortized over their estimated useful lives, which are periodically re-evaluated for impairment or when circumstances indicate an impairment may have occurred. Apollo amortizes its identifiable finite-life intangible assets using a method of amortization reflecting the pattern in which the economic benefits of the finite-life intangible asset are consumed or otherwise used up. If that pattern cannot be reliably determined, Apollo uses the straight-line method of amortization. At June 30, 2014, the Company performed its annual impairment testing, and, as the fair value of each of the Company's reporting units was in excess of its carrying value, there was no impairment of goodwill. Additionally, there was no impairment of indefinite-life intangible assets as of December 31, 2014.

Compensation and Benefits

Compensation and benefits include salaries, bonuses and benefits, profit sharing expense and equity-based compensation.

Salaries, Bonus and Benefits. Salaries, bonus and benefits include base salaries, discretionary and non-discretionary bonuses, severance and employee benefits. Bonuses are accrued over the related service period.

The Company sponsors a 401(k) Savings Plan whereby U.S.-based employees are entitled to participate in the plan based upon satisfying certain eligibility requirements. The Company may provide discretionary contributions from time to time. No contributions relating to this plan were made by the Company for the years ended December 31, 2014 and 2013.

Profit Sharing Expense. Profit sharing expense is primarily a result of agreements with our Contributing Partners and employees to compensate them based on the ownership interest they have in the general partners of the Apollo funds. Therefore, changes in the fair value of the underlying investments in the funds we manage and advise affect profit sharing expense. The Contributing Partners and employees are allocated approximately 30% to 50% of the total carried interest income which is driven primarily by changes in fair value of the underlying fund's investments and is treated as compensation expense. Additionally, profit sharing expenses paid may be subject to clawback from employees, former employees and Contributing Partners to the extent not indemnified.

Changes in the fair value of the contingent obligations that were recognized in connection with certain Apollo acquisitions are reflected in the Company's consolidated statements of operations as profit sharing expense.

In June 2011, the Company adopted a performance based incentive arrangement for certain Apollo partners and employees designed to more closely align compensation on an annual basis with the overall realized performance of the Company. This arrangement, which we refer to herein as the Incentive Pool, enables certain partners and employees to earn discretionary compensation based on carried interest realizations earned by the Company in a given year, which amounts are reflected in profit sharing expense in the accompanying consolidated financial statements. The Company adopted the Incentive Pool to attract and retain, and provide incentive to, partners and employees of the Company and to more closely align the overall compensation of partners and employees with the overall realized performance of the Company. Allocations to the Incentive Pool and to its participants contain both a fixed and a discretionary component and may vary year-to-year depending on the overall realized performance of the Company and the contributions and performance of each participant. There is no assurance that the Company will continue to compensate individuals through performance-based incentive arrangements in the future and there may be periods when the Executive Committee of the Company's manager determines that allocations of realized carried interest income are not sufficient to compensate individuals, which may result in an increase in salary, bonus and benefits.

Equity-Based Compensation. Equity-based compensation is accounted for in accordance with U.S. GAAP, which requires that the cost of employee services received in exchange for an award is generally measured based on the grant date fair value of the award. Equity-based awards that do not require future service (i.e., vested awards) are expensed immediately. Equity-based employee awards that require future service are recognized over the relevant service period. Further, as required under U.S. GAAP, the Company estimates forfeitures using industry comparables or historical trends for equity-based awards that are not expected to vest. Apollo's equity-based awards consist of, or provide rights with respect to AOG Units, RSUs, share options, AHL Awards (as defined in note 16 to our consolidated financial statements) and other equity-based compensation awards. For more information regarding Apollo's equity-based compensation awards, see note 16 to our consolidated financial statements. The Company's assumptions made to determine the fair value on grant date and the estimated forfeiture rate are embodied in the calculations of compensation expense.

Additionally, the value of the AOG Units have been reduced to reflect the transfer restrictions imposed on units issued to the Managing Partners and Contributing Partners as well as the lack of rights to participate in future Apollo Global Management, LLC equity offerings. These awards have the following characteristics:

- Awards granted to the Managing Partners (i) are not permitted to be sold to any parties outside of the Apollo Global Management, LLC control group and transfer restrictions lapse pro rata during the forfeiture period over 60 or 72 months, and (ii) allow the Managing Partners to initiate a change in control; and
- Awards granted to the Contributing Partners (i) are not permitted to be sold or transferred to any parties except to the Apollo Global Management, LLC control group and (ii) the transfer restriction period lapses over six years (which is longer than the forfeiture period which lapses ratably over 60 months).

As noted above, the AOG Units issued to the Managing Partners and Contributing Partners have different restrictions which affect the liquidity of and the discounts applied to each grant.

We utilized the Finnerty Model to calculate a discount on the AOG Units granted to the Contributing Partners. The Finnerty Model provides for a valuation discount reflecting the holding period restriction embedded in a restricted security preventing its sale over a certain period of time. Along with the Finnerty Model we applied adjustments to account for the existence of liquidity clauses specific to the AOG Units granted to the Contributing Partners and a minority interest consideration as compared to the units sold in the Strategic Investors Transaction in 2007. The combination of these adjustments yielded a fair value estimate of the AOG Units granted to the Contributing Partners.

The Finnerty Model proposes to estimate a discount for lack of marketability such as transfer restrictions by using an option pricing theory. This model has gained recognition through its ability to address the magnitude of the discount by considering the volatility of a company's stock price and the length of restriction. The concept underpinning the Finnerty Model is that a restricted security cannot be sold over a certain period of time. Further simplified, a restricted share of equity in a company can be viewed as having forfeited a put on the average price of the marketable equity over the restriction period (also known as an "Asian Put Option"). If we price an Asian Put Option and compare this value to that of the assumed fully marketable underlying security, we can effectively estimate the marketability discount.

The assumptions utilized in the model were (i) length of holding period, (ii) volatility, (iii) dividend yield and (iv) risk free rate. Our assumptions were as follows:

(i)	We assumed a maximum two year holding period.
(ii)	We concluded based on industry peers, that our volatility annualized would be approximately 40%.
(iii)	We assumed no distributions.
(iv)	We assumed a 4.88% risk free rate based on U.S. Treasuries with a two year maturity.

For the Contributing Partners' grants, the Finnerty Model calculation, as detailed above, yielded a marketability discount of 25%. This marketability discount, along with adjustments to account for the existence of liquidity clauses and consideration of non-controlling interests as compared to units sold in the Strategic Investors Transaction in 2007, resulted in an overall discount for these grants of 29%.

We determined a 14% discount for the grants to the Managing Partners based on the equity value per share of $24. We determined that the value of the grants to the Managing Partners was supported by the 2007 sale of an identical security to Credit Suisse Management, LLC at $24 per share. Based on an equity value per share of $24, the implied discount for the grants to the Managing Partners was 14%. The Contributing Partners yielded a larger overall discount of 29%, as they are unable to cause a change in control of Apollo. This results in a lower fair value estimate, as their units have fewer beneficial features than those of the Managing Partners.

Another significant part of our compensation expense is derived from amortization of RSUs. The fair value of all RSU grants after March 29, 2011 is based on the grant date fair value, which considers the public share price of the Company. RSUs are comprised of Plan Grants, which generally do not pay distributions until vested and, for grants made after 2011, the underlying shares are generally issued by March 15th after the year in which they vest, and Bonus Grants, which pay distributions on both vested and unvested grants and are generally issued after vesting on an approximate two-month lag. For Plan Grants, the grant date fair value is based on the public share price of the Company, and is discounted for transfer restrictions and lack of distributions until vested. For Bonus Grants, the grant date fair value is based on the public share price of the Company, and is discounted for transfer restrictions.

We utilized the present value of a growing annuity formula to calculate a discount for the lack of pre-vesting distributions on Plan Grant RSUs. The weighted average for the inputs utilized for the shares granted during the years ended December 31, 2014, 2013 and 2012 are presented in the table below for Plan Grants:

	For the Year Ended December 31,		
	2014	2013	2012
Distribution Yield[1]	14.3%	9.5%	8.4%
Cost of Equity Capital Rate[2]	12.3%	17.6%	17.6%

(1) Calculated based on the historical distributions paid during the last twelve months and the Company's share price as of the measurement date of the grant on a weighted average basis.

(2) Assumes a discount rate equivalent to a cost of equity capital rate as of the valuation date, based on the Capital Asset Pricing Model ("CAPM"). CAPM is a commonly used mathematical model for developing expected returns.

For Plan Grants that are not eligible for distributions on unvested shares, the discount for the lack of distributions until vested based on the present value of a growing annuity calculation had a weighted average of 32.5%, 30.5% and 23.3% for the years ended December 31, 2014, 2013 and 2012, respectively.

We utilized the Finnerty Model to calculate a marketability discount on the Plan Grant and Bonus Grant RSUs to account for the lag between vesting and issuance. The Finnerty Model provides for a valuation discount reflecting the holding period restriction embedded in a restricted security preventing its sale over a certain period of time.

The inputs utilized in the Finnerty Model were (i) length of holding period, (ii) volatility, (iii) risk-free rate and (iv) dividend yield. The weighted average for the inputs utilized for the shares granted during the years ended December 31, 2014, 2013 and 2012 are presented in the table below for Plan Grants and Bonus Grants:

	For the Year Ended December 31,		
	2014	2013	2012
Plan Grants			
Holding Period Restriction (in years)	0.6	0.6	0.6
Volatility[1]	31.4%	30.4%	34.0%
Distribution Yield[2]	14.3%	8.2%	8.0%
Bonus Grants			
Holding Period Restriction (in years)	0.2	0.2	0.2
Volatility[1]	32.1%	30.0%	30.5%
Distribution Yield[2]	13.7%	12.2%	7.8%

(1) The Company determined the expected volatility based on the volatility of the Company’s share price as of the grant date with consideration to comparable companies.

(2) Calculated based on the historical distributions paid during the last twelve months and the Company's share price as of the measurement date of the grant on a weighted average basis.

For Plan Grants, the marketability discount for transfer restrictions based on the Finnerty Model calculation, after considering the discount for lack of pre-vesting distributions, had a weighted average of 5.1%, 6.0% and 5.0% for the years ended December 31, 2014, 2013 and 2012, respectively. For Bonus Grants, the marketability discount for transfer restrictions based on the Finnerty Model calculation had a weighted average of 3.2%, 3.2% and 4.9% for the years ended December 31, 2014, 2013 and 2012, respectively.

After the grant date fair value is determined, an estimated forfeiture rate is applied. The estimated fair value was determined and recognized over the vesting period on a straight-line basis. A 6.0% forfeiture rate is estimated for RSUs, based on the Company’s historical attrition rate as well as industry comparable rates. If employees are no longer associated with Apollo or if there is no turnover, we will revise our estimated compensation expense to the actual amount of expense based on the units vested at the reporting date in accordance with U.S. GAAP.

Income Taxes

The Apollo Operating Group and its subsidiaries generally operate as partnerships for U.S. federal income tax purposes. As a result, except as described below, the Apollo Operating Group has not been subject to U.S. income taxes. However, these entities in some cases are subject to NYC UBT and non-U.S. entities, in some cases, are subject to non-U.S. corporate income taxes. In addition, APO Corp., a wholly-owned subsidiary of the Company, is subject to U.S. federal, state and local corporate income tax, and the Company's provision for income taxes is accounted for in accordance with U.S. GAAP.

Significant judgment is required in determining tax expense and in evaluating tax positions, including evaluating uncertainties. The Company recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit is measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. If a tax position is not considered more likely than not to be sustained, then no benefits of the position are recognized. The Company's tax positions are reviewed and evaluated quarterly to determine whether or not we have uncertain tax positions that require financial statement recognition.

Deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amount of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fair Value Measurements

See note 6 to our consolidated financial statements for a discussion of the Company's fair value measurements.

Recent Accounting Pronouncements

A list of recent accounting pronouncements that are relevant to Apollo and its industry is included in note 2 to our consolidated financial statements.

Off-Balance Sheet Arrangements

In the normal course of business, we engage in off-balance sheet arrangements, including transactions in derivatives, guarantees, commitments, indemnifications and potential contingent repayment obligations. See note 18 to our consolidated financial statements for a discussion of guarantees and contingent obligations.

Contractual Obligations, Commitments and Contingencies

As of December 31, 2014, the Company's material contractual obligations consisted of lease obligations, contractual commitments as part of the ongoing operations of the funds and debt obligations. Fixed and determinable payments due in connection with these obligations are as follows:

	2015	2016	2017	2018	2019	Thereafter	Total
				(in thousands)			
Operating lease obligations[1]	$ 38,863	$ 38,225	$ 36,114	$ 31,742	$ 31,348	$ 24,214	$ 200,506
Other long-term obligations[2]	10,400	4,575	4,470	4,470	2,235	-	26,150
2013 AMH Credit Facilities - Term Facility[3]	6,838	6,838	6,838	6,838	500,342	-	527,694
2013 AMH Credit Facilities - Revolver Facility[4]	625	625	625	625	8	-	2,508
2024 Senior Notes [5]	20,000	20,000	20,000	20,000	20,000	588,333	688,333
2014 AMI Term Facility I	380	380	380	380	16,395	-	17,915
2014 AMI Term Facility II	362	362	362	362	19,093	-	20,541
Obligations as of December 31, 2014	$ 77,468	$ 71,005	$ 68,789	$ 64,417	$ 589,421	$ 612,547	$ 1,483,647

(1) The Company has entered into sublease agreements and is expected to contractually receive approximately $6.5 million over the remaining periods of 2014 and thereafter.

(2) Includes (i) payments on management service agreements related to certain assets and (ii) payments with respect to certain consulting agreements entered into by the Company. Note that a significant portion of these costs are reimbursable by funds.

(3) $500 million of the outstanding Term Facility matures in January 2019. The interest rate on the $500 million Term Facility as of December 31, 2014 was 1.37%. See note 14 of the consolidated financial statements for further discussion of the 2013 AMH Credit Facilities.

(4) The commitment fee as of December 31, 2014 on the $500 million undrawn Revolver Facility was 0.125%. See note 14 of the consolidated financial statements for further discussion of the 2013 AMH Credit Facilities.

(5) $500 million of the 2024 Senior Notes matures in May 2024. The interest rate on the 2024 Senior Notes as of December 31, 2014 was 4.000%. See note 14 of the consolidated financial statements for further discussion of the 2024 Senior Notes.

Note: Due to the fact that the timing of certain amounts to be paid cannot be determined or for other reasons discussed below, the following contractual commitments have not been presented in the table above.

(i) As noted previously, we have entered into a tax receivable agreement with our Managing Partners and Contributing Partners which requires us to pay to our Managing Partners and Contributing Partners 85% of any tax savings received by APO Corp. from our step-up in tax basis. The tax savings achieved may not ensure that we have sufficient cash available to pay this liability and we might be required to incur additional debt to satisfy this liability.

(ii) Debt amounts related to the consolidated VIEs are not presented in the table above as the Company is not a guarantor of these non-recourse liabilities.

Commitments

Certain of our management companies and general partners are committed to contribute to the funds and affiliates. While a small percentage of these amounts are funded by us, the majority of these amounts have historically been funded by our affiliates, including certain of our employees and certain Apollo funds. The table below presents the commitment and remaining commitment amounts of Apollo and its affiliates, the percentage of total commitments of Apollo and its affiliates, the commitment and remaining commitment amounts of Apollo only (excluding affiliates), and the percentage of total commitments of Apollo only (excluding affiliates) for each private equity, credit and real estate fund and affiliate as of December 31, 2014 as follows ($ in millions):

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	Apollo and Affiliates Commitments	% of Total Commitments	Apollo Only (Excluding Affiliates) Commitments	Apollo Only (Excluding Affiliates) % of Total Commitments	Apollo and Affiliates Remaining Commitments	Apollo Only (Excluding Affiliates) Remaining Commitments
Private Equity:						
Fund VIII	$ 1,543.5	8.40%	$ 406.3	2.21%	$ 1,418.8	$ 376.5
Fund VII	467.2	3.18	177.8	1.21	104.0	38.2
Fund VI	246.3	2.43	6.1	0.06	9.7	0.2
Fund V	100.0	2.67	0.5	0.01	6.3	-
Fund IV	100.0	2.78	0.2	0.01	0.5	-
ANRP	426.1	32.21	10.1	0.76	215.1	5.1
AION	150.0	18.19	50.0	6.06	120.2	39.7
APC	158.4	69.02	0.1	0.04	91.0	0.1
Apollo Rose, L.P.	215.7	100.00	-	-	85.7	-
A.A Mortgage Opportunities, L.P.	200.0	98.43	-	-	130.2	-
Champ, L.P.	78.5	100.00	20.1	25.56	15.5	4.0
Apollo Royalties Management, LLC	100.0	100.00	-	-	47.4	-
Credit:						
EPF I(2)	325.0	20.74	21.4	1.37	54.9	5.0
EPF II(2)	412.9	12.25	63.3	1.88	162.3	26.3
COF I	450.7	30.35	29.7	2.00	237.4	4.2
COF II	30.5	1.93	23.4	1.48	0.8	0.6
COF III	358.1	10.45	83.1	2.43	212.3	49.4
ACLF	23.9	2.43	23.9	2.43	19.6	19.6
Palmetto	18.0	1.19	18.0	1.19	10.9	10.9
AIE II(2)	7.9	3.15	4.8	1.94	-	-
ESDF	50.0	100.00	-	-	-	-
FCI	193.5	34.62	-	-	97.9	-
FCI II	244.6	15.72	-	-	165.5	-
Franklin Fund	9.9	9.09	9.9	9.09	-	-
Apollo Lincoln Fixed Income Fund	2.5	0.99	2.5	0.99	1.1	1.1
Apollo/Palmetto Loan Portfolio, L.P.	300.0	100.00	-	-	85.0	-
Apollo/Palmetto Short-Maturity Loan Portfolio, L.P.	200.0	100.00	-	-	-	-
AESI(2)	3.5	0.99	3.5	0.99	0.6	0.6
AESI II	2.8	0.99	2.8	0.99	2.6	2.6
AEC	7.3	2.50	3.2	1.08	2.5	1.1
ACSP	18.8	2.44	18.8	2.44	8.7	8.7
Apollo SK Strategic Investments, L.P.	2.0	0.99	2.0	0.99	0.4	0.4
Stone Tower Structured Credit Recovery Master Fund II, Ltd.	7.9	7.61	-	-	-	-
Apollo Structured Credit Recovery Master Fund III, L.P.	137.3	28.12	0.6	0.13	67.7	0.3
Apollo Zeus Strategic Investments, L.P.	14.0	3.38	14.0	3.38	7.0	7.0
Apollo Lincoln Private Credit Fund, L.P.	2.5	0.99	2.5	0.99	2.3	2.3
AIE III(2)	10.9	2.91	10.9	2.91	9.3	9.3
Real Estate:						
AGRE U.S. Real Estate Fund, L.P.	633.8 (1)	75.03	16.3	1.81	360.8 (1)	4.9
Apollo U.S. Real Estate Fund II, L.P.	157.5	100.00	7.5	4.76	157.5	7.5
BEA/AGRE China Real Estate Fund, L.P.	0.1	1.03	0.1	1.03	-	-
AGRE Asia Co-Invest I Limited	50.0	100.00	-	-	35.7	-
CAI Strategic European Real Estate Ltd.	19.0	100.00	-	-	3.6	-
CPI Capital Partners North America	7.6	1.27	2.1	0.35	0.6	0.2
CPI Capital Partners Europe(2)	6.6	0.47	-	-	0.5	-
CPI Capital Partners Asia Pacific	6.9	0.53	0.5	0.04	0.4	-
London Prime Apartments Guernsey Holdings Limited (Guernsey)(3)	27.6	7.80	0.8	0.23	7.6	-
2012 CMBS I Fund, L.P.	88.2	100.00	-	-	-	-
2012 CMBS II Fund, L.P.	93.5	100.00	-	-	-	-
AGRE Cobb West Investor, LP	22.1	86.41	0.1	0.39	2.1	-

AGRE CMBS Fund, L.P.	418.8	100.00	-	-	-	-
Other:						
Apollo SPN Investments I, L.P.	25.4	0.84	25.4	0.84	20.8	20.8
Total	$ 8,177.3		$ 1,062.3		$ 3,982.8	$ 646.6

(1) Figures for AGRE U.S. Real Estate Fund, L.P. include base, additional, and co-investment commitments. A co-investment vehicle within AGRE U.S. Real Estate Fund, L.P. is denominated in pound sterling and translated into U.S. dollars at an exchange rate of £1.00 to $1.56 as of December 31, 2014.

(2) Apollo's commitment in these funds is denominated in Euros and translated into U.S. dollars at an exchange rate of €1.00 to $1.21 as of December 31, 2014.

(3) Apollo's commitment in these investments is denominated in pound sterling and translated into U.S. dollars at an exchange rate of £1.00 to $1.56 as of December 31, 2014.

As a limited partner, the general partner and manager of the Apollo private equity, credit and real estate funds, Apollo has unfunded capital commitments of $646.6 million at December 31, 2014.

Apollo has an ongoing obligation to acquire additional common units of AAA in an amount equal to 25% of the aggregate after-tax cash distributions, if any, that are made by AAA to Apollo's affiliates pursuant to the carried interest distribution rights that are applicable to investments made through AAA Investments.

In addition, as of December 31, 2014, Apollo had an unfunded loan commitment of $15.0 million related to an employee's commitment to purchase common shares of Athene Holding.

Apollo, through its subsidiary Apollo MidCap Holdings (Cayman), L.P., has entered into a subscription agreement providing for an aggregate commitment of $50.0 million to subscribe for (i) Class A Variable Funding Subordinated Notes due 2114 ("Class A Notes") of Midcap Finco Limited ("FinCo"), an Irish company that includes the existing operations and assets of MidCap Financial LLC, a specialty finance company that originates commercial lending opportunities, and (ii) ordinary shares of Finco's holding company ("Ordinary Shares"). The subscription agreement has a commitment period of three years (subject to extension under certain circumstances), and $8.0 million of the commitment was drawn on February 3, 2015. Pursuant to an investment management agreement, Apollo, through its subsidiary Apollo Capital Management, L.P., is acting as the investment manager of FinCo's credit business. Certain third parties have also entered into subscription agreements for Class A Notes and Ordinary Shares.

The 2013 AMH Credit Facilities and 2024 Senior Notes (as defined below) will have future impacts on the use of our cash. See note 14 of our consolidated financial statements for information regarding the Company's debt arrangements.

In accordance with the Managing Partner Shareholders Agreement, we have indemnified the Managing Partners and certain Contributing Partners (at varying percentages) for any carried interest income distributed from Fund IV, Fund V and Fund VI that is subject to contingent repayment by the general partner. As of December 31, 2014 and December 31, 2013, the Company had not recorded an obligation for any previously made distributions.

Contingent Obligations-Carried interest income in private equity and certain credit and real estate funds is subject to reversal in the event of future losses to the extent of the cumulative carried interest recognized in income to date. If all of the existing investments became worthless, the amount of cumulative revenues that has been recognized by Apollo through December 31, 2014 and that would be reversed approximates $2.9 billion. Management views the possibility of all of the investments becoming worthless as remote. Carried interest income is affected by changes in the fair values of the underlying investments in the funds that Apollo manages. Valuations, on an unrealized basis, can be significantly affected by a variety of external factors including, but not limited to, bond yields and industry trading multiples. Movements in these items can affect valuations quarter to quarter even if the underlying business fundamentals remain stable.

Additionally, at the end of the life of certain funds that the Company manages, there could be a payment due to a fund by the Company if the Company as general partner has received more carried interest income than was ultimately earned. This general partner obligation amount, if any, will depend on final realized values of investments at the end of the life of each fund or as otherwise set forth in the respective limited partnership agreement of the fund.

Certain funds may not generate carried interest income as a result of unrealized and realized losses that are recognized in the current and prior reporting period. In certain cases, carried interest income will not be generated until additional unrealized and realized gains occur. Any appreciation would first cover the deductions for invested capital, unreturned organizational expenses, operating expenses, management fees and priority returns based on the terms of the respective fund agreements.

AGS, one of the Company's subsidiaries, provides underwriting commitments in connection with security offerings to the portfolio companies of the funds we manage. As of December 31, 2014, there were no underwriting commitments outstanding related to such offerings.

Contingent Consideration

In connection with the acquisition of Stone Tower in April 2012, the Company agreed to pay the former owners of Stone Tower a specified percentage of any future carried interest income earned from certain of the Stone Tower funds, CLOs, and strategic investment accounts. This contingent consideration liability had an acquisition date fair value of $117.7 million, which was determined

based on the present value of estimated future carried interest payments, and is recorded in profit sharing payable in the consolidated statements of financial condition. On July 31, 2014, the Company extinguished a portion of this contingent consideration obligation and recognized a gain in the amount of $13.4 million, which was recorded in other income, net in the consolidated statements of operations for the year ended December 31, 2014. In exchange for the extinguishment, the Company granted a former owner of Stone Tower and current Apollo employee 350,000 RSUs with rights to receive, subject to a three-year vesting period, distribution equivalents. This grant is accounted for as a grant of equity awards in accordance with U.S. GAAP (see note 16 of the consolidated financial statements for further information regarding the accounting for RSUs). The fair value of the contingent obligation was $84.5 million and $121.4 million as of December 31, 2014 and December 31, 2013, respectively.

In connection with the Gulf Stream acquisition, the Company agreed to make payments to the former owners of Gulf Stream under a contingent consideration obligation which required the Company to transfer cash to the former owners of Gulf Stream based on a specified percentage of carried interest income. The contingent liability had a fair value of $11.6 million and $14.1 million as of December 31, 2014 and December 31, 2013, respectively, which was recorded in profit sharing payable in the consolidated statements of financial condition.

The contingent consideration obligations will be remeasured to fair value at each reporting period until the obligations are satisfied. The changes in the fair value of the contingent consideration obligations will be reflected in profit sharing expense in the consolidated statements of operations.

The Company has determined that the contingent consideration obligations are categorized as a Level III liability in the fair value hierarchy as the pricing inputs used to determine fair value require significant management judgment and estimation. See note 6 of the consolidated financial statements for further disclosure regarding fair value of the contingent consideration obligations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our predominant exposure to market risk is related to our role as investment manager and general partner for our funds and the sensitivity to movements in the fair value of their investments and resulting impact on carried interest income and management fee revenues. Our direct investments in the funds also expose us to market risk whereby movements in the fair values of the underlying investments will increase or decrease both net gains (losses) from investment activities and income (loss) from equity method investments. For a discussion of the impact of market risk factors on our financial instruments see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies-Investments, at Fair Value."

The fair value of our financial assets and liabilities of our funds may fluctuate in response to changes in the value of investments, foreign exchange, commodities and interest rates. The net effect of these fair value changes impacts the gains and losses from investments in our consolidated statements of operations. However, the majority of these fair value changes are absorbed by the Non-Controlling Interests.

The Company is subject to a concentration risk related to the investors in its funds. Although there are more than approximately 1,000 investors in Apollo's active private equity, credit and real estate funds, no individual investor accounts for more than 10% of the total committed capital to Apollo's active funds.

Risks are analyzed across funds from the "bottom up" and from the "top down" with a particular focus on asymmetric risk. We gather and analyze data, monitor investments and markets in detail, and constantly strive to better quantify, qualify and circumscribe relevant risks.

Each risk management process is subject to our overall risk tolerance and philosophy and our enterprise-wide risk management framework. This framework includes identifying, measuring and managing market, credit and operational risks at each segment, as well as at the fund and Company level.

Each segment runs its own investment and risk management process subject to our overall risk tolerance and philosophy:

- The investment process of our private equity funds involves a detailed analysis of potential acquisitions, and investment management teams assigned to monitor the strategic development, financing and capital deployment decisions of each portfolio investment.
- Our credit funds continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios, as well as, fund-wide risks.

At the direction of the Company's manager, the Company has established a risk committee comprised of various members of senior management including the Company's Chief Financial Officer, Chief Legal Officer, and the Company's Chief Risk Officer. The risk committee is tasked with assisting the Company's manager in monitoring and managing enterprise-wide risk. The risk committee generally meets on a bi-weekly basis and reports to the executive committee of the Company's manager at such times as the committee deems appropriate and at least on an annual basis.

On at least a monthly basis, the Company's risk department provides a summary analysis of fund level market and credit risk to the portfolio managers of the Company's funds and the heads of the various business segments. On a periodic basis, the Company's risk department presents a consolidated summary analysis of fund level market and credit risk to the Company's risk committee. In addition, the Company's Chief Risk Officer reviews specific investments from the perspective of risk mitigation and discusses such analysis with the Company's risk committee and/or the executive committee of the Company's manager at such times as the Company's Chief Risk Officer determines such discussions are warranted. On an annual basis, the Company's Chief Risk Officer provides the executive committee of the Company's manager with a comprehensive overview of risk management along with an update on current and future risk initiatives.

Impact on Management Fees-Our management fees are based on one of the following:

- capital commitments to an Apollo fund;
- capital invested in an Apollo fund;
- the gross, net or adjusted asset value of an Apollo fund, as defined; or
- as otherwise defined in the respective agreements.

Management fees could be impacted by changes in market risk factors and management could consider an investment permanently impaired as a result of (i) such market risk factors causing changes in invested capital or in market values to below

cost, in the case of our private equity funds and certain credit funds, or (ii) such market risk factors causing changes in gross or net asset value, for the credit funds. The proportion of our management fees that are based on NAV is dependent on the number and types of our funds in existence and the current stage of each fund's life cycle.

Impact on Advisory and Transaction Fees-We earn transaction fees relating to the negotiation of private equity, credit and real estate transactions and may obtain reimbursement for certain out-of-pocket expenses incurred. Subsequently, on a quarterly or annual basis, ongoing advisory fees, and additional transaction fees in connection with additional purchases, dispositions, or follow-on transactions, may be earned. Management Fee Offsets and any broken deal costs are reflected as a reduction to advisory and transaction fees from affiliates, net. Advisory and transaction fees will be impacted by changes in market risk factors to the extent that they limit our opportunities to engage in private equity, credit and real estate transactions or impair our ability to consummate such transactions. The impact of changes in market risk factors on advisory and transaction fees is not readily predicted or estimated.

Impact on Carried Interest Income-We earn carried interest income from our funds as a result of such funds achieving specified performance criteria. Our carried interest income will be impacted by changes in market risk factors. However, several major factors will influence the degree of impact:

- the performance criteria for each individual fund in relation to how that fund's results of operations are impacted by changes in market risk factors;
- whether such performance criteria are annual or over the life of the fund;
- to the extent applicable, the previous performance of each fund in relation to its performance criteria; and
- whether each funds' carried interest income is subject to contingent repayment.

As a result, the impact of changes in market risk factors on carried interest income will vary widely from fund to fund. The impact is heavily dependent on the prior and future performance of each fund, and therefore is not readily predicted or estimated.

Market Risk-We are directly and indirectly affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues and expenses will be adversely affected by changes in market conditions. Market risk is inherent in each of our investments and activities, including equity investments, loans, short-term borrowings, long-term debt, hedging instruments, credit default swaps, and derivatives. Just a few of the market conditions that may shift from time to time, thereby exposing us to market risk, include fluctuations in interest and currency exchange rates, equity prices, changes in the implied volatility of interest rates and price deterioration. For example, subsequent to the second quarter of 2007, debt capital markets around the world began to experience significant dislocation, severely limiting the availability of new credit to facilitate new traditional buyouts, and the markets remain volatile. Volatility in debt and equity markets can impact our pace of capital deployment, the timing of receipt of transaction fee revenues, and the timing of realizations. These market conditions could have an impact on the value of investments and our rates of return. Accordingly, depending on the instruments or activities impacted, market risks can have wide ranging, complex adverse effects on our results from operations and our overall financial condition. We monitor our market risk using certain strategies and methodologies which management evaluates periodically for appropriateness. We intend to continue to monitor this risk going forward and continue to monitor our exposure to all market factors.

Interest Rate Risk-Interest rate risk represents exposure we have to instruments whose values vary with the change in interest rates. These instruments include, but are not limited to, loans, borrowings and derivative instruments. We may seek to mitigate risks associated with the exposures by taking offsetting positions in derivative contracts. Hedging instruments allow us to seek to mitigate risks by reducing the effect of movements in the level of interest rates, changes in the shape of the yield curve, as well as, changes in interest rate volatility. Hedging instruments used to mitigate these risks may include related derivatives such as options, futures and swaps.

Apollo has debt obligations that accrue interest at variable rates. Interest rate changes may therefore affect the amount of our interest payments, future earnings and cash flows. Based on our debt obligations payable as of December 31, 2014 and December 31, 2013, we estimate that interest expense would increase on an annual basis, in the event interest rates were to increase by one percentage point, by approximately $5.4 million and $7.5 million, respectively.

Credit Risk-Certain of our funds are subject to certain inherent risks through their investments.

Certain of our entities invest substantially all of their excess cash in open-end money market funds and money market demand accounts, which are included in cash and cash equivalents. The money market funds invest primarily in government securities and other short-term, highly liquid instruments with a low risk of loss. We continually monitor the funds' performance in order to manage any risk associated with these investments.

Certain of our entities hold derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. We seek to minimize our risk exposure by limiting the counterparties with which we enter into contracts to banks and investment banks who meet established credit and capital guidelines. We do not expect any counterparty to default on its obligations and therefore do not expect to incur any loss due to counterparty default.

Foreign Exchange Risk-Foreign exchange risk represents exposures we have to changes in the values of current holdings and future cash flows denominated in other currencies and investments in non-U.S. companies. The types of investments exposed to this risk include investments in foreign subsidiaries, foreign currency-denominated loans, foreign currency-denominated transactions, and various foreign exchange derivative instruments whose values fluctuate with changes in currency exchange rates or foreign interest rates. Instruments used to mitigate this risk are foreign exchange options, currency swaps, futures and forwards. These instruments may be used to help insulate us against losses that may arise due to volatile movements in foreign exchange rates and/or interest rates.

We estimate for the year ended December 31, 2014, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in a decrease in management fees, carried interest income and income from equity method investments of $4.0 million, $10.5 million and $0.7 million, respectively. For the year ended December 31, 2013, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in a decrease in management fees, carried interest income and income from equity method investments of $5.1 million, $9.6 million and $0.8 million, respectively.

Non-U.S. Operations-We conduct business throughout the world and are continuing to expand into foreign markets. We currently have offices outside the U.S. in Toronto, London, Frankfurt, Luxembourg, Mumbai, Hong Kong and Singapore, and have been strategically growing our international presence. Our fund investments and our revenues are primarily derived from our U.S. operations. With respect to our non-U.S. operations, we are subject to risk of loss from currency fluctuations, social instability, changes in governmental policies or policies of central banks, expropriation, nationalization, unfavorable political and diplomatic developments and changes in legislation relating to non-U.S. ownership. Our funds also invest in the securities of companies which are located in non-U.S. jurisdictions. As we continue to expand globally, we will continue to focus on monitoring and managing these risk factors as they relate to specific non-U.S. investments.

Sensitivity

Our assets and unrealized gains, and our related equity and net income are sensitive to changes in the valuations of our funds' underlying investments and could vary materially as a result of changes in our valuation assumptions and estimates. See "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations-Critical Accounting Policies-Investments, at Fair Value" for details related to the valuation methods that are used and the key assumptions and estimates employed by such methods. We also quantify the Level III investments that are included on our consolidated statements of financial condition by valuation methodology in note 6 to the consolidated financial statements. We employ a variety of valuation methods. Furthermore, the investments that we manage but are not on our consolidated statements of financial condition, and therefore impact carried interest, also employ a variety of valuation methods of which no single methodology is used more than any other. Changes in fair value will have the following impacts before a reduction of profit sharing expense and Non-Controlling Interests in the Apollo Operating Group and on a pre-tax basis on our results of operations for the years ended December 31, 2014 and 2013:

- Management fees from the funds in our credit segment are based on the net asset value of the relevant fund, gross assets, capital commitments or invested capital, each as defined in the respective management agreements. Changes in the fair values of the investments in credit funds that earn management fees based on net asset value or gross assets will have a direct impact on the amount of management fees that are earned. Management fees earned from our credit segment on a segment basis that were dependent upon estimated fair value during the years ended December 31, 2014 and 2013 would decrease by approximately $37.7 million and $21.3 million, respectively, if the fair values of the investments held by such funds were 10% lower during the same respective periods. By contrast, a 10% increase in fair value would increase management fees for the years ended December 31, 2014 and 2013 by approximately $38.5 million and $21.0 million, respectively.

- Management fees for our private equity, real estate and certain credit funds, excluding AAA, generally are charged on either (a) a fixed percentage of committed capital over a stated investment period or (b) a fixed percentage of invested

capital of unrealized portfolio investments. Changes in values of investments could indirectly affect future management fees from private equity funds by, among other things, reducing the funds' access to capital or liquidity and their ability to currently pay the management fees or if such change resulted in a write-down of investments below their associated invested capital.

- Net gains from investment activities related to the Company's investment in Athene Holding would decrease by approximately $32.4 million for the year ended December 31, 2014 if the fair value of the Company's investment in Athene Holding decreased by 10%. By contrast, a 10% increase in fair value of the Company's investment in Athene Holding would increase net gains from investment activities by $32.4 million for the year ended December 31, 2014.
- Other income, net earned from derivative contracts related to the amended services contract with Athene and Athene Life Re Ltd. and the Amended AAA Services Agreement would decrease by approximately $8.5 million for the year ended December 31, 2013, if the fair value of the accrued notional shares of Athene Holding decreased by 10% during the same respective period. By contrast, a 10% increase in fair value of the accrued notional shares of Athene Holding would increase other income, net for the year ended December 31, 2013 by approximately $8.5 million.
- Carried interest income from most of our credit funds, which is quantified in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Segment Analysis," is impacted directly by changes in the fair value of their investments. Carried interest income from most of our credit funds generally is earned based on achieving specified performance criteria. We anticipate that a 10% decline in the fair values of investments held by all of the credit funds at December 31, 2014 and 2013 would decrease carried interest income on a segment basis for the years ended December 31, 2014 and 2013 by approximately $160.6 million and $203.7 million, respectively. Additionally, the changes to carried interest income from most of our credit funds assume there is no loss in the fund for the relevant period. If the fund had a loss for the period, no carried interest income would be earned by us. By contrast, a 10% increase in fair value would increase carried interest income on a segment basis for the years ended December 31, 2014 and 2013 by approximately $334.3 million and $240.1 million, respectively.
- Carried interest income from private equity funds generally is earned based on achieving specified performance criteria and is impacted by changes in the fair value of their fund investments. We anticipate that a 10% decline in the fair values of investments held by all of the private equity funds at December 31, 2014 and 2013 would decrease carried interest income on a segment basis for the years ended December 31, 2014 and 2013 by $301.7 million and $524.8 million, respectively. The effects on private equity fees and income assume that a decrease in value does not cause a permanent write-down of investments below their associated invested capital. By contrast, a 10% increase in fair value would increase carried interest income on a segment basis for the years ended December 31, 2014 and 2013 by $323.8 million and $484.5 million, respectively.
- Carried interest income from real estate funds generally is earned based on achieving specified performance criteria and is impacted by changes in the fair value of their fund investments. We anticipate that a 10% decline in the fair values of investments held by all of the real estate funds at December 31, 2014 and 2013 would decrease carried interest income on a segment basis for the years ended December 31, 2014 and 2013 by $12.6 million and $6.0 million, respectively. The effects on real estate fees and income assume that a decrease in value does not cause a permanent write-down of investments below their associated invested capital. By contrast, a 10% increase in fair value would increase carried interest income on a segment basis for the years ended December 31, 2014 and 2013 by $21.0 million and $16.1 million, respectively.
- For select Apollo funds, our share of income from equity method investments as a limited partner in such funds is derived from unrealized gains or losses on investments in funds included in the consolidated financial statements. For funds in which we have an interest, but are not included in our consolidated financial statements, our share of investment income is limited to our direct investments in the funds, which ranges from 0.001% to 9.091%. A 10% decline in the fair value of investments at December 31, 2014 and 2013 would result in an approximate $37.8 million and $39.8 million decrease in investment income at the consolidated level, respectively. By contrast, a 10% increase in the fair value of investments at December 31, 2014 and 2013 would result in an approximate $37.8 million and $39.8 million increase in investment income at the consolidated level, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Apollo Global Management, LLC
New York, New York

We have audited the accompanying consolidated statements of financial condition of Apollo Global Management, LLC and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2014. We also have audited the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Apollo Global Management, LLC and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
New York, New York
February 27, 2015

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2014 AND DECEMBER 31, 2013
(dollars in thousands, except share data)

	December 31,	
	2014	2013
Assets:		
Cash and cash equivalents	$ 1,204,052	$ 1,078,120
Cash and cash equivalents held at consolidated funds	1,611	1,417
Restricted cash	6,353	9,199
Investments	2,880,006	2,393,883
Assets of consolidated variable interest entities:		
Cash and cash equivalents	1,088,952	1,095,170
Investments, at fair value	15,658,653	14,126,362
Other assets	323,240	280,718
Carried interest receivable	911,666	2,287,075
Due from affiliates	268,015	317,247
Fixed assets, net	35,906	40,251
Deferred tax assets	606,717	660,199
Other assets	84,384	44,170
Goodwill	49,243	49,243
Intangible assets, net	60,039	94,927
Total Assets	**$ 23,178,837**	**$ 22,477,981**
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	$ 44,246	$ 38,159
Accrued compensation and benefits	59,278	41,711
Deferred revenue	199,614	279,479
Due to affiliates	565,153	595,371
Profit sharing payable	434,852	992,240
Debt	1,034,014	750,000
Liabilities of consolidated variable interest entities:		
Debt, at fair value	14,123,100	12,423,962
Other liabilities	728,718	605,063
Other liabilities	46,401	63,274
Total Liabilities	**17,235,376**	**15,789,259**
Commitments and Contingencies (see note 18)		
Shareholders' Equity:		
Apollo Global Management, LLC shareholders' equity:		
Class A shares, no par value, unlimited shares authorized, 163,046,554 and 146,280,784 shares issued and outstanding at December 31, 2014 and December 31, 2013, respectively	-	-
Class B shares, no par value, unlimited shares authorized, 1 share issued and outstanding at December 31, 2014 and December 31, 2013	-	-
Additional paid in capital	2,254,283	2,624,582
Accumulated deficit	(1,400,661)	(1,568,487)
Appropriated partners' capital	933,166	1,581,079
Accumulated other comprehensive income (loss)	(306)	95
Total Apollo Global Management, LLC shareholders' equity	1,786,482	2,637,269
Non-Controlling Interests in consolidated entities	3,222,195	2,669,730
Non-Controlling Interests in Apollo Operating Group	934,784	1,381,723
Total Shareholders' Equity	**5,943,461**	**6,688,722**
Total Liabilities and Shareholders' Equity	**$ 23,178,837**	**$ 22,477,981**

See accompanying notes to consolidated financial statements.

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APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(dollars in thousands, except share data)

	2014	2013	2012
Revenues:			
Advisory and transaction fees from affiliates, net	$ 315,587	$ 196,562	$ 149,544
Management fees from affiliates	850,441	674,634	580,603
Carried interest income from affiliates	394,055	2,862,375	2,129,818
Total Revenues	1,560,083	3,733,571	2,859,965
Expenses:			
Compensation and benefits:			
Equity-based compensation	126,320	126,227	598,654
Salary, bonus and benefits	338,049	294,753	274,574
Profit sharing expense	276,190	1,173,255	872,133
Total Compensation and Benefits	740,559	1,594,235	1,745,361
Interest expense	22,393	29,260	37,116
Professional fees	82,030	83,407	64,682
General, administrative and other	97,663	98,202	87,961
Placement fees	15,422	42,424	22,271
Occupancy	40,427	39,946	37,218
Depreciation and amortization	45,069	54,241	53,236
Total Expenses	1,043,563	1,941,715	2,047,845
Other Income:			
Net gains from investment activities	213,243	330,235	288,244
Net gains (losses) from investment activities of consolidated variable interest entities	22,564	199,742	(71,704)
Income from equity method investments	53,856	107,350	110,173
Interest income	10,392	12,266	9,693
Other income, net	60,592	40,114	1,964,679
Total Other Income	360,647	689,707	2,301,085
Income before income tax provision	877,167	2,481,563	3,113,205
Income tax provision	(147,245)	(107,569)	(65,410)
Net Income	729,922	2,373,994	3,047,795
Net income attributable to Non-controlling Interests	(561,693)	(1,714,603)	(2,736,838)
Net Income Attributable to Apollo Global Management, LLC	$ 168,229	$ 659,391	$ 310,957
Distributions Declared per Class A Share	$ 3.11	$ 3.95	$ 1.35
Net Income Per Class A Share:			
Net Income Available to Class A Share - Basic	$ 0.62	$ 4.06	$ 2.06
Net Income Available to Class A Share - Diluted	$ 0.62	$ 4.03	$ 2.06
Weighted Average Number of Class A Shares - Basic	155,349,017	139,173,386	127,693,489
Weighted Average Number of Class A Shares - Diluted	155,349,017	142,214,350	129,540,377

See accompanying notes to consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(dollars in thousands, except share data)

	2014	2013	2012
Net Income	**$ 729,922**	**$ 2,373,994**	**$ 3,047,795**
Other Comprehensive Income (Loss), net of tax:			
Allocation of currency translation adjustment of consolidated CLO entities	724	-	-
Net loss from change in fair value of cash flow hedge instruments	(990)	-	-
Net unrealized gain on interest rate swaps (net of taxes of $410 for Apollo Global Management, LLC and $0 for Non-Controlling Interests in Apollo Operating Group)	-	-	2,653
Net loss on available-for-sale securities (from equity method investment)	(2)	(8)	(11)
Total Other Comprehensive Income (Loss), net of tax	(268)	(8)	2,642
Comprehensive Income	**729,654**	**2,373,986**	**3,050,437**
Comprehensive Income attributable to Non-Controlling Interests	(631,831)	(1,564,710)	(922,172)
Comprehensive Income Attributable to Apollo Global Management, LLC	**$ 97,823**	**$ 809,276**	**$ 2,128,265**

See accompanying notes to consolidated financial statements.

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APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2014, 2013, AND 2012
(dollars in thousands, except share data)

	Apollo Global Management, LLC Shareholders									
	Class A Shares	**Class B Shares**	**Additional Paid in Capital**	**Accumulated Deficit**	**Appropriated Partners' Capital**	**Accumulated Other Comprehensive Income (Loss)**	**Total Apollo Global Management, LLC Total Shareholders' Equity**	**Non-Controlling Interests in Consolidated Entities**	**Non-Controlling Interests in Apollo Operating Group**	**Total Shareholders' Equity**
Balance at January 1, 2012	**123,923,042**	**1**	**$ 2,939,492**	**$(2,426,197)**	**$ 213,594**	**$ (488)**	**$ 726,401**	**$ 1,444,767**	**$ 477,153**	**$ 2,648,321**
Dilution impact of issuance of Class A shares	-	-	1,589	-	-	-	1,589	-	-	1,589
Capital increase related to equity-based compensation	-	-	282,288	-	-	-	282,288		313,856	596,144
Capital contributions	-	-	-	-	-	-	-	551,154	-	551,154
Distributions	-	-	(203,997)	-	(264,910)	-	(468,907)	(495,506)	(335,023)	(1,299,436)
Distributions related to deliveries of Class A shares for RSUs	6,130,951	-	9,090	(25,992)	-	-	(16,902)	-	-	(16,902)
Purchase of AAA shares	-	-	-	-	-	-	-	(102,072)	-	(102,072)
Non-cash distributions	-	-	-	(788)	-	-	(788)	(3,605)	-	(4,393)
Non-cash contribution to Non-Controlling Interests	-	-	-	-	-	-	-	2,547	-	2,547
Capital increase related to business acquisition (see note 3)	-	-	14,001	-	-	-	14,001	-	-	&bbsp; 14,001
Non-Controlling Interests in consolidated entities at acquisition date	-	-	-	-	-	-	-	306,351	-	306,351
Deconsolidation	-	-	-	-	-	-	-	(46,148)	-	(46,148)
Net transfers of AAA ownership interest to (from) Non-Controlling Interests in consolidated entities	-	-	(919)	-	-	-	(919)	919	-	-
Satisfaction of liability related to AAA RDUs	-	-	1,790	-	-	-	1,790	-	-	1,790
Net income	-	-	-	310,957	1,816,676	-	2,127,633	234,805	685,357	3,047,795
Net loss on available-for-sale securities (from equity method investment)	-	-	-	-	-	(11)	(11)	-	-	(11)
Net unrealized gain on interest rate swaps (net of taxes of $410 for Apollo Global Management, LLC and $0 for Non-Controlling Interests in Apollo Operating Group)	-	-	-	-	-	643	643	-	2,010	2,653
Balance at December 31, 2012	**130,053,993**	**1**	**$ 3,043,334**	**$(2,142,020)**	**$ 1,765,360**	**$ 144**	**$ 2,666,818**	**$ 1,893,212**	**$ 1,143,353**	**$ 5,703,383**
Dilution impact of issuance of Class A shares	-	-	4,865	-	-	-	4,865	-	-	4,865
Capital increase related to equity-based compensation	-	-	104,935	-	-	-	104,935	-	19,163	124,098
Capital contributions	-	-	-	-	-	-	-	689,172	-	689,172
Distributions	-	-	(650,189)	-	(334,215)	-	(984,404)	(159,573)	(975,488)	(2,119,465)
Distributions related to deliveries of Class A shares for RSUs	5,181,389	-	37,263	(85,858)	-	-	(48,595)	-	-	(48,595)
Purchase of AAA units	-	-	-	-	-	-	-	(62,326)	-	(62,326)
Net transfers of AAA ownership interest to (from) Non-Controlling Interests in consolidated entities	-	-	(2,226)	-	-	-	(2,226)	2,226	-	-
Satisfaction of liability related to AAA RDUs	-	-	1,205	-	-	-	1,205	-	-	1,205
Exchange of AOG Units for Class A shares	11,045,402	-	85,395	-	-	-	85,395	-	(62,996)	22,399
Net income	-	-	-	659,391	149,934	-	809,325	307,019	1,257,650	2,373,994
Net gain (loss) on available-for-sale securities (from equity method investment)	-	-	-	-	-	(49)	(49)	-	41	(8)
Balance at December 31, 2013	**146,280,784**	**1**	**$ 2,624,582**	**$(1,568,487)**	**$ 1,581,079**	**$ 95**	**$ 2,637,269**	**$ 2,669,730**	**$ 1,381,723**	**$ 6,688,722**
Dilution impact of issuance of Class A shares	-	-	5,267	-	-	-	5,267	-	-	5,267
Capital increase related to equity-based compensation	-	-	108,871	-	-	-	108,871	-	-	108,871
Capital contributions	-	-	-	-	135,356	-	135,356	936,915	-	1,072,271
Distributions	-	-	(555,532)	-	(713,264)	-	(1,268,796)	(615,301)	(816,412)	(2,700,509)
Distributions related to deliveries of Class A shares for RSUs	10,491,649	-	27,899	(403)	-	-	27,496	-	-	27,496
Purchase of AAA units	-	-	-	-	-	-	-	(312)	-	(312)
Net transfers of AAA ownership interest to (from) Non-Controlling Interests in consolidated entities	-	-	(3,423)	-	-	-	(3,423)	3,423	-	-
Satisfaction of liability related to AAA RDUs	-	-	1,183	-	-	-	1,183	-	-	1,183
Exchange of AOG Units for Class A shares	6,274,121	-	45,436	-	-	-	45,436	-	(34,618)	10,818
Net income	-	-	-	168,229	(70,729)	-	97,500	227,740	404,682	729,922

Allocation of currency translation adjustment of consolidated CLO entities	-	-	-	-	724	-	724	-	-	724
Change in cash flow hedge instruments	-	-	-	-	-	(399)	(399)	-	(591)	(990)
Net loss on available-for-sale securities (from equity method investment)	-	-	-	-	-	(2)	(2)	-	-	(2)
Balance at December 31, 2014	**163,046,554**	**1**	**$ 2,254,283**	**$(1,400,661)**	**$ 933,166**	**$ (306)**	**$ 1,786,482**	**$ 3,222,195**	**$ 934,784**	**$ 5,943,461**

See accompanying notes to consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014, 2013, AND 2012
(dollars in thousands, except share data)

	2014	2013	2012
Cash Flows from Operating Activities:			
Net income	$ 729,922	$ 2,373,994	$ 3,047,795
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity-based compensation	126,320	126,227	598,654
Non-cash management fees	(16,738)	-	-
Depreciation and amortization	10,181	11,047	10,226
Amortization of intangible assets	34,888	43,194	43,010
Amortization of debt issuance costs	3,453	765	511
Unrealized (gains) losses from investment in other investments	(21,726)	12,962	1,316
Gain on settlement of contingent obligation	(13,395)	-	-
Non-cash interest income	(1,725)	(3,403)	(3,187)
Income (Loss) from equity awards received for directors’ fees	333	378	(2,536)
Cash distributions of earnings from equity method investments	83,656	109,076	66,063
Realized loss from investment in other investments	12,871	-	-
Income from equity method investments	(53,856)	(107,350)	(110,173)
Change in market value on derivatives	(14,039)	(10,203)	-
Waived management fees	-	-	(6,161)
Non-cash compensation expense related to waived management fees	-	-	6,161
Change in fair value of contingent obligations	11,281	60,826	25,787
Excess tax benefits from share-based payment arrangements	(27,899)	(37,263)	-
Deferred taxes, net	80,356	62,701	55,309
Net (gain) loss on disposal of fixed assets	(2)	963	923
Gain on business acquisitions	-	-	(1,951,897)
Changes in assets and liabilities:			
Carried interest receivable	1,375,409	(408,819)	(973,578)
Due from affiliates	(252,339)	(130,525)	5,779
Other assets	(24,868)	6,250	(7,901)
Accounts payable and accrued expenses	33,986	34,034	559
Accrued compensation and benefits	16,185	(17,244)	8,007
Deferred revenue	(79,865)	27,322	15,000
Due to affiliates	(97,521)	(44,223)	(103,773)
Profit sharing payable	(518,003)	141,225	361,606
Other liabilities	6,889	(5,822)	(5,052)
Apollo Funds related:			
Net realized gains from investment activities	(79,277)	(87,881)	(77,408)
Net unrealized losses from investment activities	113,423	(309,138)	(458,031)
Net realized gains on debt	(101,745)	(137,098)	-
Net unrealized (gains) losses on debt	(809)	232,510	497,704
Distributions from investment activities	-	66,796	99,675
Change in cash held at consolidated variable interest entities	(13,813)	587,526	(348,138)
Purchases of investments	(10,330,057)	(9,841,763)	(7,525,473)
Proceeds from sale of investments and liquidating distributions	8,509,361	8,422,195	7,182,392
Change in other assets	(43,521)	19,260	(71,921)
Change in other liabilities	169,767	(64,061)	(49,634)
Net Cash (Used in) Provided by Operating Activities	**$ (372,917)**	**$ 1,134,458**	**$ 331,614**
Cash Flows from Investing Activities:			
Purchases of fixed assets	(5,949)	(7,577)	(11,259)
Acquisitions (net of cash assumed) (see note 3)	-	-	(99,190)
Proceeds from disposals of fixed assets	115	2,282	-
Proceeds from sale of investments	50,000	-	-
Cash contributions to equity method investments	(109,923)	(98,422)	(126,917)
Cash distributions from equity method investments	76,343	107,208	86,582

Change in restricted cash	2,846	(840)	(70)
Net Cash Provided by (Used In) Investing Activities	**$ 13,432**	**$ 2,651**	**$ (150,854)**
Cash Flows from Financing Activities:			
Principal repayments of debt	$ (250,000)	$ (737,818)	$ (698)
Issuance of debt	533,956	750,000	-
Issuance costs	(5,478)	(7,750)	-
Net loss related to cash flow hedge instruments	(1,051)	-	-
Satisfaction of tax receivable agreement	(32,032)	(30,403)	-
Satisfaction of contingent obligations	(37,271)	(67,535)	-
Distributions related to deliveries of Class A shares for RSUs	(403)	(85,858)	(25,992)
Distributions to Non-Controlling Interests in consolidated entities	(19,425)	(12,171)	(8,779)
Contributions from Non-Controlling Interests in consolidated entities	2,001	273	4,069
Distributions paid	(506,043)	(584,465)	(202,430)
Distributions paid to Non-Controlling Interests in Apollo Operating Group	(816,412)	(975,488)	(335,023)
Excess tax benefits from share-based payment arrangements	27,899	37,263	-
Apollo Funds related:			
Issuance of debt	4,225,451	2,747,033	1,413,334
Principal repayment of debt	(2,371,499)	(2,218,060)	(515,897)
Purchase of AAA units	(312)	(62,326)	(102,072)
Distributions paid	(703,041)	(334,215)	(264,910)
Distributions paid to Non-Controlling Interests in consolidated variable interest entities	(450,419)	(147,402)	(486,727)
Contributions from Non-Controlling Interests in consolidated variable interest entities	889,690	688,899	547,085
Subscriptions received in advance	-	35,000	-
Net Cash Provided by (Used in) Financing Activities	**$ 485,611**	**$ (1,005,023)**	**$ 21,960**
Net Increase in Cash and Cash Equivalents	126,126	132,086	202,720
Cash and Cash Equivalents, Beginning of Period	1,079,537	947,451	744,731
Cash and Cash Equivalents, End of Period	**$ 1,205,663**	**$ 1,079,537**	**$ 947,451**
Supplemental Disclosure of Cash Flow Information:			
Interest paid	$ 22,191	$ 43,760	49,590
Interest paid by consolidated variable interest entities	157,812	120,149	116,392
Income taxes paid	57,276	9,233	7,128
Supplemental Disclosure of Non-Cash Investing Activities:			
Non-cash distributions from equity method investments	(6,720)	(1,303)	(2,807)
Transfer of fixed assets held-for-sale	-	6,486	-
Change in accrual for purchase of fixed assets	-	-	(659)
Supplemental Disclosure of Non-Cash Financing Activities:			
Non-cash distributions	$ -	$ -	$ (788)
Declared and unpaid distributions	(49,489)	(65,724)	(1,567)
Non-cash contributions to Non-Controlling Interests in consolidated entities from Appropriated Partners' Capital	10,224	-	-
Non-cash distributions from Non-Controlling interests in consolidated entities to Appropriated Partners' Capital	(135,356)	-	-
Non-cash contributions from Non-Controlling Interests in Apollo Operating Group related to equity-based compensation	-	19,163	313,856
Non-cash distributions from Non-Controlling Interests in consolidated entities	-	-	(3,605)
Non-cash contributions from Non-Controlling Interests in consolidated entities	-	-	2,547
Unrealized gain on interest rate swaps to Non-Controlling Interests in Apollo Operating Group, net of taxes	-	-	2,010
Satisfaction of liability related to AAA RDUs	1,183	1,205	1,790
Net transfers of AAA ownership interest to Non-Controlling Interests in consolidated entities	3,423	2,226	919
Net transfer of AAA ownership interest from Apollo Global Management, LLC	(3,423)	(2,226)	(919)
Unrealized gain on interest rate swaps	-	-	1,053
Unrealized loss on available-for-sale securities (from equity method investment)	(2)	(49)	(11)
Capital increases related to equity-based compensation	108,871	104,935	282,228
Dilution impact of issuance of Class A shares	5,267	4,865	1,589
Deferred tax asset related to interest rate swaps	-	-	(410)
Tax benefits related to deliveries of Class A shares for RSUs	-	-	(9,090)
Capital increase related to business acquisition	-	-	14,001

Net Assets Transferred from Consolidated Variable Interest Entity:			
Cash	$ -	$ -	$ 1,161,016
Investments	-	-	8,805,916
Other assets	-	-	169,937
Debt	-	-	(7,255,172)
Other liabilities	-	-	(560,262)
Non-Controlling interest in consolidated entities related to acquisition	-	-	260,203
Adjustments related to exchange of Apollo Operating Group units:			
Deferred tax assets	$ 58,696	$ 149,327	$ -
Due to affiliates	(47,878)	(126,928)	-
Additional paid in capital	(10,818)	(22,399)	-
Non-Controlling Interest in Apollo Operating Group	34,618	62,996	-

See accompanying notes to consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

1. ORGANIZATION AND BASIS OF PRESENTATION

Apollo Global Management, LLC (together with its consolidated subsidiaries, the "Company" or "Apollo") is a global alternative investment manager whose predecessor was founded in 1990. Its primary business is to raise, invest and manage private equity, credit and real estate funds as well as strategic investment accounts ("SIAs"), on behalf of pension, endowment and sovereign wealth funds, as well as other institutional and individual investors. For these investment management services, Apollo receives management fees generally related to the amount of assets managed, transaction and advisory fees and carried interest income related to the performance of the respective funds that it manages. Apollo has three primary business segments:

- ***Private equity***-primarily invests in control equity and related debt instruments, convertible securities and distressed debt investments;
- ***Credit***-primarily invests in non-control corporate and structured debt instruments; and
- ***Real estate***-primarily invests in real estate equity for the acquisition and recapitalization of real estate assets, portfolios, platforms and operating companies, and real estate debt including first mortgage and mezzanine loans, preferred equity and commercial mortgage backed securities.

Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include the accounts of the Company, its wholly-owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities ("VIEs") and for which the Company is considered the primary beneficiary, and certain entities which are not considered VIEs but which the Company controls through a majority voting interest. Intercompany accounts and transactions have been eliminated upon consolidation.

Certain reclassifications, when applicable, have been made to the prior period's consolidated financial statements and notes to conform to the current period's presentation and are disclosed accordingly.

Organization of the Company

The Company was formed as a Delaware limited liability company on July 3, 2007 and completed a reorganization of its predecessor businesses on July 13, 2007 (the "2007 Reorganization"). The Company is managed and operated by its manager, AGM Management, LLC, which in turn is indirectly wholly-owned and controlled by Leon Black, Joshua Harris and Marc Rowan (the "Managing Partners").

As of December 31, 2014, the Company owned, through four intermediate holding companies that include APO Corp., a Delaware corporation that is a domestic corporation for U.S. federal income tax purposes, APO Asset Co., LLC, a Delaware limited liability company that is a disregarded entity for U.S. federal income tax purposes, APO (FC), LLC, an Anguilla limited liability company that is treated as a corporation for U.S. federal income tax purposes and APO (FC II),LLC, an Anguilla limited liability company that is treated as a corporation for U.S. federal income tax purposes (collectively, the "Intermediate Holding Companies"), 42.3% of the economic interests of, and operated and controlled all of the businesses and affairs of, the Apollo Operating Group through its wholly-owned subsidiaries.

AP Professional Holdings, L.P., a Cayman Islands exempted limited partnership ("Holdings"), is the entity through which the Managing Partners and certain of the Company's other partners (the "Contributing Partners") indirectly beneficially own interests in each of the partnerships that comprise the Apollo Operating Group ("AOG Units"). As of December 31, 2014, Holdings owned the remaining 57.7% of the economic interests in the Apollo Operating Group. The Company consolidates the financial results of the Apollo Operating Group and its consolidated subsidiaries. Holdings' ownership interest in the Apollo Operating Group is reflected as a Non-Controlling Interest in the accompanying consolidated financial statements.

Pursuant to an exchange agreement between Apollo and Holdings (as amended, the "Exchange Agreement"), the holders of the AOG Units (and certain permitted transferees thereof) may, upon notice and subject to the applicable vesting and minimum retained ownership requirements, transfer restrictions and other terms of the Exchange Agreement, exchange their AOG Units for the Company's Class A shares on a one-for-one basis a limited number of times each year, subject to customary conversion rate adjustments for splits, distributions and reclassifications. Pursuant to the Exchange Agreement, a holder of AOG Units must

simultaneously exchange one partnership unit in each of the Apollo Operating Group partnerships to effectuate an exchange for one Class A share. As a holder exchanges its AOG Units, the Company's indirect interest in the Apollo Operating Group is correspondingly increased.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation-The types of entities with which Apollo is involved generally include subsidiaries (i.e. general partners and management companies related to the funds the Company manages), entities that have all the attributes of an investment company (e.g., funds) and securitization vehicles (e.g., collateralized loan obligations). Each of these entities is assessed for consolidation on a case by case basis depending on the specific facts and circumstances surrounding that entity.

Pursuant to its consolidation policy, the Company first considers the appropriate consolidation guidance to apply including consideration of whether the entity qualifies for certain scope exceptions and whether the entity should be evaluated under either the previous rules on consolidation of variable interest entities ("VIEs") or the amended consolidation rules depending on whether or not the entity qualifies for the deferral as further described below. The Company then performs an assessment to determine whether that entity qualifies as a VIE. An entity in which Apollo holds a variable interest is a VIE if any one of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support, (b) the holders of equity investment at risk (as a group) lack either the direct or indirect ability through voting rights or similar rights to make decisions about a legal entity's activities that have a significant effect on the success of the legal entity or the obligation to absorb the expected losses or right to receive the expected residual returns, or (c) the voting rights of some investors are disproportionate to their obligation to absorb the expected losses of the legal entity, their rights to receive the expected residual returns of the legal entity, or both and substantially all of the legal entity's activities either involve or are conducted on behalf of an investor with disproportionately few voting rights. Entities that do not qualify as VIEs are generally assessed for consolidation as voting interest entities ("VOEs") under the voting interest model.

Under the voting interest model, Apollo consolidates those entities it controls through a majority voting interest or through other means, including those VOEs in which the general partner is presumed to have control. Apollo does not consolidate those VOEs in which the presumption of control by the general partner has been overcome through either the granting of substantive rights to the unaffiliated investors to either dissolve the fund or remove the general partner ("kick-out rights") or the granting of substantive participating rights.

As previously indicated, the consolidation assessment, including the determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and therefore certain of Apollo's funds may qualify as VIEs whereas others may qualify as VOEs. The granting of substantive kick-out rights is a key consideration in determining whether an entity is a VIE and whether or not that entity should be consolidated. For example, when the unaffiliated holders of equity investment at risk of a fund with sufficient equity to permit the fund to finance its activities without additional subordinated financial support are not granted substantive kick-out rights and the Company is not part of the group of holders of equity investment at risk, the fund is generally determined to be a VIE, as the holders of equity investment at risk as a group lack the direct or indirect ability through voting rights or similar rights to make decisions that have a significant effect on the success of the legal entity. Alternatively, when the unaffiliated holders of equity investment at risk are granted substantive kick-out rights, the fund is generally determined to be a VOE. However, in certain cases where the Company holds a substantive equity investment at risk in the fund, the fund may be determined to be a VOE even though substantive kick-out rights were not granted to the unaffiliated holders of equity investment at risk. In these cases, the Company is part of the group of holders of equity investment at risk and therefore the holders of equity investment at risk as a group do not lack the direct or indirect ability through voting rights or similar rights to make decisions that have a significant effect on the success of the legal entity.

If the entity is determined to be a VIE under the conditions above, the Company then assesses whether the entity should be consolidated by applying either the previous consolidation rules or the amended consolidation rules depending on whether the entity qualifies for the deferral of the amended consolidation rules as further described below.

VIEs that qualify for the deferral of the amended consolidation rules because certain conditions are met, including if the entities have all the fundamental characteristics (and a number of the typical characteristics) of an investment company and are not securitization or asset-backed financing entities, will continue to apply the previous consolidation rules. VIEs that are securitization or asset-backed financing entities will apply the amended consolidation rules. Under both sets of rules, VIEs for which Apollo is determined to be the primary beneficiary are consolidated.

With respect to VIEs such as Apollo's funds that qualify for the deferral of the amended consolidation rules and therefore apply the previous consolidation rules, Apollo is determined to be the primary beneficiary if its involvement, through holding interests directly or indirectly in the VIE or contractually through other variable interests (e.g., carried interest and management fees), would be expected to absorb a majority of the VIE’s expected losses, receive a majority of the VIE’s expected residual returns, or both. In cases where two or more Apollo related parties hold a variable interest in a VIE, and the aggregate variable interest held by those parties would, if held by a single party, identify that party as the primary beneficiary, then the Company is determined to be the primary beneficiary to the extent it is the party within the related party group that is most closely associated with the VIE.

For VIEs such as Apollo's CLOs that apply the amended consolidation rules, the Company is determined to be the primary beneficiary if it holds a controlling financial interest defined as possessing both (a) the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance and (b) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. CLOs are generally determined to be VIEs if they are formed solely to issue collateralized notes in the legal form of debt and therefore do not have sufficient total equity investment at risk to permit the entity to finance its activities without additional subordinated financial support. With respect to such CLOs, Apollo generally possesses a controlling financial interest in, and therefore consolidates, such CLOs in accordance with the amended consolidation rules when Apollo's role as collateral manager provides the Company with the power to direct the activities that most significantly impact the CLO’s economic performance and the Company has the right to receive certain benefits from the CLO (e.g., incentive fees) that could potentially be significant to the CLO.

Under the previous and the amended consolidation rules, Apollo determines whether it is the primary beneficiary of a VIE at the time it becomes initially involved with the VIE and reconsiders that conclusion continuously. Investments and redemptions (either by Apollo, affiliates of Apollo or third parties) or amendments to the governing documents of the respective entity may affect an entity’s status as a VIE or the determination of the primary beneficiary.

The assessment of whether an entity is a VIE and the determination of whether Apollo should consolidate such VIE requires judgments. Under both sets of rules, those judgments include, but are not limited to: (i) determining whether the total equity investment at risk is sufficient to permit the entity to finance its activities without additional subordinated financial support, (ii) evaluating whether the holders of equity investment at risk, as a group, can make decisions that have a significant effect on the success of the entity, (iii) determining whether two or more parties’ equity interests should be aggregated, (iv) determining whether the equity investors have proportionate voting rights to their obligations to absorb losses or rights to receive the expected residual returns from an entity, and (v) evaluating the nature of the relationship and activities of the parties involved in determining which party within a related-party group is most closely associated with the VIE. Where the VIEs have qualified for the deferral, judgments are also made in estimating cash flows to evaluate which member within the equity group absorbs a majority of the expected losses or residual returns of the VIE. Where the VIEs have not qualified for the deferral, judgments are also made in determining whether a member in the equity group has a controlling financial interest including power to direct activities that most significantly impact the VIEs' economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE.

Certain of the consolidated VIEs were formed to issue collateralized notes in the legal form of debt backed by financial assets. The difference between the fair value of the assets and liabilities of these VIEs is presented within appropriated partners’ capital in the consolidated statements of financial condition as these VIEs are funded solely with debt. Changes in the fair value of the assets and liabilities of these VIEs and the related interest and other income is presented within net gains from investment activities of consolidated variable interest entities and net income attributable to Non-Controlling Interests in the consolidated statements of operations. Such amounts are recorded within appropriated partners’ capital as, in each case, the VIEs' note holders, not Apollo, will ultimately receive the benefits or absorb the losses associated with the VIEs' assets and liabilities.

Assets and liabilities of the consolidated VIEs are shown in separate sections within the consolidated statements of financial condition as of December 31, 2014 and 2013.

For additional disclosures regarding VIEs, see note 5. Intercompany transactions and balances, if any, have been eliminated in consolidation.

Equity Method Investments-For investments in entities over which the Company exercises significant influence but which do not meet the requirements for consolidation, the Company uses the equity method of accounting, whereby the Company records its share of the underlying income or loss of such entities. Income (loss) from equity method investments is recognized as part of other income (loss) in the consolidated statements of operations. The carrying amounts of equity method investments are

reflected in investments in the consolidated statements of financial condition. As the underlying entities that the Company manages and invests in are, for U.S. GAAP purposes, primarily investment companies which reflect their investments at estimated fair value, the carrying value of the Company's equity method investments in such entities approximates fair value.

Non-Controlling Interests-For entities that are consolidated, but not 100% owned, a portion of the income or loss and corresponding equity is allocated to owners other than Apollo. The aggregate of the income or loss and corresponding equity that is not owned by the Company is included in Non-Controlling Interests in the consolidated financial statements. As of December 31, 2014, the Non-Controlling Interests relating to Apollo Global Management, LLC primarily includes the ownership interest in the Apollo Operating Group held by the Managing Partners and Contributing Partners through their limited partner interests in Holdings and other ownership interests in consolidated entities, which primarily consist of the ownership interest held by limited partners in AP Alternative Assets, L.P. ("AAA"). Non-Controlling Interests also include limited partner interests of Apollo managed funds in certain consolidated VIEs.

Non-Controlling Interests are presented as a separate component of shareholders' equity on the Company's consolidated statements of financial condition. The primary components of Non-Controlling Interests are separately presented in the Company's consolidated statements of changes in shareholders' equity to clearly distinguish the interest in the Apollo Operating Group and other ownership interests in the consolidated entities. Net income (loss) includes the net income (loss) attributable to the holders of Non-Controlling Interests on the Company's consolidated statements of operations. Profits and losses are allocated to Non-Controlling Interests in proportion to their relative ownership interests regardless of their basis.

Cash and Cash Equivalents-Apollo considers all highly liquid short-term investments with original maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts are on deposit in interest-bearing accounts with major financial institutions and exceed insured limits.

Restricted Cash-Restricted cash represents cash deposited at a bank, which is pledged as collateral in connection with leased premises.

Revenues-Revenues are reported in three separate categories that include (i) advisory and transaction fees from affiliates, net, which relate to the investments of the funds and may include individual monitoring agreements the Company has with the portfolio companies and debt investment vehicles of the private equity funds and credit funds; (ii) management fees from affiliates, which are based on committed capital, invested capital, net asset value, gross assets or as otherwise defined in the respective agreements; and (iii) carried interest income (loss) from affiliates, which is normally based on the performance of the funds subject to preferred return.

Advisory and Transaction Fees from Affiliates, Net-Advisory and transaction fees, including directors' fees, are recognized when the underlying services rendered are substantially completed in accordance with the terms of the transaction and advisory agreements. Additionally, during the normal course of business, the Company incurs certain costs related to certain transactions that are not consummated ("broken deal costs"). These costs (e.g., research costs, due diligence costs, professional fees, legal fees and other related items) are determined to be broken deal costs upon management's decision to no longer pursue the transaction. In accordance with the related fund agreement, in the event the deal is deemed broken, all of the costs are reimbursed by the funds and then included as a component of the calculation of the Management Fee Offset described below. If a deal is successfully completed, Apollo is reimbursed by the fund or fund's portfolio company for all costs incurred and no offset is generated. As the Company acts as an agent for the funds it manages, any transaction costs incurred and paid by the Company on behalf of the respective funds relating to successful or broken deals are presented net on the Company's consolidated statements of operations, and any receivable from the respective funds is presented in due from affiliates on the consolidated statements of financial condition.

Advisory and transaction fees from affiliates, net, also includes underwriting fees. Underwriting fees include gains, losses and fees, net of syndicate expenses, arising from securities offerings in which one of the Company's subsidiaries participates in the underwriter syndicate. Underwriting fees are recognized at the time the underwriting is completed and the income is reasonably assured and are included in the consolidated statements of operations. Underwriting fees recognized but not received are included in other assets on the consolidated statements of financial condition.

As a result of providing advisory services to certain private equity and credit portfolio companies, Apollo is generally entitled to receive fees for transactions related to the acquisition, in certain cases, and disposition of portfolio companies as well as ongoing monitoring of portfolio company operations and directors' fees. The amounts due from portfolio companies are included in due from affiliates, which is discussed further in note 17. Under the terms of the limited partnership agreements for certain

funds, the management fee payable by the funds may be subject to a reduction based on a certain percentage of such advisory and transaction fees, net of applicable broken deal costs (“Management Fee Offset”). Advisory and transaction fees from affiliates are presented net of the Management Fee Offset in the consolidated statements of operations.

Management Fees from Affiliates-Management fees for private equity, credit, and real estate funds are recognized in the period during which the related services are performed in accordance with the contractual terms of the related agreement, and are generally based upon (1) a percentage of the capital committed during the commitment period, and thereafter based on the remaining invested capital of unrealized investments, or (2) net asset value, gross assets or as otherwise defined in the respective agreements.

Carried Interest Income from Affiliates-Apollo is entitled to an incentive return that can normally amount to as much as 20% of the total returns on a fund's capital, depending upon performance. Performance-based fees are assessed as a percentage of the investment performance of the funds. The carried interest income from affiliates for any period is based upon an assumed liquidation of the fund’s net assets on the reporting date, and distribution of the net proceeds in accordance with the fund’s income allocation provisions. Carried interest receivable is presented separately in the consolidated statements of financial condition. The carried interest income from affiliates may be subject to reversal to the extent that the carried interest income recorded exceeds the amount due to the general partner based on a fund’s cumulative investment returns. When applicable, the accrual for potential repayment of previously received carried interest income, which is a component of due to affiliates, represents all amounts previously distributed to the general partner that would need to be repaid to the Apollo funds if these funds were to be liquidated based on the current fair value of the underlying funds’ investments as of the reporting date. The actual general partner obligation, however, would not become payable or realized until the end of a fund’s life.

Management Fee Waiver and Notional Investment Program-Under the terms of certain investment fund partnership agreements, Apollo elected to forgo a portion of the management fee revenue that was due from the funds and instead received a right to a proportionate interest in future distributions of profits of those funds. Waived fees recognized during the period were included in management fees from affiliates in the consolidated statements of operations. This election allowed certain employees of Apollo to waive a portion of their respective share of future income from Apollo and receive, in lieu of a cash distribution, title and ownership of the profits interests in the respective fund. Apollo immediately assigned the profits interests received to its employees. Such assignments of profits interests were treated as compensation and benefits
when assigned. The investment period for Apollo Investment Fund VII, L.P. ("Fund VII") and Apollo Natural Resources Partners, L.P. ("ANRP") for the management fee waiver plan was terminated as of December 31, 2012.

Deferred Revenue-Apollo earns management fees subject to the Management Fee Offset. When advisory and transaction fees are earned by the management company, the Management Fee Offset reduces the management fee obligation of the fund. When the management company receives cash for advisory and transaction fees, a certain percentage of such advisory and/or transaction fees, as applicable, is allocated as a credit to reduce future management fees, otherwise payable by such fund. Such credit is classified as deferred revenue in the consolidated statements of financial condition. A portion of any excess advisory and transaction fees may be required to be returned to the limited partners of certain funds upon such fund's liquidation. As the management fees earned by the management company are presented on a gross basis, any Management Fee Offsets calculated are presented as a reduction to Advisory and Transaction Fees from Affiliates in the consolidated statements of operations.

Additionally, Apollo earns advisory fees pursuant to the terms of the advisory agreements with certain of the portfolio companies that are owned by the funds. When Apollo receives a payment from a portfolio company that exceeds the advisory fees earned at that point in time, the excess payment is classified as deferred revenue in the consolidated statements of financial condition. The advisory agreements with the portfolio companies vary in duration and the associated fees are received monthly, quarterly or annually. Deferred revenue is reversed and recognized as revenue over the period that the agreed upon services are performed.

Under the terms of the funds’ partnership agreements, Apollo is normally required to bear organizational expenses over a set dollar amount and placement fees or costs in connection with the offering and sale of interests in the funds to investors. The placement fees are payable to placement agents, who are independent third parties that assist in identifying potential investors, securing commitments to invest from such potential investors, preparing or revising offering and marketing materials, developing strategies for attempting to secure investments by potential investors and/or providing feedback and insight regarding issues and concerns of potential investors, when a limited partner either commits or funds a commitment to a fund. In certain instances the placement fees are paid over a period of time. Based on the management agreements with the funds, Apollo considers placement fees and organizational costs paid in determining if cash has been received in excess of the management fees earned. Placement fees and organizational costs are normally the obligation of Apollo but can be paid for by the funds. When these costs are paid by

the fund, the resulting obligations are included within deferred revenue. The deferred revenue balance will also be reduced during future periods when management fees are earned but not paid.

Interest and Other Income-Apollo recognizes security transactions on the trade date. Interest income is recognized as earned on an accrual basis. Discounts and premiums on securities purchased are accreted or amortized over the life of the respective securities using the effective interest method. Realized gains and losses are recorded based on the specific identification method. Interest income also includes payment-in-kind interest (or "PIK" interest) on a convertible note and from one of our credit funds.

Due from/to Affiliates-Apollo considers its existing partners, employees, certain former employees, portfolio companies of the funds and nonconsolidated private equity, credit and real estate funds to be affiliates or related parties.

Investments, at Fair Value-The Company follows U.S. GAAP attributable to fair value measurements which, among other things, requires enhanced disclosures about investments that are measured and reported at fair value. Investments, at fair value, represent investments of the consolidated funds, investments of the consolidated VIEs and certain financial instruments for which the fair value option was elected. The unrealized gains and losses resulting from changes in the fair value are reflected as net gains (losses) from investment activities and net gains (losses) from investment activities of the consolidated VIEs, respectively, in the consolidated statements of operations. In accordance with U.S. GAAP, investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I-Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed derivatives. As required by U.S. GAAP, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and the sale of such position would likely deviate from the quoted price.

Level II-Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives where the fair value is based on observable inputs. These investments exhibit higher levels of liquid market observability as compared to Level III investments. The Company subjects broker quotes to various criteria in making the determination as to whether a particular investment would qualify for treatment as a Level II investment. These criteria include, but are not limited to, the number and quality of broker quotes, the standard deviation of obtained broker quotes, and the percentage deviation from independent pricing services.

Level III-Pricing inputs are unobservable for the investment and includes situations where there is little observable market activity for the investment. The inputs into the determination of fair value may require significant management judgment or estimation. Investments that are included in this category generally include general and limited partner interests in corporate private equity and real estate funds, opportunistic credit funds, distressed debt and non-investment grade residual interests in securitizations and CDOs and CLOs where the fair value is based on observable inputs as well as unobservable inputs. When a security is valued based on broker quotes, the Company subjects those quotes to various criteria in making the determination as to whether a particular investment would qualify for treatment as a Level II or Level III investment. These criteria include, but are not limited to, the number and quality of the broker quotes, the standard deviations of the observed broker quotes, and the percentage deviation from independent pricing services.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment when the fair value is based on unobservable inputs.

In cases where an investment or financial instrument that is measured and reported at fair value is transferred between levels of the fair value hierarchy, the Company accounts for the transfer as of the end of the reporting period.

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Private Equity Investments

The value of liquid investments, where the primary market is an exchange (whether foreign or domestic) is determined using period end market prices. Such prices are generally based on the close price on the date of determination.

Valuation approaches used to estimate the fair value of investments that are less liquid include the market approach and the income approach. The market approach provides an indication of fair value based on a comparison of the subject company to comparable publicly traded companies and transactions in the industry. The market approach is driven more by current market conditions, including actual trading levels of similar companies and, to the extent available, actual transaction data of similar companies. Judgment is required by management when assessing which companies are similar to the subject company being valued. Consideration may also be given to such factors as the Company's historical and projected financial data, valuations given to comparable companies, the size and scope of the Company's operations, the Company's strengths, weaknesses, expectations relating to the market's receptivity to an offering of the Company's securities, applicable restrictions on transfer, industry and market information and assumptions, general economic and market conditions and other factors deemed relevant. The income approach provides an indication of fair value based on the present value of cash flows that a business or security is expected to generate in the future. The most widely used methodology in the income approach is a discounted cash flow method. Inherent in the discounted cash flow method are assumptions of expected results and a calculated discount rate.

On a quarterly basis, Apollo utilizes a valuation committee, consisting of members from senior management, to review and approve the valuation results related to its funds' private equity investments. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Credit Investments

The majority of the investments in Apollo's credit funds are valued based on quoted market prices and valuation models. Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value utilizing recognized pricing services, market participants or other sources. When market quotations are not available, a model based approach is used to determine fair value. The credit funds also enter into foreign currency exchange contracts, total return swap contracts, credit default swap contracts, and other derivative contracts, which may include options, caps, collars and floors. Foreign currency exchange contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. If securities are held at the end of this period, the changes in value are recorded in income as unrealized. Realized gains or losses are recognized when contracts are settled. Total return swap contracts and credit default swap contracts are recorded at fair value as an asset or liability with changes in fair value recorded as unrealized appreciation or depreciation. Realized gains or losses are recognized at the termination of the contract based on the difference between the close-out price of the total return or credit default swap contract and the original contract price.

Forward contracts are valued based on market rates obtained from counterparties or prices obtained from recognized financial data service providers. When determining fair value pricing when no market value exists, the value attributed to an investment is based on the enterprise value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation approaches used to estimate the fair value of illiquid credit investments also may use the income approach or market approach. The valuation approaches used consider, as applicable, market risks, credit risks, counterparty risks and foreign currency risks.

On a quarterly basis, Apollo utilizes a valuation committee consisting of members from senior management, to review and approve the valuation results related to its funds' credit investments. For certain publicly traded vehicles, a review is performed by an independent board of directors. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

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Real Estate Investments

The estimated fair value of commercial mortgage-backed securities (“CMBS”) in Apollo’s funds is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. Broker quotes are only indicative of fair value and may not necessarily represent what the funds would receive in an actual trade for the applicable instrument. Additionally, the loans held-for-investment are stated at the principal amount outstanding, net of deferred loan fees and costs for certain investments. The Company evaluates its loans for possible impairment on a quarterly basis. For Apollo’s opportunistic and value added real estate funds, valuations of non-marketable underlying investments are determined using methods that include, but are not limited to (i) discounted cash flow estimates or comparable analysis prepared internally, (ii) third party appraisals or valuations by qualified real estate appraisers, and (iii) contractual sales value of investments/properties subject to bona fide purchase contracts. Methods (i) and (ii) also incorporate consideration of the use of the income, cost, or sales comparison approaches of estimating property values.

On a quarterly basis, Apollo utilizes a valuation committee, consisting of members from senior management, to review and approve the valuation results related to its funds' real estate investments. For certain publicly traded vehicles, a review is performed by an independent board of directors. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Fair Value of Financial Instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Except for the Company’s debt obligations (as described in note 14 to our consolidated financial statements), Apollo’s financial instruments are recorded at fair value or at amounts whose carrying values approximate fair value. See “Investments, at Fair Value” above. While Apollo’s valuations of portfolio investments are based on assumptions that Apollo believes are reasonable under the circumstances, the actual realized gains or losses will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may ultimately differ significantly from the assumptions on which the valuations were based. Financial instruments’ carrying values generally approximate fair value because of the short-term nature of those instruments or variable interest rates related to the borrowings.

Fair Value Option-Apollo has elected the fair value option for the Company's investment in Athene Holding ("Athene Holding" and, together with its subsidiaries, "Athene"), the convertible notes issued by HFA Holdings Limited (“HFA”) and for the assets and liabilities of the consolidated VIEs. Such election is irrevocable and is applied to financial instruments on an individual basis at initial recognition. Apollo has applied the fair value option for certain corporate loans, other investments and debt obligations held by the consolidated VIEs that otherwise would not have been carried at fair value. For the convertible notes issued by HFA, Apollo has elected to separately present interest income from other changes in the fair value of the convertible notes in the consolidated statements of operations. See notes 4, 5, and 6 for further disclosure on the investments in Athene Holding, HFA and financial instruments of the consolidated VIEs for which the fair value option has been elected.

Interest Rate Swap Agreements-Apollo recognizes derivatives as either an asset or liability measured at fair value. In order to reduce interest rate risk, Apollo entered into interest rate swap agreements which were formally designated as cash flow hedges. To qualify for cash flow hedge accounting, interest rate swaps must meet certain criteria, including (a) the items to be hedged expose Apollo to interest rate risk and (b) the interest rate swaps are highly effective in reducing Apollo’s exposure to interest rate risk. Apollo formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, its risk management objectives, its strategy for undertaking the hedge transaction and Apollo’s evaluation of effectiveness. Effectiveness is periodically assessed based upon a comparison of the relative changes in the cash flows of the interest rate swaps and the items being hedged.

For derivatives that have been formally designated as cash flow hedges, the effective portion of changes in the fair value of the derivatives are recorded in accumulated other comprehensive income (loss) (“OCI”). Amounts in accumulated OCI

are reclassified into earnings when interest expense on the underlying borrowings is recognized. If, at any time, the swaps are determined to be ineffective, in whole or in part, due to changes in the interest rate swap or underlying debt agreements, the fair value of the portion of the interest rate swap determined to be ineffective will be recognized as a gain or loss in the consolidated statements of operations.

Financial Instruments held by Consolidated VIEs

The consolidated VIEs hold investments that could be traded over-the-counter. Investments in securities that are traded on a securities exchange or comparable over-the-counter quotation systems are valued based on the last reported sale price at that date. If no sales of such investments are reported on such date, and in the case of over-the-counter securities or other investments for which the last sale date is not available, valuations are based on independent market quotations obtained from market participants, recognized pricing services or other sources deemed relevant, and the prices are based on the average of the “bid” and “ask” prices, or at ascertainable prices at the close of business on such day. Market quotations are generally based on valuation pricing models or market transactions of similar securities adjusted for security-specific factors such as relative capital structure priority and interest and yield risks, among other factors. When market quotations are not available, a model based approach is used to determine fair value.

The consolidated VIEs also have debt obligations that are recorded at fair value. The primary valuation methodology used to determine fair value for debt obligations is market quotation. Prices are based on the average of the “bid” and “ask” prices. In the event that market quotations are not available, a model based approach is used. The model based approach used to estimate the fair values of debt obligations for which market quotations are not available is the discounted cash flow method, which includes consideration of the cash flows of the debt obligation based on projected quarterly interest payments and quarterly amortization. Debt obligations are discounted based on the appropriate yield curve given the loan’s respective maturity and credit rating. Management uses its discretion and judgment in considering and appraising relevant factors for determining the valuations of its debt obligations.

Pending Deal Costs

Pending deal costs consist of certain costs incurred (e.g. research costs, due diligence costs, professional fees, legal fees and other related items) related to private equity, credit and real estate fund transactions that the Company is pursuing but which have not yet been consummated. These costs are deferred until such transactions are broken or successfully completed. A transaction is determined to be broken upon management’s decision to no longer pursue the transaction. In accordance with the related fund agreements, in the event the deal is broken, all of the costs are generally reimbursed by the funds and considered in the calculation of the Management Fee Offset. These offsets are included in advisory and transaction fees from affiliates, net in the Company’s consolidated statements of operations. If a deal is successfully completed, Apollo is reimbursed by the fund or a fund’s portfolio company for all costs incurred.

Fixed Assets

Fixed Assets consist primarily of leasehold improvements, furniture, fixtures and equipment, computer hardware and software and are recorded at cost, net of accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the assets’ estimated useful lives and in the case of leasehold improvements the lesser of the useful life or the term of the lease. Aircraft engine overhauls are capitalized and depreciated until the next expected overhaul. Expenditures for repairs and maintenance are charged to expense when incurred. The Company evaluates long-lived assets for impairment periodically and whenever events or changes in circumstances indicate the carrying amounts of the assets may be impaired.

Business Combinations

The Company accounts for acquisitions using the purchase method of accounting in accordance with U.S. GAAP. Under the purchase method of accounting, the purchase price of an acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date.

Goodwill and Intangible Assets

Goodwill and indefinite-life intangible assets must be reviewed annually for impairment or more frequently if circumstances indicate impairment may have occurred. Identifiable finite-life intangible assets, by contrast, are amortized over their estimated useful lives, which are periodically re-evaluated for impairment or when circumstances indicate an impairment may have occurred. Apollo amortizes its identifiable finite-life intangible assets using a method of amortization reflecting the pattern in which the economic benefits of the finite-life intangible asset are consumed or otherwise used up. If that pattern cannot be reliably determined, Apollo uses the straight-line method of amortization. At June 30, 2014, the Company performed its annual impairment testing, and, as the fair value of each of the Company's reporting units was in excess of its carrying value, there was no impairment of goodwill. Additionally, there was no impairment of indefinite-life intangible assets as of December 31, 2014.

Profit Sharing Payable

Profit sharing payable primarily represents the amounts payable to employees and former employees who are entitled to a proportionate share of carried interest income in one or more funds. This portion of the liability is calculated based upon the changes to realized and unrealized carried interest and is therefore not payable until the carried interest itself is realized. Profit sharing payable also includes contingent obligations that were recognized in connection with certain Apollo acquisitions.

Debt Issuance Costs

Debt issuance costs consist of costs incurred in obtaining financing and are amortized over the term of the financing using the effective interest method. These costs are included in other assets on the consolidated statements of financial condition.

Foreign Currency

The Company may, from time to time, hold foreign currency denominated assets and liabilities. Such assets and liabilities are translated using the exchange rates prevailing at the end of each reporting period. The functional currency of the Company's international subsidiaries is the U.S. Dollar, as their operations are considered an extension of U.S. parent operations. Non-monetary assets and liabilities of the Company's international subsidiaries are remeasured into the functional currency using historical exchange rates specific to each asset and liability. The results of the Company's foreign operations are normally remeasured using an average exchange rate for the respective reporting period. All currency remeasurement adjustments are included within other income (loss), net in the consolidated statements of operations. Gains and losses on the settlement of foreign currency transactions are also included within other income (loss), net in the consolidated statements of operations.

Compensation and Benefits

Equity-Based Compensation-Equity-based awards granted to employees as compensation are measured based on the grant date fair value of the award. Equity-based awards that do not require future service (i.e., vested awards) are expensed immediately. Equity-based employee awards that require future service are expensed over the relevant service period. The Company estimates forfeitures for equity-based awards that are not expected to vest. Equity-based awards granted to non-employees for services provided to affiliates are remeasured to fair value at the end of each reporting period and expensed over the relevant service period.

Salaries, Bonus and Benefits-Salaries, bonus and benefits include base salaries, discretionary and non-discretionary bonuses, severance and employee benefits. Bonuses are generally accrued over the related service period.

The Company sponsors a 401(k) savings plan whereby U.S.-based employees are entitled to participate in the plan based upon satisfying certain eligibility requirements. The Company may provide discretionary contributions from time to time. No contributions relating to this plan were made by the Company for the years ended December 31, 2014, 2013 and 2012.

Profit Sharing Expense-Profit sharing expense primarily consists of a portion of carried interest recognized in one or more funds allocated to employees and former employees. Profit sharing expense is recognized on an accrued basis as the related carried interest income is earned. Profit sharing expense can be reversed during periods when there is a decline in carried interest income that was previously recognized. Additionally, profit sharing expenses previously distributed may be subject to clawback from employees, former employees and Contributing Partners.

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Changes in the fair value of the contingent consideration obligations that were recognized in connection with certain Apollo acquisitions are reflected in the Company's consolidated statements of operations as profit sharing expense.

The Company has a performance based incentive arrangement for certain Apollo partners and employees designed to more closely align compensation on an annual basis with the overall realized performance of the Company. This arrangement enables certain partners and employees to earn discretionary compensation based on carried interest realizations earned by the Company in a given year, which amounts are reflected in profit sharing expense in the accompanying consolidated financial statements.

Other Income (Loss)

Net Gains (Losses) from Investment Activities-Net gains (losses) from investment activities include both realized gains and losses and the change in unrealized gains and losses in the Company's investment portfolio between the opening reporting date and the closing reporting date. The consolidated financial statements include the net realized and unrealized gains (losses) of investments, at fair value. For the Company's investments held by AAA (see note 4), a portion of the net gains (losses) from investment activities are attributable to Non-Controlling Interests in the consolidated statements of operations.

Net Gains (Losses) from Investment Activities of Consolidated Variable Interest Entities-Changes in the fair value of the consolidated VIEs' assets and liabilities and related interest, dividend and other income and expenses subsequent to consolidation are presented within net gains (losses) from investment activities of consolidated variable interest entities and are attributable to Non-Controlling Interests in the consolidated statements of operations.

Other Income (Loss), Net-Other income (loss), net includes the recognition of bargain purchase gains as a result of Apollo acquisitions, gains (losses) arising from the remeasurement of foreign currency denominated assets and liabilities of foreign subsidiaries, reversal of a portion of the tax receivable agreement liability (see note 17), gains (losses) arising from the remeasurement of derivative instruments associated with fees from certain of the Company's affiliates, gains arising from extinguishment of contingent consideration obligations and other miscellaneous non-operating income and expenses.

Comprehensive Income (Loss)-U.S. GAAP guidance establishes standards for reporting comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements. U.S. GAAP requires that the Company classify items of OCI by their nature in the financial statements and display the accumulated balance of OCI separately in the shareholders' equity section of the Company's consolidated statements of financial condition. Comprehensive income (loss) consists of net income (loss) and OCI. Apollo's OCI is primarily comprised of the effective portion of changes in the fair value of the interest rate swap agreements discussed previously and foreign currency translation adjustments associated with the Company's non-U.S. dollar denominated subsidiaries.

Income Taxes-The Apollo Operating Group and its subsidiaries generally operate as partnerships for U.S. Federal income tax purposes. As a result, except as described below, the Apollo Operating Group has not been subject to U.S. income taxes. However, these entities in some cases are subject to New York City unincorporated business taxes ("NYC UBT") and non-U.S. entities, in some cases, are subject to non-U.S. corporate income taxes. In addition, APO Corp., a wholly-owned subsidiary of the Company, is subject to U.S. Federal, state and local corporate income tax, and the Company's provision for income taxes is accounted for in accordance with U.S. GAAP.

Significant judgment is required in determining tax expense and in evaluating tax positions, including evaluating uncertainties. The Company recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit is measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. If a tax position is not considered more likely than not to be sustained, then no benefits of the position are recognized. The Company's tax positions are reviewed and evaluated quarterly to determine whether or not the Company has uncertain tax positions that require financial statement recognition.

Deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amount of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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Net Income (Loss) Per Class A Share-U.S. GAAP requires use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating security as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for distributions declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for distributions declared on participating securities only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity.

The remaining earnings are allocated to Class A shares and participating securities to the extent that each security shares in earnings as if all of the earnings for the period had been distributed. Earnings or losses allocated to each class of security are then divided by the applicable number of shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes all outstanding Class A shares and includes the number of additional Class A shares that would have been outstanding if the dilutive potential Class A shares had been issued. The numerator is adjusted for any changes in income or loss that would result from the issuance of these potential Class A shares.

Use of Estimates-The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Apollo's most significant estimates include goodwill, intangible assets, income taxes, carried interest income from affiliates, contingent consideration obligations related to acquisitions, non-cash compensation, and fair value of investments and debt. Actual results could differ materially from those estimates.

Consolidated Statements of Cash Flows- During the second quarter of 2014, the Company identified that return on capital related to cash distributions from equity method investments had been previously reported as cash flows provided by investing activities. Cash flows received from equity method investments should have been separately identified as either return of investment or return on investment. Cash flows from the return of investment should be presented in cash flows provided by investing activities and return on investment presented within cash flows provided by operating activities. The Company restated the previously presented cash flows for these cash distributions from equity method investments and, in doing so, for the years ended December 31, 2013 and December 31, 2012, the consolidated statements of cash flows were restated to increase net cash flows provided by operating activities by $109.1 million and $66.1 million, respectively, with a corresponding decrease in net cash flows provided by investing activities. The Company has evaluated the effect of the incorrect presentation both qualitatively and quantitatively, and concluded that it did not have a material impact on, nor require amendment of, any previously filed annual or quarterly consolidated financial statements.

Recent Accounting Pronouncements

In April 2013, the Financial Accounting Standards Board ("FASB") issued guidance that requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The financial statements prepared using the liquidation basis of accounting should present relevant information about the expected resources in liquidation by measuring and presenting assets at the amount of the expected cash proceeds from liquidation. The entity should include in its presentation of assets any items it had not previously recognized under U.S. GAAP but that it expects to either sell in liquidation or use in settling liabilities. Liabilities should be recognized and measured in accordance with U.S. GAAP that otherwise applies to those liabilities. The guidance requires an entity to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with the sale or settlement of those assets and liabilities. Additionally, the amended guidance requires disclosures about an entity's plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process. The guidance is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. Entities should apply the requirements prospectively from the day that liquidation becomes imminent. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In June 2013, the FASB issued guidance to change the assessment of whether an entity is an investment company by developing a new two-tiered approach that requires an entity to possess certain fundamental characteristics while allowing judgment in assessing certain typical characteristics. The fundamental characteristics that an investment company must have include the following: (1) it obtains funds from one or more investors and provides the investor(s) with investment management services; (2) it commits to its investor(s) that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income or both; and (3) it does not obtain returns or benefits from an investee or its affiliates that

are not normally attributable to ownership interests. The typical characteristics of an investment company that an entity should consider before concluding whether it is an investment company include the following: (1) it has more than one investment; (2) it has more than one investor; (3) it has investors that are not related parties of the parent or the investment manager; (4) it has ownership interests in the form of equity or partnership interests; and (5) it manages substantially all of its investments on a fair value basis. The new approach requires an entity to assess all of the characteristics of an investment company and consider its purpose and design to determine whether it is an investment company. The guidance includes disclosure requirements about an entity’s status as an investment company and financial support provided or contractually required to be provided by an investment company to its investees. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2013. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

In July 2013, the FASB issued guidance to eliminate the diversity in practice on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Under the new guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carry forward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statement as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date (e.g. an entity should not evaluate whether the deferred tax asset expires before the statute of limitations on the tax position or whether the deferred tax asset may be used prior to the unrecognized tax benefit being settled). The guidance does not require new recurring disclosures. The guidance applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, similar tax loss, or a tax credit carryforward exists at the reporting date. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date, although retrospective application is permitted. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

In April 2014, the FASB issued guidance to improve the definition of discontinued operations and to enhance convergence between the FASB’s and International Accounting Standard Board’s (IASB) reporting requirements for discontinued operations. The new definition of discontinued operations limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity’s operations and financial results. The new guidance affects entities that have either of the following: (1) a component of an entity that either is disposed of or meets the criteria under current guidance to be classified as held for sale or (2) a business or nonprofit activity that, on acquisition, meets the criteria under current guidance to be classified as held for sale. The guidance is effective for all disposals (or classifications as held for sale) of components of an entity and all businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications has held for sale) that have not been reported in financial statements previously issued or available for issuance. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued guidance to establish a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity’s revenue across industries, transactions, and geographies. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance also specifies the accounting for certain costs to obtain or fulfill a contract with a customer. The new guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. Qualitative and quantitative information is required to be disclosed about: (1) contracts with customers, (2) significant judgments and changes in judgments, and (3) assets recognized from costs to obtain or fulfill a contract. The new guidance will apply to all entities. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. Early application is not permitted. The Company is in the process of

evaluating the impact that this guidance will have on its consolidated financial statements, including the timing of the recognition of carried interest income.

In June 2014, the FASB issued guidance to resolve diversity in practice in the accounting for share-based payments where the terms of an award provide that a performance target could be achieved after the requisite service period. The new guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Accordingly, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The new guidance applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early application is permitted. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements.

In August 2014, the FASB issued guidance to eliminate diversity in practice in the accounting for measurement differences in both the initial consolidation and subsequent measurement of the financial assets and the financial liabilities of a collateralized financing entity. A reporting entity that consolidates a collateralized financing entity within the scope of the new guidance may elect to measure the financial assets and the financial liabilities of that collateralized financing entity using either the measurement alternative included in the new guidance or the existing guidance on fair value measurement. When the measurement alternative is not elected for a consolidated collateralized financing entity within the scope of the new guidance, the new guidance clarifies that (1) the fair value of the financial assets and the fair value of the financial liabilities of the consolidated collateralized financing entity should be measured using the requirements of the existing guidance on fair value measurement and (2) any differences in the fair value of the financial assets and the fair value of the financial liabilities of that consolidated collateralized financing entity should be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss). When a reporting entity elects the measurement alternative included in the new guidance for a collateralized financing entity, the reporting entity should measure both the financial assets and the financial liabilities of that collateralized financing entity in its consolidated financial statements using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. The guidance applies to a reporting entity that is required to consolidate a collateralized financing entity under the existing variable interest entity guidance when (1) the reporting entity measures all of the financial assets and the financial liabilities of that consolidated collateralized financing entity at fair value in the consolidated financial statements based on other guidance and (2) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted as of the beginning of an annual period. The Company is in the process of evaluating the impact that this guidance will have on the recognition of appropriated partners’ capital, although the impact on net income attributable to the Company is not expected to be material.

In August 2014, the FASB issued guidance regarding management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The new guidance requires that management evaluate each annual and interim reporting period whether conditions exist that give rise to substantial doubt about the entity’s ability to continue as a going concern within one year from the financial statement issuance date, and if so, provide related disclosures. Disclosures are only required if conditions give rise to substantial doubt, whether or not the substantial doubt is alleviated by management’s plans. No disclosures are required specific to going concern uncertainties if an assessment of the conditions does not give rise to substantial doubt. Substantial doubt exists when conditions and events, considered in the aggregate, indicate that it is probable that a company will be unable to meet its obligations as they become due within one year after the financial statement issuance date. If substantial doubt is alleviated as a result of the consideration of management’s plans, a company should disclose information that enables users of financial statements to understand all of the following (or refer to similar information disclosed elsewhere in the footnotes): (1) principal conditions that initially give rise to substantial doubt, (2) management’s evaluation of the significance of those conditions in relation to the company’s ability to meet its obligations, and (3) management’s plans that alleviated substantial doubt. If substantial doubt is not alleviated after considering management’s plans, disclosures should enable investors to understand the underlying conditions, and include the following: (1) a statement indicating that there is substantial doubt about the company’s ability to continue as a going concern within one year

after the issuance date, (2) the principal conditions that give rise to substantial doubt, (3) management's evaluation of the significance of those conditions in relation to the company's ability to meet its obligations, and (4) management plans that are intended to mitigate the adverse conditions. The new guidance applies to all companies. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. Early adoption is permitted. This guidance is not expected to have an impact on the consolidated financial statements of the Company.

In November 2014, the FASB issued guidance to clarify how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the new guidance clarifies that an entity should consider all relevant terms and features-including the embedded derivative feature being evaluated for bifurcation when evaluating the nature of the host contract. Further, the new guidance clarifies that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The new guidance applies to all entities that are issuers of, or investors in, hybrid financial instruments that are issued in the form of a share. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements.

In January 2015, the FASB issued guidance to simplify income statement presentation by eliminating the concept of extraordinary items. Existing guidance requires that an entity separately classify, present, and disclose extraordinary events and transactions. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity is also required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The new guidance eliminates the requirement for reporting entities to consider whether an underlying event or transactions is extraordinary. However, the presentation and disclosure requirements under existing guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. Under the new guidance, items that are both unusual in nature and infrequently occurring should be presented within income from continuing operations or disclosed in the notes to the financial statements. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. This guidance is not expected to have an impact on the consolidated financial statements of the Company.

In February 2015, the FASB issued new guidance which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Existing guidance includes different requirements for performing a consolidation analysis if, among other factors, the entity under evaluation is any one of the following: (1) a legal entity that qualifies for the indefinite deferral under the amended consolidation rules, (2) a legal entity that is within the scope of the amended consolidation rules, or (3) a limited partnership or similar entity that is considered a voting interest entity. Under the new guidance, all reporting entities are within the scope of the new standard, including limited partnerships and similar legal entities, unless a scope exception applies. The presumption that a general partner controls a limited partnership has been eliminated. In addition, fees paid to decision makers that meet certain conditions (e.g. are both customary and commensurate with the level of effort required for the services provided) no longer cause decision makers to consolidate VIEs in certain instances. The new guidance places more emphasis in the consolidation evaluation on variable interests other than the fee arrangements such as principal investment risk (for example, debt or equity interests), guarantees of the value of the assets or liabilities of the VIE, written put options on the assets of the VIE, or similar obligations, including some liquidity commitments or agreements (explicit or implicit). Additionally, the new guidance reduces the extent to which related party arrangements cause an entity to be considered a primary beneficiary. The indefinite deferral of the amended consolidation rules for certain investment funds has been eliminated and a scope exception from the new consolidation standard has been added for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the investment Company Act of 1940 for registered money market funds. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period, and adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. A reporting entity may apply the new guidance using either a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or by applying the amendments retrospectively. The Company is in the process of evaluating the impact that this new guidance will have on its consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
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(dollars in thousands, except share data, except where noted)

3. ACQUISITIONS AND BUSINESS COMBINATIONS

Business Combinations

Stone Tower

On April 2, 2012, the Company completed its previously announced acquisition of the membership interests of Stone Tower Capital LLC and its related management companies (“Stone Tower”), a leading alternative credit manager. The acquisition was consummated by the Company for total consideration at fair value of approximately $237.2 million. The transaction added significant scale and several new credit product capabilities and increased the assets under management of the credit segment.

Consideration exchanged at closing included a payment of approximately $105.5 million, which the Company funded from its existing cash resources, and equity granted to the former owners of Stone Tower with grant date fair value of $14.0 million valued using the closing price of the Company's Class A shares on April 2, 2012 of $14.40. Additionally, the Company will also make payments to the former owners of Stone Tower under a contingent consideration obligation which requires the Company to transfer cash to the former owners of Stone Tower based on a specified percentage of carried interest income. The contingent consideration obligation had an acquisition date fair value of approximately $117.7 million, which was determined based on the present value of the estimated future carried interest payments of approximately $139.4 million using a discount rate of 9.5%, and is reflected in profit sharing payable in the consolidated statements of financial condition. See note 18 for additional disclosure regarding the contingent consideration obligation.

As a result of the acquisition, the Company incurred $4.6 million in acquisition costs, of which $2.8 million was incurred during the year ended December 31, 2012.

Tangible assets acquired in the acquisition consisted of management and carried interest receivable and other assets. Intangible assets acquired consisted primarily of certain management contracts providing economic rights to management fees, senior fees, subordinate fees, and carried interest from existing CLOs, funds and strategic investment accounts.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
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The Company performed an analysis and an evaluation of the net assets acquired and liabilities assumed. The estimated fair value of the assets acquired exceeded the estimated fair value of the liabilities assumed as of the acquisition date resulting in a bargain purchase gain of approximately $1,951.1 million for the year ended December 31, 2012. The bargain purchase gain is reflected in other income, net within the consolidated statement of operations for the year ended December 31, 2012, with corresponding amounts reflected as components of appropriated partners' capital within the consolidated statement of changes in shareholders' equity for the year ended December 31, 2012. The estimated fair values for the net assets acquired and liabilities assumed are summarized in the following table:

Tangible Assets:	
Cash	$ 6,310
Carried Interest Receivable	36,097
Due from Affiliates	1,642
Other Assets	2,492
Total assets of consolidated variable interest entities	10,136,869
Intangible Assets:	
Management Fees Contracts	9,658
Senior Fees Contracts	568
Subordinate Fees Contracts	2,023
Carried Interest Contracts	85,071
Non-Compete Covenants	200
Fair Value of Assets Acquired	10,280,930
Liabilities Assumed:	
Accounts payable and accrued expenses	3,570
Due to Affiliates	4,410
Other Liabilities	8,979
Total liabilities of consolidated variable interest entities	7,815,434
Fair Value of Liabilities Assumed	7,832,393
Fair Value of Net Assets Acquired	2,448,537
Less: Net assets attributable to Non-Controlling Interests in consolidated entities	260,203
Less: Fair Value of Consideration Transferred	237,201
Gain on Acquisition	$ 1,951,133

The bargain purchase gain was recorded in other income, net in the consolidated statements of operations.

The acquisition related intangible assets valuation and related amortization are as follows:

		As of December 31,	
	Weighted Average Useful Life in Years	2014	2013
Management Fees Contracts	2.2	$ 9,658	$ 9,658
Senior Fees Contracts	2.4	568	568
Subordinate Fees Contracts	2.5	2,023	2,023
Carried Interest Contracts	3.7	85,071	85,071
Non-Compete Covenants	2.0	200	200
Total Intangible Assets		97,520	97,520
Less: Accumulated amortization		(73,568)	(48,586)
Net Intangible Assets		$ 23,952	$ 48,934

The results of operations of the acquired business since the acquisition date included in the Company's consolidated statements of operations for the period from April 2, 2012 to December 31, 2012 were as follows:

	For the Period from April 2, 2012 to December 31, 2012	
Total Revenues	$	51,719
Net Income Attributable to Non-Controlling Interest	$	(1,925,053)
Net Income Attributable to Apollo Global Management, LLC	$	12,446

Other Acquisitions

On October 2, 2013, the Company acquired specified assets and liabilities of Aviva Investors North America, Inc., a wholly-owned subsidiary of Aviva plc. The acquisition provides the Company additional asset management allocation and related service capabilities for similar assets that it directly manages across its investment platform. The transaction was accounted for as a business combination. Identifiable assets having a combined fair value of $0.4 million were acquired in exchange for fair value of liabilities assumed of $0.8 million, which resulted in goodwill of $0.4 million as of the acquisition date. There was no consideration transferred relating to this acquisition.

Intangible Assets

Intangible assets, net consists of the following:

	As of December 31,			
	2014		2013	
Finite-lived intangible assets/management contracts	$	240,285	$	240,285
Accumulated amortization		(180,246)		(145,358)
Intangible assets, net	$	60,039	$	94,927

The changes in intangible assets, net consist of the following:

	For the Year Ended December 31,					
	2014		2013		2012	
Balance, beginning of year	$	94,927	$	137,856	$	81,846
Amortization expense		(34,888)		(43,194)		(43,009)
Acquisitions		-		265		99,019 (1)
Balance, end of year	$	60,039	$	94,927	$	137,856

(1) Includes impact of purchase price adjustments related to the Gulf Stream acquisition.

Amortization expense related to intangible assets was $34.9 million, $43.2 million, and $43.0 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Expected amortization of these intangible assets for each of the next 5 years and thereafter is as follows:

	2015	2016	2017	2018	2019	Thereafter	Total
Amortization of intangible assets	$ 33,458	$ 7,917	$ 4,952	$ 3,677	$ 3,677	$ 6,358	$ 60,039

4. INVESTMENTS

The following table represents Apollo's investments:

	As of December 31, 2014	As of December 31, 2013
Investments, at fair value	$ 2,499,128	$ 2,012,027
Equity method investments	380,878	381,856
Total Investments	$ 2,880,006	$ 2,393,883

Investments, at Fair Value

Investments, at fair value, consist of financial instruments held by AAA, the Company's investment in Athene Holding, investments held by the Apollo Credit Senior Loan Fund, L.P. ("Apollo Senior Loan Fund"), and other investments held by the Company at fair value. Other investments include the Company's investment in HFA. As of December 31, 2014 and December 31, 2013, the net assets of the consolidated funds (excluding VIEs) were $2,174.1 million and $1,971.1 million, respectively. The following investments, except the investment in Athene Holding and other investments, are presented as a percentage of net assets of the consolidated funds:

	As of December 31, 2014					As of December 31, 2013				
	Fair Value					Fair Value				
Investments, at Fair Value - Affiliates	Private Equity	Credit	Total	Cost	% of Net Assets of Consolidated Funds	Private Equity	Credit	Total	Cost	% of Net Assets of Consolidated Funds
AAA	$ 2,144,118	$ -	$ 2,144,118	$ 1,494,358	98.6%	$ 1,942,051	$ -	$ 1,942,051	$ 1,494,358	98.5%
Athene Holding	25,104	299,410	324,514	324,293	N/A	-	-	-	-	N/A
Apollo Senior Loan Fund	-	29,896	29,896	30,100	1.4	-	29,603	29,603	29,226	1.5
Other Investments	486	114	600	3,318	N/A	839	39,534	40,373	65,377	N/A
Total	$ 2,169,708	$ 329,420	$ 2,499,128	$ 1,852,069	100.0%	$ 1,942,890	$ 69,137	$ 2,012,027	$ 1,588,961	100.0%

Securities

As of December 31, 2014 and December 31, 2013, the sole investment held by AAA was its investment in AAA Investments, L.P. ("AAA Investments"), which is measured based on AAA's share of net asset value of AAA Investments. The following table represents the sole investment of AAA Investments, which constitutes more than five percent of the net assets of the funds that the Company consolidates (excluding VIEs) as of the aforementioned dates:

	As of December 31, 2014				As of December 31, 2013			
	Instrument Type	Fair Value	Cost	% of Net Assets of Consolidated Funds	Instrument Type	Fair Value	Cost	% of Net Assets of Consolidated Funds
Athene Holding	Equity	$ 2,244,192	$ 1,363,532	103.2%	Equity	$ 1,950,010	$ 1,331,942	98.9%

As of December 31, 2014, AAA Investments' portfolio consisted of a single investment in the equity of Athene Holding. Athene Holding is the ultimate parent of various insurance company operating subsidiaries. Through its subsidiaries, Athene Holding provides insurance products focused primarily on the retirement market and its business centers primarily on issuing or reinsuring fixed indexed annuities.

As of December 31, 2014 and December 31, 2013, AAA, through its investment in AAA Investments was the largest equity holder in Athene Holding with an economic ownership stake of approximately 47.7% (calculated as if the commitments in

the Athene Private Placement (as defined below) closed through December 31, 2014 were fully drawn down but without giving effect to (i) restricted common shares issued under Athene's management equity plan or (ii) common shares to be issued under the Amended AAA Services Agreement or the Amended Athene Services Agreement subsequent to December 31, 2013) and 72.5% (without giving effect to (i) restricted common shares issued under Athene's management equity plan, (ii) the common shares to be issued under the Amended AAA Services Agreement or the Amended Athene Services Agreement subsequent to December 31, 2013 and (iii) conversion of AAA Investments' note receivable), respectively, and effectively held 45% of the voting power of Athene. AAA Investments' ownership interest in Athene is held indirectly through its subsidiaries. During 2014, AAA Investments' ownership stake in Athene was reduced as a result of the Athene Private Placement (as defined below), the issuance of 3.7 million unrestricted common shares of Athene Holding under Athene's management equity plan) and issuances of shares under the Amended AAA Services Agreement and the Amended Athene Services Agreement, and increased by the conversion to common shares of AAA Investments' note receivable from Athene. See note 17 for further information regarding Athene.

At December 31, 2014 and December 31, 2013, Athene's fair value was determined using the embedded value method which was based on the present value of the future expected regulatory distributable income generated by the net assets of Athene plus the excess capital (i.e., the capital in excess of what is required to be held against Athene's liabilities). The net assets of Athene consist of the current and projected assets less the current and projected liabilities related to in force insurance contracts. For purposes of the excess capital calculation the assets are valued at fair value using our valuation methodology disclosed in note 2. The approach of using actuarially projected asset and liability income to value an insurance company is widely used by market participants in the insurance industry, particularly in private company acquisitions. The embedded value of the in force insurance contracts incorporates actuarial projections of expected income utilizing most recently available policyholder contract and experience data, industry information and assumptions, general economic and market conditions, and other factors deemed relevant, including the cost of capital. In addition, consideration is also given to comparable company multiples in the determination of fair value.

Athene Holding

As further described in note 17, during 2014, Athene Holding raised $1.218 billion of net equity commitments (the "Athene Private Placement"), which was priced at $26 per common share of Athene Holding. In connection with the Athene Private Placement, both the Athene Services Derivative and the AAA Services Derivative (as defined in note 17) were settled on April 29, 2014 by delivery to Apollo of common shares of Athene Holding, and as a result, such derivatives were terminated. Following settlement of these derivatives, future monitoring fees and management fees paid to Apollo pursuant to the Amended Athene Services Agreement and the Amended AAA Services Agreement, respectively, will be paid on a quarterly basis in arrears by delivery to Apollo of common shares of Athene Holding (unless such payment in shares would violate Section 16(b) of the Exchange Act).

The Company elected the fair value option for its investment in Athene Holding at the time of settlement of the Athene Services Derivative and AAA Services Derivative. The Company has classified this investment as a Level III asset in the fair value hierarchy, as the pricing inputs into the determination of fair value require significant judgment and estimation. The investment is valued based on the price of a common share of Athene Holding, which as of December 31, 2014 was determined using the embedded value method. See note 6 for further discussion regarding fair value leveling and note 17 for further information regarding Athene.

Apollo Senior Loan Fund

On December 31, 2011, the Company became the sole investor in the Apollo Senior Loan Fund and therefore consolidated the assets and liabilities of the fund. The fund invests in U.S. denominated senior secured loans, senior secured bonds and other income generating fixed-income investments. At least 90% of the Apollo Senior Loan Fund's portfolio of investments must consist of senior secured, floating rate loans or cash or cash equivalents. Up to 10% of the Apollo Senior Loan Fund's portfolio may consist of non-first lien fixed income investments and other income generating fixed income investments, including but not limited to senior secured bonds. The Apollo Senior Loan Fund may not purchase assets rated (tranche rating) at B3 or lower by Moody's, or equivalent rating by another nationally recognized rating agency.

The Company has classified the instruments associated with the Apollo Senior Loan Fund investment within the respective level in the fair value hierarchy. See note 6 for further discussion regarding fair value leveling.

HFA

On March 7, 2011, the Company invested $52.1 million (including expenses related to the purchase) in a convertible note with an aggregate principal amount of $50.0 million and received 20,833,333 stock options issued by HFA, an Australian based

specialist global funds management company. Pursuant to a buy-back agreement with HFA, effective July 2, 2014, HFA repurchased the convertible note at its face value of $50.0 million.

The note had a percentage coupon interest of 6% per annum, paid via principal capitalization (payment-in-kind, or "PIK", interest) for the first four years, and thereafter either in cash or via principal capitalization at HFA's discretion. The PIK interest provided for the Company to receive additional common shares of HFA if the note was converted. For the years ended December 31, 2014, 2013, and 2012, the Company recorded $1.7 million, $4.0 million and $3.1 million, respectively, in PIK interest income included in interest income in the consolidated statements of operations. The Company separately presents interest income in the consolidated statements of operations from other changes in the fair value of the convertible note.

The Company classified the instruments associated with the HFA investment as Level III investments. See note 6 for further discussion regarding fair value leveling.

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Net Gains (Losses) from Investment Activities

Net gains (losses) from investment activities in the consolidated statements of operations include net realized gains (losses) from sales of investments, and the change in net unrealized gains (losses) resulting from changes in fair value or reversal of realization of gains/losses of the consolidated funds' investments and realization of previously unrealized gains/losses. Additionally, net gains from investment activities include changes in the fair value of the investment in HFA and other investments held at fair value. The following tables present Apollo's net gains (losses) from investment activities for the years ended December 31, 2014, 2013 and 2012:

	For the Year Ended December 31, 2014		
	Private Equity	Credit	Total
Realized losses on sales of investments	$ -	$ (12,651)	$ (12,651)
Change in net unrealized gains due to changes in fair values	204,542	21,352	225,894
Net Gains from Investment Activities	$ 204,542	$ 8,701	$ 213,243

	For the Year Ended December 31, 2013		
	Private Equity	Credit	Total
Realized gains on sales of investments	$ -	$ 409	$ 409
Change in net unrealized gains (losses) due to changes in fair values	342,398	(12,572)	329,826
Net Gains (Losses) from Investment Activities	$ 342,398	$ (12,163)	$ 330,235

	For the Year Ended December 31, 2012		
	Private Equity	Credit	Total
Realized gains on sales of investments	$ -	$ 443	$ 443
Change in net unrealized gains (losses) due to changes in fair values	288,140	(339)	287,801
Net Gains from Investment Activities	$ 288,140	$ 104	$ 288,244

Equity Method Investments

Apollo's equity method investments include its investments in Apollo private equity, credit and real estate funds, which are not consolidated, but in which the Company exerts significant influence. Apollo's share of operating income generated by these investments is recorded within income from equity method investments in the consolidated statements of operations.

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Equity method investments as of December 31, 2014 and December 31, 2013 consisted of the following:

	Equity Held as of			
	December 31, 2014	% of Ownership	December 31, 2013	% of Ownership
Investments:				
Private Equity Funds:				
AAA Investments	$ 1,293	0.057%	$ 1,168	0.057%
Apollo Investment Fund IV, L.P. ("Fund IV")	8	0.022	9	0.019
Apollo Investment Fund V, L.P. ("Fund V")	68	0.031	94	0.020
Apollo Investment Fund VI, L.P. ("Fund VI")	6,173	0.114	9,964	0.103
Fund VII	78,286	1.223	137,960	1.258
Apollo Investment Fund VIII, L.P. ("Fund VIII")	33,099	2.241	4,310	3.996
ANRP	5,608	0.807	3,735	0.831
AION Capital Partners Limited ("AION")	14,707	6.113	6,425	9.970
Apollo Asia Private Credit Fund, L.P. ("APC")	47	0.044	49	0.046
VC Holdings, L.P. Series A ("Vantium A/B")	12	6.450	15	6.450
VC Holdings, L.P. Series C ("Vantium C")	48	2.071	1,233	2.071
VC Holdings, L.P. Series D ("Vantium D")	180	6.345	2,190	6.345
Total Private Equity Funds[5]	139,529		167,152	
Credit Funds:				
Apollo Special Opportunities Managed Account, L.P. ("SOMA")	6,997	0.841	6,833	0.853
Apollo Value Strategic Fund, L.P. ("VIF")	146	0.067	151	0.124
Apollo Strategic Value Fund, L.P. ("SVF")	10	0.033	17	0.079
Apollo Credit Liquidity Fund, L.P. ("ACLF")	4,128	2.771	4,559	3.341
Apollo Credit Opportunity Fund I, L.P. ("COF I")	2,298	1.870	10,077	1.850
Apollo Credit Opportunity Fund II, L.P. ("COF II")	2,249	1.497	5,015	1.428
Apollo Credit Opportunity Fund III, L.P. ("COF III")	13,102	1.061	6,720	2.450
Apollo European Principal Finance Fund, L.P. ("EPF I")	7,647	1.449	19,332	1.363
Apollo European Principal Finance Fund II, L.P. ("EPF II")	44,523	1.760	23,212	1.994
Apollo Investment Europe II, L.P. ("AIE II")	3,203	1.937	4,500	2.772
Apollo Europe Co-Investors III (D) LLC ("AIE III")	1,540	2.914	-	-
Apollo Palmetto Strategic Partnership, L.P. ("Palmetto")	14,049	1.186	16,054	1.186
Apollo Senior Floating Rate Fund Inc. ("AFT")	86	0.031	95	0.034
Apollo Residential Mortgage, Inc. ("AMTG") [3]	4,263 [1]	0.593 [1]	4,015 [2]	0.632 [2]
Apollo European Credit, L.P. ("AEC")	2,443	1.081	2,482	1.230
Apollo European Strategic Investments, L.P. ("AESI")	3,834	0.990	3,732	0.956
Apollo European Strategic Investments II, L.P. ("AESI II")	123	0.990	-	-
Apollo Centre Street Partnership, L.P. ("ACSP")	11,474	2.439	7,690	2.465
Apollo Investment Corporation ("AINV") [4]	64,382 [1]	3.057 [1]	55,951 [2]	2.933 [2]
Apollo SK Strategic Investments, L.P. ("SK")	1,693	0.990	1,714	0.997
Apollo SPN Investments I, L.P.	5,500	0.720	4,457	0.828
CION Investment Corporation ("CION")	1,000	0.206	1,000	0.716
Apollo Tactical Income Fund Inc. ("AIF")	84	0.032	94	0.036
Apollo Franklin Partnership, L.P. ("Franklin Fund")	9,647	9.091	10,178	9.107
Apollo Zeus Strategic Investments, L.P. ("Zeus")	6,404	3.392	1,678	3.383
Apollo Lincoln Fixed Income Fund, L.P.	1,398	0.993	-	-
Apollo Lincoln Private Credit Fund, L.P.	194	0.990	-	-
Apollo Structured Credit Recovery Master Fund III, L.P.	315	0.126	-	-
Apollo Total Return Fund L.P.	163	0.046	-	-
Apollo Credit Short Opportunities Fund L.P.	19	0.027	-	-
Total Credit Funds[5]	212,914		189,556	
Real Estate:				
Apollo Commercial Real Estate Finance, Inc. ("ARI")[3]	13,989 [1]	1.495 [1]	11,550 [2]	1.500 [2]

AGRE U.S. Real Estate Fund, L.P.	10,519	1.845	9,473	1.845
CPI Capital Partners North America, L.P.	137	0.408	272	0.416
CPI Capital Partners Europe, L.P.	5	0.001	5	0.001
CPI Capital Partners Asia Pacific, L.P.	96	0.039	106	0.042
Apollo GSS Holding (Cayman), L.P.	3,564	4.750	3,670	3.460
BEA/AGRE China Real Estate Fund, L.P.	87	1.031	72	1.031
Other	38	4.761	-	-
Total Real Estate Funds[5]	28,435		25,148	
Total	$ 380,878		$ 381,856	

(1) Amounts are as of September 30, 2014.
(2) Amounts are as of September 30, 2013.

(3) Investment value includes the fair value of RSUs granted to the Company as of the grant date. These amounts are not considered in the percentage of ownership until the RSUs are vested and issued to the Company, at which point the RSUs are converted to common stock and delivered to the Company.
(4) The value of the Company's investment in AINV was $53,693 and $57,249 based on the quoted market price as of December 31, 2014 and December 31, 2013, respectively.
(5) Certain funds invest across multiple segments. The presentation in the table above is based on the classification of the majority of each fund's investments.

The tables below represent summarized aggregated financial information of the funds and other equity method investments in which Apollo has an equity method investment as of December 31, 2014, 2013 and 2012, and for the years ended December 31, 2014, 2013 and 2012:

	Private Equity		Credit		Real Estate		Aggregate Totals	
	As of December 31,		As of December 31,		As of December 31,		As of December 31,	
Balance Sheet Information	2014	2013	2014	2013	2014	2013	2014	2013
Investments	$ 16,082,723	$ 23,539,644	$ 17,888,199	$ 16,043,142	$ 2,584,097	$ 2,260,989	$ 36,555,019	$ 41,843,775
Assets	16,924,291	24,265,145	20,076,656	17,636,723	2,772,857	2,465,780	39,773,804	44,367,648
Liabilities	128,257	111,285	6,216,702	6,071,182	1,028,203	300,517	7,373,162	6,482,984
Equity	16,796,034	24,153,860	13,859,954	11,565,541	1,744,654	2,165,263	32,400,642	37,884,664

	Private Equity			Credit			Real Estate			Aggregate Totals		
	For the Year Ended December 31,			For the Year Ended December 31,			For the Year Ended December 31,			For the Year Ended December 31,		
Income Statement Information	2014(1)	2013(1)	2012(1)	2014(1)	2013(1)	2012(1)	2014(1)	2013(1)	2012(1)	2014(1)	2013(1)	2012(1)
Revenues/Investment Income	$ 340,380	$ 675,844	$ 1,686,855	$ 1,954,270	$ 1,297,324	$ 1,326,142	$ 89,579	$ 73,429	$ 54,720	$ 2,384,229	$ 2,046,597	$ 3,067,717
Expenses	326,126	239,750	280,262	417,967	583,410	694,114	29,022	39,153	32,077	773,115	862,313	1,006,453
Net Investment Income	14,254	436,094	1,406,593	1,536,303	713,914	632,028	60,557	34,276	22,643	1,611,114	1,184,284	2,061,264
Net Realized and Unrealized Gain (Loss)	1,300,343	10,411,556	6,856,414	(548,088)	953,227	2,053,100	62,516	214,764	275,659	814,771	11,579,547	9,185,173
Net Income	$ 1,314,597	$ 10,847,650	$ 8,263,007	$ 988,215	$ 1,667,141	$ 2,685,128	$ 123,073	$ 249,040	$ 298,302	$ 2,425,885	$ 12,763,831	$ 11,246,437

(1) Certain private equity, credit and real estate fund amounts are as of and for the years ended September 30, 2014, 2013 and 2012.

5. VARIABLE INTEREST ENTITIES

As described in note 2, the Company consolidates entities that are VIEs for which the Company has been designated as the primary beneficiary. The purpose of such VIEs is to provide strategy-specific investment opportunities for investors in exchange for management and performance based fees. The investment strategies of the entities that the Company manages may vary by entity; however, the fundamental risks of such entities have similar characteristics, including loss of invested capital and the return of carried interest income previously distributed to the Company by certain private equity, credit, and real estate entities. The nature of the Company's involvement with VIEs includes direct and indirect investments and fee arrangements. The Company does not provide performance guarantees and has no other financial obligations to provide funding to VIEs other than its own capital commitments. There is no recourse to the Company for the consolidated VIEs' liabilities.

The assets and liabilities of the consolidated VIEs are comprised primarily of investments and debt, at fair value, and are included within assets and liabilities of consolidated variable interest entities, respectively, in the consolidated statements of financial condition.

Consolidated Variable Interest Entities

Apollo has consolidated VIEs in accordance with the policy described in note 2. The majority of the consolidated VIEs were formed for the sole purpose of issuing collateralized notes to investors. The assets of these VIEs are primarily comprised of senior secured loans and the liabilities are primarily comprised of debt. Through its role as collateral manager of these VIEs, it was determined that Apollo had the power to direct the activities that most significantly impact the economic performance of these

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VIEs. Additionally, Apollo determined that the potential fees that it could receive directly and indirectly from these VIEs represent rights to returns that could potentially be significant to such VIEs. As a result, Apollo determined that it is the primary beneficiary and therefore should consolidate the VIEs.

The assets of these consolidated VIEs are not available to creditors of the Company. In addition, the investors in these consolidated VIEs have no recourse against the assets of the Company. The Company has elected the fair value option for financial instruments held by its consolidated VIEs, which includes investments in loans and corporate bonds, as well as debt obligations and contingent obligations held by such consolidated VIEs. Other assets include amounts due from brokers and interest receivables. Other liabilities include payables for securities purchased, which represent open trades within the consolidated VIEs and primarily relate to corporate loans that are expected to settle within the next 60 days. From time to time, Apollo makes investments in certain consolidated CLOs denominated in foreign currencies. As of December 31, 2014, the Company had investments in consolidated foreign currency denominated CLOs totaling $47.4 million, which eliminates in consolidation.

Pursuant to the terms in certain bank loan agreements, the consolidated VIEs have unfunded contingent liabilities of $67.6 million as of December 31, 2014.

Investment in Champ L.P.

On September 30, 2014, the Company, through a wholly-owned subsidiary, acquired a 25.6% ownership interest in Champ L.P. following which a wholly-owned subsidiary of Champ L.P. then acquired a 35% ownership interest in KBC Bank Deutschland AG ("KBC Bank"), the German subsidiary of Belgian KBC Group NV (the "KBC Transaction"). Following the closing of the transaction, KBC Bank was renamed Bremer Kreditbank AG and the bank will operate under the name BKB Bank. As of December 31, 2014, the Company had invested $16.9 million in Champ L.P. The Company, together with other affiliated investors, in aggregate, own 100% of Champ L.P.

The Company, through its aforementioned wholly-owned subsidiary, is the general partner and primary beneficiary of Champ, L.P., which meets the definition of a VIE. Accordingly, the Company has consolidated Champ, L.P. in accordance with the policy described in note 2. The Company's investment in Champ, L.P. is eliminated in consolidation.

Net Gains (Losses) from Investment Activities of Consolidated Variable Interest Entities

The following table presents net gains (losses) from investment activities of the consolidated VIEs for the years ended December 31, 2014, 2013 and 2012, respectively:

	For the Year Ended December 31,		
	2014	**2013**	**2012**
Net unrealized gains (losses) gains from investment activities	$ (317,591)	$ (33,275)	$ 169,087
Net realized gains from investment activities	79,057	87,472	76,965
Net gains (losses) from investment activities	(238,534)	54,197	246,052
Net unrealized gains (losses) from debt	809	(232,509)	(497,704)
Net realized gains from debt	101,745	137,098	-
Net gains (losses) from debt	102,554	(95,411)	(497,704)
Interest and other income	666,486	674,324	581,610
Interest and other expenses	(507,942)	(433,368)	(401,662)
Net Gains (Losses) from Investment Activities of Consolidated Variable Interest Entities	$ 22,564	$ 199,742	$ (71,704)

***Senior Secured Notes and Subordinated Note*s**-Included within debt are amounts due to third-party institutions by the consolidated VIEs. The following table summarizes the principal provisions of the debt of the consolidated VIEs as of December 31, 2014 and December 31, 2013:

	As of December 31, 2014			As of December 31, 2013		
	Principal Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Principal Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes[2][3]	$ 13,459,387	1.60%	7.8	$ 11,877,744	1.31%	7.3
Subordinated Notes[2][3]	1,183,834	N/A [1]	9.0	963,099	N/A [1]	8.1
Total	$ 14,643,221			$ 12,840,843		

(1) The subordinated notes do not have contractual interest rates but instead receive distributions from the excess cash flows of the VIEs.
(2) The fair value of Senior Secured Notes and Subordinated Notes as of December 31, 2014 and December 31, 2013 was $14,123.1 million and $12,424.0 million, respectively.
(3) The debt at fair value of the consolidated VIEs is collateralized by assets of the consolidated VIEs and assets of one vehicle may not be used to satisfy the liabilities of another vehicle. As of December 31, 2014 and December 31, 2013, the fair value of the consolidated VIEs' assets was $17,070.8 million and $15,502.3 million, respectively. This collateral consisted of cash and cash equivalents, investments, at fair value, and other assets.

The consolidated VIEs' debt obligations contain various customary loan covenants as described above. As of December 31, 2014, the Company was not aware of any instances of non-compliance with any of these covenants.

As of December 31, 2014, the table below presents the contractual maturities for debt of the consolidated VIEs:

	2015	2016	2017	2018	2019	Thereafter	Total
Senior Secured Notes	$ -	$ 2,175,000	$ -	$ -	$ 200,272	$ 11,084,115	$ 13,459,387
Subordinated Notes	-	-	-	-	23,250	1,160,584	1,183,834
Total Obligations as of December 31, 2014	$ -	$ 2,175,000	$ -	$ -	$ 223,522	$ 12,244,699	$ 14,643,221

Variable Interest Entities Which are Not Consolidated

The Company holds variable interests in certain VIEs which are not consolidated, as it has been determined that Apollo is not the primary beneficiary.

The following tables present the carrying amounts of the assets and liabilities of the VIEs for which Apollo has concluded that it holds a significant variable interest, but that it is not the primary beneficiary as of December 31, 2014 and December 31, 2013. In addition, the tables present the maximum exposure to losses relating to those VIEs.

	As of December 31, 2014		
	Total Assets	Total Liabilities	Apollo Exposure
Total	$ 11,676,038 (1)	$ (729,515) (2)	$ 30,752 (3)

(1) Consists of $794.5 million in cash, $10,456.0 million in investments and $425.6 million in receivables.
(2) Represents $362.0 million in debt and other payables, $359.4 million in securities sold, not purchased, and $8.2 million in capital withdrawals payable.
(3) Represents Apollo’s direct equity method investment in those entities in which Apollo holds a significant variable interest. Additionally, cumulative carried interest income is subject to reversal in the event of future losses. The maximum amount of future reversal of carried interest income from all of Apollo's funds, including those entities in which Apollo holds a significant variable interest, is $2,892.8 million as of December 31, 2014 as discussed in note 18.

	As of December 31, 2013		
	Total Assets	Total Liabilities	Apollo Exposure
Total	$ 12,866,498 (1)	$ (1,311,279) (2)	$ 34,665 (3)

(1) Consists of $354.7 million in cash, $12,034.5 million in investments and $477.3 million in receivables.
(2) Represents $1,161.5 million in debt and other payables, $106.5 million in securities sold, not purchased, and $43.2 million in capital withdrawals payable.
(3) Represents Apollo’s direct equity method investment in those entities in which Apollo holds a significant variable interest. Additionally, cumulative carried interest income is subject to reversal in the event of future losses. The maximum amount of future reversal of carried interest income from all of Apollo's funds, including those entities in which Apollo holds a significant variable interest, was $4,858.0 million as of December 31, 2013.

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6. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following tables summarize the valuation of the Company's financial assets and liabilities by the fair value hierarchy as of December 31, 2014 and December 31, 2013, respectively:

	As of December 31, 2014			
	Level I[6]	Level II[6]	Level III	Total
Assets				
Investment in AAA Investments[1]	$ -	$ -	$ 2,144,118	$ 2,144,118
Investments held by Apollo Senior Loan Fund[1]	-	25,537	4,359	29,896
Investments in Other[1]	-	-	600	600
Investment in Athene Holding[2]	-	-	324,514	324,514
AAA/Athene Receivable[2]	-	-	61,292	61,292
Investments of VIEs, at fair value[4]	176	13,135,564	2,522,913	15,658,653
Total Assets	$ 176	$ 13,161,101	$ 5,057,796	$ 18,219,073
Liabilities				
Liabilities of VIEs, at fair value[4][5]	$ -	$ 1,793,353	$ 12,343,021	$ 14,136,374
Contingent Consideration Obligations[3]	-	-	96,126	96,126
Total Liabilities	$ -	$ 1,793,353	$ 12,439,147	$ 14,232,500

	As of December 31, 2013			
	Level I[6]	Level II[6]	Level III	Total
Assets				
Investment in AAA Investments[1]	$ -	$ -	$ 1,942,051	$ 1,942,051
Investments held by Apollo Senior Loan Fund[1]	-	28,711	892	29,603
Investments in Other[1]	-	-	40,373	40,373
Athene and AAA Services Derivatives[2]	-	-	130,709	130,709
Investments of VIEs, at fair value[4]	3,455	12,203,370	1,919,537	14,126,362
Total Assets	$ 3,455	$ 12,232,081	$ 4,033,562	$ 16,269,098
Liabilities				
Liabilities of VIEs, at fair value[4]	$ -	$ 2,429,815	$ 9,994,147	$ 12,423,962
Contingent Consideration Obligations[3]	-	-	135,511	135,511
Total Liabilities	$ -	$ 2,429,815	$ 10,129,658	$ 12,559,473

(1) See note 4 for further disclosure regarding the investment in AAA Investments, investments held by Apollo Senior Loan Fund, and investments in Other.

(2) See note 17 for further disclosure regarding the Athene Services Derivative, the AAA Services Derivative, the investment in Athene Holding and the AAA/Athene Receivable.

(3) See note 18 for further disclosure regarding contingent consideration obligations.

(4) See note 5 for further disclosure regarding VIEs.

(5) As of December 31, 2014, liabilities of VIEs, at fair value includes debt and other liabilities of $14,123.1 million and $13.3 million, respectively. Other liabilities include contingent obligations classified as Level III.

(6) All Level I and Level II investments and liabilities were valued using third party pricing.

There were no transfers of financial assets into Level I for the year ended December 31, 2014 and 2013. The following table summarizes the fair value transfers of financial assets between Level I, Level II and Level III for positions that existed as of the years ended December 31, 2014 and 2013, respectively:

	For the Year Ended December 31,	
	2014	2013
Transfers from Level I into Level II	$ 4,084	$ -
Transfers from Level III into Level II[(1)]	1,047,951	1,253,090
Transfers from Level II into Level III[(1)]	1,415,282	978,194

(1) Transfers between Level I, II and III were a result of subjecting the broker quotes on these investments to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes and the percentage deviation from independent pricing services.

There were no transfers of financial liabilities into or out of Level I for year ended December 31, 2014. In addition, there were no transfers of financial liabilities between Level I and Level II for the year ended December 31, 2013. The following table summarizes the fair value transfers of financial liabilities between Level II and Level III for positions that existed as of the years ended December 31, 2014 and 2013, respectively:

	For the Year Ended December 31,	
	2014	2013
Transfers from Level III into Level II[(1)]	$ 380,660	$ 2,469,143
Transfers from Level II into Level III[(1)]	500,837	-

(1) Transfers between Level II and III were a result of subjecting the broker quotes on these financial liabilities to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes and the percentage deviation from independent pricing services.

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The following tables summarize the changes in fair value in financial assets, which are measured at fair value and characterized as Level III investments, for the years ended December 31, 2014 and 2013, respectively:

	For the Year Ended December 31, 2014							
	Investment in AAA Investments	Investments held by Apollo Senior Loan Fund	Investments in Other	Athene and AAA Services Derivatives	Investment in Athene Holding	AAA/Athene Receivable	Investments of Consolidated VIEs	Total
Balance, Beginning of Period	$ 1,942,051	$ 892	$ 40,373	$ 130,709	$ -	$ -	$ 1,919,537	$4,033,562
Elimination of investments attributable to consolidation of VIEs	-	-	-	-	-	-	19,187	19,187
Fees	-	-	-	60,422	-	178,332	-	238,754
Purchases	-	4,707	1,844	-	2,080	-	1,036,810	1,045,441
Sale of investments/Distributions	(2,500)	(1,543)	(51,052)	-	-	-	(825,429)	(880,524)
Net realized gains (losses)	-	10	(12,871)	24,242	-	-	20,972	32,353
Changes in net unrealized gains (losses)	204,567	(66)	22,306	(10,203)	224	-	(9,302)	207,526
Cumulative translation adjustment	-	-	-	-	-	-	(5,834)	(5,834)
Transfer into Level III	-	1,594	-	-	-	-	1,413,688	1,415,282
Transfer out of Level III	-	(1,235)	-	-	-	-	(1,046,716)	(1,047,951)
Settlement of derivatives/receivable[(1)]	-	-	-	(205,170)	322,210	(117,040)	-	-
Balance, End of Period	$ 2,144,118	$ 4,359	$ 600	$ -	$ 324,514	$ 61,292	$ 2,522,913	$5,057,796
Change in net unrealized gains (losses) included in Net Gains (losses) from Investment Activities related to investments still held at reporting date	$ 204,567	$ (66)	$ 580	$ -	$ 224	$ -	$ -	$ 205,305
Change in net unrealized gains included in Net Gains (Losses) from Investment Activities of Consolidated VIEs related to investments still held at reporting date	-	-	-	-	-	-	(52,485)	(52,485)

(1) See note 17 for further disclosure regarding the settlement of the Athene Services Derivative, the AAA Services Derivative and the investment in Athene Holding.

	For the Year Ended December 31, 2013					
	Investment in AAA Investments	Investments held by Apollo Senior Loan Fund	Investments in Other	Athene and AAA Services Derivatives	Investments of Consolidated VIEs	Total
Balance, Beginning of Period	$ 1,666,448	$ 590	$ 50,311	$ 2,126	$ 1,643,465	$ 3,362,940
Elimination of investments attributable to consolidation of VIEs	-	-	-	-	(35,410)	(35,410)
Fees	-	-	-	118,380	-	118,380
Purchases	-	520	4,901	-	1,326,095	1,331,516
Sale of investments/Distributions	(66,796)	(6)	(2,541)	-	(724,666)	(794,009)
Net realized losses	-	-	-	-	(28,717)	(28,717)
Changes in net unrealized gains (losses)	342,399	15	(12,298)	10,203	13,439	353,758
Transfer into Level III	-	831	-	-	977,363	978,194
Transfer out of Level III	-	(1,058)	-	-	(1,252,032)	(1,253,090)
Balance, End of Period	$ 1,942,051	$ 892	$ 40,373	$ 130,709	$ 1,919,537	$ 4,033,562
Change in net unrealized gains (losses) included in Net Gains (Losses) from Investment Activities related to investments still held at reporting date	$ 342,399	$ 15	$ (12,298)	$ -	$ -	$ 330,116
Change in net unrealized losses included in Net Gains from Investment Activities of Consolidated VIEs related to investments still held at reporting date	-	-	-	-	9,083	9,083
Change in net unrealized gains included in Other Income, net related to assets still held at reporting date	-	-	-	10,203	-	10,203

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The following tables summarize the changes in fair value in financial liabilities, which are measured at fair value and characterized as Level III liabilities:

	For the Year Ended December 31,					
	2014			2013		
	Liabilities of Consolidated VIEs	Contingent Consideration Obligations	Total	Debt of Consolidated VIEs	Contingent Consideration Obligations	Total
Balance, Beginning of Period	$ 9,994,147	$ 135,511	$ 10,129,658	$ 11,834,955	$ 142,219	$ 11,977,174
Elimination of debt attributable to consolidation of VIEs	13,493	-	13,493	3,950	-	3,950
Additions	3,965,725	-	3,965,725	2,747,033	-	2,747,033
Payments/Extinguishment[1]	(1,551,533)	(50,666)	(1,602,199)	(2,218,060)	(67,534)	(2,285,594)
Net realized gains	(101,745)	-	(101,745)	(137,098)	-	(137,098)
Changes in net unrealized (gains) losses	(25,685)	11,281	(14,404)	232,510	60,826	293,336
Cumulative translation adjustment	(71,558)	-	(71,558)	-	-	-
Transfers into Level III	500,837	-	500,837	-	-	-
Transfers out of Level III	(380,660)	-	(380,660)	(2,469,143)	-	(2,469,143)
Balance, End of Period	$ 12,343,021	$ 96,126	$ 12,439,147	$ 9,994,147	$ 135,511	$ 10,129,658
Change in net unrealized gains losses included in Net (Losses) Gains from Investment Activities of consolidated VIEs related to liabilities still held at reporting date	$ (113,874)	$ -	$ (113,874)	$ (18,578)	$ -	$ (18,578)
Change in net unrealized losses included in Profit Sharing Expense related to liabilities still held at reporting date	-	11,281	11,281	-	47,523	47,523

(1) For the year ended December 31, 2014, includes $13.4 million extinguishment of contingent consideration obligations, which is recorded in other income on the consolidated statements of operations.

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The following tables summarize the quantitative inputs and assumptions used for financial assets and liabilities categorized in Level III of the fair value hierarchy as of December 31, 2014 and December 31, 2013:

	As of December 31, 2014				
	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average
Financial Assets					
Investments of Consolidated Apollo Funds:					
AAA Investments[1]	$ 2,144,118	Net Asset Value	N/A	N/A	N/A
Apollo Senior Loan Fund	4,359	Third Party Pricing[2]	N/A	N/A	N/A
Investments in Other	600	Other	N/A	N/A	N/A
Investment in Athene Holding	324,514	Discounted Cash Flow	Discount Rate	15.0%	15.0%
AAA/Athene Receivable	61,292	Discounted Cash Flow	Discount Rate	15.0%	15.0%
Investments of Consolidated VIEs:					
Bank Debt Term Loans	1,340,296	Third Party Pricing[2]	N/A	N/A	N/A
	87,314	Discounted Cash Flow	Discount Rate	7.1% - 14.0%	8.4%
Corporate Loans/Bonds/CLO Notes[5]	1,009,873	Third Party Pricing[2]	N/A	N/A	N/A
Equity Securities	930	Third Party Pricing[2]	N/A	N/A	N/A
	4,610	Market Comparable Companies	Comparable Multiples	5.8x	5.8x
	58,923	Transaction	Purchase Price	N/A	N/A
	20,967	Transaction	Implied Multiple	5.2x	5.2x
Total Investments of Consolidated VIEs	2,522,913				
Total Financial Assets	$ 5,057,796				
Financial Liabilities					
Liabilities of Consolidated VIEs:					
Subordinated Notes	$ 908,831	Discounted Cash Flow	Discount Rate	10.0% - 12.5%	11.5%
			Default Rate	1.0% - 2.0%	1.7%
			Recovery Rate	75.0%	75.0%
Subordinated Notes	106,090	Other	N/A	N/A	N/A
Senior Secured Notes	9,283,534	Third Party Pricing[2]	N/A	N/A	N/A
Senior Secured and Subordinated Notes	2,031,292	Discounted Cash Flow	Discount Rate	1.6% - 1.8%	1.7%
			Default Rate	2.0%	2.0%
			Recovery Rate	15.0% - 75.0%	69.0%
Contingent Obligation	13,274	Other	N/A	N/A	N/A
Total Liabilities of Consolidated VIEs	12,343,021				
Contingent Consideration Obligation	96,126	Discounted Cash Flow	Discount Rate	11.0% - 18.5%	15.7%
Total Financial Liabilities	$12,439,147				

(1) The following table summarizes a look-through of the Company's Level III investments by valuation methodology of the underlying securities held by AAA Investments:

	As of December 31, 2014	
		% of Investment of AAA Investments
Approximate values based on net asset value of the underlying funds, which are based on the funds' underlying investments that are valued using the following:		
Discounted cash flow	$ 2,244,192 [3]	100%
Total Investments	2,244,192	100%
Other net liabilities[4]	(100,074)	
Total Net Assets	$ 2,144,118	

(2) These securities are valued primarily using broker quotes.

(3) Represents the investment by AAA Investments in Athene, which is valued using the embedded value method which was based on the present value of the future expected regulatory distributable income generated by the net assets of Athene plus the excess capital (i.e., the capital in excess of what is required to be held against Athene's liabilities). The unobservable inputs and respective ranges used are the same as noted

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for the Investment in Athene Holding and the AAA/Athene Receivable in the table above. See note 17 for discussion of the investment in Athene Holding.

(4) Balances include other assets, liabilities and general partner interests of AAA Investments. Balance at December 31, 2014 is primarily comprised of $26.7 million in assets, less $4.0 million and $122.8 million in liabilities and net assets allocated to the general partner, respectively. Carrying values approximate fair value for other assets and liabilities.

(5) Balance includes investments in an affiliated fund, which primarily invests in corporate loans, bonds, and CLO notes. Balance at December 31, 2014 includes investments in an affiliated fund in the amount of $865.9 million, which were valued based on net asset value ("NAV").

	As of December 31, 2013				
	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average
Financial Assets					
Investments of Consolidated Apollo Funds:					
AAA Investments[1]	$ 1,942,051	Net Asset Value	N/A	N/A	N/A
Apollo Senior Loan Fund	892	Third Party Pricing[2]	N/A	N/A	N/A
Investments in HFA and Other	40,373	Third Party Pricing[2]	N/A	N/A	
Athene and AAA Services Derivatives	130,709	Discounted Cash Flow	Discount Rate	15.0%	15.0%
			Implied Multiple	1.1x	1.1x
Investments of Consolidated VIEs:					
Bank Debt Term Loans	18,467	Other	N/A	N/A	N/A
Equity Securities	7,938	Market Comparable Companies	Comparable Multiples	6.0x - 9.5x	7.9x
Corporate Loans/Bonds/CLO Notes[5]	1,893,132	Third Party Pricing[2]	N/A	N/A	N/A
Total Investments of Consolidated VIEs	1,919,537				
Total Financial Assets	$ 4,033,562				
Financial Liabilities					
Liabilities of Consolidated VIEs:					
Subordinated Notes	$ 835,149	Discounted Cash Flow	Discount Rate	10.0% - 12.0%	10.8%
			Default Rate	1.0% - 1.5%	1.3%
			Recovery Rate	75.0%	75.0%
Senior Secured Notes	2,132,576	Discounted Cash Flow	Discount Rate	1.9% - 2.2%	2.0%
			Default Rate	2.0%	2.0%
			Recovery Rate	30.0% - 70.0%	65.2%
Senior Secured and Subordinated Notes	7,026,422	Third Party Pricing[2]	N/A	N/A	N/A
Total Liabilities of Consolidated VIEs	9,994,147				
Contingent Consideration Obligation	135,511	Discounted Cash Flow	Discount Rate	10.5% - 18.5%	15.3%
Total Financial Liabilities	$10,129,658				

(1) The following table summarizes a look-through of the Company's Level III investments by valuation methodology of the underlying securities held by AAA Investments:

	As of December 31, 2013	
		% of Investment of AAA Investments
Approximate values based on net asset value of the underlying funds, which are based on the funds underlying investments that are valued using the following:		
Discounted Cash Flow	$ 1,950,010 [3]	100%
Total Investments	1,950,010	100%
Other net liabilities[4]	(7,959)	
Total Net Assets	$ 1,942,051	

(2) These securities are valued primarily using broker quotes.
(3) Represents the investment by AAA Investments in Athene, which is valued using the embedded value method which was based on the present value of the future expected regulatory distributable income generated by the net assets of Athene plus the excess capital (i.e., the capital in excess of what is required to be held against Athene's liabilities). The unobservable inputs and respective ranges used in the discounted cash flow model are the same as noted for the Athene and AAA Services Derivatives in the table above.
(4) Balances include other assets, liabilities and general partner interests of AAA Investments. Balance at December 31, 2013 is primarily comprised of $110.8 million in assets, less $16.7 million and $102.1 million in liabilities and net assets allocated to the general partner, respectively. Carrying values approximate fair value for other assets and liabilities (except for the note receivable from an affiliate) and, accordingly, extended valuation procedures are not required. The note receivable from an affiliate is a Level III asset valued using a discounted cash flow model. The unobservable inputs and respective ranges used in the discounted cash flow model are the same as noted for the Athene and AAA Services Derivatives in the table above.
(5) Balance includes investments in an affiliated fund, which primarily invests in corporate loans, bonds, and CLO notes. Balance at December 31, 2013 includes investments in an affiliated fund in the amount of $645.5 million, which were valued based on NAV.

Investment in Athene Holding and AAA/Athene Receivable

As of December 31, 2014, the significant unobservable input used in the fair value measurement of the investment in Athene Holding is the discount rate applied in the valuation model. This input in isolation can cause significant increases or decreases in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. An increase in the discount rate can significantly lower the fair value of an investment; conversely a decrease in the discount rate can significantly increase the fair value of an investment. The discount rate is determined based on the expected required rate of return based on the risk profile of similar cash flows.

Consolidated VIEs

Investments

The significant unobservable inputs used in the fair value measurement of the bank debt term loans and stocks include the discount rate applied and the multiples applied in the valuation models. These unobservable inputs in isolation can cause significant increases or decreases in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of an investment; conversely decreases in the discount rate can significantly increase the fair value of an investment. The discount rate is determined based on the market rates an investor would expect for a similar investment with similar risks. When a comparable multiple model is used to determine fair value, the comparable multiples are generally multiplied by the underlying companies' earnings before interest, taxes, depreciation and amortization ("EBITDA") to establish the total enterprise value of the company. The comparable multiple is determined based on the implied trading multiple of public industry peers.

Liabilities

The significant unobservable inputs used in the fair value measurement of the subordinated and senior secured notes include the discount rate applied in the valuation models, default and recovery rates applied in the valuation models. These inputs in isolation can cause significant increases or decreases in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of subordinated and senior secured notes; conversely a decrease in the discount rate can significantly increase the fair value of subordinated and senior secured notes. The discount rate is determined based on the market rates an investor would expect for similar subordinated and senior secured notes with similar risks.

Contingent Consideration Obligations

The significant unobservable input used in the fair value measurement of the contingent consideration obligations is the discount rate applied in the valuation models. This input in isolation can cause significant increases or decreases in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of the contingent consideration obligations; conversely a decrease in the discount rate can significantly increase the fair value of the contingent consideration obligations. The discount rate was based on the weighted average cost of capital for the Company. See note 18 for further discussion of the contingent consideration obligations.

7. CARRIED INTEREST RECEIVABLE

Carried interest receivable from private equity, credit and real estate funds consisted of the following:

	As of December 31,	
	2014	2013
Private Equity	$ 672,119	$ 1,867,771
Credit	226,430	408,342
Real Estate	13,117	10,962
Total carried interest receivable	$ 911,666	$ 2,287,075

The table below provides a roll-forward of the carried interest receivable balance for the years ended December 31, 2014 and 2013:

	Private Equity	Credit	Real Estate	Total
Carried interest receivable, January 1, 2013	$ 1,413,306	$ 454,155	$ 10,795	$ 1,878,256
Change in fair value of funds (1)	2,516,990	324,859	967	2,842,816
Fund cash distributions to the Company	(2,062,525)	(370,672)	(800)	(2,433,997)
Carried interest receivable, December 31, 2013	$ 1,867,771	$ 408,342	$ 10,962	$ 2,287,075
Change in fair value of funds(1)	231,983	159,350	6,104	397,437
Fund cash distributions to the Company	(1,427,635)	(341,262)	(3,949)	(1,772,846)
Carried interest receivable, December 31, 2014	$ 672,119	$ 226,430	$ 13,117	$ 911,666

(1) Included in unrealized carried interest income (loss) from affiliates for the year ended December 31, 2014 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income of $3.4 million in aggregate with respect to two of our credit funds. Included in change in fair value of funds for the year ended December 31, 2013 was a reversal of $19.3 million and $0.3 million of the entire general partner obligation to return previously distributed carried interest income with respect to SOMA and APC, respectively. The general partner obligation is recognized based upon a hypothetical liquidation of the fund's net assets as of the reporting date. The actual determination and any required payment of any such general partner obligation would not take place until the final disposition of a fund's investments based on the contractual termination of the fund or as otherwise set forth in the respective limited partnership agreement of the fund.

The timing of the payment of carried interest due to the general partner or investment manager varies depending on the terms of the applicable fund agreements. Generally, carried interest with respect to the private equity funds and certain credit and real estate funds is payable and is distributed to the fund's general partner upon realization of an investment if the fund's cumulative returns are in excess of the preferred return. For most credit funds, carried interest is payable based on realizations after the end of the relevant fund's fiscal year or fiscal quarter, subject to high watermark provisions.

8. PROFIT SHARING PAYABLE

Profit sharing payable from private equity, credit and real estate funds consisted of the following:

	As of December 31,	
	2014	2013
Private Equity	$ 240,595	$ 751,192
Credit	186,307	234,504
Real Estate	7,950	6,544
Total profit sharing payable	$ 434,852	$ 992,240

The table below provides a roll-forward of the profit sharing payable balance for the years ended December 31, 2014 and 2013:

	Private Equity	Credit	Real Estate	Total
Profit sharing payable, January 1, 2013	$ 596,427	$ 254,629	$ 6,668	$ 857,724
Profit sharing expense (1)	1,030,404	142,728	123	1,173,255
Payments/other	(875,639)	(162,853)	(247)	(1,038,739)
Profit sharing payable, December 31, 2013	$ 751,192	$ 234,504	$ 6,544	$ 992,240
Profit sharing expense (1)	178,373	95,070	2,747	276,190
Payments/other	(688,970)	(143,267)	(1,341)	(833,578)
Profit sharing payable, December 31, 2014	$ 240,595	$ 186,307	$ 7,950	$ 434,852

(1) Includes both of the following: (i) changes in amounts payable to employees and former employees entitled to a share of carried interest income in Apollo's funds and (ii) changes to the fair value of the contingent consideration obligations (see notes 6 and 18) recognized in connection with certain Apollo acquisitions.

9. FIXED ASSETS

Fixed assets consisted of the following:

	Useful Life in Years	As of December 31, 2014	As of December 31, 2013
Leasehold improvements	8-16	$ 51,745	$ 50,478
Furniture, fixtures and other equipment	4-10	17,798	16,750
Computer software and hardware	2-4	34,560	31,200
Other	N/A	514	509
Total fixed assets		104,617	98,937
Less - accumulated depreciation and amortization		(68,711)	(58,686)
Fixed Assets, net		$ 35,906	$ 40,251

In December 2013, the Company committed to a plan to sell its ownership interests in certain aircraft. The sale of the ownership interest in one aircraft was completed in December 2013 while the sale of the remaining ownership interest was completed in the first quarter of 2014. Accordingly, in December 2013, the Company recorded the completed sale and reclassified the remaining aircraft interests committed for sale to assets held for sale which is included in other assets in the consolidated statement of financial condition. The aircraft reclassified to assets held for sale were recorded at the lower of cost or fair value less costs to sell. As a result of both the completed sale and reclassification, the Company recognized a net loss of approximately $1.0 million which is included in other income, net in the consolidated statements of operations for the year ended December 31, 2013.

Depreciation expense for the years ended December 31, 2014, 2013 and 2012 was $10.2 million, $11.0 million and $10.2 million, respectively.

10. OTHER ASSETS

Other assets consisted of the following:

	As of December 31,	
	2014	2013
Prepaid expenses	$ 32,873	$ 9,867
Tax receivables	23,286	6,549
Interest Receivable	11,059	6,420
Debt issuance costs, net	8,575	6,407
Receivable from broker	3,229	1,436
Rent deposits	1,430	1,224
Assets held for sale	-	6,413
Underwriting fee receivable	-	2,090
Other	3,932	3,764
Total Other Assets	$ 84,384	$ 44,170

11. OTHER LIABILITIES

Other liabilities consisted of the following:

	As of December 31,	
	2014	2013
Deferred tax liabilities	$ -	$ 37,272
Deferred rent	12,202	14,701
Deferred compensation	24,939	4,285
Unsettled trades and redemption payable	4,090	2,516
Other	5,170	4,500
Total Other Liabilities	$ 46,401	$ 63,274

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12. OTHER INCOME, NET

Other income, net consisted of the following:

	For the Year Ended December 31,		
	2014	2013	2012
Tax receivable agreement adjustment	$ 32,182	$ 13,038	$ 3,937
Gain on derivatives	14,039	10,203	-
Gain (Loss) on extinguishment of liability/debt	13,395	(2,741)	-
Gain on acquisitions	-	-	1,951,897
Rental income	5,566	5,334	4,387
Foreign exchange gain (loss)	(7,131)	4,142	(790)
Loss on assets held for sale	-	(1,087)	-
Other	2,541	11,225	5,248
Total Other Income, Net	$ 60,592	$ 40,114	$ 1,964,679

13. INCOME TAXES

The Company is treated as a partnership for income tax purposes and is therefore not subject to U.S. federal, state and local income taxes. APO Corp., a wholly-owned subsidiary of the Company, is subject to U.S. federal, state and local corporate income taxes. Certain other subsidiaries of the Company are subject to New York City Unincorporated Business Tax ("NYC UBT") attributable to the Company's operations apportioned to New York City. In addition, certain non-U.S. subsidiaries of the Company are subject to income taxes in their local jurisdictions.

The Company's provision for income taxes totaled $147.2 million, $107.6 million and $65.4 million for the years ended December 31, 2014, 2013 and 2012, respectively. The Company's effective tax rate was approximately 16.8%, 4.3%, and 2.1% for the years ended December 31, 2014, 2013 and 2012, respectively.

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The provision for income taxes is presented in the following table:

	For the Year Ended December 31,		
	2014	2013	2012
Current:			
Federal income tax	$ 53,426	$ 30,422	$ -
Foreign income tax	6,080	4,733	3,411
State and local income tax	7,369	9,728	7,722
Subtotal	66,875	44,883	11,133
Deferred:			
Federal income tax	28,702	40,955	55,114
Foreign income tax	(137)	130	(277)
State and local income tax	51,805	21,601	(560)
Subtotal	80,370	62,686	54,277
Total Income Tax Provision	$ 147,245	$ 107,569	$ 65,410

The following table reconciles the provision for taxes to the U.S. Federal statutory tax rate:

	For the Year Ended December 31,		
	2014	2013	2012
U.S. Statutory Tax Rate	35.0%	35.0%	35.0%
Income Passed Through to Non-Controlling Interests	(23.4)	(24.1)	(30.9)
Income passed through to Class A shareholders	0.1	(7.9)	(4.4)
Equity Based Compensation - AOG Units	-	0.2	1.8
Foreign income tax	0.4	0.1	0.1
State and Local Income Taxes (net of Federal Benefit)	4.7	1.1	0.2
Amortization & Other Accrual Adjustments	-	(0.1)	0.3
Effective Income Tax Rate	16.8%	4.3%	2.1%

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated statements of financial condition. These temporary differences result in taxable or deductible amounts in future years.

The Company’s deferred tax assets and liabilities on the consolidated statements of financial condition consist of the following:

	As of December 31, 2014	As of December 31, 2013
Deferred Tax Assets:		
Depreciation and amortization	$ 543,288	$ 553,251
Revenue recognition	40,250	51,790
Net operating loss carryforwards	-	776
Equity-based compensation - RSUs and AAA RDUs	35,678	42,784
Foreign tax credit	3,457	7,528
Other	1,437	4,070
Total Deferred Tax Assets	624,110	660,199
Deferred Tax Liabilities:		
Unrealized gains from investments	13,053	36,939
Other	4,340	333
Total Deferred Tax Liabilities	$ 17,393	$ 37,272

As of December 31, 2014, the Company had no remaining net operating loss carryforwards. In addition, the Company’s foreign tax credit carryforwards will begin to expire in 2021.

The Company considered its historical and current year earnings, current utilization of existing deferred tax assets and deferred tax liabilities, the 15 year amortization periods of the tax basis of its intangible assets and short and long term business forecasts in evaluating whether it should establish a valuation allowance. Based on this positive evidence, the Company concluded it is more likely than not, that the deferred tax assets will be realized and that no valuation allowance was needed at December 31, 2014.

Under U.S. GAAP, a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. Based upon the Company’s review of its federal, state, local and foreign income tax returns and tax filing positions, the Company determined that no unrecognized tax benefits for uncertain tax positions were required to be recorded. In addition, the Company does not believe that it has any tax positions for which it is reasonably possible that it will be required to record significant amounts of unrecognized tax benefits within the next twelve months.

The Company's primary jurisdictions in which it operates are the United States, New York State, New York City, California and the United Kingdom. In the normal course of business, the Company is subject to examination by federal and certain state, local and foreign tax authorities. With a few exceptions, as of December 31, 2014, the Company's U.S. federal, state, local and foreign income tax returns for the years 2011 through 2014 are open under the general statute of limitations provisions and therefore subject to examination. Currently, the Internal Revenue Service is examining the tax returns of Apollo Global Management, LLC and various subsidiaries for tax years 2010 to 2012. The City of New York is examining certain subsidiaries' tax returns for tax years 2011 and 2012, and the City of Los Angeles is examining certain subsidiaries' tax returns for tax years 2011 to 2013.

The Company has recorded a deferred tax asset for the future amortization of tax basis intangibles as a result of the 2007 Reorganization. The Company recognized an additional step-up in tax basis of intangibles as a result of subsequent exchanges of AOG Units for Class A shares in 2013 and 2014. As a result of these exchanges of AOG Units for Class A shares, there were increases in the deferred tax asset established from the 2007 Reorganization which was recorded in deferred tax assets in the consolidated statements of financial condition for the expected tax benefit associated with these increases. A related tax receivable agreement liability was recorded in due to affiliates in the consolidated statements of financial condition for the expected payments under the tax receivable agreement entered into by and among APO Corp., the Managing Partners, the Contributing Partners, and other parties thereto (as amended, the "tax receivable agreement") (see note 17). The increases in the deferred tax asset less the related liability resulted in increases to additional paid-in capital which was recorded in the consolidated statements of changes in

shareholders' equity for the years ended December 31, 2014 and 2013. The amortization period for these tax basis intangibles is 15 years. Accordingly, the related deferred tax assets will reverse over the same period.

The tables below present the transactions during the years ended December 31, 2013 and 2014 related to the exchange of AOG Units for Class A shares and the resulting impact to the deferred tax asset, tax receivable agreement liability and additional paid-in capital.

	For the Year Ended December 31, 2013		
Date of Exchange of AOG Units for Class A shares	**Increase in Deferred Tax Asset**	**Increase in Tax Receivable Agreement Liability**	**Increase to Additional Paid In Capital**
For the Year Ended December 31, 2013	$ 149,327	$ 126,928	$ 22,399

	For the Year Ended December 31, 2014		
Date of Exchange of AOG Units for Class A shares	**Increase in Deferred Tax Asset**	**Increase in Tax Receivable Agreement Liability**	**Increase to Additional Paid In Capital**
For the Year Ended December 31, 2014	$ 58,696	$ 47,878	$ 10,818

During the years ended December 31, 2014 and 2013, the Company adjusted the estimated rate of tax it expects to pay in the future and thereby reduced its net deferred tax assets, and increased its income tax provision, by $36.2 million and $16.9 million, respectively (see note 17 for details regarding the impact on the tax receivable agreement liability).

14. DEBT

Debt consisted of the following:

	As of December 31, 2014		As of December 31, 2013	
	Outstanding Balance	**Annualized Weighted Average Interest Rate**	**Outstanding Balance**	**Annualized Weighted Average Interest Rate**
2013 AMH Credit Facilities - Term Facility	$ 500,000	1.36%	$ 750,000	1.37%
2024 Senior Notes[(1)]	499,058	4.00%	N/A	N/A
2014 AMI Term Facility I[(2)]	16,204	2.34%	N/A	N/A
2014 AMI Term Facility II[(3)]	18,752	1.93%	N/A	N/A
Total Debt	$ 1,034,014		$ 750,000	

(1) Includes impact of any amortization of note discount and interest rate hedge.

(2) On July 3, 2014, Apollo Management International LLP ("AMI"), a subsidiary of the Company, entered into a €13.4 million five year credit agreement (the "2014 AMI Term Facility I"). Proceeds from the borrowing were used to fund the Company's investment in a European CLO it manages.

(3) On December 9, 2014, AMI entered into a €15.5 million five year credit agreement (the "2014 AMI Term Facility II"). Proceeds from the borrowing were used to fund the Company's investment in a European CLO it manages.

2007 AMH Credit Agreement-On April 20, 2007, Apollo Management Holdings, L.P. ("AMH"), a subsidiary of the Company which is a Delaware limited partnership, entered into a $1.0 billion seven year credit agreement (the "2007 AMH Credit Agreement"). Interest payable under the 2007 AMH Credit Agreement was based on Eurodollar LIBOR or Alternate Base Rate

("ABR") as determined by the borrower. On December 20, 2010, Apollo amended the 2007 AMH Credit Agreement to extend the maturity date of $995.0 million (including the $90.9 million of fair value debt repurchased by the Company) of the term loan from April 20, 2014 to January 3, 2017 and modified certain other terms of the 2007 AMH Credit Agreement. On December 20, 2010, an affiliate of AMH that was a guarantor under the 2007 AMH Credit Agreement repurchased approximately $180.8 million of the term loan in connection with the extension of the maturity date of such loan and thus the 2007 AMH Credit Agreement (excluding the portions held by AMH affiliates) had a remaining balance of $728.3 million. Interest expense incurred by the Company related to the 2007 AMH Credit Agreement was $28.3 million and $36.0 million for the years ended December 31, 2013 and 2012, respectively. Amortization expense related to the 2007 AMH Credit Agreement was $0.7 million and $0.5 million for the years ended December 31, 2013 and 2012, respectively.

The outstanding loans under the 2007 AMH Credit Agreement were refinanced on December 18, 2013 with the net proceeds from the 2013 AMH Credit Facilities (as defined below). Additionally, the net proceeds were used to pay fees and expenses associated with the 2013 AMH Credit Facilities. The 2007 AMH Credit Agreement and all related loan documents and security with respect thereto were terminated in connection with the refinancing.

2013 AMH Credit Facilities-On December 18, 2013, AMH and its subsidiaries and certain other subsidiaries of the Company (collectively, the "Borrowers") entered into new credit facilities (the "2013 AMH Credit Facilities") with JPMorgan Chase Bank, N.A. The 2013 AMH Credit Facilities provide for (i) a term loan facility to AMH (the “Term Facility”) that includes $750 million of the term loan from third-party lenders and $271.7 million of the term loan held by a subsidiary of the Company and (ii) a $500 million revolving credit facility (the “Revolver Facility”), in each case, with a final maturity date of January 18, 2019.

Interest on the borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus an applicable margin, and undrawn revolving commitments bear a commitment fee. Under the terms of the 2013 AMH Credit Facilities, the applicable margin ranges from 1.125% to 1.75% for LIBOR loans and 0.125% to 0.75% for alternate base rate loans, and the undrawn revolving commitment fee ranges from 0.125% to 0.25%, in each case depending on the Company’s corporate rating assigned by Standard & Poor’s Ratings Group, Inc. The 2013 AMH Credit Facilities do not require any scheduled amortization payments or other mandatory prepayments (except with respect to overadvances on the Revolver Facility) prior to the final maturity date, and the Borrowers may prepay the loans and/or terminate or reduce the revolving commitments under the 2013 AMH Credit Facilities at any time without penalty. In connection with the issuance of the 2024 Senior Notes (as defined below), $250 million of the proceeds were used to repay a portion of the Term Facility outstanding with third party lenders at par. The interest rate on the $500 million Term Facility as of December 31, 2014 was 1.37% and the commitment fee as of December 31, 2014 on the $500 million undrawn Revolver Facility was 0.125%. Interest expense incurred by the Company related to the 2013 AMH Credit Facilities was $9.0 million and $0.4 million for the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014 and December 31, 2013, $500 million and $750 million of the Term Facility was outstanding with third-party lenders, respectively, and there was approximately $271.7 million of the Term Facility that was held by a subsidiary of the Company. As of December 31, 2014 and December 31, 2013, the Revolver Facility was undrawn. The estimated fair value of the Company’s long-term debt obligation related to the 2013 AMH Credit Facilities is approximately $501.3 million based on obtained broker quotes as of December 31, 2014. The $500.0 million carrying value of debt that is recorded on the consolidated statements of financial condition at December 31, 2014 is the amount for which the Company expects to settle the 2013 AMH Credit Facilities. The Company has determined that the long-term debt obligation related to the 2013 AMH Credit Facilities would be categorized as a Level III liability in the fair value hierarchy based on the Company's number of broker quotes obtained, the quality of the broker quotes, the standard deviations of the observed broker quotes and the corroboration of the broker quotes to independent pricing services.

In accordance with U.S. GAAP, the Company determined that the refinancing of the outstanding loans under the 2007 AMH Credit Agreement resulted in a debt extinguishment. As a result, the Company recorded a loss on extinguishment of $2.7 million, of which $1.6 million related to previously capitalized costs incurred in relation to the 2007 AMH Credit Agreement and $1.1 million related to expenses incurred in relation to the 2013 AMH Credit Facilities, in other income, net in the consolidated statement of operations for the year ended December 31, 2013. In addition, the Company capitalized debt issuance costs of $6.6 million incurred in relation to the 2013 AMH Credit Facilities, which was recorded in other assets in the consolidated statements of financial condition as of December 31, 2013 to be amortized over the life of the term loan and line of credit. In connection with the repayment of the Term Facility, $1.9 million of unamortized debt issuance costs were recognized by the Company as loss on extinguishment recorded in other income, net in the consolidated statements of operations for the year ended December 31, 2014. Debt issuance cost amortization expense related to the 2013 AMH Credit Facilities was $1.0 million for the year ended December 31, 2014.

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As of December 31, 2014, the 2013 AMH Credit Facilities were guaranteed and collateralized by AMH and its subsidiaries, Apollo Management, L.P., Apollo Capital Management, L.P., Apollo International Management, L.P., AAA Holdings, L.P., Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX L.P., ST Holdings GP, LLC and ST Management Holdings, LLC. The 2013 AMH Credit Facilities contain affirmative and negative covenants which limit the ability of the Borrowers, the guarantors and certain of their subsidiaries to, among other things, incur indebtedness and create liens. Additionally, the 2013 AMH Credit Facilities contain financial covenants which require the Borrowers and their subsidiaries to maintain (1) at least $40 billion of Fee-Generating Assets Under Management and (2) a maximum total net leverage ratio of not more than 4.00 to 1.00 (subject to customary equity cure rights). The 2013 AMH Credit Facilities also contain customary events of default, including events of default arising from non-payment, material misrepresentations, breaches of covenants, cross default to material indebtedness, bankruptcy and changes in control of the Company.

Borrowings under the Revolver Facility may be used for working capital and general corporate purposes, including, without limitation, permitted acquisitions. In addition, the Borrowers may incur incremental facilities in respect of the Revolver Facility and the Term Facility in an aggregate amount not to exceed $500 million plus additional amounts so long as the Borrowers are in compliance with a net leverage ratio not to exceed 3.75 to 1.00.

2024 Senior Notes-On May 30, 2014, AMH issued $500 million in aggregate principal amount of its 4.000% Senior Notes due 2024 (the "2024 Senior Notes"), at an issue price of 99.722% of par. Interest on the 2024 Senior Notes is payable semi-annually in arrears on May 30 and November 30 of each year. The 2024 Senior Notes will mature on May 30, 2024. The discount will be amortized into interest expense on the consolidated statements of operations over the term of the 2024 Senior Notes. Interest expense incurred by the Company related to the 2024 Senior Notes was $11.7 million for the year ended December 31, 2014.

The Company capitalized debt issuance costs of $5.5 million incurred in connection with the issuance of the 2024 Senior Notes, which was recorded in other assets in the consolidated statements of financial condition as of December 31, 2014 to be amortized over the term of the notes. Debt issuance cost amortization expense related to the issuance of the 2024 Senior Notes was $0.3 million for the year ended December 31, 2014.

As of December 31, 2014, the 2024 Senior Notes were guaranteed by Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P., AMH Holdings (Cayman), L.P. and any other entity that is required to become a guarantor of the notes under the terms of the indenture governing the 2024 Senior Notes (the "2024 Senior Notes Indenture"). The 2024 Senior Notes Indenture includes covenants that restrict the ability of AMH and, as applicable, the guarantors to incur indebtedness secured by liens on voting stock or profit participating equity interests of their respective subsidiaries or merge, consolidate or sell, transfer or lease assets. The 2024 Senior Notes Indenture also provides for customary events of default.

The estimated fair value of the Company's long-term debt obligation related to the 2024 Senior Notes is approximately $506.2 million based on obtained broker quotes as of December 31, 2014. The face amount of $500.0 million related to the 2024 Senior Notes is the amount the Company is obligated to settle the 2024 Senior Notes. The Company has determined that the long-term debt obligation related to the 2024 Senior Notes would be categorized as a Level II liability in the fair value hierarchy based on the number of broker quotes obtained, the quality of the broker quotes, the standard deviations of the observed broker quotes and the corroboration of the broker quotes to independent pricing services.

As of December 31, 2014, the table below presents the contractual maturities for the Company's debt arrangements:

	2015	2016	2017	2018	2019	Thereafter	Total
2013 AMH Credit Facilities - Term Facility	$ -	$ -	$ -	$ -	$ 500,000	$ -	$ 500,000
2024 Senior Notes	-	-	-	-	-	500,000	500,000
2014 AMI Term Facility I	-	-	-	-	16,204	-	16,204
2014 AMI Term Facility II	-	-	-	-	18,752	-	18,752
Total Obligations as of December 31, 2014	$ -	$ -	$ -	$ -	$ 534,956	$ 500,000	$ 1,034,956

15. NET INCOME (LOSS) PER CLASS A SHARE

U.S. GAAP requires use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating security as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for distributions declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for distributions declared on participating securities only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity.

The remaining earnings are allocated to Class A shares and participating securities to the extent that each security shares in earnings as if all of the earnings for the period had been distributed. Earnings or losses allocated to each class of security are then divided by the applicable number of shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes all outstanding Class A shares and includes the number of additional Class A shares that would have been outstanding if the dilutive potential Class A shares had been issued. The numerator is adjusted for any changes in income or loss that would result from the issuance of these potential Class A shares.

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The table below presents basic and diluted net income (loss) per Class A share using the two-class method for the years ended December 31, 2014, 2013 and 2012:

	For the Year Ended December 31,		
	2014	2013	2012
Numerator:			
Net income attributable to Apollo Global Management, LLC	$ 168,229	$ 659,391	$ 310,957
Distributions declared on Class A shares	(483,458) (1)	(556,954) (2)	(172,887) (3)
Distributions on participating securities	(72,074)	(93,235)	(31,175)
Earnings allocable to participating securities	- (4)	(1,394)	(16,855)
Undistributed income (loss) attributable to Class A shareholders: Basic	(387,303)	7,808	90,040
Dilution effect on undistributed income attributable to Class A shareholders	-	9,106	3,425
Dilution effect on distributable income attributable to participating securities	-	(1,329)	(85)
Undistributed income (loss) attributable to Class A shareholders: Diluted	$ (387,303)	$ 15,585	$ 93,380
Denominator:			
Weighted average number of Class A shares outstanding: Basic	155,349,017	139,173,386	127,693,489
Dilution effect of share options and unvested RSUs	-	3,040,964	1,846,888
Weighted average number of Class A shares outstanding: Diluted	155,349,017	142,214,350	129,540,377
Net Income per Class A share: Basic			
Distributed Income	$ 3.11	$ 4.00	$ 1.35
Undistributed Income (Loss)	(2.49)	0.06	0.71
Net Income per Class A Share: Basic	$ 0.62	$ 4.06	$ 2.06
Net Income per Class A Share: Diluted(5)			
Distributed Income	$ 3.11	$ 3.92	$ 1.34
Undistributed Income (Loss)	(2.49)	0.11	0.72
Net Income per Class A Share: Diluted	$ 0.62	$ 4.03	$ 2.06

(1) The Company declared a $1.08, $0.84, $0.46 and $0.73 distribution on Class A shares on February 7, 2014, May 8, 2014, August 6, 2014 and October 30, 2014, respectively.

(2) The Company declared a $1.05, $0.57, $1.32 and $1.01 distribution on Class A shares on February 8, 2013, May 6, 2013, August 8, 2013 and November 7, 2013, respectively.

(3) The Company declared a $0.46, $0.25, $0.24 and $0.40 distribution on Class A shares on February 10, 2012, May 8, 2012, August 12, 2012 and November 9, 2012, respectively.

(4) No allocation of losses was made to the participating securities as the holders do not have a contractual obligation to share in the losses of the Company with Class A shareholders.

(5) For the year ended December 31, 2014, the Company had an undistributed loss attributable to Class A shareholders and none of the classes of securities resulted in dilution. For the year ended December 31, 2014, AOG Units, restricted share units ("RSUs"), share options and participating securities were anti-dilutive and were accordingly excluded from the diluted earnings per share calculation. For the years ended December 31, 2013 and December 31, 2012, share options and unvested RSUs were determined to be dilutive, and were accordingly included in the diluted earnings per share calculation. For the year ended December 31, 2013 and 2012, the AOG Units and participating securities were determined to be anti-dilutive and were accordingly excluded from the diluted earnings per share calculation.

On October 24, 2007, the Company commenced the granting of RSUs that provide the right to receive, subject to vesting, Class A shares of Apollo Global Management, LLC, pursuant to the Company’s 2007 Omnibus Equity Incentive Plan. Certain RSU grants to employees provide the right to receive distribution equivalents on vested RSUs on an equal basis any time a distribution is declared. The Company refers to these RSU grants as “Plan Grants.” For certain Plan Grants, distribution equivalents are paid in January of the calendar year next following the calendar year in which a distribution on Class A shares was declared. In addition, certain RSU grants to employees provide that both vested and unvested RSUs participate in distribution equivalents on an equal basis with the Class A shareholders any time a distribution is declared. The Company refers to these as “Bonus Grants.” For the years ended December 31, 2014, 2013 and 2012, the weighted average vested RSUs were 19.5 million, 20.7 million and

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18.5 million, respectively. For the years ended December 31, 2014, 2013 and 2012, the weighted average unvested RSUs were 9.6 million, 10.8 million and 16.7 million, respectively.

Any distribution equivalent paid to an employee will not be returned to the Company upon forfeiture of the award by the employee. Vested and unvested RSUs that are entitled to non-forfeitable distribution equivalents qualify as participating securities and are included in the Company's basic and diluted earnings per share computations using the two-class method. The holder of an RSU participating security would have a contractual obligation to share in the losses of the entity if the holder is obligated to fund the losses of the issuing entity or if the contractual principal or mandatory redemption amount of the participating security is reduced as a result of losses incurred by the issuing entity. Because the RSU participating securities do not have a mandatory redemption amount and the holders of the participating securities are not obligated to fund losses, neither the vested RSUs nor the unvested RSUs are subject to any contractual obligation to share in losses of the Company.

In addition, certain share options were granted to employees under the Company's 2007 Omnibus Equity Incentive Plan. For the years ended December 31, 2014, 2013 and 2012, weighted average unexercised options were 0.5 million, 3.7 million and 5.1 million, respectively.

Holders of AOG Units are subject to the vesting requirements and transfer restrictions set forth in the agreements with the respective holders, and may a limited number of times each year, upon notice (subject to the terms of the Exchange Agreement), exchange their AOG Units for Class A shares on a one-for-one basis. A limited partner must exchange one partnership unit in each of the Apollo Operating Group partnerships to effectuate an exchange for one Class A share.

At December 31, 2014 and 2013, if all of the outstanding AOG Units were exchanged for Class A shares, the result would be an additional 222,680,477 and 228,954,598 Class A shares added to the basic earnings per share calculation. For the years ended December 31, 2014, 2013 and 2012, the weighted average AOG units outstanding were 225.0 million, 234.1 million and 240.0 million, respectively.

Apollo Global Management, LLC has one Class B share outstanding, which is held by BRH Holdings GP, Ltd. ("BRH"). The voting power of the Class B share is reduced on a one vote per one AOG Unit basis in the event of an exchange of AOG Units for Class A shares, as discussed above. The Class B share has no net income (loss) per share as it does not participate in Apollo's earnings (losses) or distributions. The Class B share has no distribution or liquidation rights. The Class B share has voting rights on a pari passu basis with the Class A shares. The Class B share represented 65.4% and 69.3% of the total voting power of the Company's shares entitled to vote as of December 31, 2014 and December 31, 2013, respectively.

The table below presents transactions in Class A shares during each quarter during the years ended December 31, 2014, 2013 and 2012 and the resulting impact on the Company's and Holdings' ownership interests in the Apollo Operating Group:

Date	Type of Class A Shares Transaction	Number of Shares Issued in Class A Shares Transaction (in thousands)	Apollo Global Management, LLC ownership% in Apollo Operating Group before Class A Shares Transaction	Apollo Global Management, LLC ownership% in Apollo Operating Group after Class A Shares Transaction	Holdings ownership% in Apollo Operating Group before Class A Shares Transaction	Holdings ownership% in Apollo Operating Group after Class A Shares Transaction
Quarter Ended March 31, 2012	Issuance	2,388	34.1%	34.5%	65.9%	65.5%
Quarter Ended June 30, 2012	Issuance	150	34.5%	34.5%	65.5%	65.5%
Quarter Ended September 30, 2012	Issuance	3,414	34.5%	35.1%	65.5%	64.9%
Quarter Ended December 31, 2012	Issuance	180	35.1%	35.1%	64.9%	64.9%
Quarter Ended March 31, 2013	Issuance	2,091	35.1%	35.5%	64.9%	64.5%
Quarter Ended June 30, 2013	Issuance/Offering	9,577 (1)	35.5%	38.0%	64.5%	62.0%
Quarter Ended September 30, 2013	Issuance	1,977	38.0%	38.3%	62.0%	61.7%
Quarter Ended December 31, 2013	Issuance/Exchange	2,581 (1)	38.3%	39.0%	61.7%	61.0%
Quarter Ended March 31, 2014	Issuance	2,672	39.0%	39.4%	61.0%	60.6%
Quarter Ended June 30, 2014	Issuance/Exchange	7,344 (1)	39.4%	41.2%	60.6%	58.8%
Quarter Ended September 30, 2014	Issuance	3,660	41.2%	41.8%	58.8%	58.2%
Quarter Ended December 31, 2014	Issuance/Exchange	3,090 (1)	41.8%	42.3%	58.2%	57.7%

(1) In May 2013, November 2013, May 2014 and October 2014, certain holders of AOG Units exchanged their AOG Units for Class A shares and approximately 8.8 million, 2.3 million, 6.2 million and 0.1 million Class A shares were issued by the Company in the exchanges, respectively.

16. EQUITY-BASED COMPENSATION

AOG Units

The fair value of the AOG Units of approximately $5.6 billion was charged to compensation expense on a straight-line basis over the five or six year service period, as applicable. For the years ended December 31, 2013 and 2012, $30.0 million and $480.9 million of compensation expense was recognized, respectively. The AOG Units were fully vested and amortized as of June 30, 2013.

The following table summarizes the activity of the AOG Units for the years ended December 31, 2013 and 2012:

	AOG Units	Weighted Average Grant Date Fair Value
Balance at January 1, 2012	22,593,210	22.64
Granted	199,050	17.36
Forfeited	(199,050)	20.00
Vested	(21,092,844)	22.80
Balance at December 31, 2012	1,500,366	20.00
Vested	(1,500,366)	20.00
Balance at December 31, 2013	-	$ -

RSUs

On October 24, 2007, the Company commenced the granting of RSUs under the Company's 2007 Omnibus Equity Incentive Plan. These grants are accounted for as a grant of equity awards in accordance with U.S. GAAP. The fair value of all grants after March 29, 2011 is based on the grant date fair value, which considers the public share price of the Company. For Plan Grants, the fair value is based on grant date fair value, and is discounted primarily for transfer restrictions and lack of distributions until vested. For Bonus Grants, the fair value is discounted primarily for transfer restrictions and in certain cases timing of distributions. For Plan Grants that are not eligible for distributions on unvested shares, the discount for the lack of distributions until vested based on the present value of a growing annuity calculation had a weighted average of 32.5%, 30.5% and 23.3% for the years ended December 31, 2014, 2013 and 2012, respectively. Additionally, for Plan Grants, the marketability discount for transfer restrictions based on the Finnerty Model calculation, after considering the discount for lack of pre-vesting distributions, had a weighted average of 5.1%, 6.0% and 5.0% for the years ended December 31, 2014, 2013 and 2012, respectively. For Bonus Grants, the marketability discount for transfer restrictions based on the Finnerty Model calculation had a weighted average of 3.2%, 3.2% and 4.9% for the years ended December 31, 2014, 2013 and 2012, respectively. The estimated total fair value is charged to compensation expense on a straight-line basis over the vesting period, which for Plan Grants is generally up to six years, with the first installment vesting one year after grant and quarterly vesting thereafter, and for Bonus Grants is annual vesting over three years.

The fair value of grants made in 2014, 2013 and 2012 is $149.1 million, $56.6 million and $73.5 million, respectively. Of the awards granted in 2012, 972,266 RSUs relate to awards granted as part of the Stone Tower acquisition. The fair value of these awards was not charged to compensation expense, but charged to additional paid in capital in the consolidated statements of changes in shareholder's equity. See note 3 for further discussion of the Stone Tower acquisition. The actual forfeiture rate was 6.7%, 5.3% and 3.9% for the years ended December 31, 2014, 2013 and 2012, respectively. For the years ended December 31, 2014, 2013 and 2012, $80.7 million, $87.7 million and $110.2 million of compensation expense was recognized, respectively.

In addition, during 2014, the Company entered into an agreement with an executive officer providing for the grant of RSUs when certain metrics have been achieved. In accordance with U.S. GAAP, equity-based compensation expense is recognized only when certain metrics are met or deemed probable. Accordingly, for the year ended December 31, 2014, no equity-based compensation expense was recognized relating to these RSUs.

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The following table summarizes RSU activity for the years ended December 31, 2014, 2013 and 2012:

	Unvested	Weighted Average Grant Date Fair Value	Vested	Total Number of RSUs Outstanding
Balance at January 1, 2012	20,480,773	$ 11.38	20,240,008	40,720,781 (1)
Granted	5,377,562	13.68	-	5,377,562
Forfeited	(966,725)	11.02	-	(966,725)
Delivered	-	11.69	(7,894,214)	(7,894,214)
Vested	(10,167,136)	12.28	10,167,136	-
Balance at December 31, 2012	14,724,474	11.62	22,512,930	37,237,404 (1)
Granted	2,101,277	26.95	-	2,101,277
Forfeited	(888,594)	13.30	-	(888,594)
Delivered	-	12.30	(6,879,050)	(6,879,050)
Vested	(7,159,871)	12.60	7,159,871	-
Balance at December 31, 2013	8,777,286	14.32	22,793,751	31,571,037 (1)
Granted	7,046,490	21.16	-	7,046,490
Forfeited(2)	(1,055,639)	12.19	-	(1,055,639)
Delivered	-	12.96	(9,490,011)	(9,490,011)
Vested(2)	(4,050,502)	16.75	4,050,502	-
Balance at December 31, 2014	10,717,635	$ 18.11	17,354,242	28,071,877 (1)

(1) Amount excludes RSUs which have vested and have been issued in the form of Class A shares.
(2) In connection with the departure of an employee from the Company, such employee vested in 625,000 RSUs that were previously granted to him and forfeited 625,000 RSUs that were previously granted to him. As a result of the additional vesting, the Company recorded an incremental compensation expense of $17.5 million related to the relevant RSU award for the year ended December 31, 2014.

Units Expected to Vest-As of December 31, 2014, approximately 10,100,000 RSUs were expected to vest over the next 3.8 years.

Share Options

The following options have been granted under the Company's 2007 Omnibus Equity Incentive Plan:

Date of Grant	Options Granted	Vesting Terms
December 2, 2010 (1)	5,000,000	Vested and became exercisable with respect to 4/24 of the option shares on December 31, 2011 and the remainder vest in equal installments over each of the remaining 20 quarters with full vesting on December 31, 2016; 1,250,000 of these options vested in connection with the optionee's employment termination and an equal number of options were forfeited during the quarter ended March 31, 2014.
January 22, 2011	555,556	Half of such options that vested and became exercisable on December 31, 2011 were exercised on March 5, 2012 and the other half that were due to become exercisable on December 31, 2012 were forfeited during the quarter ended March 31, 2012.
April 9, 2011	25,000	Vested and became exercisable with respect to half of the option shares on December 31, 2011 and the other half vested in four equal quarterly installments starting on March 31, 2012 and ending on December 31, 2012 and are fully vested as of the date of this report.
July 9, 2012	50,000	Will vest and become exercisable with respect to 4/24 of the option shares on June 30, 2013 and the remainder will vest in equal installments over each of the remaining 20 quarters with full vesting on June 30, 2018.
December 28, 2012	200,000	Will vest and become exercisable with respect to 4/24 of the option shares on June 30, 2013 and the remainder will vest in equal installments over each of the remaining 20 quarters with full vesting on June 30, 2018.

(1) In connection with the departure of an employee from the Company, such employee vested in 1,250,000 share options that were previously granted to him and forfeited 1,250,000 share options that were previously granted to him. As a result of the additional vesting, the Company recorded an incremental compensation expense of $28.1 million related to the relevant option award agreement for the year ended December 31, 2014.

For the years ended December 31, 2014, 2013 and 2012, $28.2 million, $4.7 million and $4.8 million of compensation expense was recognized as a result of these grants, respectively.

There were no share options granted during the year ended December 31, 2014. Apollo measures the fair value of each option award on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for options granted during 2012 and 2011:

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Assumptions:	2012	2011
Risk-free interest rate	1.11%	2.79%
Weighted average expected dividend yield	8.13%	2.25%
Expected volatility factor(1)	45.00%	40.22%
Expected life in years	6.66	5.72
Fair value of options per share	$ 3.01	$ 8.44

(1) The Company determined the expected volatility based on comparable companies using daily stock prices and the volatility of the Company's share price.

The following table summarizes the share option activity for the years ended December 31, 2014, 2013 and 2012:

	Options Outstanding	Weighted Average Exercise Price	Aggregate Fair Value	Weighted Average Remaining Contractual Term
Balance at January 1, 2012	5,580,556	$ 8.14	$ 32,996	8.93
Granted	250,000	16.26	752	9.90
Exercised	(277,778)	9.00	(2,364)	-
Forfeited	(277,778)	9.00	(2,364)	-
Balance at December 31, 2012	5,275,000	8.44	29,020	8.01
Granted	-	-	-	-
Exercised	(2,324,997)	8.12	(12,896)	-
Forfeited	-	-	-	-
Balance at December 31, 2013	2,950,003	8.69	16,124	7.08
Exercised	(1,468,750)	8.03	(8,217)	-
Forfeited	(1,250,000)	8.00	(7,025)	-
Balance at December 31, 2014	231,253	16.60	882	7.93
Exercisable at December 31, 2014	85,417	$ 17.11	$ 276	7.99

Options Expected to Vest-As of December 31, 2014, approximately 137,000 options were expected to vest.

The expected life of the options granted represents the period of time that options are expected to be outstanding and is based on the contractual term of the option. Unamortized compensation cost related to unvested share options at December 31, 2014 was $0.4 million and is expected to be recognized over a weighted average period of 3.5 years. The intrinsic value of options exercised was $26.6 million, $42.9 million and $1.4 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Delivery of Class A Shares - RSUs and Share Options

During the years ended December 31, 2014, 2013 and 2012, the Company delivered Class A shares in settlement of vested RSUs and exercised share options. The Company has generally allowed holders of vested RSUs and exercised share options to settle their tax liabilities by reducing the number of Class A shares delivered to them, which the Company refers to as "net share settlement." Additionally, the Company has generally allowed holders of share options to settle their exercise price by reducing the number of Class A Shares delivered to them at the time of exercise by an amount sufficient to cover the exercise price. The net share settlement results in a tax liability for the Company and a corresponding accumulated deficit adjustment. This adjustment for the years ended December 31, 2014, 2013 and 2012 was $0.4 million, $85.9 million and $26.0 million, respectively, which is recorded as accumulated deficit in the consolidated statements of changes in shareholders' equity. During the year ended December 31, 2014, the Company changed its methodology from net share settlement to a "sell-to-cover" methodology. Under this

methodology, holders of vested RSUs and exercised share options settle their tax liability through a broker-assisted sale of shares equal to their tax liability. The proceeds from such sale are remitted back to the Company.

The delivery of Class A shares in settlement of vested RSUs and exercised share options does not cause a transfer of amounts in the consolidated statements of changes in shareholders' equity to the Class A shareholders. The delivery of Class A shares in settlement of vested RSUs and exercised share options causes the income allocated to the Non-Controlling Interests to shift to the Class A shareholders from the date of delivery forward. During the years ended December 31, 2014, 2013 and 2012, the Company delivered 10,491,649, 5,181,389 and 6,130,951 Class A shares in settlement of vested RSUs and exercised share options, which caused the Company's ownership interest in the Apollo Operating Group to increase to 40.6% from 39.0%. The gross value of the settlement of these shares was $289.0 million, $212.9 million and $110.1 million, respectively based on Apollo's share price at the time of the delivery.

AAA RDUs

Incentive units that provide the right to receive AAA restricted depositary units ("RDUs") following vesting are granted periodically to employees of Apollo. These grants are accounted for as equity awards in accordance with U.S. GAAP. The incentive units granted to employees generally vest over three years. In contrast, the Company's Managing Partners and Contributing Partners have received distributions of fully-vested AAA RDUs. The fair value at the date of the grants is recognized on a straight-line basis over the vesting period (or upon grant in the case of fully vested AAA RDUs). The grant date fair value is based on the public share price of AAA. Vested AAA RDUs can be converted into ordinary common units of AAA subject to applicable securities law restrictions. During the years ended December 31, 2014, 2013 and 2012, the actual forfeiture rate was 1.1%, 0.0% and 0.0%, respectively. For the years ended December 31, 2014, 2013 and 2012, $0.4 million, $1.2 million and $1.0 million of compensation expense was recognized, respectively.

During the years ended December 31, 2014, 2013 and 2012 the Company delivered 120,354, 114,896 and 60,702 RDUs, respectively. The deliveries in 2014, 2013 and 2012 resulted in a satisfaction of liability of $1.2 million, $1.2 million and $1.8 million, respectively, and the recognition of a net decrease of additional paid in capital in 2014, 2013 and 2012 of $2.2 million $1.0 million and $2.5 million, respectively. These amounts are presented in the consolidated statements of changes in shareholders' equity. There was $1.2 million and $1.2 million of liability for undelivered RDUs included in accrued compensation and benefits in the consolidated statements of financial condition as of December 31, 2014 and December 31, 2013, respectively. The following table summarizes RDU activity for the years ended December 31, 2014, 2013, and 2012, respectively:

	Unvested	Weighted Average Grant Date Fair Value	Vested	Total Number of RDUs Outstanding
Balance at January 1, 2012	196,653	$ 8.17	60,702	257,355
Granted	256,673	9.45	-	256,673
Delivered	-	8.69	(60,702)	(60,702)
Vested	(114,896)	9.02	114,896	-
Balance at December 31, 2012	338,430	8.85	114,896	453,326
Granted	27,286	26.90	-	27,286
Delivered	-	9.02	(114,896)	(114,896)
Vested	(120,354)	9.83	120,354	-
Balance at December 31, 2013	245,362	10.38	120,354	365,716
Granted	18,426	33.05	-	18,426
Forfeited	(2,861)	8.36	-	(2,861)
Delivered	-	9.02	(120,354)	(120,354)
Vested	(96,267)	11.17	96,267	-
Balance at December 31, 2014	164,660	$ 12.49	96,267	260,927

Units Expected to Vest-As of December 31, 2014, approximately 155,000 RDUs were expected to vest over the next 1.9 years.

The following table summarizes the activity of RDUs available for future grants:

	RDUs Available For Future Grants	
Balance at January 1, 2012	1,947,837	
Purchases	187,261	
Granted/Issued	(449,753)	(1)
Forfeited	-	
Balance at December 31, 2012	1,685,345	
Purchases	6,236	
Granted/Issued	(39,272)	(1)
Forfeited	-	
Balance at December 31, 2013	1,652,309	
Purchases	9,719	
Granted/Issued	(18,426)	
Forfeited	2,861	
Balance at December 31, 2014	1,646,463	

(1) During 2013 and 2012, the Company delivered 11,986 and 193,080 to certain employees as part of AAA's carry reinvestment program, respectively. This resulted in a decrease in profit sharing payable of $0.2 million and $1.2 million in 2013 and 2012, respectively in the consolidated statements of financial condition.

Restricted Stock and Restricted Stock Unit Awards- Apollo Commercial Real Estate Finance, Inc.

ARI restricted stock awards and ARI restricted stock unit awards ("ARI RSUs") granted to the Company and certain of the Company's employees generally vest over three years, either quarterly or annually. The awards granted to the Company are accounted for as investments and deferred revenue in the consolidated statements of financial condition. As these awards vest, the deferred revenue is recognized as management fees. The investment is accounted for using the equity method of accounting for awards granted to the Company and as a deferred compensation asset for the awards granted to employees. Compensation expense is recognized on a straight line-basis over the vesting period for the awards granted to the employees. The Company recorded an asset and a liability upon receiving the awards on behalf of the Company's employees. The fair value of the awards to employees is based on the grant date fair value, which utilizes the public share price of ARI, less discounts for transfer restrictions. The awards granted to the Company's employees are remeasured each period to reflect the fair value of the asset and other liabilities and any changes in these values are recorded in the consolidated statements of operations. For the years ended December 31, 2014, 2013, and 2012, $1.3 million, $2.8 million and $2.3 million of management fees and $1.3 million, $2.0 million and $1.5 million of compensation expense were recognized in the consolidated statements of operations, respectively. The actual forfeiture rate for unvested ARI restricted stock awards and ARI RSUs was 0%, 1.6% and 1.0% for the years ended December 31, 2014, 2013 and 2012, respectively.

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The following table summarizes activity for the ARI restricted stock awards and ARI RSUs that were granted to both the Company and certain of its employees for the years ended December 31, 2014, 2013, and 2012:

	ARI Restricted Stock Unvested	ARI RSUs Unvested	Weighted Average Grant Date Fair Value	ARI RSUs Vested	Total Number of ARI RSUs Outstanding
Balance at January 1, 2012	32,502	374,754	$ 15.12	73,542	448,296
Granted to employees of the Company	-	20,000	15.17	-	20,000
Granted to the Company	-	-	-	-	-
Forfeited by employees of the Company	-	(5,522)	14.09	-	(5,522)
Vested awards for employees of the Company	-	(99,690)	15.43	99,690	-
Vested awards of the Company	(32,502)	(52,000)	16.25	52,000	-
Balance at December 31, 2012	-	237,542	14.62	225,232	462,774
Granted to employees of the Company	-	205,000	16.58	-	205,000
Granted to the Company	-	40,000	17.59	-	40,000
Forfeited by employees of the Company	-	(5,000)	16.66	-	(5,000)
Vested awards of the employees of the Company	-	(137,807)	15.48	137,807	-
Vested awards of the Company	-	(65,333)	15.41	65,333	-
Balance at December 31, 2013	-	274,402	15.86	428,372	702,774
Granted to employees of the Company	-	400,254	16.59	-	400,254
Vested awards of the employees of the Company	-	(129,148)	15.55	129,148	-
Vested awards of the Company	-	(65,333)	15.41	65,333	-
Balance at December 31, 2014	-	480,175	$ 16.61	622,853	1,103,028

Units Expected to Vest-As of December 31, 2014, approximately 452,000 ARI RSUs were expected to vest over the next 2.7 years.

Restricted Stock Unit Awards-Apollo Residential Mortgage, Inc.

AMTG restricted stock units ("AMTG RSUs") granted to the Company and certain of the Company's employees generally vest over three years, either quarterly or annually. The awards granted to the Company are accounted for as investments and deferred revenue in the consolidated statements of financial condition. As these awards vest, the deferred revenue is recognized as management fees. The investment is accounted for using the equity method of accounting for awards granted to the Company and as a deferred compensation asset for the awards granted to employees. Compensation expense is recognized on a straight line-basis over the vesting period for the awards granted to the employees. The Company recorded an asset and a liability upon receiving the awards on behalf of the Company's employees. The awards granted to the Company's employees are remeasured each period to reflect the fair value of the asset and other liabilities and any changes in these values are recorded in the consolidated statements of operations.

The fair value of the awards to employees is based on the grant date fair value, which utilizes the public share price of AMTG less discounts for transfer restrictions and timing of distributions. For the years ended December 31, 2014, 2013 and 2012, $0.9 million, $0.9 million and $0.2 million of management fees were recognized in the consolidated statements of operations, respectively. For the years ended December 31, 2014, 2013 and 2012, $0.8 million, $0.8 million and $0.1 million of compensation expense was recognized in the consolidated statements of operations, respectively. The actual forfeiture rate for AMTG RSUs was 2.5%, 1.3% and 0% for the years ended December 31, 2014, 2013 and 2012, respectively.

The following table summarizes activity for the AMTG RSUs that were granted to both the Company and certain of its employees for the years ended December 31, 2014, 2013, and 2012:

	AMTG RSUs Unvested	Weighted Average Grant Date Fair Value	AMTG RSUs Vested	Total Number of AMTG RSUs Outstanding
Balance at January 1, 2012	28,305	$ 17.56	2,570	30,875
Granted to employees of the Company	143,244	20.62	-	143,244
Vested awards of the employees of the Company	(4,042)	16.57	4,042	-
Vested awards of the Company	(6,250)	18.20	6,250	-
Balance at December 31, 2012	161,257	20.28	12,862	174,119
Granted to employees of the Company	25,848	14.73	-	25,848
Forfeited by employees of the Company	(2,359)	18.74	-	(2,359)
Vested awards of the employees of the Company	(51,259)	20.30	51,259	-
Vested awards of the Company	(6,250)	18.20	6,250	-
Balance at December 31, 2013	127,237	19.28	70,371	197,608
Granted to employees of the Company	130,124	16.01	-	130,124
Forfeited by employees of the Company	(4,855)	21.22	-	(4,855)
Vested awards of the employees of the Company	(57,982)	19.56	57,982	-
Vested awards of the Company	(4,688)	18.20	4,688	-
Balance at December 31, 2014	189,836	$ 16.93	133,041	322,877

Units Expected to Vest-As of December 31, 2014, approximately 178,000 AMTG RSUs were expected to vest over the next 2.4 years.

Restricted Share Awards-Athene Holding

Athene Holding has granted restricted share awards ("AHL Awards") to certain employees of Apollo. Certain of the awards granted are subject to time-based vesting conditions that generally vest over five years and certain of the awards vest once certain metrics have been achieved. During 2014, the vesting terms of some of the AHL Awards were modified such that the portion of AHL Awards related to services provided from the date of grant were deemed vested.

The AHL Awards granted to employees of Athene Asset Management, L.P. ("Athene Asset Management"), a consolidated subsidiary of Apollo, are accounted for as a prepaid compensation asset within other assets and deferred revenue in the consolidated statements of financial condition. From the date of grant, the deferred revenue is recognized as management fees and the prepaid compensation asset is recognized as compensation expense over the vesting period. The fair value of the awards to employees is based on the grant date fair value, which utilizes the share price of Athene Holding, less discounts for transfer restrictions. Shares granted as part of the AHL Awards were valued using a multiple-scenario model, which considers the price volatility of the underlying stock price of Athene Holding, time to expiration and the risk-free rate. The awards granted are recognized as liability awards remeasured each period to reflect the fair value of the prepaid compensation asset and deferred revenue. Any changes in fair value are recorded in management fees and equity-based compensation expense in the consolidated statements of operations.

For the year ended December 31, 2014, $16.7 million of management fees and equity-based compensation expense was recognized in the consolidated statements of operations relating to these AHL Awards.

The following table summarizes activity for the AHL Awards that were granted to certain of its employees for the year ended December 31, 2014:

	AHL Awards Unvested	Weighted Average Grant Date Fair Value	AHL Awards Vested	Total Number of AHL Awards Outstanding
Balance at January 1, 2014	1,717,568	$ 1.23	-	1,717,568
Granted to employees of the Company	850,000	9.31	-	850,000
Vested awards of the employees of the Company	(849,495)	3.69	849,495	-
Balance at December 31, 2014	1,718,073	$ 4.00	849,495	2,567,568

Units Expected to Vest-As of December 31, 2014, approximately 476,107 AHL Awards were expected to vest over the next 2.2 years and 1,241,966 AHL Awards may vest if certain metrics are achieved.

Equity-Based Compensation Allocation

Equity-based compensation is allocated based on ownership interests. Therefore, the amortization of the AOG Units is allocated to shareholders' equity attributable to Apollo Global Management, LLC and the Non-Controlling Interests, which results in a difference in the amounts charged to equity-based compensation expense and the amounts credited to shareholders' equity attributable to Apollo Global Management, LLC in the Company's consolidated financial statements.

Below is a reconciliation of the equity-based compensation allocated to Apollo Global Management, LLC for the year ended December 31, 2014:

	Total Amount	Non-Controlling Interest % in Apollo Operating Group	Allocated to Non-Controlling Interest in Apollo Operating Group(1)	Allocated to Apollo Global Management, LLC
RSUs and Share Options	$ 107,017	-%	$ -	$ 107,017
AHL Awards	16,738	57.7	9,938	6,800
Other equity-based compensation awards	2,565	57.7	1,517	1,048
Total Equity-Based Compensation	$ 126,320		11,455	114,865
Less other equity-based compensation awards (2)			(11,455)	(5,994)
Capital Increase Related to Equity-Based Compensation			$ -	$ 108,871

(1) Calculated based on average ownership percentage for the period considering Class A share issuances during the period.
(2) Includes equity-based compensation reimbursable by certain funds.

Below is a reconciliation of the equity-based compensation allocated to Apollo Global Management, LLC for the year ended December 31, 2013:

	Total Amount	Non-Controlling Interest % in Apollo Operating Group	Allocated to Non-Controlling Interest in Apollo Operating Group(1)	Allocated to Apollo Global Management, LLC
AOG Units	$ 30,007	61.0%	$ 19,163	$ 10,844
RSUs and Share Options	92,185	-	-	92,185
Other equity-based compensation awards	4,035	61.0	2,494	1,541
Total Equity-Based Compensation	$ 126,227		21,657	104,570
Less other equity-based compensation awards(2)			(2,494)	365
Capital Increase Related to Equity-Based Compensation			$ 19,163	$ 104,935

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(1) Calculated based on average ownership percentage for the period considering Class A share issuances during the period.
(2) Includes equity-based compensation reimbursable by certain funds.

Below is a reconciliation of the equity-based compensation allocated to Apollo Global Management, LLC for the year ended December 31, 2012:

	Total Amount	Non-Controlling Interest % in Apollo Operating Group	Allocated to Non-Controlling Interest in Apollo Operating Group[1]	Allocated to Apollo Global Management, LLC
AOG Units	$ 480,931	64.9%	$ 313,856	$ 167,075
RSUs and Share Options	115,013	-	-	115,013
Other equity-based compensation awards	2,710	64.9	1,769	941
Total Equity-Based Compensation	$ 598,654		315,625	283,029
Less other equity-based compensation awards[2]			(1,769)	(741)
Capital Increase Related to Equity-Based Compensation			$ 313,856	$ 282,288

(1) Calculated based on average ownership percentage for the period considering Class A share issuances during the period.
(2) Includes equity-based compensation reimbursable by certain funds.

17. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED ENTITIES

The Company typically facilitates the initial payment of certain operating costs incurred by the funds that it manages as well as their affiliates. These costs are normally reimbursed by such funds and are included in due from affiliates.

Due from affiliates and due to affiliates are comprised of the following:

	As of December 31, 2014	As of December 31, 2013
Due from Affiliates:		
Due from private equity funds	$ 30,091	$ 57,582
Due from portfolio companies	41,844	23,484
Due from credit funds[1]	174,165	216,750
Due from Contributing Partners, employees and former employees	1,721	2,659
Due from real estate funds	20,162	12,119
Other	32	4,653
Total Due from Affiliates	$ 268,015	$ 317,247
Due to Affiliates:		
Due to Managing Partners and Contributing Partners in connection with the tax receivable agreement	$ 509,149	$ 525,483
Due to private equity funds	1,158	825
Due to credit funds	5,343	1,773
Distributions payable to employees	49,503	67,290
Total Due to Affiliates	$ 565,153	$ 595,371

(1) As of December 31, 2014 includes unsettled AAA and Athene management fee receivable as discussed in "Athene" below. As of December 31, 2013, includes Athene Services Derivative as discussed in "Athene" below.

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Tax Receivable Agreement and Other

Subject to certain restrictions, each of the Managing Partners and Contributing Partners has the right to exchange their vested AOG Units for the Company's Class A shares. Certain Apollo Operating Group entities have made an election under Section 754 of the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), which will result in an adjustment to the tax basis of the assets owned by the Apollo Operating Group at the time of the exchange. These exchanges will result in increases in tax deductions that will reduce the amount of tax that APO Corp. will otherwise be required to pay in the future.

The tax receivable agreement provides for the payment to the Managing Partners and Contributing Partners of 85% of the amount of cash savings, if any, in U.S. federal, state, local and foreign income taxes that APO Corp. would realize as a result of the increases in tax basis of assets that resulted from the 2007 Reorganization and exchanges of AOG Units for Class A shares. If the Company does not make the required annual payment on a timely basis as outlined in the tax receivable agreement, interest is accrued on the balance until the payment date. These payments are expected to occur approximately over the next 20 years. In connection with the amendment of the AMH partnership agreement in April 2010, the tax receivable agreement was revised to reflect the Managing Partners' agreement to defer 25%, or $12.1 million, of the required payments pursuant to the tax receivable agreement that are attributable to the 2010 fiscal year for a period of four years until 2015.

In April 2013, Apollo made a $30.4 million cash payment pursuant to the tax receivable agreement resulting from the realized tax benefit for the 2012 tax year. Included in the payment was approximately $7.6 million and approximately $0.3 million of interest paid to the Managing Partners and Contributing Partners, respectively.

During the years ended December 31, 2014, 2013 and 2012, the Company reduced the tax receivable agreement liability and recorded $32.2 million, $13.0 million and $3.9 million, respectively, in other income, net in the consolidated statement of operations due to changes in projected income estimates and in estimated tax rates.

In April 2014, Apollo made a $32.0 million cash payment pursuant to the tax receivable agreement resulting from the realized tax benefit for the 2013 tax year. Included in the payment was approximately $8.3 million and approximately $0.5 million of interest paid to the Managing Partners and Contributing Partners, respectively.

During the years ended December 31, 2014 and 2013, the Intermediate Holding Companies acquired approximately 6.3 million and 11.1 million Class A shares of Apollo Global Management, LLC, respectively, which were used to acquire an equal number of AOG Units from certain Managing Partners and Contributing Partners in connection with exchanges of AOG Units for Class A shares. These exchanges were taxable for U.S. federal income tax purposes, and resulted in APO Corp. recording a U.S. federal income tax basis adjustment of approximately $97.6 million and $243.1 million in the intangible assets of certain Apollo Operating Group entities during the years ended December 31, 2014 and 2013, respectively.

Pursuant to the tax receivable agreement, the Managing Partners and Contributing Partners who exchanged AOG Units for Class A shares will receive payment from APO Corp. of 85% of the amount of the actual cash tax savings, if any, in U.S. Federal, state, local and foreign income tax that APO Corp. realizes as a result of these increases in tax deductions and tax basis, and certain other tax benefits, including imputed interest expense. APO Corp. retains the benefit from the remaining 15% of actual cash tax savings. As a result of the May 2013, November 2013, and May 2014 exchanges, a $174.8 million liability was recorded to estimate the amount of these future expected payments to be made by APO Corp. to the Managing Partners and Contributing Partners pursuant to the tax receivable agreement.

Due from Contributing Partners, Employees and Former Employees

As of December 31, 2014 and December 31, 2013, due from Contributing Partners, Employees and Former Employee balances include various amounts due to the Company including director fee receivables.

Distributions

In addition to other distributions such as payments pursuant to the tax receivable agreement, the table below presents information regarding the quarterly distributions which were made at the sole discretion of the manager of the Company during 2014, 2013 and 2012 (in millions, except per share data):

Distribution Declaration Date	Distribution per Class A Share	Distribution Payment Date	Distribution to Class A Shareholders	Distribution to Non-Controlling Interest Holders in the Apollo Operating Group	Total Distributions from Apollo Operating Group	Distribution Equivalents on Participating Securities
February 10, 2012	$ 0.46	February 29, 2012	$ 58.1	$ 110.4	$ 168.5	$ 10.3
April 13, 2012	-	April 13, 2012	-	11.0 (1)	11.0	-
May 8, 2012	0.25	May 30, 2012	31.6	60.0	91.6	6.2
August 2, 2012	0.24	August 31, 2012	31.2	57.6	88.8	5.3
November 9, 2012	0.40	November 30, 2012	52.0	96.0	148.0	9.4
For the year ended December 31, 2012	$ 1.35		$ 172.9	$ 335.0	$ 507.9	$ 31.2
February 8, 2013	$ 1.05	February 28, 2013	$ 138.7	$ 252.0	$ 390.7	$ 25.0
April 12, 2013	-	April 12, 2013	-	55.2 (1)	55.2	-
May 6, 2013	0.57	May 30, 2013	80.8	131.8	212.6	14.3
August 8, 2013	1.32	August 30, 2013	189.7	305.2	494.9	30.8
November 7, 2013	1.01	November 29, 2013	147.7	231.2	378.9	24.1
For the year ended December 31, 2013	$ 3.95		$ 556.9	$ 975.4	$ 1,532.3	$ 94.2
February 7, 2014	$ 1.08	February 26, 2014	$ 160.9	$ 247.3	$ 408.2	$ 25.5
April 3, 2014	-	April 3, 2014	-	49.5 (1)	49.5	-
May 8, 2014	0.84	May 30, 2014	130.0	188.4	318.4	20.9
June 16, 2014	-	June 16, 2014	-	28.5 (1)	28.5	-
August 6, 2014	0.46	August 29, 2014	73.6	102.5	176.1	10.2
September 11, 2014	-	September 11, 2014	-	12.4 (1)	12.4	-
October 30, 2014	0.73	November 21, 2014	119.0	162.6	281.6	15.5
December 15, 2014	-	December 15, 2014	-	25.2 (1)	25.2	-
For the year ended December 31, 2014	$ 3.11		$ 483.5	$ 816.4	$ 1,299.9	$ 72.1

(1) On April 13, 2012, April 12, 2013, April 3, 2014, June 16, 2014, September 11, 2014 and December 15, 2014, the Company made a $0.05, $0.23, $0.22, $0.13, $0.06 and $0.11 distribution per AOG Unit, respectively, to the non-controlling interest holders in the Apollo Operating Group.

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Indemnity

Carried interest income from certain funds that the Company manages can be distributed to the Company on a current basis, but is subject to repayment by the subsidiary of the Apollo Operating Group that acts as general partner of the fund in the event that certain specified return thresholds are not ultimately achieved. The Managing Partners, Contributing Partners and certain other investment professionals have personally guaranteed, subject to certain limitations, the obligation of these subsidiaries in respect of this general partner obligation. Such guarantees are several and not joint and are limited to a particular Managing Partner's or Contributing Partner's distributions. An existing shareholders agreement includes clauses that indemnify each of the Company's Managing Partners and certain Contributing Partners against all amounts that they pay pursuant to any of these personal guarantees in favor of certain funds that the Company manages (including costs and expenses related to investigating the basis for or objecting to any claims made in respect of the guarantees) for all interests that the Company's Managing Partners and Contributing Partners have contributed or sold to the Apollo Operating Group.

Accordingly, in the event that the Company's Managing Partners, Contributing Partners and certain investment professionals are required to pay amounts in connection with a general partner obligation for the return of previously made distributions, the Company will be obligated to reimburse the Company's Managing Partners and certain Contributing Partners for the indemnifiable percentage of amounts that they are required to pay even though the Company did not receive the certain distribution to which that general partner obligation related. There was no indemnification liability recorded as of December 31, 2014 and December 31, 2013.

Due to Credit Funds

Based upon a hypothetical liquidation of two of our credit funds, as of December 31, 2014, the Company has recorded a general partner obligation to return previously distributed carried interest income, which represents amounts due to these funds. The actual determination and any required payment of a general partner obligation would not take place until the final disposition of the fund's investments based on contractual termination of the fund or as otherwise set forth in the respective limited partnership agreement of the fund. As such, there was a general partner obligation to return previously distributed carried interest income of $3.4 million accrued as of December 31, 2014.

Athene

Athene Holding is the ultimate parent of various insurance company operating subsidiaries. Through its subsidiaries, Athene Holding provides insurance products focused primarily on the retirement market and its business centers primarily on issuing or reinsuring fixed indexed annuities.

Athene Asset Management receives a management fee equal to 0.40% per annum on all assets under management in accounts owned by or related to Athene (the "Athene Accounts"), with certain limited exceptions. In addition, the Company receives sub-advisory management fees and carried interest income with respect to a portion of the assets in the Athene Accounts. With respect to capital invested in an Apollo fund, Apollo receives management fees directly from the relevant funds under the investment management agreements with such funds. Athene Asset Management and other Apollo subsidiaries incur all expenses associated with their provision of services to Athene, including but not limited to, asset allocation services, direct asset management services, risk management, asset and liability matching management, mergers and acquisitions asset diligence, hedging and other services.

Under a transaction advisory services agreement with Athene (the "Athene Services Agreement"), effective February 5, 2013, Apollo earns a quarterly monitoring fee of 0.50% of Athene's capital and surplus as of the end of the applicable quarter multiplied by 2.5, excluding the shares of Athene Holding that were newly acquired (and not in satisfaction of prior commitments to buy such shares) by AAA Investments in the contribution of certain assets by AAA to Athene in October 2012, at the end of each quarter through December 31, 2014, the termination date. This quarterly monitoring fee is not applicable to the amount of invested capital attributable to the Excluded Athene Shares. The Athene Services Agreement was amended in connection with the Athene Private Placement described below (the "Amended Athene Services Agreement"). The Amended Athene Services Agreement adjusts the calculation of Athene Holding's capital and surplus downward by an amount equal to (x) the equity capital raised in the Athene Private Placement and (y) certain disproportionate increases to the statutory capital and surplus of Athene, as compared to the stockholders' equity of Athene calculated on a U.S. GAAP basis, as a result of certain future acquisitions by Athene. Prior to the consummation of the Athene Private Placement, all such monitoring fees were paid pursuant to a derivative contract between Athene and Apollo (the "Athene Services Derivative"). In connection with the Athene Private Placement, the Athene Services Derivative was settled on April 29, 2014 by delivery to Apollo of common shares of Athene Holding, and as a result, such derivative was terminated. Following settlement of the Athene Services Derivative, future monitoring fees paid to

Apollo pursuant to the Amended Athene Services Agreement, will be paid on a quarterly basis in arrears by delivery to Apollo of common shares of Athene Holding (unless such payment in shares would violate Section 16(b) of the U.S. Securities Exchange Act of 1934, as amended). Unsettled monitoring fees pursuant to the Amended Athene Services Agreement are recorded as due from affiliates in the consolidated statements of financial condition. For the years ended December 31, 2014, 2013 and 2012, Apollo earned $226.4 million, $107.9 million and $16.8 million, respectively, related to this monitoring fee. The monitoring fee is recorded in advisory and transaction fees from affiliates, net, in the consolidated statements of operations. As of December 31, 2014, Apollo had a $58.2 million receivable recorded in due from affiliates on the consolidated statements of financial condition. As of December 31, 2013, Apollo had a $116.4 million receivable, which was accounted for as a derivative recorded in due from affiliates on the consolidated statements of financial condition.

In accordance with the services agreement among AAA, AAA Investments and the other service recipients party thereto and Apollo (the "AAA Services Agreement"), Apollo receives a management fee for managing the assets of AAA Investments. In connection with each of the contribution of certain assets by AAA to Athene in October 2012, and the initial closing of the Athene Private Placement on April 4, 2014, the AAA Services Agreement was amended (the "Amended AAA Services Agreement"). Pursuant to the Amended AAA Services Agreement, the parties agreed that there will be no management fees payable by AAA Investments with respect to the excluded Athene Shares. AAA Investments agreed to continue to pay Apollo the same management fee on its investment in Athene (other than with respect to the excluded Athene Shares), except that Apollo agreed that the obligation to pay the existing management fee terminated on December 31, 2014 (although services will continue through December 31, 2020). Prior to the consummation of the Athene Private Placement, all such management fees were accrued pursuant to a derivative contract between AAA Investments and Apollo (the “AAA Services Derivative”). In connection with the Athene Private Placement, the AAA Services Derivative was settled on April 29, 2014 by delivery to Apollo of common shares of Athene Holding, and as a result, such derivative was terminated. Following settlement of the AAA Services Derivative, future management fees paid to Apollo pursuant to the Amended AAA Services Agreement will be paid on a quarterly basis in arrears by delivery to Apollo of common shares of Athene Holding (unless such payment in shares would violate Section 16(b) of the Exchange Act). Unsettled management fees pursuant to the Amended AAA Services Agreement will be recorded as due from affiliates in the consolidated statements of financial condition. As of December 31, 2014, Apollo had a $3.1 million receivable recorded in due from affiliates related to this management fee on the consolidated statements of financial condition. As of December 31, 2013, Apollo had a $14.3 million receivable related to this management fee, which was accounted for as a derivative recorded in due from affiliates on the consolidated statements of financial condition. The total management fees earned by Apollo related to the Amended AAA Services Agreement for the years ended December 31, 2014, 2013 and 2012 were $1.9 million, $2.2 million and $0.6 million, respectively, which are recorded in management fees from affiliates in the consolidated statements of operations.

Prior to the settlement of the Athene Services Derivative and the AAA Services Derivative, the Amended Athene Services Agreement and the Amended AAA Services Agreement together with the Athene Services Derivative and the AAA Services Derivative, met the definition of derivatives under U.S. GAAP. The Company had classified these derivatives as Level III assets in the fair value hierarchy, as the pricing inputs into the determination of fair value require significant judgment and estimation. After the settlement of the Athene Services Derivative and the AAA Services Derivatives the unsettled shares receivable recorded in due from affiliates related to the Amended Athene Services Agreement and the Amended AAA Services Agreement are valued at fair value based on the price of a common share of Athene Holding. The Company had classified the derivative and the shares receivable as Level III assets in the fair value hierarchy, as the pricing inputs into the determination of fair value require significant judgment and estimation. See note 6 for further discussion regarding fair value measurements.

Prior to the settlement of the Athene Services Derivative and the AAA Services Derivative, the change in unrealized market value of the derivatives was reflected in other income, net in the consolidated statements of operations. For the year ended December 31, 2013 there was $10.2 million of changes in market value recognized related to these derivatives.

In addition, Apollo, as general partner of AAA Investments, is generally entitled to a carried interest that allocates to it 20% of the realized returns (net of related expenses, including borrowing costs) on the investments of AAA Investments, except that Apollo will not be entitled to receive any carried interest in respect of the Excluded Athene Shares. Carried interest receivable from AAA Investments will be paid in common shares of Athene Holding (valued at the then fair market value) if there is a distribution in kind of shares of Athene Holding (unless such payment in shares would violate Section 16(b) of the Exchange Act) or paid in cash if AAA sells the shares of Athene Holding. For the years ended December 31, 2014, 2013, and 2012 the Company recorded carried interest income less the related profit sharing expense of $14.6 million, $27.6 million and $35.3 million, respectively, from AAA Investments, which is recorded in the consolidated statements of operations. As of December 31, 2014 and December 31, 2013, the Company had a $121.5 million and a $100.9 million carried interest receivable, respectively, related

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to AAA Investments. As of December 31, 2014 and December 31, 2013, the Company had a related profit sharing payable of $34.9 million and $28.8 million, respectively, recorded in profit sharing payable in the consolidated statements of financial condition.

For the years ended December 31, 2014, 2013 and 2012, Apollo earned revenues in the aggregate totaling $546.5 million, $435.1 million and $164.7 million, respectively, consisting of management fees, sub-advisory and monitoring fees and carried interest income from Athene after considering the related profit sharing expense and changes in the market value of the Athene shares owned directly by Apollo, which is recorded in the consolidated statements of operations.

On April 4, 2014, Athene Holding completed an initial closing of a private placement offering of common equity in which it raised $1.048 billion of primary commitments from third-party institutional and certain existing investors in Athene Holding (the “Athene Private Placement”). Shares in the Athene Private Placement were offered at a price per common share of Athene Holding of $26. In connection with the Athene Private Placement, Athene raised an additional $80 million of third party capital at $26 per share, all of which was used to buy back a portion of the shares of one of its existing investors at a price of $26 per share in a transaction that was consummated on April 29, 2014. As announced by AAA on June 24, 2014, a second closing of the Athene Private Placement occurred in which Athene Holding raised $170 million of commitments primarily from employees of Athene and its affiliates at a price per common share of Athene Holding of $26. The Investment Partnership did not purchase any additional common shares of Athene Holding as part of the Athene Private Placement.

As of December 31, 2014, the Company, through its consolidation of AAA, had an approximate 47.7% economic ownership interest in Athene through its investment in AAA Investments (calculated as if the commitments on the Athene Private Placement closed through December 31, 2014 were fully drawn but without giving effect to (i) restricted common shares issued under Athene’s management equity plan, or (ii) common shares to be issued under the Amended Athene Services Agreement or the Amended AAA Services Agreement subsequent to December 31, 2014).

The Company had an approximate 8.1% economic ownership interest in Athene Holding as of December 31, 2014, which comprises Apollo’s direct ownership of 6.9% of the economic equity of Athene Holding plus an additional 1.2% economic ownership interest, which is calculated as the Company’s approximate 2.5% economic ownership interest in AAA plus the Company’s approximate 0.06% economic ownership interest in AAA Investments multiplied by AAA Investments’ approximate 47.7% economic ownership interest in Athene as of December 31, 2014. The remaining ownership interest in AAA is recognized in the Company’s consolidated statements of operations as non-controlling interest in consolidated entities.

As of December 31, 2013, the Company through its consolidation of AAA, had an approximate 68% fully-diluted interest in Athene (after giving effect to restricted common shares issued under Athene's management equity plan and conversion of AAA Investments' note receivable but without giving effect to common shares to be issued under the Amended Athene Services Agreement or the Amended AAA Services Agreement subsequent to December 31, 2013) through its investment in AAA Investments.

The Company had an approximate 1.9% economic ownership interest in Athene Holding as of December 31, 2013, which is calculated as the Company’s approximate 2.6% economic ownership interest in AAA plus the Company’s approximate 0.06% economic ownership interest in AAA Investments multiplied by AAA Investments’ approximate 68% fully diluted interest in Athene as of December 31, 2013. The remaining ownership interest in AAA is recognized in the Company’s consolidated statements of operations as non-controlling interest in consolidated entities.

For the year ended December 31, 2014, the Company accounted for a $7.5 million reduction in management fees from affiliates and salary, bonus and benefits related to Athene.

Regulated Entities

Apollo Global Securities, LLC (“AGS”) is a registered broker dealer with the SEC and is a member of the Financial Industry Regulatory Authority, subject to the minimum net capital requirements of the SEC. AGS was in compliance with these requirements at December 31, 2014. From time to time, this entity is involved in transactions with affiliates of Apollo, including portfolio companies of the funds Apollo manages, whereby AGS earns underwriting and transaction fees for its services.

Apollo Management International LLP, is authorized and regulated by the U.K. Financial Conduct Authority and as such is subject to the capital requirements of the U.K. Financial Conduct Authority. This entity has continuously operated in excess of these regulatory capital requirements.

Certain other of the Company's U.S. and non-U.S. subsidiaries are subject to various regulations, including a number of U.S. entities that are registered as investment advisors with the SEC. To the extent applicable, these entities have continuously operated in excess of any minimum regulatory capital requirements.

Interests in Consolidated Entities

The table below presents equity interests in Apollo's consolidated, but not wholly-owned, subsidiaries and funds. Net income attributable to Non-Controlling Interests consisted of the following:

	For the Year Ended December 31,		
	2014	2013	2012
AAA[1]	$ (196,964)	$ (331,504)	$ (278,454)
Interest in management companies and a co-investment vehicle[2]	(13,186)	(18,872)	(7,307)
Other consolidated entities	(17,590)	43,357	50,956
Net income attributable to Non-Controlling Interests in consolidated entities	(227,740)	(307,019)	(234,805)
Net (income) loss attributable to Appropriated Partners' Capital[3]	70,729	(149,934)	(1,816,676)
Net income attributable to Non-Controlling Interests in the Apollo Operating Group	(404,682)	(1,257,650)	(685,357)
Net Income attributable to Non-Controlling Interests	$ (561,693)	$ (1,714,603)	$ (2,736,838)
Net income (loss) attributable to Appropriated Partners' Capital[4]	(70,729)	149,934	1,816,676
Other Comprehensive (income) loss attributable to Non-Controlling Interests	591	(41)	(2,010)
Comprehensive Income Attributable to Non-Controlling Interests	$ (631,831)	$ (1,564,710)	$ (922,172)

(1) Reflects the Non-Controlling Interests in the net (income) loss of AAA and is calculated based on the Non-Controlling Interests ownership percentage in AAA, which was approximately 97.5%, 97.4% and 97.3% as of December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, 2013 and 2012, Apollo owned approximately 2.5%, 2.6% and 2.7% of AAA, respectively.
(2) Reflects the remaining interest held by certain individuals who receive an allocation of income from certain of our credit funds.
(3) Reflects net income of the consolidated CLOs classified as VIEs.
(4) Appropriated Partners' Capital is included in total Apollo Global Management, LLC shareholders' equity and is therefore not a component of comprehensive income attributable to Non-Controlling Interests on the consolidated statements of comprehensive income.

18. COMMITMENTS AND CONTINGENCIES

Financial Guarantees-Apollo has provided financial guarantees on behalf of certain employees for the benefit of unrelated third-party lenders in connection with their capital commitments to certain funds managed by the Company. As of December 31, 2014, the maximum exposure relating to these financial guarantees approximated $0.2 million. Apollo has historically not incurred any liabilities as a result of these agreements and does not expect to in the future. Accordingly, no liability has been recorded in the accompanying consolidated financial statements.

Investment Commitments-As a limited partner, general partner and manager of the Apollo private equity, credit and real estate funds, Apollo has unfunded capital commitments as of December 31, 2014, and December 31, 2013 of $646.6 million and $843.7 million, respectively.

Apollo has an ongoing obligation to acquire additional common units of AAA in an amount equal to 25% of the aggregate after-tax cash distributions, if any, that are made by AAA to Apollo's affiliates pursuant to the carried interest distribution rights that are applicable to investments made through AAA Investments.

In addition, as of December 31, 2014, Apollo had an unfunded loan commitment of $15.0 million related to an employee's commitment to purchase common shares of Athene Holding.

Debt Covenants-Apollo's debt obligations contain various customary loan covenants. As of December 31, 2014, the Company was not aware of any instances of non-compliance with its financial covenants.

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Litigation and Contingencies-Apollo is, from time to time, party to various legal actions arising in the ordinary course of business including claims and lawsuits, reviews, investigations or proceedings by governmental and self regulatory agencies regarding its business.

In March 2012, plaintiffs filed two putative class actions, captioned Kelm v. Chase Bank (No. 12-cv-332) and Miller v. 1-800-Flowers.com, Inc. (No. 12-cv-396), in the District of Connecticut on behalf of a class of consumers alleging online fraud. The defendants included, among others, Trilegiant Corporation, Inc. (“Trilegiant”), its parent company, Affinion Group, LLC (“Affinion”), and Apollo Global Management, LLC ("AGM"), which is affiliated with funds that are the beneficial owners of 68% of Affinion’s common stock. In both cases, plaintiffs allege that Trilegiant, aided by its business partners, who include e-merchants and credit card companies, developed a set of business practices intended to create consumer confusion and ultimately defraud consumers into unknowingly paying fees to clubs for unwanted services. Plaintiffs allege that AGM is a proper defendant because of its indirect stock ownership and ability to appoint the majority of Affinion’s board. The complaints assert claims under the Racketeer Influenced Corrupt Organizations Act; the Electronic Communications Privacy Act; the Connecticut Unfair Trade Practices Act; and the California Business and Professional Code, and seek, among other things, restitution or disgorgement, injunctive relief, compensatory, treble and punitive damages, and attorneys’ fees. The allegations in Kelm and Miller are substantially similar to those in Schnabel v. Trilegiant Corp. (No. 3:10-cv-957), a putative class action filed in the District of Connecticut in 2010 that names only Trilegiant and Affinion as defendants. The court has consolidated the Kelm, Miller, and Schnabel cases under the caption In re: Trilegiant Corporation, Inc. and ordered that they proceed on the same schedule. On June 18, 2012, the court appointed lead plaintiffs’ counsel, and on September 7, 2012, plaintiffs filed their consolidated amended complaint (“CAC”), which alleges the same causes of action against AGM as did the complaints in the Kelm and Miller cases. Defendants filed motions to dismiss on December 7, 2012, plaintiffs filed opposition papers on February 7, 2013, and defendants filed replies on April 5, 2013. On December 5, 2012, plaintiffs filed another putative class action, captioned Frank v. Trilegiant Corp. (No. 12- cv-1721), in the District of Connecticut, naming the same defendants and containing allegations substantially similar to those in the CAC. On January 23, 2013, plaintiffs moved to transfer and consolidate Frank into In re: Trilegiant. On July 24, 2013 the Frank court transferred the case to Judge Bryant, who is presiding over In re: Trilegiant, and on March 28, 2014, Judge Bryant granted the motion to consolidate. On September 25, 2013, the court held oral argument on defendants’ motions to dismiss. On March 28, 2014, the court granted in part and denied in part motions to dismiss filed by Affinion and Trilegiant on behalf of all defendants, and also granted separate motions to dismiss filed by certain defendants, including AGM. On that same day, the court directed the clerk to terminate AGM as a defendant in the consolidated action. On April 28, 2014, plaintiffs moved for interlocutory review of certain of the court’s motion-to-dismiss rulings, not including its order granting AGM’s separate dismissal motion. Defendants filed a response on May 23, 2014, and plaintiffs replied on June 5, 2014. On November 13, 2014, plaintiffs and the remaining defendants filed a Joint Status Report Regarding Discovery stating that no discovery has taken place since plaintiffs filed their interlocutory-review motion.

Various state attorneys general and federal and state agencies have initiated industry-wide investigations into the use of placement agents in connection with the solicitation of investments, particularly with respect to investments by public pension funds. Certain affiliates of Apollo have received subpoenas and other requests for information from various government regulatory agencies and investors in Apollo’s funds, seeking information regarding the use of placement agents. CalPERS, one of our Strategic Investors, announced on October 14, 2009, that it had initiated a special review of placement agents and related issues. The report of the CalPERS Special Review was issued on March 14, 2011. That report does not allege any wrongdoing on the part of Apollo or its affiliates. Apollo is continuing to cooperate with all such investigations and other reviews. In addition, on May 6, 2010, the California Attorney General filed a civil complaint against Alfred Villalobos and his company, Arvco Capital Research, LLC (“Arvco”) (a placement agent that Apollo has used) and Federico Buenrostro Jr., the former CEO of CalPERS, alleging conduct in violation of certain California laws in connection with CalPERS’s purchase of securities in various funds managed by Apollo and another asset manager. Apollo is not a party to the civil lawsuit and the lawsuit does not allege any misconduct on the part of Apollo. Likewise, on April 23, 2012, the SEC filed a lawsuit alleging securities fraud on the part of Arvco, as well as Messrs. Buenrostro and Villalobos, in connection with their activities concerning certain CalPERS investments in funds managed by Apollo. This lawsuit also does not allege wrongdoing on the part of Apollo, and alleges that Apollo was defrauded by Arvco, Villalobos, and Buenrostro. On March 14, 2013, the United States Department of Justice unsealed an indictment against Messrs. Villalobos and Buenrostro alleging, among other crimes, fraud in connection with those same activities; again, Apollo is not accused of any wrongdoing and in fact is alleged to have been defrauded by the defendants. The criminal action was set for trial in a San Francisco federal court in July 2014, but was put on hold after Mr. Buenrostro pleaded guilty on July 11, 2014. As part of Mr. Buenrostro’s plea agreement, he admitted to taking cash and other bribes from Mr. Villalobos in exchange for several improprieties, including attempting to influence CalPERS’ investing decisions and improperly preparing disclosure letters to satisfy Apollo’s requirements. There is no suggestion that Apollo was aware that Mr. Buenrostro had signed the letters with a corrupt motive. The government has indicated that they will file new charges against Mr. Villalobos incorporating Mr. Buenrostro’s admissions. On August 7, 2014,

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the government filed a superseding indictment against Mr. Villalobos asserting additional charges. Trial had been scheduled for February 23, 2015, but Mr. Villalobos passed away on January 13, 2015. Additionally, on April 15, 2013, Mr. Villalobos, Arvco and related entities (the "Arvco Debtors") brought a civil action in the United States Bankruptcy Court for the District of Nevada (the "Bankruptcy Court") against Apollo. The action is related to the ongoing bankruptcy proceedings of the Arvco Debtors. This action alleges that Arvco served as a placement agent for Apollo in connection with several funds associated with Apollo, and seeks to recover purported fees the Arvco Debtors claim Apollo has not paid them for a portion of Arvco's placement agent services. In addition, the Arvco Debtors allege that Apollo has interfered with the Arvco Debtors' commercial relationships with third parties, purportedly causing the Arvco Debtors to lose business and to incur fees and expenses in the defense of various investigations and litigations. The Arvco Debtors also seek compensation from Apollo for these alleged lost profits and fees and expenses. The Arvco Debtors' complaint asserts various theories of recovery under the Bankruptcy Code and common law. Apollo denies the merit of all of the Arvco Debtors' claims and will vigorously contest them. The Bankruptcy Court has stayed this action pending the result in the criminal case against Mr. Villalobos. For these reasons, no estimate of possible loss, if any, can be made at this time.

On June 18, 2014, BOKF N.A. (the "First Lien Trustee"), the successor indenture trustee under the indenture governing the First Lien Notes issued by Momentive Performance Materials, Inc. ("Momentive"), commenced a lawsuit in the Supreme Court for the State of New York, New York County against AGM and members of an ad hoc group of Second Lien Noteholders (including, but not limited to, Euro VI (BC) S.a.r.l.). The First Lien Trustee amended its complaint on July 2, 2014 (the "First Lien Intercreditor Action"). In the First Lien Intercreditor Action, the First Lien Trustee seeks, among other things, a declaration that the defendants violated an intercreditor agreement entered into between holders of the first lien notes and holders of the second lien notes. On July 16, 2014, the successor indenture trustee under the indenture governing the 1.5 Lien Notes (the "1.5 Lien Trustee," and, together with the First Lien Trustee, the "Indenture Trustees") filed an action in the Supreme Court of the State of New York, New York County that is substantially similar to the First Lien Intercreditor Action (the "1.5 Lien Intercreditor Action," and, together with the First Lien Intercreditor Action, the "Intercreditor Actions"). AGM subsequently removed the Intercreditor Actions to federal district court, and the Intercreditor Actions were automatically referred to the Bankruptcy Court adjudicating the Momentive chapter 11 bankruptcy cases. The Indenture Trustees then filed motions with the Bankruptcy Court to remand the Intercreditor Actions back to the state court (the "Remand Motions"). On September 9, 2014, the Bankruptcy Court denied the Remand Motions. On August 15, 2014, the defendants in the Intercreditor Actions (including AGM) filed a motion to dismiss the 1.5 Lien Intercreditor Action and a motion for judgment on the pleadings in the First Lien Intercreditor Action (the "Dismissal Motions"). On September 30, 2014, the Bankruptcy Court granted the Dismissal Motions. In its order granting the Dismissal Motions, the Bankruptcy Court gave the Indenture Trustees until mid-November 2014 to move to amend some, but not all, of the claims alleged in their respective complaints. On November 14, 2014, the Indenture Trustees moved to amend their respective complaints pursuant to the Bankruptcy Court's order (the "Motions to Amend"). On January 9, 2015, the defendants filed their oppositions to the Motions to Amend. On January 16, 2015, the Bankruptcy Court denied the Motions to Amend. The Bankruptcy Court gave the Indenture Trustees until March 2, 2015 to seek to amend their respective complaints. The Indenture Trustees have not yet indicated whether they intend to file additional motions to amend. Accordingly, we are unable at this time to assess a potential risk of loss. In addition, we do not believe that AGM is a proper defendant in these actions.

On June 13, 2014, plaintiffs Stark Master Fund Ltd and Stark Global Opportunities Master Fund Ltd filed a lawsuit in the United States District Court for the Eastern District of Wisconsin against AGM and Apollo Management Holdings, L.P. (the "Apollo Defendants"), as well as Credit Suisse Securities (USA) LLC and Deutsche Bank Securities (USA) LLC (the "Bank Defendants"). The complaint alleges that AGM and the other defendants entered into an undisclosed and improper agreement concerning the financing of a potential acquisition by Hexion Specialty Chemicals Inc., and on this basis alleges a variety of common law misrepresentation claims, both intentional and negligent. The Apollo Defendants and Bank Defendants filed motions to dismiss the complaint on October 15, 2014. Rather than respond to the motions, plaintiffs filed an Amended Complaint on November 5, 2014. The Apollo Defendants and Bank Defendants filed motions to dismiss the Amended Complaint on December 23, 2014. Plaintiffs filed a motion for leave to conduct jurisdictional discovery on February 2, 2015, and pursuant to the parties' stipulation approved by the court the motion shall be fully briefed on or before March 9, 2015. Plaintiffs must file their opposition to Defendants' motion to dismiss the Amended Complaint on or before 30 days following either a decision from the Court on Plaintiffs' motion for jurisdictional discovery or the close of jurisdictional discovery, whichever is later. Because the claims against the Apollo Defendants are in their early stages, no reasonable estimate of possible loss, if any, can be made at this time.

There are several pending actions concerning transactions related to Caesars Entertainment Operating Company, Inc.'s ("CEOC") restructuring efforts. Apollo is not a defendant in these matters.

- In re: Caesars Entertainment Operating Company, Inc. bankruptcy proceedings, No. 15-10047 (Del. Bk.) (the "Delaware Bankruptcy Action") and No. 15-01145 (N.D. Ill. Bk.) (the "Illinois Bankruptcy

Action”). On January 12, 2015, three holders of CEOC second lien notes issued filed an involuntary bankruptcy petition against CEOC in the United States Bankruptcy Court for the District of Delaware.

- On February 2, 2015, the court in the Delaware Bankruptcy Action ordered that all CEOC bankruptcy proceedings should take place in the Illinois Bankruptcy Action.

- Wilmington Savings Fund Society, FSB v. Caesars Entertainment Corp. et al., No. 10004-CVG (Del. Ch.) (the “Trustee Action”). On August 4, 2014, Wilmington Savings Fund Society, FSB (“WSFS”), as trustee for certain CEOC second-lien notes, sued Caesars Entertainment Corporation (“Caesars Entertainment”), Caesars Entertainment’s subsidiary, CEOC, other Caesars Entertainment-affiliated entities, and certain of Caesars Entertainment’s directors, including Marc Rowan, Eric Press, David Sambur (each an Apollo Partner) and Jeff Benjamin (an Apollo consultant), in the Delaware Chancery Court. WSFS (i) asserts claims (against some or all of the defendants) for fraudulent conveyance, breach of fiduciary duty, breach of contract, corporate waste and aiding and abetting related to certain transactions between CEOC and other Caesars Entertainment affiliates, and (ii) requests (among other things) that the court unwind the challenged transactions and award damages. Defendants filed a motion to dismiss or stay the Trustee Action in favor of the Caesars Action, which was argued on December 5, 2014.

- Caesars Entertainment Operating Co., et al. v. Appaloosa Investment Ltd. P’ship et al., No. 652392/2014 (N.Y. Sup. Ct.) (the “Caesars Action”). On August 5, 2014, Caesars Entertainment Corporation and Caesars Entertainment’s subsidiary CEOC sued certain institutional CEOC second-lien noteholders and CEOC first-lien noteholder Elliott Management Corporation (“EMC”). On September 15, 2014, an amended complaint was filed adding WSFS as a defendant. The amended complaint asserts claims for (among other things) tortious interference with prospective economic advantage, a declaratory judgment that certain transactions related to CEOC’s restructuring are valid and appropriate and that there has not been a default under the indentures governing the notes. On October 15, 2014, defendants moved to dismiss the complaint, and the motion was fully briefed on December 1, 2014. On January 15, 2015, Caesars Entertainment and CEOC agreed to voluntarily dismiss their claims against EMC without prejudice, and EMC agreed to withdraw its motion to dismiss without prejudice. The remaining parties in the Caesars Action and the parties in the Trustee action described below have agreed to stay discovery pending decision on the respective motions to dismiss.

- Meehancombs Global Credit Opportunities Master Fund, L.P., et al. v. Caesars Entertainment Corp., et al., No. 14-cv-7091 (S.D.N.Y.) (the “Meehancombs Action”). On September 3, 2014, institutional investors allegedly holding approximately $137 million in CEOC unsecured senior notes sued CEOC and Caesars Entertainment for breach of contract and the implied covenant of good faith, Trust Indenture Act violations and a declaratory judgment challenging the August 2014 private financing transaction in which a portion of outstanding senior unsecured notes were purchased by Caesars Entertainment, and a majority of the noteholders agreed to amend the indenture to terminate Caesars Entertainment’s guarantee of the notes and modify certain restrictions on CEOC’s ability to sell assets. On October 2, 2014, a related putative class action complaint was filed on behalf of the holders of these notes captioned Danner v. Caesars Entertainment Corp., et al., No. 14-cv-7973 (S.D.N.Y.) (the “Danner Action”), against Caesars Entertainment alleging similar claims to the Meehancombs Action. Caesars Entertainment and CEOC filed a motion to dismiss on November 12, 2014. On January 15, 2015, the court granted the motion with respect to a Trust Indenture Act claim by Meehancombs but otherwise denied the motion. On January 30, 2015, plaintiffs filed an amended complaint seeking relief against Caesars Entertainment only, which Caesars Entertainment answered on February 12, 2015.

- UMB Bank v. Caesars Entertainment Corporation, et al., No. 10393 (Del. Ch.) (the “UMB Action.”). On November 25, 2014, UMB Bank, as trustee for certain CEOC notes, sued Caesars Entertainment, CEOC, other Caesars Entertainment-affiliated entities, and certain of Caesars

Entertainment's directors, including Marc Rowan, Eric Press, David Sambur (each an Apollo Partner) and Jeffrey Benjamin (an Apollo consultant), in Delaware Chancery Court. The lawsuit alleges claims for actual and constructive fraudulent conveyance and transfer, insider preferences, illegal dividends, breach of contract, intentional interference with contractual relations, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, usurpation of corporate opportunities, and unjust enrichment. The UMB Action seeks appointment of a receiver for CEOC, a constructive trust, and other relief. The UMB Action has been assigned to the same judge overseeing the Trustee Action. Upon filing the complaint, UMB Bank moved to expedite is claim seeking a receiver, on which the court held oral argument on December 17, 2014. On January 15, 2015, the court entered a stipulated order staying the UMB Action as to all parties due to CEOC's bankruptcy filing.

- Koskie v. Caesars Acquisition Company, et al., No. A-14-711712-C (Clark Cnty Nev. Dist. Ct.) (the "Koskie Action"). On December 30, 2014, Nicholas Koskie brought a shareholder class action on behalf of shareholders of Caesars Acquisition Company ("CAC") against CAC, Caesars Entertainment, and members of CAC's Board of Directors, including Marc Rowan and David Sambur (each an Apollo partner). The lawsuit challenges CAC and Caesars Entertainment's plan to merge, alleging that the proposed transaction will not give CAC shareholders fair value. Koskie asserts claims for breach of fiduciary duty relating to the director defendants' interrelationships with the entities involved the proposed transaction.

- Apollo believes that the claims in the Trustee Action, the UMB Action, the Meehancombs Action, the Danner Action, and the Koskie Action are without merit. For this reason, and because the claims are in their early stages, and because of pending bankruptcy proceedings involving CEOC, no reasonable estimate of possible loss, if any, can be made at this time.

Following the January 16, 2014 announcement that CEC Entertainment, Inc. ("CEC") had entered into a merger agreement with certain entities affiliated with Apollo (the "Merger Agreement"), four putative shareholder class actions were filed in the District Court of Shawnee County, Kansas on behalf of purported stockholders of CEC against, among others, CEC, its directors and Apollo and certain of its affiliates, which include Queso Holdings Inc., Q Merger Sub Inc., Apollo Management VIII, L.P., and AP VIII Queso Holdings, L.P. The first purported class action, which is captioned Hilary Coyne v. Richard M. Frank et al., Case No. 14C57, was filed on January 21, 2014 (the "Coyne Action"). The second purported class action, which was captioned John Solak v. CEC Entertainment, Inc. et al., Civil Action No. 14C55, was filed on January 22, 2014 (the "Solak Action"). The Solak Action was dismissed for lack of prosecution on October 14, 2014. The third purported class action, which is captioned Irene Dixon v. CEC Entertainment, Inc. et al., Case No. 14C81, was filed on January 24, 2014 and additionally names as defendants Apollo Management VIII, L.P. and AP VIII Queso Holdings, L.P. (the "Dixon Action"). The fourth purported class action, which is captioned Louisiana Municipal Public Employees' Retirement System v. Frank, et al., Case No. 14C97, was filed on January 31, 2014 (the "LMPERS Action") (together with the Coyne and Dixon Actions, the "Shareholder Actions"). A fifth purported class action, which was captioned McCullough v. Frank, et al., Case No. CC-14-00622-B, was filed in the County Court of Dallas County, Texas on February 7, 2014. This action was dismissed for want of prosecution on May 21, 2014. Each of the Shareholder Actions alleges, among other things, that CEC's directors breached their fiduciary duties to CEC's stockholders in connection with their consideration and approval of the Merger Agreement, including by agreeing to an inadequate price, agreeing to impermissible deal protection devices, and filing materially deficient disclosures regarding the transaction. Each of the Shareholder Actions further alleges that Apollo and certain of its affiliates aided and abetted those alleged breaches. As filed, the Shareholder Actions seek, among other things, rescission of the various transactions associated with the merger, damages and attorneys' and experts' fees and costs. On February 7, 2014 and February 11, 2014, the plaintiffs in the Shareholder Actions pursued a consolidated action for damages after the transaction closed. Thereafter, the Shareholder Actions were consolidated under the caption In re CEC Entertainment, Inc. Stockholder Litigation, Case No. 14C57, and the parties have engaged in limited discovery. No defendant has any obligation to answer or otherwise respond to any of the complaints in the consolidated action until the plaintiffs file or designate an operative complaint. Although Apollo cannot predict the ultimate outcome of the above action, it believes that such action is without merit.

On June 10, 2014, Magnetar Global Event Driven Fund Ltd., Spectrum Opportunities Master Fund, Ltd., Magnetar Capital Master Fund, Ltd., and Blackwell Partners LLC, as the purported beneficial owners of shares held as of record by the nominal petitioner Cede & Co., (the "Appraisal Petitioners"), filed an action for statutory appraisal under Kansas state law against CEC in the U.S. District Court for the District of Kansas, captioned Magnetar Global Event Driven Master Fund Ltd, et al. v. CEC

Entertainment, Inc., 2:14-cv-02279-RDR-KGS. The Appraisal Petitioners seek appraisal of 750,000 shares of common stock. CEC has answered the complaint and filed a verified list of stockholders, as required under Kansas law. On September 3, 2014, the court entered a scheduling order that contemplated that discovery would commence in the fall of 2014 and would be substantially completed by May 2015. On January 13, 2015, the court entered a revised scheduling order that contemplated that fact discovery would be completed by March 13, 2015, expert discovery would be completed by June 15, 2015, and a pretrial conference would occur on June 29, 2015. Thereafter, the scheduling order contemplates dispositive motion practice and a trial on the merits of the Appraisal Petitioners' claims. Although Apollo cannot predict the ultimate outcome of the above actions, Apollo believes that such actions are without merit.

On September 29, 2014, Athlon Energy Inc. ("Athlon") and Encana Corporation ("Encana") jointly announced that they had entered into an Agreement and Plan of Merger, dated as of September 27, 2014 (the "Merger Agreement"), pursuant to which a wholly-owned subsidiary of Encana ("Merger Sub") would commence a tender offer (the "Offer") to acquire all of the issued and outstanding shares of Athlon common stock. Following completion of the Offer, Merger Sub would be merged with and into Athlon (the "Proposed Transaction"). On October 23, 2014, The City of Cambridge Retirement System filed a putative class action complaint captioned The City of Cambridge Retirement System v. Reeves, et al., C.A. No. 10277-VCG (the "Cambridge Action") in the Delaware Court of Chancery naming Merger Sub, AGM and members of Athlon's board of directors as defendants. The Cambridge Action alleges, among other things, that members of Athlon's board of directors breached their fiduciary duties in connection with their consideration and approval of the proposed transaction, and that Encana, Merger Sub and AGM aided and abetted those breaches of fiduciary duty. On November 3, 2014, the parties to the Cambridge Action and several other similar actions filed in Delaware and Texas state court before the Cambridge Action (none of which named AGM as a defendant (collectively, the "Actions")), entered into a Memorandum of Understanding to settle the Actions. On December 19, 2014, the parties to the Actions entered into a formal settlement agreement, and on December 22, 2014, the parties submitted the settlement agreement and accompanying papers to the court for its approval. Under the terms of the proposed settlement, AGM will not be required to contribute any cash and will be granted full and customary releases.

Although the ultimate outcome of these matters cannot be ascertained at this time, Apollo is of the opinion, after consultation with counsel, that the resolution of any such matters to which it is a party at this time will not have a material adverse effect on the consolidated financial statements. Legal actions material to Apollo could, however, arise in the future.

Commitments-Apollo leases office space and certain office equipment under various lease and sublease arrangements, which expire on various dates through 2024. As these leases expire, it can be expected that in the normal course of business, they will be renewed or replaced. Certain lease agreements contain renewal options, rent escalation provisions based on certain costs incurred by the landlord or other inducements provided by the landlord. Rent expense is accrued to recognize lease escalation provisions and inducements provided by the landlord, if any, on a straight-line basis over the lease term and renewal periods where applicable. Apollo has entered into various operating lease service agreements in respect of certain assets.

As of December 31, 2014, the approximate aggregate minimum future payments required for operating leases were as follows:

	2015	2016	2017	2018	2019	Thereafter	Total
Aggregate minimum future payments	$ 38,863	$ 38,225	$ 36,114	$ 31,742	$ 31,348	$ 24,214	$ 200,506

Expenses related to non-cancellable contractual obligations for premises, equipment, auto and other assets were $42.5 million, $42.0 million and $41.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Other Long-term Obligations-These obligations relate to payments with respect to certain consulting agreements entered into by Apollo Investment Consulting LLC, a subsidiary of Apollo. A significant portion of these costs are reimbursable by funds or portfolio companies. As of December 31, 2014, fixed and determinable payments due in connection with these obligations were as follows:

	2015	2016	2017	2018	2019	Thereafter	Total
Other long-term obligations	$ 10,400	$ 4,575	$ 4,470	$ 4,470	$ 2,235	$ -	$ 26,150

Contingent Obligations-Carried interest income with respect to private equity funds and certain credit and real estate funds is subject to reversal in the event of future losses to the extent of the cumulative carried interest recognized in income to date. If all of the existing investments became worthless, the amount of cumulative revenues that have been recognized by Apollo through December 31, 2014 and that would be reversed approximates $2.9 billion. Management views the possibility of all of the investments becoming worthless as remote. Carried interest income is affected by changes in the fair values of the underlying investments in the funds that Apollo manages. Valuations, on an unrealized basis, can be significantly affected by a variety of external factors including, but not limited to, bond yields and industry trading multiples. Movements in these items can affect valuations quarter to quarter even if the underlying business fundamentals remain stable.

Additionally, at the end of the life of certain funds that the Company manages, there could be a payment due to a fund by the Company if the Company, as general partner, has received more carried interest income than was ultimately earned. The general partner obligation amount, if any, will depend on final realized values of investments at the end of the life of each fund or as otherwise set forth in the respective limited partnership agreement of the fund. As of December 31, 2014, the Company has recorded a general partner obligation to return previously distributed carried interest income of $3.4 million relating to the Company's credit funds (see note 17 for further for further information).

Certain funds may not generate carried interest income as a result of unrealized and realized losses that are recognized in the current and prior reporting period. In certain cases, carried interest income will not be generated until additional unrealized and realized gains occur. Any appreciation would first cover the deductions for invested capital, unreturned organizational expenses, operating expenses, management fees and priority returns based on the terms of the respective fund agreements.

One of the Company's subsidiaries, AGS, provides underwriting commitments in connection with securities offerings to the portfolio companies of the funds Apollo manages. As of December 31, 2014, there were no underwriting commitments outstanding related to such offerings.

Contingent Consideration

In connection with the acquisition of Stone Tower in April 2012, the Company agreed to pay the former owners of Stone Tower a specified percentage of any future carried interest income earned from certain of the Stone Tower funds, CLOs, and strategic investment accounts. This contingent consideration liability had an acquisition date fair value of $117.7 million, which was determined based on the present value of estimated future carried interest payments, and is recorded in profit sharing payable in the consolidated statements of financial condition. On July 31, 2014, the Company extinguished a portion of this contingent consideration obligation and recognized a gain in the amount of $13.4 million, which was recorded in other income, net in the consolidated statements of operations for the year ended December 31, 2014. In exchange for the extinguishment, the Company granted a former owner of Stone Tower and current Apollo employee 350,000 RSUs with rights to receive, subject to a three-year vesting period, distribution equivalents. (see note 16 for further information regarding the accounting for RSUs). The fair value of the remaining contingent obligation was $84.5 million and $121.4 million as of December 31, 2014 and December 31, 2013, respectively.

In connection with the Gulf Stream acquisition, the Company agreed to make payments to the former owners of Gulf Stream under a contingent consideration obligation which required the Company to transfer cash to the former owners of Gulf Stream based on a specified percentage of carried interest income. The contingent liability had a fair value of $11.6 million and $14.1 million as of December 31, 2014 and December 31, 2013, respectively, which was recorded in profit sharing payable in the consolidated statements of financial condition.

The contingent consideration obligations will be remeasured to fair value at each reporting period until the obligations are satisfied. The changes in the fair value of the contingent consideration obligations will be reflected in profit sharing expense in the consolidated statements of operations.

The contingent consideration obligations are measured at fair value and are characterized as Level III liabilities. See note 6 for further information regarding fair value measurements.

19. MARKET AND CREDIT RISK

In the normal course of business, Apollo encounters market and credit risk concentrations. Market risk reflects changes in the value of investments due to changes in interest rates, credit spreads or other market factors. Credit risk includes the risk of default on Apollo's investments, where the counterparty is unable or unwilling to make required or expected payments.

The Company is subject to a concentration risk related to the investors in its funds. As of December 31, 2014, there were more than 1,000 investors in Apollo's active private equity, credit and real estate funds, and no individual investor accounted for more than 10% of the total committed capital to Apollo's active funds.

Apollo's derivative financial instruments contain credit risk to the extent that its counterparties may be unable to meet the terms of the agreements. Apollo seeks to minimize this risk by limiting its counterparties to highly rated major financial institutions with good credit ratings. Management does not expect any material losses as a result of default by other parties.

Substantially all amounts on deposit with major financial institutions that exceed insured limits are invested in interest-bearing accounts with U.S. money center banks.

Apollo is exposed to economic risk concentrations insofar as Apollo is dependent on the ability of the funds that it manages to compensate it for the services it provides to these funds. Further, the incentive income component of this compensation is based on the ability of such funds to generate returns above certain specified thresholds.

Additionally, Apollo is exposed to interest rate risk. Apollo has debt obligations that have variable rates. Interest rate changes may therefore affect the amount of interest payments, future earnings and cash flows. At December 31, 2014 and December 31, 2013, $535.0 million and $750.0 million of Apollo's debt balance (excluding debt of the consolidated VIEs) had a variable interest rate, respectively.

20. SEGMENT REPORTING

Apollo conducts its management and incentive businesses primarily in the United States and substantially all of its revenues are generated domestically. These businesses are conducted through the following three reportable segments:

- ***Private Equity***-primarily invests in control equity and related debt instruments, convertible securities and distressed debt investments;
- ***Credit***-primarily invests in non-control corporate and structured debt instruments; and
- ***Real Estate***-primarily invests in real estate equity for the acquisition and recapitalization of real estate assets, portfolios, platforms and operating companies, and real estate debt including first mortgage and mezzanine loans, preferred equity and commercial mortgage backed securities.

These business segments are differentiated based on the varying investment strategies. The performance is measured by management on an unconsolidated basis because management makes operating decisions and assesses the performance of each of Apollo's business segments based on financial and operating metrics and data that exclude the effects of consolidation of any of the affiliated funds.

The Company's financial results vary since carried interest, which generally constitutes a large portion of the income from the funds that Apollo manages, as well as the transaction and advisory fees that the Company receives, can vary significantly from quarter to quarter and year to year. As a result, the Company emphasizes long-term financial growth and profitability to manage its business.

The tables below present the financial data for Apollo's reportable segments further separated between the management business and incentive business as of December 31, 2014, 2013 and 2012, and for the years ended December 31, 2014, 2013 and 2012, respectively, which management believes is useful to the reader. The Company's management business has fairly stable revenues and expenses except for transaction fees, while its incentive business is more volatile and can have significant fluctuations as it is affected by changes in the fair value of investments due to market performance. The financial results of the management entities, as reflected in the "management" business section of the segment tables that follow, generally include management fee revenues, advisory and transaction fees and expenses exclusive of profit sharing expense. The financial results of the advisory entities, as reflected in the "incentive" business sections of the segment tables that follow, generally include carried interest income, investment income and profit sharing expense.

Economic Net Income (Loss)

ENI is a key performance measure used by management in evaluating the performance of Apollo's private equity, credit and real estate segments. Management believes the components of ENI, such as the amount of management fees, advisory and transaction fees and carried interest income, are indicative of the Company's performance. Management also uses ENI in making key operating decisions such as the following:

- Decisions related to the allocation of resources such as staffing decisions including hiring and locations for deployment of the new hires;
- Decisions related to capital deployment such as providing capital to facilitate growth for the business and/or to facilitate expansion into new businesses; and
- Decisions relating to expenses, such as determining annual discretionary bonuses and equity-based compensation awards to its employees. With respect to compensation, management seeks to align the interests of certain professionals and selected other individuals with those of the investors in such funds and those of the Company's shareholders by providing such individuals a profit sharing interest in the carried interest income earned in relation to the funds. To achieve that objective, a certain amount of compensation is based on the Company's performance and growth for the year.

ENI is a measure of profitability and has certain limitations in that it does not take into account certain items included under U.S. GAAP. ENI represents segment income (loss) attributable to Apollo Global Management, LLC, which excludes the impact of (i) non-cash charges related to RSUs granted in connection with the 2007 private placement and amortization of AOG Units, (ii) income tax expense, (iii) amortization of intangibles associated with the 2007 Reorganization as well as acquisitions,

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(iv) Non-Controlling Interests excluding the remaining interest held by certain individuals who receive an allocation of income from certain of our credit management companies and (v) non-cash revenue and expense related to equity awards granted by unconsolidated affiliates to employees of the Company. In addition, segment data excludes the assets, liabilities and operating results of the funds and VIEs that are included in the consolidated financial statements as such carried interest income, management fees and other revenues from these consolidated entities are reflected on an unconsolidated basis.

The following table presents financial data for Apollo's reportable segments as of and for the year ended December 31, 2014:

	As of and for the Year Ended December 31, 2014			
	Private Equity Segment	Credit Segment	Real Estate Segment	Total Reportable Segments
Revenues:				
Advisory and transaction fees from affiliates, net	$ 58,241	$ 255,186	$ 2,655	$ 316,082
Management fees from affiliates	315,069	538,742	47,213	901,024
Carried interest income from affiliates	231,983	165,589	8,949	406,521
Total Revenues	605,293	959,517	58,817	1,623,627
Expenses	403,323	517,435	67,991	988,749
Other Income	45,011	79,086	9,259	133,356
Non-Controlling Interests	-	(12,688)	-	(12,688)
Economic Net Income	$ 246,981	$ 508,480	$ 85	$ 755,546
Total Assets	$ 1,835,453	$ 2,139,441	$ 202,977	$ 4,177,871

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The following table reconciles the total segments to Apollo Global Management, LLC's consolidated financial statements as of and for the year ended December 31, 2014:

	As of and for the Year Ended December 31, 2014		
	Total Reportable Segments	Consolidation Adjustments and Other	Consolidated
Revenues	$ 1,623,627	$ (63,544) (1)	$ 1,560,083
Expenses	988,749	54,814 (2)	1,043,563
Other income	133,356	227,291 (3)	360,647
Non-Controlling Interests	(12,688)	(549,005)	(561,693)
Economic Net Income	$ 755,546 (5)	N/A	N/A
Total Assets	$ 4,177,871	$ 19,000,966 (6)	$ 23,178,837

(1) Represents advisory fees, management fees and carried interest income earned from consolidated VIEs which are eliminated in consolidation. Includes non-cash revenues related to equity awards granted by unconsolidated affiliates to employees of the Company.
(2) Represents the addition of expenses of consolidated funds and the consolidated VIEs and expenses related to RSUs granted in connection with the 2007 private placement. Includes non-cash expenses related to equity awards granted by unconsolidated affiliates to employees of the Company.
(3) Results from the following:

	For the Year Ended December 31, 2014
Net gains from investment activities	$ 204,181
Net gains from investment activities of consolidated variable interest entities	22,564
Loss from equity method investments[4]	(1,049)
Other Income, net	1,595
Total Consolidation Adjustments	$ 227,291

(4) Includes $498 reflecting the remaining interest of certain individuals who receive an allocation of income from a private equity co-investment vehicle.
(5) The reconciliation of Economic Net Income to Net Income Attributable to Apollo Global Management, LLC reported in the consolidated statements of operations consists of the following:

	For the Year Ended December 31, 2014
Economic Net Income	$ 755,546
Income tax provision	(147,245)
Net income attributable to Non-Controlling Interests in Apollo Operating Group	(404,682)
Non-cash charges related to equity-based compensation[7]	(502)
Amortization of intangible assets	(34,888)
Net Income Attributable to Apollo Global Management, LLC	$ 168,229

(6) Represents the addition of assets of consolidated funds and the consolidated VIEs.
(7) Includes the impact of non-cash charges related to amortization of RSUs granted in connection with the 2007 private placement as discussed in note 16 to our consolidated financial statements. Additionally, includes non-cash revenues related to equity awards granted by unconsolidated affiliates to employees of the Company.

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The following tables present additional financial data for Apollo's reportable segments for the year ended December 31, 2014:

	For the Year Ended December 31, 2014					
	Private Equity			Credit		
	Management	Incentive	Total	Management	Incentive	Total
Revenues:						
Advisory and transaction fees from affiliates, net	$ 58,241	$ -	$ 58,241	$ 255,186	$ -	$ 255,186
Management fees from affiliates	315,069	-	315,069	538,742	-	538,742
Carried interest income (loss) from affiliates:						
Unrealized losses[1]	-	(1,196,093)	(1,196,093)	-	(156,644)	(156,644)
Realized gains	-	1,428,076	1,428,076	41,199	281,034	322,233
Total Revenues	373,310	231,983	605,293	835,127	124,390	959,517
Compensation and benefits[2]	146,215	178,373	324,588	259,283	95,070	354,353
Other expenses[3]	78,735	-	78,735	163,082	-	163,082
Total Expenses	224,950	178,373	403,323	422,365	95,070	517,435
Other Income	12,976	32,035	45,011	28,538	50,548	79,086
Non-Controlling Interests	-	-	-	(12,688)	-	(12,688)
Economic Net Income	$ 161,336	$ 85,645	$ 246,981	$ 428,612	$ 79,868	$ 508,480

(1) Included in unrealized carried interest income (loss) from affiliates for the year ended December 31, 2014 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income of $3.4 million in aggregate with respect to two of our credit funds. The actual determination and any required payment of any such general partner obligation would not take place until the final disposition of a fund's investments based on the contractual termination of the fund or as otherwise set forth in the respective limited partnership agreement of the fund.

(2) Compensation and benefits includes equity-based compensation expense related to the management business for RSUs (excluding RSUs granted in connection with the 2007 private placement) and share options.

(3) Other expenses exclude amortization of intangibles associated with the 2007 Reorganization as well as acquisitions.

	For the Year Ended December 31, 2014		
	Real Estate		
	Management	Incentive	Total
Revenues:			
Advisory and transaction fees from affiliates, net	$ 2,655	$ -	$ 2,655
Management fees from affiliates	47,213	-	47,213
Carried interest income from affiliates:			
Unrealized gains	-	4,951	4,951
Realized gains	-	3,998	3,998
Total Revenues	49,868	8,949	58,817
Compensation and benefits[1]	41,460	2,747	44,207
Other expenses[2]	23,784	-	23,784
Total Expenses	65,244	2,747	67,991
Other Income	3,584	5,675	9,259
Economic Net Income (Loss)	$ (11,792)	$ 11,877	$ 85

(1) Compensation and benefits includes equity-based compensation expense related to the management business for RSUs (excluding RSUs granted in connection with the 2007 private placement) and share options.

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(2) Other expenses exclude amortization of intangibles associated with the 2007 Reorganization as well as acquisitions.

The following table presents the financial data for Apollo's reportable segments as of and for the year ended December 31, 2013:

	As of and for the Year Ended December 31, 2013			
	Private Equity Segment	Credit Segment	Real Estate Segment	Total Reportable Segments
Revenues:				
Advisory and transaction fees from affiliates, net	$ 78,371	$ 114,643	$ 3,548	$ 196,562
Management fees from affiliates	284,833	392,433	53,436	730,702
Carried interest income from affiliates	2,517,247	373,692	5,222	2,896,161
Total Revenues	2,880,451	880,768	62,206	3,823,425
Expenses	1,284,657	482,015	69,886	1,836,558
Other Income	93,512	55,133	6,124	154,769
Non-Controlling Interests	-	(13,985)	-	(13,985)
Economic Net Income (Loss)	$ 1,689,306	$ 439,901	$ (1,556)	$ 2,127,651
Total Assets	$ 3,148,975	$ 1,918,565	$ 145,996	$ 5,213,536

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The following table reconciles the total reportable segments to Apollo Global Management, LLC's financial statements as of and for the year ended December 31, 2013:

	As of and for the Year Ended December 31, 2013		
	Total Reportable Segments	Consolidation Adjustments and Other	Consolidated
Revenues	$ 3,823,425	$ (89,854) (1)	$ 3,733,571
Expenses	1,836,558	105,157 (2)	1,941,715
Other income	154,769	534,938 (3)	689,707
Non-Controlling Interests	(13,985)	(1,700,618)	(1,714,603)
Economic Net Income	$ 2,127,651 (5)	N/A	N/A
Total Assets	$ 5,213,536	$ 17,264,445 (6)	$ 22,477,981

(1) Represents advisory fees, management fees and carried interest income earned from consolidated VIEs which are eliminated in consolidation. Includes non-cash revenues related to equity awards granted by unconsolidated affiliates to employees of the Company.
(2) Represents the addition of expenses of consolidated funds and the consolidated VIEs and expenses related to RSUs granted in connection with the 2007 private placement and equity-based compensation expense comprising amortization of AOG Units and amortization of intangible assets. Includes non-cash expenses related to equity awards granted by unconsolidated affiliates to employees of the Company.
(3) Results from the following:

	For the Year Ended December 31, 2013
Net gains from investment activities	$ 342,828
Net gains from investment activities of consolidated variable interest entities	199,742
Gain from equity method investments[4]	(5,860)
Interest income	(1,772)
Total Consolidation Adjustments	$ 534,938

(4) Includes $(4,888) reflecting the remaining interest of certain individuals who receive an allocation of income from a private equity co-investment vehicle.
(5) The reconciliation of Economic Net Income to Net Income Attributable to Apollo Global Management, LLC reported in the consolidated statements of operations consists of the following:

	For the Year Ended December 31, 2013
Economic Net Income	$ 2,127,651
Income tax provision	(107,569)
Net income attributable to Non-Controlling Interests in Apollo Operating Group	(1,257,650)
Non-cash charges related to equity-based compensation[7]	(59,847)
Amortization of intangible assets	(43,194)
Net Income Attributable to Apollo Global Management, LLC	$ 659,391

(6) Represents the addition of assets of consolidated funds and the consolidated VIEs.
(7) Includes the impact of non-cash charges related to amortization of AOG Units and RSUs granted in connection with the 2007 private placement as discussed in note 16 to our consolidated financial statements. Additionally, includes non-cash revenues related to equity awards granted by unconsolidated affiliates to employees of the Company.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

The following tables present additional financial data for Apollo's reportable segments for the year ended December 31, 2013:

	For the Year Ended December 31, 2013					
	Private Equity			Credit		
	Management	Incentive	Total	Management	Incentive	Total
Revenues:						
Advisory and transaction fees from affiliates, net	$ 78,371	$ -	$ 78,371	$ 114,643	$ -	$ 114,643
Management fees from affiliates	284,833	-	284,833	392,433	-	392,433
Carried interest income from affiliates:						
Unrealized gains (losses)(1)	-	454,722	454,722	-	(56,568)	(56,568)
Realized gains	-	2,062,525	2,062,525	36,922	393,338	430,260
Total Revenues	363,204	2,517,247	2,880,451	543,998	336,770	880,768
Compensation and benefits(2)	141,728	1,030,404	1,172,132	177,223	142,728	319,951
Other expenses(3)	112,525	-	112,525	162,064	-	162,064
Total Expenses	254,253	1,030,404	1,284,657	339,287	142,728	482,015
Other Income	13,006	80,506	93,512	28,540	26,593	55,133
Non-Controlling Interests	-	-	-	(13,985)	-	(13,985)
Economic Net Income	$ 121,957	$ 1,567,349	$ 1,689,306	$ 219,266	$ 220,635	$ 439,901

(1) Included in unrealized carried interest income from affiliates for the year ended December 31, 2013 was reversal of $19.3 million and $0.3 million of the entire general partner obligation to return previously distributed carried interest income with respect to SOMA and APC, respectively. The general partner obligation is recognized based upon a hypothetical liquidation of the fund's net assets as of the reporting date. The actual determination and any required payment of a general partner obligation would not take place until the final disposition of a fund's investments based on the contractual termination of the fund.

(2) Compensation and benefits includes equity-based compensation expense related to the management business for RSUs (excluding RSUs granted in connection with the 2007 private placement) and share options.

(3) Other expenses excludes amortization of intangibles associated with the 2007 Reorganization as well as acquisitions.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

	For the Year Ended December 31, 2013		
	Real Estate		
	Management	Incentive	Total
Revenues:			
Advisory and transaction fees from affiliates, net	$ 3,548	$ -	$ 3,548
Management fees from affiliates	53,436	-	53,436
Carried interest income from affiliates:			
Unrealized gains	-	4,681	4,681
Realized gains	-	541	541
Total Revenues	56,984	5,222	62,206
Compensation and benefits(1)	42,143	123	42,266
Other expenses(2)	27,620	-	27,620
Total Expenses	69,763	123	69,886
Other Income	2,402	3,722	6,124
Economic Net (Loss) Income	$ (10,377)	$ 8,821	$ (1,556)

(1) Compensation and benefits includes equity-based compensation expense related to the management business for RSUs (excluding RSUs granted in connection with the 2007 private placement) and share options.
(2) Other expenses exclude amortization of intangibles associated with the 2007 Reorganization as well as acquisitions.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
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(dollars in thousands, except share data, except where noted)

The following table presents financial data for Apollo's reportable segments as of and for the year ended December 31, 2012:

	As of and for the Year Ended December 31, 2012			
	Private Equity Segment	Credit Segment	Real Estate Segment	Total Reportable Segments
Revenues:				
Advisory and transaction fees from affiliates, net	$ 121,744	$ 27,551	$ 749	$ 150,044
Management fees from affiliates	277,048	299,667	46,326	623,041
Carried interest income from affiliates	1,667,535	518,852	15,074	2,201,461
Total Revenues	2,066,327	846,070	62,149	2,974,546
Expenses	945,466	454,378	72,437	1,472,281
Other Income	78,691	59,966	2,253	140,910
Non-Controlling Interests	-	(8,730)	-	(8,730)
Economic Net Income (Loss)	$ 1,199,552	$ 442,928	$ (8,035)	$ 1,634,445
Total Assets	$ 2,583,373	$ 1,798,086	$ 76,851	$ 4,458,310

The following table reconciles the total segments to Apollo Global Management, LLC's consolidated financial statements as of and for the year ended December 31, 2012:

	As of and for the Year Ended December 31, 2012		
	Total Reportable Segments	Consolidation Adjustments and Other	Consolidated
Revenues	$ 2,974,546	$ (114,581) (1)	$ 2,859,965
Expenses	1,472,281	575,564 (2)	2,047,845
Other income	140,910	2,160,175 (3)	2,301,085
Non-Controlling Interests	(8,730)	(2,728,108)	(2,736,838)
Economic Net Income	$ 1,634,445 (5)	N/A	N/A
Total Assets	$ 4,458,310	$ 16,178,548 (6)	$ 20,636,858

(1) Represents advisory fees, management fees and carried interest income earned from consolidated VIEs which are eliminated in consolidation. Includes non-cash revenues related to equity awards granted by unconsolidated affiliates to employees of the Company.
(2) Represents the addition of expenses of consolidated funds and the consolidated VIEs and expenses related to RSUs granted in connection with the 2007 private placement. Includes non-cash expenses related to equity awards granted by unconsolidated affiliates to employees of the Company.
(3) Results from the following:

	For the Year Ended December 31, 2012
Net gains from investment activities	$ 289,386
Net losses from investment activities of consolidated variable interest entities	(71,704)
Loss from equity method investments[4]	(10,947)
Other Income, net	1,543
Gain on acquisition	$ 1,951,897
Total Consolidation Adjustments	$ 2,160,175

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
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(dollars in thousands, except share data, except where noted)

(4) Includes $1,423 reflecting the remaining interest of certain individuals who receive an allocation of income from a private equity co-investment vehicle.

(5) The reconciliation of Economic Net Income to Net Income Attributable to Apollo Global Management, LLC reported in the consolidated statements of operations consists of the following:

	For the Year Ended December 31, 2012
Economic Net Income	$ 1,634,445
Income tax provision	(65,410)
Net income attributable to Non-Controlling Interests in Apollo Operating Group	(685,357)
Non-cash charges related to equity-based compensation(7)	(529,712)
Amortization of intangible assets	(43,009)
Net Income Attributable to Apollo Global Management, LLC	$ 310,957

(6) Represents the addition of assets of consolidated funds and the consolidated VIEs.

(7) Includes the impact of non-cash charges related to amortization of RSUs granted in connection with the 2007 private placement as discussed in note 16 to our consolidated financial statements. Additionally, includes non-cash revenues related to equity awards granted by unconsolidated affiliates to employees of the Company.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

The following tables present additional financial data for Apollo's reportable segments for the year ended December 31, 2012:

	For the Year Ended December 31, 2012					
	Private Equity			Credit		
	Management	Incentive	Total	Management	Incentive	Total
Revenues:						
Advisory and transaction fees from affiliates, net	$ 121,744	$ -	$ 121,744	$ 27,551	$ -	$ 27,551
Management fees from affiliates	277,048	-	277,048	299,667	-	299,667
Carried interest income from affiliates:						
Unrealized losses[(1)]	-	854,919	854,919	-	301,077	301,077
Realized gains	-	812,616	812,616	37,842	179,933	217,775
Total Revenues	398,792	1,667,535	2,066,327	365,060	481,010	846,070
Compensation and benefits[(2)]	135,281	726,874	862,155	166,883	138,444	305,327
Other expenses[(3)]	83,311	-	83,311	149,051	-	149,051
Total Expenses	218,592	726,874	945,466	315,934	138,444	454,378
Other Income	4,653	74,038	78,691	15,008	44,958	59,966
Non-Controlling Interests	-	-	-	(8,730)	-	(8,730)
Economic Net Income	$ 184,853	$ 1,014,699	$ 1,199,552	$ 55,404	$ 387,524	$ 442,928

(1) Included in unrealized carried interest income from affiliates for December 31, 2012 was a reversal of $75.3 million of the entire general partner obligation to return previously distributed carried interest income with respect to Fund VI and reversal of previously recognized realized carried interest income due to the general partner obligation to return previously distributed carried interest income of $1.2 million and $0.3 million with respect to SOMA and APC, respectively. The general partner obligation is recognized based upon a hypothetical liquidation of the funds' net assets as of December 31, 2012. The actual determination and any required payment of a general partner obligation would not take place until the final disposition of a fund's investments based on the contractual termination of the fund.

(2) Compensation and benefits includes equity-based compensation expense related to the management business for RSUs (excluding RSUs granted in connection with the 2007 private placement) and share options.

(3) Other expenses exclude amortization of intangibles associated with the 2007 Reorganization as well as acquisitions.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

	For the Year Ended December 31, 2012		
	Real Estate		
	Management	Incentive	Total
Revenues:			
Advisory and transaction fees from affiliates, net	$ 749	$ -	$ 749
Management fees from affiliates	46,326	-	46,326
Carried interest income from affiliates:			
Unrealized losses	-	10,401	10,401
Realized gains	-	4,673	4,673
Total Revenues	47,075	15,074	62,149
Compensation and benefits(1)	41,352	6,815	48,167
Other expenses(2)	24,270	-	24,270
Total Expenses	65,622	6,815	72,437
Other Income	1,271	982	2,253
Economic Net (Loss) Income	$ (17,276)	$ 9,241	$ (8,035)

(1) Compensation and benefits includes equity-based compensation expense related to the management business for RSUs (excluding RSUs granted in connection with the 2007 private placement) and share options.
(2) Other expenses exclude amortization of intangibles associated with the 2007 Reorganization as well as acquisitions.

21. SUBSEQUENT EVENTS

On January 13, 2015, the Company issued 681,421 Class A shares in settlement of vested RSUs. This issuance caused the Company's ownership interest in the Apollo Operating Group to increase from 42.3% to 42.4%.

On February 5, 2015, the Company declared a cash distribution of $0.86 per Class A share, which will be paid on February 27, 2015 to holders of record on February 17, 2015.

On February 6, 2015, the Company issued 225,000 Class A shares in exchange for AOG Units. This issuance did not cause a material change to the Company's ownership interest in the Apollo Operating Group.

On February 10, 2015, the Company issued 3,946,444 Class A shares in settlement of vested RSUs. This issuance caused the Company's ownership interest in the Apollo Operating Group to increase from 42.4% to 43.0%.

Apollo, through its subsidiary Apollo MidCap Holdings (Cayman), L.P., has entered into a subscription agreement providing for an aggregate commitment of $50.0 million to subscribe for (i) Class A Variable Funding Subordinated Notes due 2114 (“Class A Notes”) of Midcap Finco Limited (“FinCo”), an Irish company that includes the existing operations and assets of MidCap Financial LLC, a specialty finance company that originates commercial lending opportunities, and (ii) ordinary shares of Finco’s holding company (“Ordinary Shares”). The subscription agreement has a commitment period of three years (subject to extension under certain circumstances), and $8.0 million of the commitment was drawn on February 3, 2015. Pursuant to an investment management agreement, Apollo, through its subsidiary Apollo Capital Management, L.P., is acting as the investment manager of FinCo’s credit business. Certain third parties have also entered into subscription agreements for Class A Notes and Ordinary Shares.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

22. QUARTERLY FINANCIAL DATA (UNAUDITED)

	For the Three Months Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Revenues	$ 491,400	$ 572,152	$ 221,135	$ 275,396
Expenses	314,119	354,369	177,388	197,687
Other Income (Loss)	314,912	69,556	(82,135)	58,314
Income (Loss) Before Provision for Taxes	$ 492,193	$ 287,339	$ (38,388)	$ 136,023
Net Income (Loss)	$ 459,644	$ 252,302	$ (67,764)	$ 85,740
Net income attributable to Apollo Global Management, LLC	$ 72,169	$ 71,668	$ 2,210	$ 22,182
Net Income per Class A Share - Basic	$ 0.32	$ 0.33	$ (0.05)	$ 0.04
Net Income per Class A Share - Diluted	$ 0.32	$ 0.33	$ (0.05)	$ 0.04

	For the Three Months Ended			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Revenues	$ 1,309,073	$ 497,261	$ 1,132,089	$ 795,148
Expenses	622,602	322,787	600,115	396,211
Other Income (Loss)	132,173	(8,165)	210,820	354,879
Income Before Provision for Taxes	$ 818,644	$ 166,309	$ 742,794	$ 753,816
Net Income	$ 800,065	$ 148,170	$ 695,590	$ 730,169
Net income attributable to Apollo Global Management, LLC	$ 248,978	$ 58,737	$ 192,516	$ 159,160
Net Income per Class A Share - Basic	$ 1.60	$ 0.32	$ 1.13	$ 0.94
Net Income per Class A Share - Diluted	$ 1.59	$ 0.32	$ 1.13	$ 0.93

	For the Three Months Ended			
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
Revenues	$ 776,743	$ 211,628	$ 712,373	$ 1,159,221
Expenses	523,230	316,962	520,008	687,645
Other Income	192,188	1,950,461	27,348	131,088
Income Before Provision for Taxes	$ 445,701	$ 1,845,127	$ 219,713	$ 602,664
Net Income	$ 431,141	$ 1,834,477	$ 197,796	$ 584,381
Net income (Loss) attributable to Apollo Global Management, LLC	$ 98,043	$ (41,386)	$ 82,791	$ 171,509
Net Income (Loss) per Class A Share-Basic	$ 0.66	$ (0.38)	$ 0.55	$ 1.12
Net Income (Loss) per Class A Share - Diluted	$ 0.66	$ (0.38)	$ 0.55	$ 1.12

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ITEM 8A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATING STATEMENTS OF FINANCIAL CONDITION (Unaudited)
(dollars in thousands, except share data)

	December 31, 2014			
	Apollo Global Management, LLC and Consolidated Subsidiaries	Consolidated Funds and VIE's	Eliminations	Consolidated
Assets:				
Cash and cash equivalents	$ 1,204,052	$ -	$ -	$ 1,204,052
Cash and cash equivalents held at consolidated funds	-	1,611	-	1,611
Restricted cash	6,353	-	-	6,353
Investments	857,391	2,173,989	(151,374)	2,880,006
Assets of consolidated variable interest entities				
Cash and cash equivalents	-	1,088,952	-	1,088,952
Investments, at fair value	-	15,658,948	(295)	15,658,653
Other assets	-	323,932	(692)	323,240
Carried interest receivable	958,846	-	(47,180)	911,666
Due from affiliates	278,632	-	(10,617)	268,015
Fixed assets, net	35,906	-	-	35,906
Deferred tax assets	606,717	-	-	606,717
Other assets	81,083	3,578	(277)	84,384
Goodwill	88,852	-	(39,609)	49,243
Intangible assets, net	60,039	-	-	60,039
Total Assets	**$ 4,177,871**	**$ 19,251,010**	**$ (250,044)**	**$ 23,178,837**
Liabilities and Shareholders' Equity				
Liabilities:				
Accounts payable and accrued expenses	43,772	474	-	44,246
Accrued compensation and benefits	59,278	-	-	59,278
Deferred revenue	199,614	-	-	199,614
Due to affiliates	564,799	354	-	565,153
Profit sharing payable	434,852	-	-	434,852
Debt	1,034,014	-	-	1,034,014
Liabilities of consolidated variable interest entities:				
Debt, at fair value	-	14,170,474	(47,374)	14,123,100
Other liabilities	-	728,957	(239)	728,718
Due to affiliates	-	58,526	(58,526)	-
Other liabilities	42,183	4,218	-	46,401
Total Liabilities	**$ 2,378,512**	**$ 14,963,003**	**$ (106,139)**	**$ 17,235,376**
Shareholders' Equity:				
Apollo Global Management, LLC shareholders' equity:				
Additional paid in capital	2,256,054	-	(1,771)	2,254,283
Accumulated deficit	(1,433,759)	2,175,406	(2,142,308)	(1,400,661)
Appropriated partners' capital	-	972,774	(39,608)	933,166
Accumulated other comprehensive income (loss)	33,052	-	(33,358)	(306)
Total Apollo Global Management, LLC shareholders' equity	855,347	3,148,180	(2,217,045)	1,786,482
Non-Controlling Interests in consolidated entities	9,228	1,139,827	2,073,140	3,222,195
Non-Controlling Interests in Apollo Operating Group	934,784	-	-	934,784
Total Shareholders' Equity	**1,799,359**	**4,288,007**	**(143,905)**	**5,943,461**
Total Liabilities and Shareholders' Equity	**$ 4,177,871**	**$ 19,251,010**	**$ (250,044)**	**$ 23,178,837**

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APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATING STATEMENTS OF FINANCIAL CONDITION (Unaudited)
(dollars in thousands, except share data)

	December 31, 2013			
	Apollo Global Management, LLC and Consolidated Subsidiaries	Consolidated Funds and VIE's	Eliminations	Consolidated
Assets:				
Cash and cash equivalents	$ 1,078,120	$ -	$ -	$ 1,078,120
Cash and cash equivalents held at consolidated funds	-	1,417	-	1,417
Restricted cash	9,199	-	-	9,199
Investments	509,712	1,971,654	(87,483)	2,393,883
Assets of consolidated variable interest entities				
Cash and cash equivalents	-	1,095,170	-	1,095,170
Investments, at fair value	-	14,127,480	(1,118)	14,126,362
Other assets	-	280,718	-	280,718
Carried interest receivable	2,366,766	-	(79,691)	2,287,075
Due from affiliates	323,177	-	(5,930)	317,247
Fixed assets, net	40,251	-	-	40,251
Deferred tax assets	660,199	-	-	660,199
Other assets	42,333	1,837	-	44,170
Goodwill	88,852	-	(39,609)	49,243
Intangible assets, net	94,927	-	-	94,927
Total Assets	**$ 5,213,536**	**$ 17,478,276**	**$ (213,831)**	**$ 22,477,981**
Liabilities and Shareholders' Equity				
Liabilities:				
Accounts payable and accrued expenses	37,880	279	-	38,159
Accrued compensation and benefits	41,711	-	-	41,711
Deferred revenue	279,479	-	-	279,479
Due to affiliates	594,518	853	-	595,371
Profit sharing payable	992,240	-	-	992,240
Debt	750,000	-	-	750,000
Liabilities of consolidated variable interest entities:				
Debt, at fair value	-	12,424,839	(877)	12,423,962
Other liabilities	-	609,413	(4,350)	605,063
Due to affiliates	-	81,272	(81,272)	-
Other liabilities	60,647	2,627	-	63,274
Total Liabilities	**$ 2,756,475**	**$ 13,119,283**	**$ (86,499)**	**$ 15,789,259**
Shareholders' Equity:				
Apollo Global Management, LLC shareholders' equity:				
Additional paid in capital	2,624,113	-	469	2,624,582
Accumulated deficit	(1,587,536)	1,971,682	(1,952,633)	(1,568,487)
Appropriated partners' capital	-	1,620,928	(39,849)	1,581,079
Accumulated other comprehensive income (loss)	33,774	-	(33,679)	95
Total Apollo Global Management, LLC shareholders' equity	1,070,351	3,592,610	(2,025,692)	2,637,269
Non-Controlling Interests in consolidated entities	4,987	766,383	1,898,360	2,669,730
Non-Controlling Interests in Apollo Operating Group	1,381,723	-	-	1,381,723
Total Shareholders' Equity	**2,457,061**	**4,358,993**	**(127,332)**	**6,688,722**
Total Liabilities and Shareholders' Equity	**$ 5,213,536**	**$ 17,478,276**	**$ (213,831)**	**$ 22,477,981**

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain “disclosure controls and procedures”, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework* (2013 framework). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its report which is included in Item 8 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The following table presents certain information concerning our board of directors and executive officers:

Name	Age	Position(s)
Leon Black	63	Chairman, Chief Executive Officer and Director
Joshua Harris	50	Senior Managing Director and Director
Marc Rowan	52	Senior Managing Director and Director
Martin Kelly	47	Chief Financial Officer
John Suydam	55	Chief Legal Officer and Chief Compliance Officer
James Zelter	52	Managing Director-Credit
Christopher Weidler	39	Chief Accounting Officer and Controller
Michael Ducey	66	Director
Paul Fribourg	61	Director
Robert Kraft	73	Director
A.B. Krongard	78	Director
Pauline Richards	66	Director

Leon Black. Mr. Black is the Chairman of the board of directors and Chief Executive Officer of Apollo and a Managing Partner of Apollo Management, L.P. In 1990, Mr. Black founded Apollo Management, L.P. and Lion Advisors, L.P. to manage investment capital on behalf of a group of institutional investors, focusing on corporate restructuring, leveraged buyouts and taking minority positions in growth-oriented companies. From 1977 to 1990, Mr. Black worked at Drexel Burnham Lambert Incorporated, where he served as a Managing Director, head of the Mergers & Acquisitions Group, and co-head of the Corporate Finance Department. Mr. Black also serves on the board of directors of the general partner of AAA and previously served on the board of directors of Sirius XM Radio Inc. Mr. Black is a trustee of The Museum of Modern Art, The Mount Sinai Medical Center, The Metropolitan Museum of Art, and The Asia Society. He is also a member of The Council on Foreign Relations and The Partnership for New York City. He is also a member of the boards of directors of FasterCures and the Port Authority Task Force. Mr. Black graduated summa cum laude from Dartmouth College in 1973 with a major in Philosophy and History and received an MBA from Harvard Business School in 1975. Mr. Black has significant experience making and managing private equity investments on behalf of Apollo and has over 35 years' experience financing, analyzing and investing in public and private companies. In his prior positions with Drexel and in his positions at Apollo, Mr. Black is responsible for leading and overseeing teams of professionals. His extensive experience allows Mr. Black to provide insight into various aspects of Apollo's business and is of significant value to the board of directors.

Joshua Harris. Mr. Harris is a Senior Managing Director and a member of the board of directors of Apollo and a Managing Partner of Apollo Management, L.P., which he co-founded in 1990. Prior to 1990, Mr. Harris was a member of the Mergers and Acquisitions group of Drexel Burnham Lambert Incorporated. Mr. Harris has previously served on the board of directors of Berry Plastics Group Inc., EP Energy Corporation, EPE Acquisition, LLC, CEVA Logistics, Momentive Performance Materials Holdings LLC, Constellium N.V., LyondellBasell Industries B.V., Momentive Specialty Chemicals Inc. and Momentive Specialty Chemicals Holdings LLC. Mr. Harris is a member of the Federal Reserve Bank of New York's Investor Advisory Committee, the Council of Foreign Relations, and is on the Board of Trustees of Mount Sinai Medical Center. He participates on the University of Pennsylvania's Wharton School's Board of Overseers, the Board of Dean's Advisors at the Harvard Business School and certain other charitable and educational boards. Mr. Harris is the Managing Partner of the Philadelphia 76ers and the Managing Member of the New Jersey Devils. Mr. Harris graduated summa cum laude and Beta Gamma Sigma from the University of Pennsylvania's Wharton School of Business with a B.S. in Economics and received his M.B.A. from the Harvard Business School, where he graduated as a Baker and Loeb Scholar. Mr. Harris has significant experience in making and managing private equity investments on behalf of Apollo and has over 25 years' experience in financing, analyzing and investing in public and private companies. Mr. Harris's extensive knowledge of Apollo's business and experience in a variety of senior leadership roles enhance the breadth of experience of the board of directors.

Marc Rowan. Mr. Rowan is a Senior Managing Director and member of the board of directors of Apollo and a Managing Partner of Apollo Management, L.P., which he co-founded in 1990. Prior to 1990, Mr. Rowan was a member of the Mergers & Acquisitions Group of Drexel Burnham Lambert Incorporated, with responsibilities in high yield financing, transaction idea generation and merger structure negotiation. Mr. Rowan currently serves on the boards of directors of Athene Holding Ltd, Caesars Entertainment Corporation, Caesars Acquisition Co. and Caesars Entertainment Operating Co. He has previously served on the boards of directors of the general partner of AAA, AMC Entertainment, Inc., Cablecom GmbH, Culligan Water Technologies, Inc., Countrywide Holdings Limited, Furniture Brands International Inc., Mobile Satellite Ventures, LLC, National Cinemedia, Inc., National Financial Partners, Inc., New World Communications, Inc., Norwegian Cruise Lines, Quality Distribution, Inc., Samsonite Corporation, SkyTerra Communications Inc., Unity Media SCA, Vail Resorts, Inc. and Wyndham International, Inc. Mr. Rowan is also active in charitable activities. He is a founding member and Chairman of the Youth Renewal Fund and is a member of the Board of Overseers of the University of Pennsylvania's Wharton School of Business and serves on the boards of directors of Jerusalem Online and the New York City Police Foundation. Mr. Rowan graduated summa cum laude from the University of Pennsylvania's Wharton School of Business with a B.S. and an M.B.A. in Finance. Mr. Rowan has significant experience making and managing private equity investments on behalf of Apollo and has over 26 years' experience financing, analyzing and investing in public and private companies. Mr. Rowan's extensive financial background and expertise in private equity investments enhance the breadth of experience of the board of directors.

Martin Kelly. Mr. Kelly joined Apollo in 2012 as Chief Financial Officer. Mr. Kelly also oversees the Firm's IT, Risk, Operations and Audit groups. From 2008 to 2012, Mr. Kelly was with Barclays Capital and, from 2000 to 2008, Mr. Kelly was with Lehman Brothers Holdings Inc. Prior to departing Barclays Capital, Mr. Kelly served as Managing Director, CFO of the Americas, and Global Head of Financial Control for their Corporate and Investment Bank. Prior to joining Lehman Brothers in 2000, Mr. Kelly spent 13 years with PricewaterhouseCoopers LLP, including serving in the Financial Services Group in New York from 1994 to 2000. Mr. Kelly was appointed a Partner of the firm in 1999. Mr. Kelly received a degree in Commerce, majoring in Finance and Accounting, from the University of New South Wales in 1989.

John Suydam. Mr. Suydam joined Apollo in 2006 and serves as Apollo's Chief Legal Officer. From 2002 to 2006, Mr. Suydam was a partner at O'Melveny & Myers LLP where he served as head of Mergers and Acquisitions and co-head of the Corporate Department. Prior to that time, Mr. Suydam served as Chairman of the law firm O'Sullivan, LLP which specialized in representing private equity investors. Mr. Suydam serves on the boards of The Legal Action Center, Environmental Solutions Worldwide, Inc. and New York University School of Law, and is a member of the Department of Medicine Advisory Board of the Mount Sinai Medical Center. Mr. Suydam received his J.D. from New York University and graduated magna cum laude with a B.A. in History from the State University of New York at Albany.

James Zelter. Mr. Zelter joined Apollo in 2006. Mr. Zelter is the Managing Director of Apollo's credit business, Chief Executive Officer and director of AINV. Prior to joining Apollo, Mr. Zelter was with Citigroup Inc. and its predecessor companies from 1994 to 2006. From 2003 to 2005, Mr. Zelter was Chief Investment Officer of Citigroup Alternative Investments, and prior to that he was responsible for the firm's Global High Yield franchise. Prior to joining Citigroup in 1994, Mr. Zelter was a High Yield Trader at Goldman, Sachs & Co. Mr. Zelter has significant experience in global credit markets and has overseen the broad expansion of Apollo's credit platform. Mr. Zelter is a board member of DUMAC, the investment management company that oversees the Duke Endowment and Duke Foundation, and is on the board of the Dalton School. Mr. Zelter has a B.A. in Economics from Duke University.

Christopher Weidler. Mr. Weidler joined Apollo in 2013. Prior to joining Apollo, Mr. Weidler was with Barclays, where he most recently served as a Managing Director and the Financial Controller of the Americas. Since February 2005, Mr. Weidler served in a variety of leadership roles at Barclays that included Global Head of U.S. GAAP Technical Accounting and Global Head of Financial Reporting and Legal Entity Control for the Investment Bank. Prior to joining Barclays, Mr. Weidler spent eight years with PricewaterhouseCoopers LLP in the firm's New York Audit and Assurance practice and in London in the firm's Global Capital Markets Group. Mr. Weidler received a B.S. in Accounting from Villanova University in 1997.

Michael Ducey. Mr. Ducey has served as an independent director of Apollo and a member of the audit committee and as Chairman of the conflicts committee of our board of directors since 2011. Most recently, Mr. Ducey was with Compass Minerals International, Inc., from March 2002 to May 2006, where he served in a variety of roles, including as President, Chief Executive Officer and Director prior to his retirement in May 2006. Prior to joining Compass Minerals International, Inc., Mr. Ducey worked for nearly 30 years at Borden Chemical, Inc., in various management, sales, marketing, planning and commercial development positions, and ultimately as President, Chief Executive Officer and Director. Mr. Ducey is currently a director of and serves as the Chairman of the audit committee of Verso Paper Holdings, Inc. He is also the Chairman of the compliance and governance committee and the nominations committee of the board of directors of HaloSource, Inc. From September 2009 to December 2012, Mr. Ducey was the non-executive Chairman of TPC Group, Inc. and served on the audit committee and the environmental health and safety committee. From June 2006 to May 2008, Mr. Ducey served on the board of directors of and as a member of the governance and compensation committee of the board of directors of UAP Holdings Corporation. Also, from July 2010 to May

2011, Mr. Ducey was a member of the board of directors and served on the audit committee of Smurfit-Stone Container Corporation. Mr. Ducey graduated from Otterbein University with a degree in Economics and an M.B.A. in finance from the University of Dayton. Mr. Ducey's comprehensive corporate background and his experience serving on various boards and committees add significant value to the board of directors.

Paul Fribourg. Mr. Fribourg has served as an independent director of Apollo and as a member of the conflicts committee of our board of directors since 2011. From 1997 to the present, Mr. Fribourg has served as Chairman and Chief Executive Officer of Continental Grain Company. Prior to 1997, Mr. Fribourg served in a variety of other roles at Continental Grain Company, including Merchandiser, Product Line Manager, Group President and Chief Operating Officer. Mr. Fribourg serves on the boards of directors of Restaurant Brands International Inc., Loews Corporation, Castleton Commodities International LLC and The Estee Lauder Companies, Inc. He also serves as a board member of the Rabobank International North American Agribusiness Advisory Board, the New York University Mitchell Jacobson Leadership Program in Law and Business Advisory Board and Endeavor Global Inc. Mr. Fribourg is also a member of the Council on Foreign Relations, the Brown University Advisory Council on China and the International Business Leaders Advisory Council for The Mayor of Shanghai. Mr. Fribourg graduated magna cum laude from Amherst College and completed the Advanced Management Program at Harvard Business School. Mr. Fribourg's extensive corporate experience enhances the breadth of experience and independence of the board of directors.

Robert Kraft. Mr. Kraft has served as an independent director of Apollo and as a member of the conflicts committee of our board of directors since 2014. Mr. Kraft is Chairman and Chief Executive Officer of The Kraft Group, which includes the New England Patriots, New England Revolution, Gillette Stadium, Rand-Whitney Group and International Forest Products Corporation. Mr. Kraft serves on a number of NFL Committees, including the Executive Committee, Finance Committee and Broadcast Committee (Chairman). Since 2006, Mr. Kraft has been a member of the board of directors of Viacom Inc. He also serves as Chairman for both the New England Patriots Charitable Foundation and the Robert and Myra Kraft Family Foundation, and is a director of the Dana Farber Cancer Institute. Mr. Kraft's corporate strategic and operational experience combined with his strong relationships in the business community make him a valuable member of the board of directors.

A.B. Krongard. Mr. Krongard has served as an independent director of Apollo and as a member of the audit committee of our board of directors since 2011. From 2001 to 2004, Mr. Krongard served as Executive Director of the Central Intelligence Agency. From 1998 to 2001, Mr. Krongard served as Counselor to the Director of Central Intelligence. Prior to 1998, Mr. Krongard served in various capacities at Alex Brown, Incorporated, including serving as Chief Executive Officer beginning in 1991 and assuming additional duties as Chairman of the board of directors in 1994. Upon the merger of Alex Brown, Incorporated with Bankers Trust Corporation in 1997, Mr. Krongard served as Vice-Chairman of the Board of Bankers Trust Corporation and served in such capacity until joining the Central Intelligence Agency. Mr. Krongard serves as the Lead Director and audit committee Chairman of Under Armour, Inc. and also serves as a board member of Iridium Communications Inc., Seventy-Seven Energy Inc. and In-Q-Tel, Inc. Mr. Krongard graduated with honors from Princeton University and received a J.D. from the University of Maryland School of Law, where he also graduated with honors. Mr. Krongard also serves as the Vice Chairman of the Johns Hopkins Health System. Mr. Krongard's comprehensive corporate background contributes to the range of experience of the board of directors.

Pauline Richards. Ms. Richards has served as an independent director of Apollo and as Chairman of the audit committee of our board of directors since 2011. Ms. Richards currently serves as Chief Operating Officer of Armour Group Holdings Limited, a position she has held since 2008. Ms. Richards also serves as a member of the Audit and Compensation Committees of the board of directors of Wyndham Worldwide, a position she has held since 2006; is a director of Hamilton Insurance Group, serving on the audit and investment committees, a position she has held since 2013; and is the Treasurer of the board of directors of PRIDE Bermuda, a drug prevention organization of which she has been a member for over 20 years. Prior to 2008, Ms. Richards served as Director of Development of Saltus Grammar School from 2003 to 2008, as Chief Financial Officer of Lombard Odier Darier Hentsch (Bermuda) Limited from 2001 to 2003, and as Treasurer of Gulf Stream Financial Limited from 1999 to 2000. Ms. Richards also served as a member of the Audit Committee and chair of the Corporate Governance Committee of the board of directors of Butterfield Bank from 2006 to 2013. Ms. Richards graduated from Queen's University, Ontario, Canada, with a BA in psychology and has obtained certification as a CPA, CMA. Ms. Richards' extensive finance experience and her service on the boards of other public companies add significant value to the board of directors.

Our Manager

Our operating agreement provides that so long as the Apollo Group beneficially owns at least 10% of the aggregate number of votes that may be cast by holders of outstanding voting shares, our manager, which is owned and controlled by our Managing Partners, will manage all of our operations and activities and will have discretion over significant corporate actions, such as the issuance of securities, payment of distributions, sales of assets, making certain amendments to our operating agreement and other matters, and our board of directors will have no authority other than that which our manager chooses to delegate to it. We refer to the Apollo Group's beneficial ownership of at least 10% of such voting power as the "Apollo control condition." For

purposes of our operating agreement, the "Apollo Group" means (i) our manager and its affiliates, including their respective general partners, members and limited partners, (ii) Holdings and its affiliates, including their respective general partners, members and limited partners, (iii) with respect to each Managing Partner, such Managing Partner and such Managing Partner's "group" (as defined in Section 13(d) of the Exchange Act), (iv) any former or current investment professional of or other employee of an "Apollo employer" (as defined below) or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group), (v) any former or current executive officer of an Apollo employer or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group); and (vi) any former or current director of an Apollo employer or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group). With respect to any person, "Apollo employer" means Apollo Global Management, LLC or such other entity controlled by Apollo Global Management, LLC or its successor as may be such person's employer but does not include any portfolio companies.

Decisions by our manager are made by its executive committee, which is composed of our three Managing Partners. Each Managing Partner will remain on the executive committee for so long as he is employed by us, provided that Mr. Black, upon his retirement, may at his option remain on the executive committee until his death or disability or any commission of an act that would constitute cause if Mr. Black had still been employed by us. Other than those actions that require unanimous consent, actions by the executive committee are determined by majority vote of its voting members, except as to the following matters, as to which Mr. Black will have the right of veto: (i) the designations of directors to our board, or (ii) a sale or other disposition of the Apollo Operating Group and/or its subsidiaries or any portion thereof, through a merger, recapitalization, stock sale, asset sale or otherwise, to an unaffiliated third party (other than through an exchange of Apollo Operating Group units, transfers by a founder or a permitted transferee to another permitted transferee, or the issuance of bona fide equity incentives to any of our non-founder employees) that constitutes (x) a direct or indirect sale of a ratable interest (or substantially ratable interest) in each entity that constitutes the Apollo Operating Group or (y) a sale of all or substantially all of the assets of Apollo (this clause (ii), an "LB Approval Event"). Exchanges of Apollo Operating Group units for Class A shares that are not pro rata among our Managing Partners or in which each Managing Partner has the option not to participate are not subject to Mr. Black's right of veto.

Subject to limited exceptions described in our operating agreement, our manager may not sell, exchange or otherwise dispose of all or substantially all of our assets and those of our subsidiaries, taken as a whole, in a single transaction or a series of related transactions without the approval of holders of a majority of the aggregate number of voting shares outstanding; provided, however, that this does not preclude or limit our manager's ability, in its sole discretion, to mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets and those of our subsidiaries (including for the benefit of persons other than us or our subsidiaries, including affiliates of our manager) and does not apply to any forced sale of any or all of our assets pursuant to the foreclosure of, or other realization upon, any such encumbrance.

We will reimburse our manager and its affiliates for all costs incurred in managing and operating us, and our operating agreement provides that our manager will determine the expenses that are allocable to us. The agreement does not limit the amount of expenses for which we will reimburse our manager and its affiliates.

Board Composition and Limited Powers of Our Board of Directors

For so long as the Apollo control condition is satisfied, our manager shall (i) nominate and elect all directors to our board of directors, (ii) set the number of directors of our board of directors and (iii) fill any vacancies on our board of directors. After the Apollo control condition is no longer satisfied, each of our directors will be elected by the vote of a plurality of our shares entitled to vote, voting as a single class, to serve until his or her successor is duly elected or appointed and qualified or until his or her earlier death, retirement, disqualification, resignation or removal. Our board currently consists of eight members. For so long as the Apollo control condition is satisfied, our manager may remove any director, with or without cause, at anytime. After such condition is no longer satisfied, a director or the entire board of directors may be removed by the affirmative vote of holders of 50% or more of the total voting power of our shares.

As noted, so long as the Apollo control condition is satisfied, our manager will manage all of our operations and activities, and our board of directors will have no authority other than that which our manager chooses to delegate to it. In the event that the Apollo control condition is not satisfied, our board of directors will manage all of our operations and activities.

Pursuant to a delegation of authority from our manager, which may be revoked, our board of directors has established and at all times will maintain audit and conflicts committees of the board of directors that have the responsibilities described below under "-Committees of the Board of Directors-Audit Committee" and "-Committees of the Board of Directors-Conflicts Committee."

Where action is required or permitted to be taken by our board of directors or a committee thereof, a majority of the directors or committee members present at any meeting of our board of directors or any committee thereof at which there is a quorum shall be the act of our board or such committee, as the case may be. Our board of directors or any committee thereof may also act by unanimous written consent.

Under the Agreement Among Managing Partners (as described under "Item 13. Certain Relationships and Related Transactions-Lenders Rights Agreement-Amendments to Managing Partner Transfer Restrictions"), the vote of a majority of the independent members of our board of directors will decide the following: (i) in the event that a vacancy exists on the executive committee of our manager and the remaining members of the executive committee cannot agree on a replacement (other than a replacement for Mr. Black nominated by Mr. Black or his representative, which requires the approval of only one member of the executive committee), the independent members of our board of directors shall select one of the two nominees to the executive committee of our manager presented to them by the remaining members of such executive committee to fill the vacancy on such executive committee and (ii) in the event that Mr. Black wishes to exercise his ability to cause an LB Approval Event, the affirmative vote of the majority of the independent members of our board of directors shall be required to approve such a transaction. We are not a party to the Agreement Among Managing Partners, and neither we nor our shareholders (other than our Strategic Investors, as described under "Item 13. Certain Relationships and Related Transactions-Lenders Rights Agreement-Amendments to Managing Partner Transfer Restrictions") have any right to enforce the provisions described above. Such provisions can be amended or waived upon agreement of our Managing Partners at any time.

Committees of the Board of Directors

We have established an audit committee as well as a conflicts committee. Our audit committee has adopted a charter that complies with current SEC and NYSE rules relating to corporate governance matters. Our board of directors may from time to time establish other committees of our board of directors.

Audit Committee

The primary purpose of our audit committee is to assist our manager in overseeing and monitoring (i) the quality and integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) our independent registered public accounting firm's qualifications and independence and (iv) the performance of our independent registered public accounting firm.

The current members of our audit committee are Messrs. Ducey and Krongard and Ms. Richards. Ms. Richards currently serves as Chairperson of the committee. Each of the members of our audit committee meets the independence standards and financial literacy requirements for service on an audit committee of a board of directors pursuant to the Exchange Act and NYSE rules applicable to audit committees and corporate governance. Furthermore, our manager has determined that Ms. Richards is an "audit committee financial expert" within the meaning of Item 407(d)(5) of Regulation S-K. Our audit committee has a charter which is available on our website at www.agm.com under the "Investor Relations" section.

Conflicts Committee

The current members of our conflicts committee are Messrs. Ducey, Fribourg and Kraft. Mr. Ducey currently serves as Chairman of the committee. The purpose of the conflicts committee is to review specific matters that our manager believes may involve conflicts of interest. The conflicts committee will determine whether the resolution of any conflict of interest submitted to it is fair and reasonable to us. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to us and not a breach by us of any duties that we may owe to our shareholders. In addition, the conflicts committee may review and approve any related person transactions, other than those that are approved pursuant to our related person policy, as described under "Item 13. Certain Relationships and Related Party Transactions-Statement of Policy Regarding Transactions with Related Persons," and may establish guidelines or rules to cover specific categories of transactions.

Code of Business Conduct and Ethics

We have a Code of Business Conduct and Ethics, which applies to, among others, our principal executive officer, principal financial officer and principal accounting officer. A copy of our Code of Business Conduct and Ethics is available on our website at www.agm.com under the "Investor Relations" section. We intend to disclose any amendment to or waiver of the Code of Business Conduct and Ethics on behalf of an executive officer or director either on our website or in an 8-K filing.

Corporate Governance Guidelines

We have Corporate Governance Guidelines that address significant issues of corporate governance and set forth procedures by which our manager and board of directors carry out their respective responsibilities. The guidelines are available for viewing on our website at www.agm.com under the "Investor Relations" section. We will also provide the guidelines, free of charge, to shareholders who request them. Requests should be directed to our Secretary at Apollo Global Management, LLC, 9 West 57th Street, 43rd Floor, New York, New York 10019.

Communications with the Board of Directors

A shareholder or other interested party who wishes to communicate with our directors, a committee of our board of directors, our independent directors as a group or our board of directors generally may do so in writing. Any such communications may be sent to our board of directors by U.S. mail or overnight delivery and should be directed to our Secretary at Apollo Global Management, LLC, 9 West 57th Street, 43rd Floor, New York, New York 10019, who will forward them to the intended recipient(s). Any such communications may be made anonymously. Unsolicited advertisements, invitations to conferences or promotional materials, in the discretion of our Secretary, are not required, however, to be forwarded to the directors.

Executive Sessions of Independent Directors

The independent directors serving on our board of directors meet periodically in executive sessions during the year at regularly scheduled meetings of our board of directors. These executive sessions will be presided over by one of the independent directors serving on our board of directors selected on an ad-hoc basis.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than ten percent of a registered class of the Company’s equity securities to file initial reports of ownership and reports of changes in ownership with the SEC and furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on our review of the copies of such reports furnished to us or written representations from such persons that they were not required to file a Form 5 to report previously unreported ownership or changes in ownership, we believe that, with respect to the fiscal year ended December 31, 2014, such persons complied with all such filing requirements.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Philosophy

Alignment of Interests with Investors and Shareholders. Our principal compensation philosophy is to align the interests of our Managing Partners, Contributing Partners, and other senior professionals with those of our Class A shareholders and fund investors. This alignment, which we believe is a key driver of our success, has been achieved principally by our Managing Partners', Contributing Partners', and other investment professionals' direct beneficial ownership of equity in our business in the form of AOG Units and Class A shares, their ownership of rights to receive a portion of the incentive income earned from our funds, the direct investment by our investment professionals in our funds, and our practice of paying annual incentive compensation partly in the form of equity-based grants that are subject to vesting. As a result of this alignment, the compensation of our professionals is closely tied to the performance of our businesses.

Significant Personal Investment. Our investment professionals generally make significant personal investments in our funds (as more fully described under "Item 13. Certain Relationships and Related Party Transactions"), directly or indirectly, and our professionals who receive carried interests in our funds are generally required to invest their own capital in the funds they work on in amounts that are generally proportionate to the size of their participation in incentive income. We believe that these investments help to ensure that our professionals have capital at risk and reinforce the linkage between the success of the funds we manage, the success of the Company and the compensation paid to our professionals.

Long-Term Performance and Commitment. Most of our professionals have been issued RSUs, which provide rights to receive Class A shares and distributions on those shares. The vesting requirements and minimum retained ownership requirements for these awards contribute to our professionals' focus on long-term performance while enhancing retention of these professionals.

Discouragement of Excessive Risk-Taking. Although investments in alternative assets can pose risks, we believe that our compensation program includes significant elements that discourage excessive risk-taking while aligning the compensation of our professionals with our long-term performance. For example, notwithstanding that we accrue compensation for our carried interest programs (described below) as increases in the value of the portfolio investments are recorded in the related funds, we generally make payments in respect of carried interest allocations to our employees only after profitable investments have actually been realized. This helps to ensure that our professionals take a long-term view that is consistent with the interests of the Company, our shareholders and the investors in our funds. Moreover, if a fund fails to achieve specified investment returns due to diminished performance of later investments, our carried interest program relating to that fund generally permits, for the benefit of the limited partner investors in that fund, the return of carried interest payments (generally net of tax) previously made to us, our Contributing Partners or our other employees. These provisions discourage excessive risk-taking and promote a long-term view that is consistent with the interests of our investors and shareholders. Our general requirement that our professionals invest in the funds we manage further aligns the interests of our professionals, fund investors and Class A shareholders. Finally, the minimum retained ownership requirements of our RSUs, options and AOG Units, as well as a requirement that certain investment professionals use a portion of their distributions of carried interest income and incentive fees to purchase Class A restricted shares, discourage excessive risk-taking because the value of these interests is tied directly to the long-term performance of our Class A shares.

Compensation Elements for Named Executive Officers

Consistent with our emphasis on alignment of interests with our fund investors and Class A shareholders, compensation elements tied to the profitability of our different businesses and that of the funds that we manage are the primary means of compensating our six executive officers listed in the tables below, or the "named executive officers." The key elements of the compensation of our named executive officers during fiscal year 2014 are described below. We distinguish among the compensation components applicable to our named executive officers as appropriate in the below summary. Mr. Black is a member of the group referred to elsewhere in this report as the "Managing Partners," and Mr. Zelter is a member of the group referred to elsewhere in this report as the "Contributing Partners."

Annual Salary. Each of our named executive officers receives an annual salary. The base salaries of our named executive officers are set forth in the Summary Compensation Table below, and those base salaries were set by our Managing Partners in their judgment after considering the historic compensation levels of the officer, competitive market dynamics, and each officer's level of responsibility and anticipated contributions to our overall success.

RSUs. In 2014, a portion of our named executive officers' compensation (other than for Messrs. Black and Spilker) was paid in the form of RSUs. We refer to our annual grants of RSUs as Bonus Grants. The RSUs are subject to multi-year vesting and minimum retained ownership requirements. In 2014, all named executive officers were required to retain at least 85% of any Class A shares issued to them pursuant to RSU awards, net of the number of gross shares sold or netted to pay applicable income or employment taxes. The named executive officer Plan Grants and Bonus Grants are described below under "-Narrative

Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table-Awards of Restricted Share Units Under the Equity Plan."

Carried Interest and Incentive Fees. Carried interests and incentive fee entitlements with respect to our funds confer rights to receive distributions if a distribution is made to investors following the realization of an investment or receipt of operating profit from an investment by the fund. These rights provide their holders with substantial incentives to attain strong returns in a manner that does not subject their capital investment in the Company to excessive risk. Distributions of carried interest generally are subject to contingent repayment (generally net of tax) if the fund fails to achieve specified investment returns due to diminished performance of later investments, while distributions in respect of incentive fees are not subject to contingent repayment. The actual gross amount of carried interest allocations or incentive fees available are a function of the performance of the applicable fund. For these reasons, we believe that participation in carried interest and incentive fees generated by our funds aligns the interests of our professionals with those of our Class A shareholders and fund investors.

We currently have two principal types of carried interest programs, which we refer to as dedicated and incentive pool. Messrs. Zelter and Suydam have been awarded rights to participate in a dedicated percentage of the carried interest or incentive fee income earned by the general partners of certain of our funds. Participation in dedicated carried interest in our private equity funds is typically subject to vesting, which rewards long-term commitment to the firm and thereby enhances the alignment of participants' interests with the Company. As with our distributions in respect of incentive fees, our financial statements characterize the carried interest income allocated to participating professionals in respect of their dedicated carried interests as compensation. Actual distributions in respect of dedicated carried interests and incentive fees are included in the "All Other Compensation" column of the summary compensation table.

Our performance based incentive arrangement referred to as the incentive pool further aligns the overall compensation of our professionals to the realized performance of our business. The incentive pool provides for compensation based on carried interest realizations earned by us during the year and enhances our capacity to offer competitive compensation opportunities to our professionals. "Carried interest realizations earned" means carried interest earned by the general partners of our funds under the applicable fund limited partnership agreements based upon transactions that have closed or other rights to cash that have become fixed in the applicable calendar year period. Under this arrangement, Messrs. Kelly, Zelter, Suydam and Weidler, among other of our professionals, were awarded incentive pool compensation based on carried interest realizations we earned during 2014. Allocations to participants in the incentive pool contain both a fixed component and a discretionary component, both of which may vary year-to-year, including as a result of our overall realized performance and the contributions and performance of each participant. The managing partners determine the amount of the carried interest realizations to place into the incentive pool in their discretion after considering various factors, including Company profitability, management company cash requirements and anticipated future costs, provided that the incentive pool consists of an amount equal to at least one percent (1%) of the carried interest realizations attributable to profits generated after creation of the incentive pool program that were taxable in the applicable year and not allocable to dedicated carried interests. Each participant in the incentive pool is entitled to receive, as a fixed component of participation in the incentive pool, his or her pro rata allocation of this 1% amount each year, provided the participant remains employed by us at the time of allocation. Our financial statements characterize the carried interest income allocated to participating professionals in respect of incentive pool interests as compensation. The "All Other Compensation" column of the summary compensation table includes actual distributions paid from the incentive pool.

Restricted Shares. In 2014, we began to require that a portion of the carried interest and incentive fee distributions in respect of certain of the investment funds we manage be used by our employees who receive those distributions to purchase restricted Class A shares issued under our 2007 Omnibus Equity Incentive Plan. This practice further promotes alignment with our shareholders and encourages investment professionals to maximize the success of the Company as a whole. Like our RSUs, the restricted shares are subject to multi-year vesting, which fosters retention. The first purchases pursuant to this requirement were made in 2015. As a result of this requirement, Mr. Zelter purchased 58,817 restricted Class A shares on February 6, 2015 in respect of realizations for which he received the cash portion of the distributions in 2014. In accordance with SEC rules, these shares will be included in next year's Summary Compensation Table and Grants of Plan-Based Awards Table if Mr. Zelter is one of our named executive officers for 2015. These shares are subject to vesting on June 16th of 2015, 2016 and 2017.

Bonus. One of our named executive officers, Mr. Zelter, received a cash bonus in 2014. The inclusion of discretionary annual bonuses as part of our overall compensation rewards superior performance and enables us to attract and retain talented professionals by enhancing our capacity to offer competitive compensation opportunities while retaining our flexibility to adjust or eliminate these payments from year to year.

Determination of Compensation of Named Executive Officers

Our Managing Partners make all final determinations regarding named executive officer compensation. Decisions about the variable elements of a named executive officer's compensation, including participation in our carried interest and incentive

fee programs and grants of equity-based awards, are based primarily on our Managing Partners' assessment of such named executive officer's individual performance, operational performance for the department or division in which the officer (other than a Managing Partner) serves, and the officer's impact on our overall operating performance and potential to contribute to long-term shareholder value. In evaluating these factors, our Managing Partners do not utilize quantitative performance targets but rather rely upon their judgment about each named executive officer's performance to determine an appropriate reward for the current year's performance. The determinations by our Managing Partners are ultimately subjective, are not tied to specified annual, qualitative or individual objectives or performance factors, and reflect discussions among the Managing Partners. Factors that our Managing Partners typically consider in making such determinations include the named executive officer's type, scope and level of responsibilities and the named executive officer's overall contributions to our success. Our Managing Partners also consider each named executive officer's prior-year compensation, the appropriate balance between incentives for long-term and short-term performance, competitive market dynamics, compensation provided to the named executive officer by other entities, and the compensation paid to the named executive officer's peers within the Company.

Note on Distributions on Apollo Operating Group Units

We note that all of our Managing Partners and Contributing Partners, including Messrs. Black and Zelter, beneficially own AOG Units. In particular, as of December 31, 2014, the Managing Partners beneficially owned, through their interest in Holdings, approximately 51% of the total limited partner interests in the Apollo Operating Group. When made, distributions on these units (which are made on both vested and unvested units) are in the same amount per unit as distributions made to us in respect of the AOG Units we hold. Accordingly, although distributions on AOG Units are distributions on equity rather than compensation, they play a central role in aligning our Managing Partners' and Contributing Partners' interests with those of our Class A shareholders, which is consistent with our compensation philosophy. In 2014, the Managing Partners, including Mr. Black, were required to retain 85% of their AOG Units. The same requirement applied to our Contributing Partners, including Mr. Zelter.

Compensation Committee Interlocks and Insider Participation

Our board of directors does not have a compensation committee. Our Managing Partners make all such compensation determinations, as discussed above under "-Determination of Compensation of Named Executive Officers." For a description of certain transactions between us and the managing partners, see "Item 13. Certain Relationships and Related Party Transactions."

Compensation Committee Report

As noted above, our board of directors does not have a compensation committee. The executive committee of our manager identified below has reviewed and discussed with management the foregoing Compensation Discussion and Analysis and, based on such review and discussion, has determined that the Compensation Discussion and Analysis should be included in this Annual Report on Form 10-K.

Leon Black
Joshua Harris
Marc Rowan

ummary Compensation Table

The following summary compensation table sets forth information concerning the compensation earned by, awarded to or paid to our principal executive officer, our principal financial officer, and our three other most highly compensated executive officers for the fiscal year ended December 31, 2014. In accordance with SEC rules, the table also describes the compensation of our former president, Mr. Spilker. Although he ceased to be one of our executive officers on March 19, 2014, Mr. Spilker's compensation for 2014 placed him among the three most highly paid individuals (other than our principal executive officer and our principal financial officer) who served as an executive officer for a portion of 2014. Managing Partners Messrs. Harris and Rowan are not included in the table because their compensation, as tabulated in accordance with applicable rules, does not result in either of them being among the three most highly compensated executive officers after our principal executive officer and principal financial officer. Our Managing Partners' earnings derive predominantly from distributions they receive as a result of their indirect beneficial ownership of AOG Units and their rights under the tax receivable agreement (described elsewhere in this report, including above under "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities-Cash Distribution Policy"), rather than from compensation, and accordingly are not included in the below tables. The executive officers named in the table are referred to as the named executive officers.

Name and Principal Position	Year	Salary ($)	Bonus ($)[1]	Stock Awards ($)[2]	Option Awards ($)[3]	Non-Equity Incentive Plan ($)	All Other Compensation ($)[4]	Total ($)
Leon Black, Chairman, Chief Executive Officer and Director	2014	100,000	-	-	-	-	173,980	273,980
	2013	100,000	-	-	-	-	173,053	273,053
	2012	100,000	-	-	-	-	187,368	287,368
Martin Kelly, Chief Financial Officer	2014	1,000,000	-	698,444	-	-	1,300,000	2,998,444
	2013	1,000,000	-	541,246	-	-	950,000	2,491,246
	2012	300,000	200,000	4,687,530	-	-	1,433,411	6,620,941
James Zelter, Managing Director, Credit	2014	1,200,000	1,049,219	478,927	-	-	28,009,206	30,737,352
	2013	-	3,749,788	3,065,771	-	-	32,599,739	39,415,298
	2012	-	-	2,606,310	-	5,099,193	14,959,920	22,665,423
John Suydam, Chief Legal Officer	2014	3,000,000	-	511,370	-	-	5,420,540	8,931,910
	2013	3,000,000	949,788	504,345	-	-	7,148,168	11,602,301
	2012	3,000,000	-	496,715	-	-	3,405,953	6,902,668
Christopher Weidler, Chief Accounting Officer and Controller	2014	400,000	-	199,549	-	-	600,000	1,199,549
Marc Spilker, *Ceased serving as President on March 19, 2014*	2014	765,151	-	12,337,500	21,025,000	-	950,000	35,077,651
	2013	2,000,000	-	-	-	-	-	2,000,000

(1) Amount shown for 2014 represents a cash bonus earned in 2014.

(2) For Messrs. Kelly, Zelter, Suydam and Weidler, represents the aggregate grant date fair value of stock awards granted, as applicable, computed in accordance with FASB ASC Topic 718. For Mr. Spilker, represents the incremental fair value of an RSU award granted on December 2, 2010 and modified on March 26, 2014 in connection with his employment termination, computed in accordance with FASB ASC Topic 718. The amounts shown do not reflect compensation actually received by the named executive officers, but instead represent the aggregate grant date fair value (in the case of Mr. Spilker, the modification date incremental fair value) of the awards. See note 16 to our consolidated financial statements for further information concerning the assumptions made in valuing our RSU awards. Mr. Zelter's employment agreement entered into on June 20, 2014 provides that if he resigns for good reason, is terminated without cause, or terminates employment due to death or disability in the last six months of 2016 and applicable performance measures are attained, he will be entitled to a grant of 500,000 RSUs in early 2017. Consequently, for accounting purposes the compensation expense for these RSUs, which will not be granted to Mr. Zelter under our equity incentive plan earlier than 2017 (if at all), is treated as established on the date shown, and the associated grant date fair value under FASB ASC Topic 718 is reported as zero in the table because as of June 20, 2014 the accounting recognition requirements for these RSUs had not been met. If all applicable performance measures are attained, the grant date fair value of these RSUs would be $13,555,000.

(3) Represents the modification date incremental fair value of an option award granted on December 2, 2010 to Mr. Spilker and modified on March 26, 2014 in connection with his employment termination, computed in accordance with FASB ASC Topic 718. The amount shown does not reflect compensation actually received by Mr. Spilker, but instead represents the incremental fair value of the award on the date modified.

(4) Amounts included for 2014 represent, in part, actual cash distributions in respect of dedicated carried interest allocations for Messrs. Zelter and Suydam of $25,892,649 and $4,884,786, respectively. Of such amount distributed to Mr. Zelter, $4,645,709 was paid in euros and converted to dollars based on the conversion rate on the date of payment. Also included for Mr. Zelter are cash distributions of $2,065,776 received in 2014 in respect of dedicated incentive fees. The 2014 amounts also include actual incentive pool cash distributions of $1,300,000 for Mr. Kelly, $600,000 for Mr. Weidler, $500,000 for Mr. Suydam and $50,781 for Mr. Zelter. The amount shown for Mr. Spilker represents his one-time lump sum payment received in connection with his employment termination under his transition agreement. The "All Other Compensation" column for 2014 also includes costs relating to Company-provided cars and drivers for the business and personal use of Messrs. Black and Suydam. We provide this benefit because we believe that its cost is outweighed by the convenience, increased efficiency and added security and confidentiality that it offers. The personal use cost was approximately $165,730 for Mr. Black and $34,254 for Mr. Suydam. For Mr. Black, this amount includes both fixed and variable costs, including lease costs, driver compensation, driver meals, fuel, parking, tolls, repairs, maintenance and insurance. For Mr. Suydam, this amount includes the costs to the Company associated with his use of a car service. Except as discussed in this paragraph, no 2014 perquisites or personal benefits individually exceeded the greater of $25,000 or 10% of the total amount of all perquisites and other personal benefits reported for the named executive officer. The cost of excess liability insurance provided to our named executive officers falls below this threshold. None of Messrs. Kelly, Zelter, Spilker or Weidler received perquisites or personal benefits in 2014, except for incidental benefits having an aggregate value of less than $10,000 per individual. Our named executive officers also receive occasional secretarial support with respect to personal matters. We incur no incremental cost for the provision of such additional benefits. Accordingly, no such amount is included in the Summary Compensation Table.

Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table

Employment, Non-Competition and Non-Solicitation Agreement with Chairman and Chief Executive Officer

In July 2012, we entered into an employment, non-competition and non-solicitation agreement with Leon Black, our chairman and chief executive officer and a member of our manager's executive committee, which agreement superseded and is substantially similar to the agreement we entered into with Mr. Black dated July 13, 2007. The term of the agreement concludes on July 19, 2015. Mr. Black is entitled during his employment to an annual salary of $100,000 and to participate in our employee benefit plans, as in effect from time to time.

Employment, Non-Competition and Non-Solicitation Agreement with Chief Financial Officer

On July 2, 2012, we entered into an employment, non-competition and non-solicitation agreement with Martin Kelly, our chief financial officer. His annual base salary is $1,000,000. As provided in his employment agreement, Mr. Kelly received a Plan Grant of 375,000 RSUs in connection with his commencement of employment. He is eligible for an annual bonus in an amount to be determined by us in our discretion. Mr. Kelly participates in the incentive pool and is eligible to receive distributions thereunder.

Employment, Non-Competition and Non-Solicitation Agreement with Managing Director-Credit

We entered into an amended and restated employment agreement with our Managing Director-Credit, James Zelter, on June 20, 2014. The agreement provides that Mr. Zelter is entitled to base pay of $1,200,000 per year and to distributions of carried interest (including incentive pool) income and a bonus equaling an additional $1,800,000 per year. A portion of any such bonus shall be payable in the form of Bonus Grant RSUs. Under the agreement, Mr. Zelter will be eligible to receive a grant of one million RSUs in early 2017 and another one million RSUs in early 2019, in each case if approved by the committee that administers our 2007 Omnibus Equity Incentive Plan and if applicable performance measures regarding profitability of our credit business are attained. We do not currently believe that the performance measures are likely to be attained. Because Mr. Zelter would be entitled to 500,000 of the 2017 RSUs if both (i) the performance measures are attained as of December 31, 2016 and (ii) during the last six months of 2016 Mr. Zelter's employment terminates for good reason, without cause or due to death or disability, we treat the compensation expense for these RSUs, which will not be granted under our equity incentive plan earlier than 2017 (if at all), as established on June 20, 2014 and, in accordance with SEC rules, include these RSUs in the tables as if they had been granted on that date. Pursuant to his employment agreement, Mr. Zelter holds dedicated carried interests and incentive fee rights in respect of certain of the investment funds we manage. His carried interests are subject to vesting or to the right to retain such interests for a limited period following his employment termination. Mr. Zelter receives a portion of his total annual compensation in the form of a Bonus Grant, as discussed below under the section entitled, "Awards of Restricted Share Units Under the Equity Plan." As required by his employment agreement, Mr. Zelter has made investments of his own capital in various of our funds.

Employment, Non-Competition and Non-Solicitation Agreement with Chief Accounting Officer and Controller

On June 4, 2013, we entered into a letter agreement with Christopher Weidler, our Chief Accounting Officer and Controller. The letter agreement provides for a base salary of $400,000 per year. Mr. Weidler is eligible for discretionary annual bonuses, and a portion of any such bonus is payable in the form of Bonus Grant RSUs. In connection with his commencement of employment, Mr. Weidler received a Plan Grant of 35,001 RSUs. Mr. Weidler participates in the incentive pool and is eligible to receive distributions thereunder.

Employment Terms of Chief Legal Officer

John Suydam, our chief legal officer, does not have an employment agreement with us.

Transition Agreement with President

On March 19, 2014, we entered into a transition agreement with Marc Spilker, who stepped down from his service as our president and a non-voting member of our executive committee on March 19, 2014. For the remainder of 2014, Mr. Spilker served as a senior advisor to the Company, assisting the Company with transitioning his duties, and did not receive a base salary. Pursuant to the agreement, he received a one-time lump sum payment of $950,000 in connection with the transition. The transition agreement provided that he forfeited one half of his unvested RSUs and one half of his unvested options to purchase Class A shares on March 19, 2014. Mr. Spilker's employment agreement dated November 24, 2010 had provided for vesting in one half of his unvested options and RSUs in connection with certain employment terminations, and under the transition agreement Mr. Spilker vested in his remaining 625,000 RSUs and 1,250,000 options on March 26, 2014.

Awards of Restricted Share Units Under the Equity Plan

On October 23, 2007, we adopted our 2007 Omnibus Equity Incentive Plan. Grants of RSUs under the plan have been made to certain of our named executive officers primarily pursuant to two programs, which we call the "Plan Grants" and the "Bonus Grants." Following the 2007 Reorganization, Plan Grants were made to Mr. Suydam and a broad range of our other employees. Plan Grants have also been made to subsequent hires, including Messrs. Kelly, Weidler and Spilker. The Plan Grants generally vest over six years, with the first installment becoming vested approximately one year after grant and the balance vesting thereafter in equal quarterly installments. Holders of Plan Grant RSUs become entitled to distribution equivalents on their vested RSUs if we pay ordinary distributions on our outstanding Class A shares. The administrator of the 2007 Omnibus Equity Incentive Plan determines when shares issued pursuant to the RSU Awards may be disposed of, except that a participant will generally be permitted to sell shares if necessary to cover taxes. Under our retained ownership requirements, in 2014, all executive officers were required to retain at least 85% of any Class A shares issued to them pursuant to RSU awards (net of the number of gross shares sold or netted to pay applicable income or employment taxes).

The RSUs advance several goals of our compensation program. The Plan Grants align employee interests with those of our shareholders by making our employees, upon delivery of the underlying Class A shares, shareholders themselves. Because they vest over time, the Plan Grants reward employees for sustained contributions to the Company and foster retention. The size of the Plan Grants is determined by the Plan administrator based on the grantee's level of responsibility and contributions to the Company. The restrictive covenants contained in the RSU agreements reinforce our culture of fiduciary protection of our investors by requiring RSU holders to abide by the provisions regarding non-competition, confidentiality and other limitations on behavior described in the immediately preceding paragraph.

The Bonus Grants are also grants of RSUs under the 2007 Omnibus Equity Incentive Plan. However, the Bonus Grants constitute payment of a portion of the annual compensation earned by certain of our professionals, including Messrs. Kelly, Zelter, Suydam and Weidler, subject to the employee's continued service through the vesting dates. Our named executive officers' Bonus Grants generally differ from their Plan Grants in the following principal ways:

- The RSU Shares underlying Bonus Grants are scheduled to vest in three equal annual installments.
- Distribution equivalents are earned on Bonus Grant RSUs (whether or not vested) when ordinary distributions are made on Class A shares after the grant date, but distribution equivalents are earned on Plan Grant RSUs only after they have vested.

In determining how many RSUs to grant to Mr. Zelter for services performed in 2014, the committee that administers our 2007 Omnibus Equity Incentive Plan took into account that the independent compensation committees of two publicly traded REITs that we manage, ARI and AMTG, consistent with recommendations they received from us, had authorized grants to Mr. Zelter of 7,500 restricted share units (having a grant date fair value of $124,425) and 6,226 restricted share units (having a grant date fair value of $99,678), respectively, in respect of ARI's and AMTG's publicly traded shares for services provided during the same period.

Grants of Plan-Based Awards

The following table presents information regarding RSUs granted to Messrs. Kelly, Zelter, Suydam and Weidler under our 2007 Omnibus Equity Incentive Plan in 2014 and a modification made to Mr. Spilker's outstanding RSUs in 2014. No options were granted to a named executive officer in 2014, but Mr. Spilker's outstanding options were modified in 2014 in connection with his employment termination.

Name	Grant Date	Estimated Future Payouts under Equity Incentive Plan Awards Target (#)	Stock Awards: Number of Shares of Stock or Units (#)(2)	Option Awards: Number of Shares Underlying Options (#)	Grant Date Fair Value or Modification Date Incremental Fair Value of Stock and Option Awards ($)(3)
Leon Black	-	-	-	-	-
Martin Kelly	December 29, 2014	-	30,850	-	698,444
James Zelter	June 20, 2014	500,000 (1)	-	-	-
	December 29, 2014	-	21,154	-	478,927
John Suydam	December 29, 2014	-	22,587	-	511,370
Christopher Weidler	December 29, 2014	-	8,814	-	199,549
Marc Spilker	December 2, 2010 (modified March 26, 2014)	-	625,000	-	12,337,500
	December 2, 2010 (modified March 26, 2014)	-	-	1,250,000	21,025,000

(1) Mr. Zelter's employment agreement entered into on the date shown provides that if he resigns for good reason, is terminated without cause, or terminates employment due to death or disability in the last six months of 2016 and applicable performance measures regarding profitability of our credit business are attained, he will be entitled to a grant of 500,000 RSUs in early 2017. Consequently, in accordance with applicable accounting rules we treat the compensation expense for these RSUs, which will not be granted under our equity incentive plan earlier than 2017 (if at all), as established on the date shown and, in accordance with SEC rules, include the award in the above table as if it had been granted on that date. These RSUs have no "threshold" or "maximum" values separate from the above "target" number of shares. The grant date fair value of these RSUs as of June 20, 2014 is considered to be zero because as of that date the accounting recognition requirements for these RSUs had not been met.

(2) Represents the aggregate number of RSUs covering our Class A shares (none of the Bonus Grants awarded in 2014 vested in 2014). For a discussion of these grants, please see the discussion above under "-Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table-Awards of Restricted Share Units Under the Equity Plan."

(3) For Messrs. Kelly, Zelter, Suydam and Weidler, represents the aggregate grant date fair value of the RSUs granted in 2014, computed in accordance with FASB ASC Topic 718. For Mr. Spilker, represents the incremental fair value of options and RSUs granted on December 2, 2010 computed in accordance with FASB ASC Topic 718 as of the date such awards were modified on March 26, 2014 in connection with Mr. Spilker's termination of employment. The amounts shown do not reflect compensation actually received, but instead represent the aggregate grant date fair value (in the case of Mr. Spilker, the modification date incremental fair value) of the award.

Outstanding Equity Awards at Fiscal Year-End

The following table presents information regarding unvested RSU awards made by us to our named executive officers under our 2007 Omnibus Equity Incentive Plan that were outstanding at December 31, 2014. Our named executive officers did not hold any options at fiscal year-end.

		Stock Awards			
Name		**Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (7)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#) (8)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have not Vested ($) (9)**
Leon Black	-	-	-	-	-
Martin Kelly	December 29, 2014	30,850 (1)	727,443	-	-
	December 26, 2013	12,076 (2)	284,752	-	-
	December 28, 2012	9,011 (3)	212,479	-	-
	September 30, 2012	234,375 (4)	5,526,563	-	-
James Zelter	December 29, 2014	21,154 (1)	498,811	-	-
	June 20, 2014	-	-	500,000	11,790,000
	December 26, 2013	31,838 (2)	750,740	-	-
	May 9, 2013	22,480 (3)	530,078	-	-
	December 28, 2012	98,677 (5)	2,326,804	-	-
John Suydam	December 29, 2014	22,587 (1)	532,601	-	-
	December 26, 2013	11,253 (2)	265,346	-	-
	December 28, 2012	10,115 (3)	238,512	-	-
Christopher Weidler	December 29, 2014	8,814 (1)	207,834	-	-
	September 30, 2013	27,710 (6)	653,402	-	-
Marc Spilker	December 2, 2010	-	-	-	-

(1) Bonus Grant RSUs that vest in substantially equal annual installments on December 31 of each of 2015, 2016 and 2017.

(2) Bonus Grant RSUs that vest in substantially equal annual installments on December 31 of each of 2015 and 2016.

(3) Bonus Grant RSUs that vest on December 31, 2015.

(4) Plan Grant RSUs that vest in substantially equal installments over the 15 calendar quarters beginning March 31, 2015.

(5) Plan Grant RSUs that vest in substantially equal installments over the 16 calendar quarters beginning March 31, 2015.

(6) Plan Grant RSUs that vest in substantially equal installments over the 19 calendar quarters beginning March 31, 2015.

(7) Amounts calculated by multiplying the number of unvested RSUs held by the named executive officer by the closing price of $23.58 per Class A share on December 31, 2014.

(8) Bonus RSUs that vest in substantially equal annual installments on December 31 of each of 2017, 2018 and 2019 but that have not yet been granted (except for accounting purposes). Mr. Zelter's employment agreement entered into on the date shown provides that if he resigns for good reason, is terminated without cause, or terminates employment due to death or disability in the last six months of 2016 and applicable performance measures regarding profitability of our credit business are attained, he will be entitled to a grant of 500,000 RSUs in early 2017. Consequently, for accounting purposes we treat the compensation expense for these RSUs, which will not be granted under our equity plan earlier than 2017 (if at all), as established on the date shown, and, in accordance with SEC rules, include the award in the table as if it were outstanding.

(9) Amount calculated by multiplying the 500,000 RSUs described in the immediately preceding footnote by the closing price of $23.58 per Class A share on December 31, 2014.

Option Exercises and Stock Vested

The following table presents information regarding the number of outstanding initially unvested RSUs held by our named executive officers that vested during 2014 and the number of options exercised by our named executive officers in 2014. With respect to the RSUs, the amounts shown below do not reflect compensation actually received by the named executive officers, but instead are calculations of the number of RSUs that vested during 2014 based on the closing price of our Class A shares on the date of vesting. Shares received by our named executive officers are subject to our retained ownership requirements.

		Option Awards		Stock Awards	
Name	Type of Award	Number of Shares Acquired on Exercise(#)	Value Realized on Exercise($)	Number of Shares Acquired on Vesting(#)	Value Realized on Vesting($)
Leon Black	-	-	-	-	-
Martin Kelly	RSUs	-	-	77,549	2,025,793 (2)
James Zelter	RSUs	-	-	81,370	1,996,540 (2)
John Suydam	RSUs	-	-	29,595	697,850 (2)
Christopher Weidler	RSUs	-	-	7,291	173,438
Marc Spilker	Options	1,458,334	26,421,925 (1)	-	-
	RSUs	-	-	625,000	19,025,000 (2)

(1) Amounts calculated based on the difference between the exercise price of the options and the price of the underlying Class A shares on the applicable exercise date.

(2) Amounts calculated by multiplying the number of RSUs held by the named executive officer that vested on each applicable vesting date in 2014 by the closing price per Class A share on that date. Class A shares underlying these vested RSUs are issued to the named executive officer in accordance with the schedules described above under "-Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table-Awards of Restricted Share Units Under the Equity Plan."

Potential Payments upon Termination or Change in Control

None of the named executive officers is entitled to payment or other benefits in connection with a change in control.

Mr. Black's employment agreement does not provide for severance or other payments or benefits in connection with an employment termination. We may not terminate Mr. Black except for cause or by reason of disability (as such terms are defined in his employment agreement). Under his employment agreement, Mr. Black is required to protect the confidential information of Apollo both during and after employment. In addition, until one year after his employment terminates, Mr. Black is required to refrain from soliciting employees under specified circumstances or interfering with our relationships with investors and to refrain from competing with us in a business that involves primarily (*i.e.*, more than 50%) third-party capital, whether or not the termination occurs during the term of the agreement or thereafter. These post-termination covenants survive any termination or expiration of the Agreement Among Managing Partners (described elsewhere in this report under "Item 13. Certain Relationships and Related Party Transactions-Agreement Among Managing Partners"). If Mr. Black becomes subject to a potential termination for cause or by reason of disability, our manager may appoint an investment professional to perform his functional responsibilities and duties until cause or disability definitively results in his termination or is determined not to have occurred, but the manager may so appoint an investment professional only if Mr. Black is unable to perform his responsibilities and duties or, as a matter of fiduciary duty, should be prohibited from doing so. During any such period, Mr. Black shall continue to serve on the executive committee of our manager unless otherwise prohibited from doing so pursuant to the Agreement Among Managing Partners.

If Mr. Kelly's employment is terminated by us without cause or he resigns for good reason, Mr. Kelly will be entitled to severance of six months' base pay and reimbursement of health insurance premiums paid in the six months following his employment termination. If Mr. Kelly's employment is terminated by us without cause or he resigns for good reason, he will vest in 50% of any unvested portion of his Plan Grant RSUs. If his employment is terminated by reason of death or disability, he will vest in 50% of any unvested portion of his Plan Grant and Bonus Grant RSUs. We may terminate Mr. Kelly's employment with or without cause, and we will provide 90 days' notice (or payment in lieu of such period of notice) prior to a termination without cause. Mr. Kelly is required to give us 90 days' notice prior to a resignation for any reason. He is required to protect the confidential information of Apollo both during and after employment. In addition, during employment and for 12 months after employment, Mr. Kelly is also obligated to refrain from soliciting our employees, interfering with our relationships with investors or other business relations, and competing with us in a business that manages or invests in assets substantially similar to those managed or invested in by Apollo or its affiliates.

We may terminate Mr. Zelter's employment with or without cause, and we will provide 90 days' notice (or payment in lieu of such period of notice) prior to a termination without cause. Mr. Zelter is required to provide 90 days' notice prior to a resignation for any reason. Upon his termination of employment by reason of death or disability, Mr. Zelter will vest in 50% of his then unvested RSUs and restricted shares. Subject to his execution of a release of claims in favor of the Company, upon his termination by the Company other than for cause, Mr. Zelter will vest in 50% of his then unvested restricted shares. Upon his termination of employment other than for cause, his annual cash bonus will be prorated through the last day of his employment termination. If Mr. Zelter's employment is terminated for good reason, without cause or by reason of disability or death, subject to his continued compliance with the restrictive covenants to which he is subject and to his execution of a release of claims in favor of the Company, he will vest in 50% of his then unvested performance award RSUs and, if the employment termination occurs in the last six months of 2016, or if he terminates his employment or service due to the failure of the committee that administers the 2007 Omnibus Equity Incentive Plan to approve the 2016 performance award, then he will vest in 50% of the RSUs covered by that award. Similarly, if that type of employment termination occurs in the last six months of 2018, or if Mr. Zelter terminates his employment or service due to the failure of the committee that administers the 2007 Omnibus Equity Incentive Plan to approve the 2018 performance award, then he will vest in 50% of the RSUs covered by that award. If Mr. Zelter's employment is terminated without cause, or he resigns for good reason, he will retain his dedicated carried interest rights that are not otherwise subject to vesting in respect of certain investment funds we manage in declining percentages for up to three years following his employment termination (100% for the first year, 50% for the second year, and 25% for the third year following employment termination) and the Class A shares that he is required to purchase with a portion of those amounts following his employment termination shall be fully vested shares. He will also be entitled to retain his dedicated carried interests that are subject to vesting to the extent then vested. Mr. Zelter is required to give us 90 days' notice prior to a resignation for any reason. During his employment and for 12 months thereafter, he is also obligated to refrain from soliciting our employees, interfering with our relationships with investors or other business relations, and competing with us in a business that manages or invests in assets substantially similar to those invested in or managed by Apollo or its affiliates.

If Mr. Suydam's employment is terminated by reason of death or disability, he will vest in 50% of his then unvested RSUs. Mr. Suydam is required to protect our confidential information at all times. During his employment and for 12 months thereafter, Mr. Suydam is also obligated to refrain from soliciting our employees, interfering with our relationships with investors or other business relations, and competing with us in a business that manages or invests in assets substantially similar to those invested in or managed by Apollo or its affiliates. Mr. Suydam is required to provide 90 days' notice prior to a resignation for any reason.

Pursuant to Mr. Spilker's transition agreement, he received a lump sum payment of $950,000 in July 2014 in connection with stepping down on March 19, 2014 as our president and as a non-voting member of our executive committee. In connection with his cessation of employment on May 19, 2014, Mr. Spilker also vested in 50% of his then unvested Plan Grant RSUs and options. Under the transition agreement, as in his employment agreement, Mr. Spilker is required to protect the confidential information of Apollo both during and after employment, and, for 12 months after the date of the transition agreement, to refrain from soliciting our employees, interfering with our relationships with investors and other business relations, and competing with us in a business that manages or invests in assets substantially similar to those of Apollo or its affiliates.

If Mr. Weidler's employment is terminated by reason of death or disability, he will vest in 50% of any unvested portion of his RSUs. We may terminate Mr. Weidler's employment with or without cause, and we will provide 90 days' notice (or payment in lieu of such period of notice) prior to a termination without cause. Mr. Weidler is required to provide 90 days' notice prior to a resignation for any reason. Mr. Weidler is required to protect the confidential information of Apollo both during and after employment. In addition, pursuant to his 2014 Bonus Grant, during and for 12 months after his employment with us, he is obligated to refrain from soliciting our employees and interfering with our relationships with investors or other business relations. In addition, during and for three months after his employment with us, he may not compete with us in a business that manages or invests in assets substantially similar to those managed or invested in by Apollo or its affiliates.

The named executive officers' obligations during and after employment were considered by the Managing Partners in determining appropriate post-employment payments and benefits for the named executive officers.

The following table lists the estimated amounts that would have been payable to each of our named executive officers in connection with a termination that occurred on the last day of our last completed fiscal year and the value of any additional equity that would vest upon such termination, except that for Mr. Spilker the table shows the amounts received by him in connection with his actual employment termination on May 19, 2014. When listing the potential payments to named executive officers under the plans and agreements described above, we have assumed that the applicable triggering event occurred on December 31, 2014 and that the price per share of our Class A shares was $23.58, which is equal to the closing price on such date. For purposes of this table, RSU and option acceleration values are based on the $23.58 closing price.

Name	Reason for Employment Termination	Estimated Value of Cash Payments ($)	Estimated Value of Equity Acceleration ($)
Leon Black	Cause	-	-
	Death, disability	-	-
Martin Kelly	Without cause; by executive for good reason	517,592 (1)	2,763,281 (4)
	Death, disability	-	3,375,618 (4)
James Zelter	Without cause; by executive for good reason	11,861,478 (2)	11,790,000 (4)
	Death, disability	-	13,843,217 (4)
John Suydam	Without cause; by executive for good reason	-	-
	Death; disability	-	518,229 (4)
Christopher Weidler	Without cause; by executive for good reason	-	-
	Death, disability	-	430,618 (4)
Marc Spilker	*Actual termination effective May 19, 2014*	950,000 (3)	40,342,767 (5)

(1) This amount would have been payable to the named executive officer had his employment been terminated by the Company without cause (and other than by reason of death or disability) or for good reason on December 31, 2014.

(2) Pursuant to Mr. Zelter's employment agreement, had his employment terminated on December 31, 2014, he would have been treated as if he had remained employed, for purposes of receiving carried interest distributions in respect of certain specified funds that remained in existence, for up to 36 additional months (100% in the first year, 50% in the second year, and 25% in the third year). For purposes of the above illustration, we have assumed that these percentages were applied in each of 2015, 2016 and 2017 to the amount of the distributions that he received in 2014 (including the portion of such distributions he was required to use to purchase Class A shares in 2015), and we have included in the amount shown the portion of his projected 2015, 2016 and 2017 distributions that would be required to be used to purchase Class A shares of the Company.

(3) This amount represents the cash payment actually made to Mr. Spilker in connection with his termination of employment on May 19, 2014.

(4) This amount represents the additional equity vesting that the named executive officer would have received had his employment terminated in the circumstances described in the column, "Reason for Employment Termination," on December 31, 2014, based on the closing price of a Class A share on such date. Please see our "Outstanding Equity Awards at Fiscal Year-End" table above for information regarding the named executive officer's unvested equity as of December 31, 2014.

(5) This amount represents the value received by Mr. Spilker from the additional vesting he received on March 26, 2014 in connection with entering into his transition agreement. The portion of this total that relates to options is calculated by multiplying the spread between the option exercise price and the closing price of a Class A share on the date he exercised the options (May 12, 2014) that vested in connection with entering into his transition agreement. The portion of this total that relates to RSUs is calculated by multiplying the number of RSUs that so vested by the closing price on the vesting date (March 26, 2014).

Director Compensation

We do not pay additional remuneration to our employees, including Messrs. Black, Harris and Rowan, for their service on our board of directors. The 2014 compensation of Mr. Black is set forth above on the Summary Compensation Table.

During 2014, each independent director received (1) a base annual director fee of $125,000, (2) an additional annual director fee of $25,000 if he or she a member of the audit committee, (3) an additional annual director fee of $10,000 if he or she was a member of the conflicts committee, (4) an additional annual director fee of $25,000 (incremental to the fee described in (2)) if he or she served as the chairperson of the audit committee, and (5) an additional annual director fee of $15,000 (incremental to the fee described in (3)) if he or she served as the chairperson of the conflicts committee. In addition, independent directors were reimbursed for reasonable expenses incurred in attending board meetings.

Currently, upon initial election to the board of directors, an independent director receives a grant of RSUs with a value of $300,000 that vests in equal annual installments on June 30 of each of the first, second and third years following the year that the grant is made. Mr. Kraft received this type of award on July 14, 2014 in connection with his appointment to the board of directors. Incumbent independent directors receive an annual RSU award with a value of $100,000 that vests on June 30 of the year following the year that the grant is made, and the directors listed on the below table (other than Mr. Kraft) received that award on July 14, 2014.

The following table provides the compensation for our independent directors during the year ended December 31, 2014.

Name	Fees Earned or Paid in Cash	Stock Awards (#)[1]	Total
Michael Ducey	$175,000	85,540	$260,540
Paul Fribourg	$135,000	85,540	$220,540
Robert Kraft	$101,250	214,919	$316,169
A. B. Krongard	$150,000	85,540	$235,540
Pauline Richards	$175,000	85,540	$260,540

(1) Represents the aggregate grant date fair value of stock awards granted, as applicable, computed in accordance with FASB ASC Topic 718. See note 16 to our consolidated financial statements for further information concerning the assumptions made in valuing our RSU Plan Grants. The amounts shown do not reflect compensation actually received by the independent directors, but instead represent the aggregate grant date fair value of the awards. Unvested director RSUs are not entitled to distributions or distribution equivalents. As of December 31, 2014, all 10,860 RSUs covered by Mr. Kraft's 2014 award were unvested and outstanding, and for each of Ms. Richards and Messrs. Ducey Fribourg and Krongard, all 3,620 RSUs covered by his or her 2014 award were unvested and outstanding.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of our Class A shares as of February 26, 2015 by (i) each person known to us to beneficially own more than 5% of the voting Class A shares of Apollo Global Management, LLC, (ii) each of our directors, (iii) each person who is a named executive officer for 2014 and (iv) all directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. To our knowledge, each person named in the table below has sole voting and investment power with respect to all of the Class A shares and interests in our Class B share shown as beneficially owned by such person, except as otherwise set forth in the notes to the table and pursuant to applicable community property laws. Unless otherwise indicated, the address of each person named in the table is c/o Apollo Global Management, LLC, 9 West 57th Street, New York, NY 10019.

In respect of our Class A shares, the table set forth below assumes the exchange by Holdings of all AOG Units for our Class A shares with respect to which the person listed below has the right to direct such exchange pursuant to the exchange agreement described under "Item 13. Certain Relationships and Related Party Transactions-Exchange Agreement," and the distribution of such shares to such person as a limited partner of Holdings.

	Class A Shares Beneficially Owned			Class B Share Beneficially Owned		
	Number of Shares	Percent(1)	Total Percentage of Voting Power(2)	Number of Shares	Percent	Total Percentage of Voting Power(2)
Directors and Executive Officers:						
Leon Black(3)(4)	92,727,166	35.6%	63.8%	1	100%	63.8%
Joshua Harris(3)(4)	54,382,643	24.5%	63.8%	1	100%	63.8%
Marc Rowan(3)(4)	50,157,022	23.0%	63.8%	1	100%	63.8%
Pauline Richards	21,443	*	*	-	-	-
Alvin Bernard Krongard(5)	270,043	*	*	-	-	-
Michael Ducey(6)	27,496	*	*	-	-	-
Robert Kraft(7)	40,000	*	*	-	-	-
Paul Fribourg	25,443	*	*	-	-	-
Marc Spilker(8)	1,554,321	*	*	-	-	-
Martin Kelly(9)	100,685	*	*	-	-	-
John Suydam(10)	765,749	*	*	-	-	-
James Zelter(11)	2,609,313	1.5%	*	-	-	-
Christopher Weidler(12)	5,924	*	*	-	-	-
All directors and executive officers as a group (twelve persons)(13)	201,132,927	54.7%	57.7%	1	100%	63.8%
BRH(4)	-	-	-	1	100%	63.8%
AP Professional Holdings, L.P.(14)	222,455,477	57.0%	63.8%	-	-	-
5% Stockholders:						
TimesSquare Capital Management, LLC(15)	8,998,700	5.4%	2.6%	-	-	-

epresents less than 1%.

(1) The percentage of beneficial ownership of our Class A shares is based on voting and non-voting Class A shares outstanding.

(2) The total percentage of voting power is based on voting Class A shares and the Class B share.

(3) The number of Class A shares presented are held by estate planning vehicles, for which this individual disclaims beneficial ownership except to the extent of his pecuniary interest therein. The number of Class A shares presented do not include any Class A shares owned by Holdings with respect to which this individual, as one of the three owners of all of the interests in BRH, the general partner of Holdings, or as a party to the Agreement Among Managing Partners described under "Item 13. Certain Relationships and Related Party Transactions-Agreement Among Managing Partners" or the Managing Partner Shareholders Agreement described under "Item 13. Certain Relationships and Related Party Transactions-Managing Partner Shareholders Agreement," may be deemed to have shared voting or dispositive power. Each of these individuals disclaims any beneficial ownership of these shares, except to the extent of his pecuniary interest therein.

(4) BRH, the holder of the Class B share, is one third owned by Mr. Black, one third owned by Mr. Harris and one third owned by Mr. Rowan. Pursuant to the Agreement Among Managing Partners, the Class B share is to be voted and disposed of by BRH based on the determination of at least two of the three Managing Partners; as such, they share voting and dispositive power with respect to the Class B share.

(5) Includes 250,000 Class A shares held by a trust for the benefit of Mr. Krongard's children, for which Mr. Krongard's children are the trustees. Mr. Krongard disclaims beneficial ownership with respect to such shares, except to the extent of his pecuniary interest therein.

(6) Includes 1,500 Class A shares held by two trusts for the benefit of Mr. Ducey's grandchildren, for which Mr. Ducey and several of Mr. Ducey's immediate family members are trustees and have shared investment power. Mr. Ducey disclaims beneficial ownership of the Class A shares held in the trusts, except to the extent of his pecuniary interest therein.

(7) Includes 40,000 Class A shares held by an entity, which is under the sole control of Mr. Kraft, and may be deemed to be beneficially owned by Mr. Kraft.

(8) Information is as of March 19, 2014, the date Mr. Spilker ceased to be an executive officer. Includes 26,350 Class A shares held by a trust for the benefit of Mr. Spilker's children, for which one of Mr. Spilker's immediate family members is a trustee and has investment power. The amount also includes 26,350 Class A shares held by a not-for-profit tax exempt foundation for which Mr. Spilker and his spouse are trustees with investment power. Mr. Spilker disclaims beneficial ownership with respect to such shares, except to the extent of his pecuniary interest therein.

(9) Includes 15,625 RSUs covering Class A shares which have vested or with respect to which Mr. Kelly has the right to acquire beneficial ownership within 60 days of February 26, 2015.

(10) Includes 114,584 RSUs covering Class A shares which have vested or with respect to which Mr. Suydam has the right to acquire beneficial ownership within 60 days of February 26, 2015. Does not include 343,751 Class A shares that will be delivered to Mr. Suydam, more than 60 days after February 26, 2015 in settlement of vested RSUs. Includes 120,488 Class A shares held by a trust for the benefit of Mr. Suydam's spouse and children, for which Mr. Suydam's spouse is the trustee. Mr. Suydam disclaims beneficial ownership with respect to such shares, except to the extent of his pecuniary interest therein.

(11) Includes 6,167 RSUs covering Class A shares which have vested or with respect to which Mr. Zelter has the right to acquire beneficial ownership within 60 days of February 26, 2015. Includes 300,698 Class A shares held by vehicles, over which Mr. Zelter exercises voting and investment control.

(12) Includes 1,459 RSUs covering Class A shares which have vested or with respect to which Mr. Weidler has the right to acquire beneficial ownership within 60 days of February 26, 2015.

(13) Refers to shares beneficially owned by the individuals who were directors and executive officers as of February 26, 2015. The shares beneficially owned by the directors and executive officers reflected above do not include 343,751 Class A shares that will be delivered to Mr. Suydam more than 60 days after February 26, 2015 in settlement of vested RSUs.

(14) Assumes that no Class A shares are distributed to the limited partners of Holdings. The general partner of Holdings, is BRH, which is one third owned by Mr. Black, one third owned by Mr. Harris and one third owned by Mr. Rowan. BRH is also the general partner of BRH Holdings, L.P., the limited partnership through which Messrs. Black, Harris and Rowan indirectly beneficially own (through estate planning vehicles) their limited partner interests in Holdings. These individuals disclaim any beneficial ownership of these Class A shares, except to the extent of their pecuniary interest therein.

(15) Based on a Schedule 13G filed on February 11, 2015, by TimesSquare Capital Management, LLC ("TimesSquare"). All of the shares reported on this Schedule 13G are owned by investment advisory clients of TimesSquare and in its role as investment advisor, TimesSquare has voting and dispositive power with respect to these shares. The address of TimesSquare Capital Management, LLC is 7 Times Square, 42nd floor, New York, New York 10036.

Securities Authorized for Issuance under Equity Incentive Plans

The following table sets forth information concerning the awards that may be issued under the Company's Omnibus Equity Incentive Plan as of December 31, 2014.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights[1]	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)[2]
	(a)	(b)	(c)
Equity Compensation Plans Approved by Security Holders	28,306,686	$16.60	38,090,824
Equity Compensation Plans Not Approved by Security Holders	-	-	-
Total	28,306,686	$16.60	38,090,824

(1) Reflects the aggregate number of outstanding options and RSUs granted under the Company's 2007 Omnibus Equity Incentive Plan (the "Equity Plan") as of December 31, 2014.

(2) The Class A shares reserved under the Equity Plan are increased on the first day of each fiscal year by (i) the amount (if any) by which (a) 15% of the number of outstanding Class A shares and AOG Units exchangeable for Class A shares on a fully converted and diluted basis on the last day of the immediately

preceding fiscal year exceeds (b) the number of shares then reserved and available for issuance under the Equity Plan, or (ii) such lesser amount by which the administrator may decide to increase the number of Class A shares. The number of shares reserved under the Equity Plan is also subject to adjustment in the event of a share split, share dividend, or other change in our capitalization. Generally, employee shares that are forfeited, canceled, surrendered or exchanged from awards under the Equity Plan will be available for future awards. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register Class A shares under the Equity Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, Class A shares registered under such registration statement will be available for sale in the open market.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Agreement Among Managing Partners

Our Managing Partners have entered into the Agreement Among Managing Partners. The Managing Partners own Holdings in accordance with their respective sharing percentages, or "Sharing Percentages," as set forth in the Agreement Among Managing Partners. For the purposes of the Agreement Among Managing Partners, "Pecuniary Interest" means, with respect to each Managing Partner, the number of AOG Units that would be distributable to such Managing Partner assuming that Holdings was liquidated and its assets distributed in accordance with its governing agreements.

Pursuant to the Agreement Among Managing Partners, each of Messrs. Harris and Rowan vested in his interest in the AOG Units in 60 equal monthly installments, and Mr. Black vested in his interest in the AOG Units in 72 equal monthly installments. For the purposes of the vesting provisions of the Agreement Among Managing Partners, our Managing Partners were credited for their employment with us since January 1, 2007. Each is now vested in full. We may not terminate a Managing Partner except for cause or by reason of disability.

The transfer by a Managing Partner of any portion of his Pecuniary Interest to a permitted transferee will in no way affect any of his obligations under the Agreement Among Managing Partners; provided, that all permitted transferees are required to sign a joinder to the Agreement Among Managing Partners.

The Managing Partners' respective Pecuniary Interests in certain funds, or the "Heritage Funds," within the Apollo Operating Group are not held in accordance with the Managing Partners' respective Sharing Percentages. Instead, each Managing Partner's Pecuniary Interest in such Heritage Funds is held in accordance with the historic ownership arrangements among the Managing Partners, and the Managing Partners continue to share the operating income in such Heritage Funds in accordance with their historic ownership arrangement with respect to such Heritage Funds.

The Agreement Among Managing Partners may be amended and the terms and conditions of the Agreement Among Managing Partners may be changed or modified upon the unanimous approval of the Managing Partners. We, our shareholders (other than the Strategic Investors, as set forth under "-Lenders Rights Agreement-Amendments to Managing Partner Transfer Restrictions") and the Apollo Operating Group have no ability to enforce any provision thereof or to prevent the Managing Partners from amending the Agreement Among Managing Partners.

Managing Partner Shareholders Agreement

We have entered into the Managing Partner Shareholders Agreement with our Managing Partners. The Managing Partner Shareholders Agreement provides the Managing Partners with certain rights with respect to the approval of certain matters and the designation of nominees to serve on our board of directors, as well as registration rights for our securities that they own.

Board Representation

The Managing Partner Shareholders Agreement requires our board of directors, so long as the Apollo control condition is satisfied, to nominate individuals designated by our manager such that our manager will have a majority of the designees on our board.

Transfer Restrictions

The Managing Partner Shareholders Agreement provides that no Managing Partner may, nor shall any of such Managing Partner's permitted transferees, directly or indirectly, voluntarily effect cumulative transfers of Pecuniary Interests (as defined in the Managing Partner Shareholders Agreement), representing more than: (i) 15% of his Pecuniary Interests at any time on or after the third anniversary and prior to the fourth anniversary of our IPO; (ii) 22.5% of his Pecuniary Interests at any time on or after the fourth anniversary and prior to the fifth anniversary of our IPO; (iii) 30% of his Pecuniary Interests at any time on or after the fifth anniversary and prior to the sixth anniversary of our IPO; and (iv) 100% of his Pecuniary Interests at any time on or after the sixth anniversary of our IPO, other than, in each case, with respect to transfers (a) from one founder to another founder, (b) to a permitted transferee of such Managing Partner, or (c) in connection with a sale by one or more of our Managing Partners in one or a related series of transactions resulting in the Managing Partners owning or controlling, directly or indirectly, less than 50.1% of the economic or voting interests in us or the Apollo Operating Group, or any other person exercising control over us or the Apollo Operating Group by contract, which would include a transfer of control of our manager.

The percentages referenced in the preceding paragraph will apply to the aggregate amount of Equity Interests held by each Managing Partner (and his permitted transferees) as of July 13, 2007. After six years, each Managing Partner and his permitted transferees may transfer all of the Equity Interests of such Managing Partner to any person or entity in accordance with Rule 144, in a registered public offering or in a transaction exempt from the registration requirements of the Securities Act. The above transfer restrictions will lapse with respect to a Managing Partner if such Managing Partner dies or becomes disabled.

A "permitted transferee" means, with respect to each Managing Partner and his permitted transferees, (i) such Managing Partner's spouse, (ii) a lineal descendant of such Managing Partner's parents (or any such descendant's spouse), (iii) a charitable institution controlled by such Managing Partner, (iv) a trustee of a trust (whether inter vivos or testamentary), the current beneficiaries and presumptive remaindermen of which are one or more of such Managing Partner and persons described in clauses (i) through (iii) above, (v) a corporation, limited liability company or partnership, of which all of the outstanding shares of capital stock or interests therein are owned by one or more of such Managing Partner and persons described in clauses (i) through (iv) above, (vi) an individual mandated under a qualified domestic relations order, (vii) a legal or personal representative of such Managing Partner in the event of his death or disability, (viii) any other Managing Partner with respect to transactions contemplated by the Managing Partner Shareholders Agreement, and (ix) any other Managing Partner who is then employed by Apollo or any of its affiliates or any permitted transferee of such Managing Partner in respect of any transaction not contemplated by the Managing Partner Shareholders Agreement, in each case that agrees in writing to be bound by these transfer restrictions.

Any waiver of the above transfer restrictions may only occur with our consent. As our Managing Partners control the management of our company, however, they have discretion to cause us to grant one or more such waivers. Accordingly, the above transfer restrictions might not be effective in preventing our Managing Partners from selling or transferring their Equity Interests.

Indemnity

Carried interest income from our funds can be distributed to us on a current basis, but is subject to repayment by the subsidiaries of the Apollo Operating Group that act as general partners of the funds in the event that certain specified return thresholds are not ultimately achieved. The Managing Partners, Contributing Partners and certain other investment professionals have personally guaranteed, subject to certain limitations, the obligations of these subsidiaries in respect of this general partner obligation. Such guarantees are several and not joint and are limited to a particular Managing Partner's or Contributing Partner's distributions. Pursuant to the Managing Partner Shareholders Agreement, we agreed to indemnify each of our Managing Partners and certain Contributing Partners against all amounts that they pay pursuant to any of these personal guarantees in favor of Fund IV, Fund V and Fund VI (including costs and expenses related to investigating the basis for or objecting to any claims made in respect of the guarantees) for all interests that our Managing Partners and Contributing Partners have contributed or sold to the Apollo Operating Group.

Accordingly, in the event that our Managing Partners, Contributing Partners and certain other investment professionals are required to pay amounts in connection with a general partner obligation for the return of previously made distributions with respect to Fund IV, Fund V and Fund VI, we will be obligated to reimburse our Managing Partners and certain Contributing Partners for the indemnifiable percentage of amounts that they are required to pay even though we did not receive the distribution to which that general partner obligation related.

Registration Rights

Pursuant to the Managing Partner Shareholders Agreement, we have granted Holdings, an entity through which our Managing Partners and Contributing Partners own their AOG units, and its permitted transferees the right, under certain circumstances and subject to certain restrictions, to require us to register under the Securities Act our Class A shares held or acquired by them. Under the Managing Partner Shareholders Agreement, the registration rights holders (i) have "demand" registration rights that require us to register under the Securities Act the Class A shares that they hold or acquire, (ii) may require us to make available registration statements permitting sales of Class A shares they hold or acquire in the market from time to time over an extended period and (iii) have the ability to exercise certain piggyback registration rights in connection with registered offerings requested by other registration rights holders or initiated by us. We have agreed to indemnify each registration rights holder and certain related parties against any losses or damages resulting from any untrue statement or omission of material fact in any registration statement or prospectus pursuant to which they sell our shares, unless such liability arose from such holder's misstatement or omission, and each registration rights holder has agreed to indemnify us against all losses caused by his misstatements or omissions. We have filed a shelf registration statement in connection with the rights described above.

Roll-Up Agreements

Pursuant to the Roll-Up Agreements, the Contributing Partners received interests in Holdings, which we refer to as AOG Units, in exchange for their contribution of assets to the Apollo Operating Group. The AOG Units received by our Contributing Partners and any units into which they are exchanged generally vested over six years in equal monthly installments and were fully vested on June 30, 2013. AOG Units were subject to a lock-up until two years after our IPO. Thereafter, 7.5% of the AOG Units became, or will become, tradable on each of the second, third, fourth and fifth anniversaries of our IPO, with the remaining AOG Units becoming tradable on the sixth anniversary of our IPO or upon subsequent vesting. An AOG Unit that is forfeited will revert to the Managing Partners. Our Contributing Partners have the ability to direct Holdings to exercise Holdings' registration rights described above under "-Managing Partner Shareholders Agreement-Registration Rights."

Under their Roll-Up Agreements, each of our Contributing Partners is subject to a noncompetition provision until the first anniversary of the date of termination of his service as a partner to us. During that period, our Contributing Partners are prohibited from (i) engaging in any business activity that we operate in, (ii) rendering any services to any alternative asset management business (other than that of us or our affiliates) that involves primarily (i.e., more than 50%) third-party capital or (iii) acquiring a financial interest in, or becoming actively involved with, any competitive business (other than as a passive holding of a specified percentage of publicly traded companies). In addition, our Contributing Partners are subject to nonsolicitation, nonhire and noninterference covenants during employment and for two years thereafter. Our Contributing Partners are also bound to a nondisparagement covenant with respect to us and our Contributing Partners and to confidentiality restrictions. Resignation by any of our Contributing Partners shall require ninety days' notice. Any restricted period applicable to a Contributing Partner will commence after the ninety day notice of termination period.

Amended and Restated Exchange Agreement

We have entered into an exchange agreement with Holdings under which, subject to certain procedures and restrictions (including any applicable transfer restrictions and lock-up agreements described above) upon 60 days' written notice prior to a designated quarterly date, each Managing Partner and Contributing Partner (or certain transferees thereof) has the right to cause Holdings to exchange the AOG Units that he owns through Holdings for our Class A shares and to sell such Class A shares at the prevailing market price (or at a lower price that such Managing Partner or Contributing Partner is willing to accept). To effect the exchange, Holdings distributes the AOG Units to be exchanged to the applicable Managing Partner or Contributing Partner. Under the exchange agreement, the Managing Partner or Contributing Partner must then simultaneously exchange one AOG Unit (being an equal limited partner interest in each Apollo Operating Group entity) for each Class A share received from our intermediate holding companies. As a Managing Partner or Contributing Partner exchanges his AOG Units, our interest in the AOG Units will be correspondingly increased and the voting power of the Class B share will be correspondingly decreased.

The exchange agreement was amended and restated on May 6, 2013 and further amended and restated on March 5, 2014. The amendments to the original exchange agreement (i) permit exchanging holders certain rights to revoke exchanges of their AOG Units in whole, but not in part, in certain circumstances; (ii) permit transfers of a holder's exchanged shares to a qualifying entity that can sell them under a Rule 10b5-1 trading plan; (iii) require the Company to use its commercially reasonable efforts to file and keep effective a shelf registration statement relating to the exchange of Class A shares received upon an exchange of AOG Units; (iv) modify the exchange mechanics to address certain tax considerations of an exchange for exchanging holders; and (v) require exchanging holders to reimburse APO Corp. for any incremental U.S. federal income tax incurred by APO Corp. as a result of the modification of the exchange mechanics.

Amended and Restated Tax Receivable Agreement

As a result of each of AMH Holdings (Cayman), L.P. and the Apollo Operating Group entities controlled by it or Apollo Management Holdings, L.P. having made an election under Section 754 of the Internal Revenue Code, any exchanges by a Managing Partner or Contributing Partner of AOG Units (together with the corresponding interest in our Class B share), that he owns through Holdings, for our Class A shares in a taxable transaction may result in an adjustment to the tax basis of a portion of the assets owned by the Apollo Operating Group at the time of the exchange. The taxable exchanges may result in increases in the tax depreciation and amortization deductions from depreciable and amortizable assets, as well as an increase in the tax basis of other assets, of the Apollo Operating Group that otherwise would not have been available. A portion of these increases in tax depreciation and amortization deductions, as well as the increase in the tax basis of such other assets, will reduce the amount of tax that APO Corp. would otherwise be required to pay in the future. Additionally, our acquisition of AOG Units from the Managing Partners or Contributing Partners, such as our acquisition of AOG Units from the Managing Partners in the Strategic Investors Transaction, have and may continue to result in increases in tax deductions and tax basis that reduces the amount of tax that APO Corp. would otherwise be required to pay in the future.

APO Corp. has entered into a tax receivable agreement with our Managing Partners and Contributing Partners that provides for the payment by APO Corp. to an exchanging or selling Managing Partner or Contributing Partner of 85% of the amount of actual cash savings, if any, in U.S. Federal, state, local and foreign income tax that APO Corp. realizes (or is deemed to realize in the case of an early termination payment by APO Corp. or a change of control, as discussed below) as a result of these increases in tax deductions and tax basis, and certain other tax benefits, including imputed interest expense, related to payments pursuant to the tax receivable agreement. APO Corp. expects to benefit from the remaining 15% of actual cash savings, if any, in income tax that it realizes. For purposes of the tax receivable agreement, cash savings in income tax will be computed by comparing our actual income tax liability to the amount of such taxes that APO Corp. would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of the applicable Apollo Operating Group entity as a result of the transaction and had APO Corp. not entered into the tax receivable agreement. The tax savings achieved may not ensure that we have sufficient cash available to pay our tax liability or generate additional distributions to our investors. Also, we may need to incur additional debt to repay the tax receivable agreement if our cash flow needs are not met. The term of the tax receivable agreement will continue until all such tax benefits have been utilized or expired, unless APO Corp. exercises the right to terminate the tax receivable agreement by paying an amount based on the present value of payments remaining to be made under the agreement with respect to units that have been exchanged or sold and units which have not yet been exchanged or sold. Such present value will be determined based on certain assumptions, including that APO Corp. would have sufficient taxable income to fully utilize the deductions that would have arisen from the increased tax deductions and tax basis and other benefits related to the tax receivable agreement. In the event that other of our current or future U.S. subsidiaries become taxable as corporations and acquire AOG Units in the future, or if we become taxable as a corporation for U.S. Federal income tax purposes, each U.S. corporation will become subject to a tax receivable agreement with substantially similar terms. In connection with an amendment of the AMH partnership agreement in April 2010, the tax receivable agreement was revised to reflect the Managing Partners' agreement to defer 25% of required payments pursuant to the tax receivable agreement that are attributable to the 2010 fiscal year until 2015.

The IRS could challenge our claim to any increase in the tax basis of the assets owned by the Apollo Operating Group that results from the exchanges entered into by the Managing Partners or Contributing Partners. The IRS could also challenge any additional tax depreciation and amortization deductions or other tax benefits we claim as a result of such increase in the tax basis of such assets. If the IRS were to successfully challenge a tax basis increase or tax benefits we previously claimed from a tax basis increase, our Managing Partners and Contributing Partners would not be obligated under the tax receivable agreement to reimburse APO Corp. for any payments previously made to it (although future payments would be adjusted to reflect the result of such challenge). As a result, in certain circumstances, payments could be made to our Managing Partners and Contributing Partners under the tax receivable agreement in excess of 85% of APO Corp.'s actual cash tax savings. In general, estimating the amount of payments that may be made to our Managing Partners and Contributing Partners under the tax receivable agreement is by its nature, imprecise, in the absence of an actual transaction, insofar as the calculation of amounts payable depends on a variety of factors. The actual increase in tax basis and the amount and timing of any payments under the tax receivable agreement will vary depending upon a number of factors, including:

- the timing of the transactions-for instance, the increase in any tax deductions will vary depending on the fair market value, which may fluctuate over time, of the depreciable or amortizable assets of the Apollo Operating Group entities at the time of the transaction;
- the price of our Class A shares at the time of the transaction-the increase in any tax deductions, as well as tax basis increase in other assets, of the Apollo Operating Group entities, is directly proportional to the price of the Class A shares at the time of the transaction;
- the taxability of exchanges - to the extent if an exchange is not taxable for any reason, increased deductions will not be available; and
- the amount and timing of our income-APO Corp. will be required to pay 85% of the tax savings as and when realized, if any. If APO Corp. does not have taxable income, it is not required to make payments under the tax receivable agreement for that taxable year because no tax savings were actually realized.

In addition, the tax receivable agreement provides that, upon a merger, asset sale or other form of business combination or certain other changes of control, APO Corp.'s (or its successor's) obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such change of control) would be based on certain assumptions, including that APO Corp. would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement. As noted above, no payments will be made if a Managing Partner or Contributing Partner elects to exchange his or her AOG Units in a tax-free transaction.

In connection with the first amendment and restatement of the exchange agreement, the tax receivable agreement was amended and restated on May 6, 2013 to conform the agreement to the amended and restated exchange agreement, particularly to address the modified exchange mechanics, and to make non-substantive updates to recognize certain additional Apollo Operating Group entities that have been formed since the original tax receivable agreement was entered into in 2007.

Strategic Investors Transaction

On July 13, 2007, we sold securities to the Strategic Investors in return for a total investment of $1.2 billion. Through our intermediate holding companies, we used all of the proceeds from the issuance of such securities to the Strategic Investors to purchase from our Managing Partners 17.4% of their AOG Units for an aggregate purchase price of $1,068 million, and to purchase from our Contributing Partners a portion of their points for an aggregate purchase price of $156 million. The Strategic Investors hold non-voting Class A shares, which represented 27.6% of our issued and outstanding Class A shares and 11.7% of the economic interest in the Apollo Operating Group, in each case as of December 31, 2014.

As all of their holdings in us are non-voting, neither of the Strategic Investors has any means for exerting control over our company.

Strategic Relationship Agreement

On April 20, 2010, we announced a new strategic relationship agreement with CalPERS, whereby we agreed to reduce management fees and other fees charged to CalPERS on funds we manage, or in the future will manage, solely for CalPERS by $125 million over a five-year period or as close a period as required to provide CalPERS with that benefit. The agreement further provides that we will not use a placement agent in connection with securing any future capital commitments from CalPERS. Through December 31, 2014, the Company has reduced fees charged to CalPERS on the funds it manages by approximately $95.9 million.

Lenders Rights Agreement

In connection with the Strategic Investors Transaction, we entered into a shareholders agreement, or the "Lenders Rights Agreement," with the Strategic Investors.

Transfer Restrictions

Following the registration effectiveness date, each Strategic Investor may transfer its non-voting Class A shares up to the percentages set forth below during the relevant periods identified:

Period	Maximum Cumulative Amount
Registration Effectiveness Date-2nd anniversary of our IPO	0%
2nd-3rd anniversary of our IPO	25%
3rd-4th anniversary of our IPO	50%
4th-5th anniversary of our IPO	75%
5th anniversary of our IPO (and thereafter)	100%

Notwithstanding the foregoing, at no time following the registration effectiveness date may a Strategic Investor make a transfer representing 2% or more of our total Class A shares to any one person or group of related persons.

Registration Rights

Pursuant to the Lenders Rights Agreement, each Strategic Investor is afforded four demand registrations with respect to non-voting Class A shares, covering offerings of at least 2.5% of our total equity ownership and customary piggyback registration rights. All cutbacks between the Strategic Investors and Holdings (or its members) in any such demand registration shall be pro rata based upon the number of shares available for sale at such time (regardless of which party exercises a demand).

Amendments to Managing Partner Transfer Restrictions

Each Strategic Investor has a consent right with respect to any amendment or waiver of any transfer restrictions that apply to our Managing Partners.

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Apollo Operating Group Limited Partnership Agreements

Pursuant to the partnership agreements of the Apollo Operating Group partnerships, the indirect wholly-owned subsidiaries of Apollo Global Management, LLC that are the general partners of those partnerships have the right to determine when distributions will be made to the partners of the Apollo Operating Group and the amount of any such distributions. If a distribution is authorized, such distribution will be made to the partners of the Apollo Operating Group pro rata in accordance with their respective partnership interests.

The partnership agreements of the Apollo Operating Group partnerships also provide that substantially all of our expenses, including substantially all expenses solely incurred by or attributable to Apollo Global Management, LLC (such as expenses incurred in connection with the Private Offering Transactions), will be borne by the Apollo Operating Group; provided that obligations incurred under the tax receivable agreement by Apollo Global Management, LLC and its wholly-owned subsidiaries (which currently consist of our three intermediate holding companies, APO Corp., APO (FC), LLC and APO Asset Co., LLC), income tax expenses of Apollo Global Management, LLC and its wholly-owned subsidiaries and indebtedness incurred by Apollo Global Management, LLC and its wholly-owned subsidiaries shall be borne solely by Apollo Global Management, LLC and its wholly-owned subsidiaries.

Employment Arrangements

Please see the section entitled “Item 11. Executive Compensation-Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table” and “-Potential Payments upon Termination or Change in Control” for a description of the employment agreements of our named executive officers who have employment agreements.

In addition, Joshua Black and Benjamin Black, sons of Leon Black, are each employed by the Company as an Associate in the Company’s private equity business. They are each entitled to receive a base salary, incentive compensation and other employee benefits that are offered to similarly situated employees of the Company. Each is also eligible to receive an annual performance-based bonus in an amount determined by the Company in its discretion.

Reimbursements

In the normal course of business, our personnel have made use of aircraft owned as personal assets by Messrs. Black, Rowan and Harris. Messrs. Black, Rowan and Harris paid for their purchases of the aircraft and bear all operating, personnel and maintenance costs associated with their operation for personal use. Payment by us for the business use of these aircraft by Messrs. Black, Rowan and Harris and other of our personnel totaled $608,894, $928,572 and $1,601,325 for 2014 to Mr. Black, Mr. Rowan and Mr. Harris, respectively (which amounts are determined based on the lower of the actual costs of operating the aircraft or a specified hourly market rate).

Investments In Apollo Funds

Our directors and executive officers are generally permitted to invest their own capital (or capital of estate planning vehicles that they control) directly in our funds. In general, such investments are not subject to management fees, and in certain instances, may not be subject to carried interest. The opportunity to invest in our funds is available to all of the senior Apollo professionals and to those of our employees whom we have determined to have a status that reasonably permits us to offer them these types of investments in compliance with applicable laws. From our inception through December 31, 2014, our professionals have committed or invested approximately $1.2 billion of their own capital to our funds.

The amount invested in our investment funds by our directors and executive officers (and their estate planning vehicles) during 2014 was $21,594,185, $17,611,226, $10,047,553, $3,117,160, $3,487,560, $107,144, and $93,369 for Messrs Black, Harris, Rowan, Zelter, Suydam, Kelly, and Weidler respectively. The amount of distributions, including profits and return of capital to our directors and executive officers (and their estate planning vehicles) during 2014 was $62,371,465, $24,873,467, $20,342,373, $7,535,306, $4,208,409, $15,421, and $12,737 for Messrs. Black, Harris, Rowan, Zelter, Suydam, Kelly, and Weidler, respectively.

Sub-Advisory Arrangements and Strategic Investment Accounts

From time to time, we may enter into sub-advisory arrangements with, or establish strategic investment accounts for, our directors and executive officers or vehicles they manage. Such arrangements would be approved in advance in accordance with our policy regarding transactions with related persons. In addition, any such sub-advisory arrangement or strategic investment account would be entered into with, or advised by, an Apollo entity serving as investment advisor registered under the Investment Advisers Act, and any fee arrangements, if applicable would be on an arms-length basis.

Indemnification of Directors, Officers and Others

Under our operating agreement, in most circumstances we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts: our manager; any departing manager; any person who is or was an affiliate of our manager or any departing manager; any person who is or was a member, partner, tax matters partner, officer, director, employee, agent, fiduciary or trustee of us or our subsidiaries, our manager or any departing manager or any affiliate of us or our subsidiaries, our manager or any departing manager; any person who is or was serving at the request of our manager or any departing manager or any affiliate of our manager or any departing manager as an officer, director, employee, member, partner, agent, fiduciary or trustee of another person; or any person designated by our manager. We have agreed to provide this indemnification unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that these persons acted in bad faith or engaged in fraud or willful misconduct. We have also agreed to provide this indemnification for criminal proceedings. Any indemnification under these provisions will only be out of our assets. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our operating agreement.

We have entered into indemnification agreements with each of our directors, executive officers and certain of our employees which set forth the obligations described above.

We have also agreed to indemnify each of our Managing Partners and certain Contributing Partners against certain amounts that they are required to pay in connection with a general partner obligation for the return of previously made carried interest distributions in respect of Fund IV, Fund V and Fund VI. See the above description of the indemnity provisions of the Managing Partner Shareholders Agreement.

Statement of Policy Regarding Transactions with Related Persons

Our board of directors has adopted a written statement of policy regarding transactions with related persons, which we refer to as our "related person policy." Our related person policy requires that a "related person" (as defined in paragraph (a) of Item 404 of Regulation S-K) must promptly disclose to our Chief Legal Officer any "related person transaction" (defined as any transaction that is reportable by us under Item 404(a) of Regulation S-K in which we were or are to be a participant and the amount involved exceeds $120,000 and in which any related person had or will have a direct or indirect material interest) and all material facts with respect thereto. Our Chief Legal Officer will then promptly communicate that information to our manager. No related person transaction will be consummated without the approval or ratification of the executive committee of our manager or any committee of our board of directors consisting exclusively of disinterested directors. It is our policy that persons interested in a related person transaction will recuse themselves from any vote of a related person transaction in which they have an interest.

Director Independence

Because more than fifty percent of our voting power is controlled by BRH, we are considered a "controlled company" as defined in the listing standards of the NYSE and we are exempt from the NYSE rules that require that:

- our board of directors be comprised of a majority of independent directors;
- we establish a compensation committee composed solely of independent directors; and
- we establish a nominating and corporate governance committee composed solely of independent directors.

While our board of directors is currently comprised of a majority of independent directors, we plan on availing ourselves of the controlled company exceptions. We have elected not to have a nominating and corporate governance committee comprised entirely of independent directors, nor a compensation committee comprised entirely of independent directors. Our board of directors has determined that five of our eight directors meet the independence standards under the NYSE and the SEC. These directors are Messrs. Ducey, Fribourg, Krongard and Kraft and Ms. Richards.

At such time that we are no longer deemed a controlled company, our board of directors will take all action necessary to comply with all applicable rules within the applicable time period under the NYSE listing standards.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table summarizes the aggregate fees for professional services provided by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, the "Deloitte Entities") for the years ended December 31, 2014 and 2013:

	Year Ended December 31,	
	2014	2013
	(in thousands)	
Audit fees	$ 12,810 [(1)]	$ 13,465 [(1)]
Audit fees for Apollo fund entities	20,413 [(2)]	19,505 [(2)]
Audit-related fees	7,360 [(3)(4)]	2,340 [(3)(4)]
Tax fees	3,275 [(5)]	3,580 [(5)]
Tax fees for Apollo fund entities	16,857 [(2)]	13,835 [(2)]

(1) Audit fees consisted of fees for (a) the audits of our consolidated financial statements in our Annual Report on Form 10-K and services attendant to, or required by, statute or regulation; (b) reviews of the interim condensed consolidated financial statements included in our quarterly reports on Form 10-Q.

(2) Audit and Tax fees for Apollo fund entities consisted of services to investment funds managed by Apollo in its capacity as the general partner and/or manager of such entities.

(3) Audit-related fees consisted of comfort letters, consents and other services related to SEC and other regulatory filings.

(4) Includes audit-related fees for Apollo fund entities of $0.3 million and $0.5 million for the year ended December 31, 2014 and 2013, respectively.

(5) Tax fees consisted of fees for services rendered for tax compliance and tax planning and advisory services.

Our audit committee charter requires the audit committee of our board of directors to approve in advance all audit and non-audit related services to be provided by our independent registered public accounting firm. All services reported in the Audit, Audit-related, Tax and Other categories above were approved by the committee.

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PART IV

ITEM 15. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Certificate of Formation of Apollo Global Management, LLC (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
3.2	Amended and Restated Limited Liability Company Agreement of Apollo Global Management, LLC (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
4.1	Specimen Certificate evidencing the Registrant's Class A shares (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
4.2	Indenture dated as of May 30, 2014, among Apollo Management Holdings, L.P., the Guarantors party thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 30, 2014 (File No. 001-35107)).
4.3	First Supplemental Indenture dated as of May 30, 2014, among Apollo Management Holdings, L.P., the Guarantors party thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 30, 2014 (File No. 001-35107)).
4.4	Form of 4.000% Senior Note due 2024 (included in Exhibit 4.2 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 30, 2014 (File No. 001-35107), which is incorporated by reference).
*4.5	Second Supplemental Indenture dated as of January 30, 2015, among Apollo Management Holdings, L.P., the Guarantors party thereto, Apollo Principal Holdings X, L.P. and Wells Fargo Bank, National Association, as trustee.
10.1	Amended and Restated Limited Liability Company Operating Agreement of AGM Management, LLC dated as of July 10, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.2	Third Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings I, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.3	Third Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings II, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.4	Third Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings III, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.5	Third Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings IV, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).

+10.6	Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.7	Agreement Among Principals, dated as of July 13, 2007, by and among Leon D. Black, Marc J. Rowan, Joshua J. Harris, Black Family Partners, L.P., MJR Foundation LLC, AP Professional Holdings, L.P. and BRH Holdings, L.P. (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.8	Shareholders Agreement, dated as of July 13, 2007, by and among Apollo Global Management, LLC, AP Professional Holdings, L.P., BRH Holdings, L.P., Black Family Partners, L.P., MJR Foundation LLC, Leon D. Black, Marc J. Rowan and Joshua J. Harris (incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.9	Second Amended and Restated Exchange Agreement, dated as of March 5, 2014, by and among Apollo Global Management, LLC, Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P., AMH Holdings (Cayman), L.P. and the Apollo Principal Holders (as defined therein) from time to time party thereto (incorporated by reference to Exhibit 10.11 to the Registrant's Form 10-Q for the period ended March 31, 2014 (File No. 001-35107)).
10.10	Amended and Restated Tax Receivable Agreement, dated as of May 6, 2013, by and among APO Corp., Apollo Principal Holdings II, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings VI, Apollo Principal Holdings VIII, L.P., AMH Holdings (Cayman), L.P. and each Holder defined therein (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 7, 2013 (File No. 001-35107)).
+10.11	Employment Agreement with Leon D. Black (incorporated by reference to Exhibit 10.43 to the Registrant's Form 10-Q for the period ended June 30, 2012 (File No. 001-35107)).
+10.12	Employment Agreement with Marc J. Rowan (incorporated by reference to Exhibit 10.44 to the Registrant's Form 10-Q for the period ended June 30, 2012 (File No. 001-35107)).
+10.13	Employment Agreement with Joshua J. Harris (incorporated by reference to Exhibit 10.45 to the Registrant's Form 10-Q for the period ended June 30, 2012 (File No. 001-35107)).
10.14	Second Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings V, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.20 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.15	Second Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings VI, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.21 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.16	Second Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings VII, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.22 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.17	Second Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings VIII, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.23 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).

10.18	Second Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings IX, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.24 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.19	Fourth Amended and Restated Limited Partnership Agreement of Apollo Management Holdings, L.P. dated as of October 30, 2012 (incorporated by reference to Exhibit 10.25 to the Registrant's Form 10-Q for the Registration Statement on Form S-1 (File No. 333-150141)).
10.20	Settlement Agreement, dated December 14, 2008, by and among Huntsman Corporation, Jon M. Huntsman, Peter R. Huntsman, Hexion Specialty Chemicals, Inc., Hexion LLC, Nimbus Merger Sub, Inc., Craig O. Morrison, Leon Black, Joshua J. Harris and Apollo Global Management, LLC and certain of its affiliates (incorporated by reference to Exhibit 10.26 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.21	First Amendment and Joinder, dated as of August 18, 2009, to the Shareholders Agreement, dated as of July 13, 2007, by and among Apollo Global Management, LLC, AP Professional Holdings, L.P., BRH Holdings, L.P., Black Family Partners, L.P., MJR Foundation LLC, Leon D. Black, Marc J. Rowan and Joshua J. Harris (incorporated by reference to Exhibit 10.27 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.22	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.28 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.23	Amended and Restated Employment Agreement with James Zelter dated as of June 20, 2014 (incorporated by reference to Exhibit 10.27 to the Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.24	Roll-Up Agreement with James Zelter (incorporated by reference to Exhibit 10.30 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.25	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for Plan Grants) (incorporated by reference to Exhibit 10.31 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.26	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for Bonus Grants) (incorporated by reference to Exhibit 10.32 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.27	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for new independent directors) (incorporated by reference to Exhibit 10.31 to the Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.28	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for continuing independent directors) (incorporated by reference to Exhibit 10.32 to the Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.29	Form of Restricted Share Award Grant Notice and Restricted Share Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.33 to the Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.30	Form of Share Award Grant Notice and Share Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for Retired Partners) (incorporated by reference to Exhibit 10.34 to the Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).

+10.31	Apollo Management Companies AAA Unit Plan (incorporated by reference to Exhibit 10.34 to the Registrant’s Registration Statement on Form S-1 (File No. 333-150141)).
+10.32	Employment Agreement with Marc Spilker (incorporated by reference to Exhibit 10.35 to the Registrant’s Registration Statement on Form S-1 (File No. 333-150141)).
*+10.33	Employment Agreement with Christopher Weidler, dated June 4, 2013.
+10.34	Non-Qualified Share Option Agreement pursuant to the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan with Marc Spilker dated December 2, 2010 (incorporated by reference to Exhibit 10.40 to the Registrant’s Registration Statement on Form S-1 (File No. 333-150141)).
10.35	Amended Form of Independent Director Engagement Letter (incorporated by reference to Exhibit 10.38 to the Registrant’s Form 10-Q for the period ended March 31, 2014 (File No. 001-35107)).
+10.36	Employment Agreement with Martin Kelly, dated July 2, 2012 (incorporated by reference to Exhibit 10.42 to the Registrant’s Form 10-Q for the period ended June 30, 2012 (File No. 001-35107)).
10.37	Amended and Restated Exempted Limited Partnership Agreement of AMH Holdings, L.P., dated October 30, 2012 (incorporated by reference to Exhibit 10.46 to the Registrant’s Form 10-Q for the period ended September 30, 2012 (File No. 001-35107)).
+10.38	Amended and Restated Limited Partnership Agreement of Apollo Advisors VI, L.P., dated as of April 14, 2005 and amended as of August 26, 2005 (incorporated by reference to Exhibit 10.41 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.39	Third Amended and Restated Limited Partnership Agreement of Apollo Advisors VII, L.P. dated as of July 1, 2008 and effective as of August 30, 2007 (incorporated by reference to Exhibit 10.42 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.40	Third Amended and Restated Limited Partnership Agreement of Apollo Credit Opportunity Advisors I, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.43 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.41	Third Amended and Restated Limited Partnership Agreement of Apollo Credit Opportunity Advisors II, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.44 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.42	Third Amended and Restated Limited Partnership Agreement of Apollo Credit Liquidity Advisors, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.45 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.43	Second Amended and Restated Limited Partnership Agreement of Apollo Credit Liquidity CM Executive Carry, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.46 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).

+10.44	Second Amended and Restated Limited Partnership Agreement Apollo Credit Opportunity CM Executive Carry I, L.P. dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.47 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.45	Second Amended and Restated Limited Partnership Agreement of Apollo Credit Opportunity CM Executive Carry II, L.P. dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.48 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.46	Second Amended and Restated Exempted Limited Partnership Agreement of AGM Incentive Pool, L.P., dated June 29, 2012 (incorporated by reference to Exhibit 10.49 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
10.47	Credit Agreement, dated as of December 18, 2013, by and among Apollo Management Holdings, L.P., as the Term Facility Borrower and a Revolving Facility Borrower, the other Revolving Facility Borrowers party thereto, the other guarantors party thereto from time to time, the lenders party thereto from time to time, the issuing banks party thereto from time to time and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.50 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
*10.48	Guarantor Joinder Agreement, dated as of January 30, 2015, by Apollo Principal Holdings X, L.P. to the Credit Agreement, dated as of December 18, 2013, by and among Apollo Management Holdings, L.P., as the Term Facility Borrower and a Revolving Facility Borrower, the other Revolving Facility Borrowers party thereto, the existing guarantors party thereto, the lenders party thereto from time to time, the issuing banks party thereto from time to time and JPMorgan Chase Bank, N.A., as administrative agent.
10.49	Transition Agreement, dated as of March 19, 2014, by and among Marc A. Spilker, Apollo Management Holdings, L.P. and Apollo Global Management, LLC (incorporated by reference to Exhibit 10.51 to the Registrant's Form 10-Q for the period ended March 31, 2014 (File No. 001-35107)).
+10.50	Form of Letter Agreement under the Amended and Restated Limited Partnership Agreement of Apollo Advisors VIII, L.P. effective as of January 1, 2014 (incorporated by reference to Exhibit 10.56 to the Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.51	Form of Award Letter under the Amended and Restated Limited Partnership Agreement of Apollo Advisors VIII, L.P. effective as of January 1, 2014 (incorporated by reference to Exhibit 10.57 to the Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
*+10.52	Amended and Restated Limited Partnership Agreement of Apollo EPF Advisors, L.P., dated as of February 3, 2011.
*+10.53	First Amended and Restated Exempted Limited Partnership Agreement of Apollo EPF Advisors II, L.P. dated as of April 9, 2012.
*+10.54	Amended and Restated Agreement of Exempted Limited Partnership of Apollo CIP Partner Pool, L.P., dated as of December 18, 2014.
*+10.55	Form of Award Letter under the Amended and Restated Agreement of Exempted Limited Partnership Agreement of Apollo CIP Partner Pool, L.P.
*+10.56	Second Amended and Restated Agreement of Limited Partnership of Apollo Credit Opportunity Advisors III (APO FC), L.P., dated as of December 18, 2014.

*+10.57	Form of Award Letter under Second Amended and Restated Agreement of Limited Partnership of Apollo Credit Opportunity Advisors III (APO FC), L.P.
*21.1	Subsidiaries of Apollo Global Management, LLC.
*23.1	Consent of Deloitte & Touche LLP.
*31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
*31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
*32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
*32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Scheme Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

\+ Management contract or compensatory plan or arrangement.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		Apollo Global Management, LLC (Registrant)
Date: February 27, 2015	By:	/s/ Martin Kelly
		Name: Martin Kelly
		Title: Chief Financial Officer (principal financial officer and authorized signatory)

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Name	Title	Date
/s/ Leon Black Leon Black	Chairman and Chief Executive Officer and Director (principal executive officer)	February 27, 2015
/s/ Martin Kelly Martin Kelly	Chief Financial Officer (principal financial officer)	February 27, 2015
/s/ Chris Weidler Chris Weidler	Chief Accounting Officer (principal accounting officer)	February 27, 2015
/s/ Joshua Harris Joshua Harris	Senior Managing Director and Director	February 27, 2015
/s/ Marc Rowan Marc Rowan	Senior Managing Director and Director	February 27, 2015
/s/ Michael Ducey Michael Ducey	Director	February 27, 2015
/s/ Paul Fribourg Paul Fribourg	Director	February 27, 2015
/s/ Robert Kraft Robert Kraft	Director	February 27, 2015
/s/ AB Krongard AB Krongard	Director	February 27, 2015
/s/ Pauline Richards Pauline Richards	Director	February 27, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015 OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _________ TO _________

Commission File Number: 001-35107

APOLLO GLOBAL MANAGEMENT, LLC
(Exact name of Registrant as specified in its charter)

Delaware	20-8880053
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9 West 57th Street, 43rd Floor
New York, New York 10019
(Address of principal executive offices) (Zip Code)
(212) 515-3200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A shares representing limited liability company interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities. Yes ☒ No ☐
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	T	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No T

The aggregate market value of the Class A shares of the Registrant held by non-affiliates as of June 30, 2015 was approximately $3,787.7 million, which includes non-voting Class A shares with a value of approximately $996.8 million.

As of February 26, 2016 there were 183,517,438 Class A shares and 1 Class B share outstanding.

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Forward-Looking Statements

This report may contain forward-looking statements that are within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements include, but are not limited to, discussions related to Apollo's expectations regarding the performance of its business, liquidity and capital resources and the other non-historical statements in the discussion and analysis. These forward-looking statements are based on management's beliefs, as well as assumptions made by, and information currently available to, management. When used in this report, the words "believe," "anticipate," "estimate," "expect," "intend" and similar expressions are intended to identify forward-looking statements. Although management believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. These statements are subject to certain risks, uncertainties and assumptions, including risks relating to our dependence on certain key personnel, our ability to raise new private equity, credit or real estate funds, market conditions generally, our ability to manage our growth, fund performance, changes in our regulatory environment and tax status, the variability of our revenues, net income and cash flow, our use of leverage to finance our businesses and investments by our funds and litigation risks, among others. We believe these factors include but are not limited to those described under the section entitled "Risk Factors" in this report; as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (the "SEC"), which are accessible on the SEC's website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other filings. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by applicable law.

Terms Used in This Report

In this report, references to "Apollo," "we," "us," "our" and the "Company" refer collectively to Apollo Global Management, LLC, a Delaware limited liability company, and its subsidiaries, including the Apollo Operating Group and all of its subsidiaries, or as the context may otherwise require;

"AMH" refers to Apollo Management Holdings, L.P., a Delaware limited partnership, that is an indirect subsidiary of Apollo Global Management, LLC;

"Apollo funds", "our funds" and references to the "funds" we manage, refer to the funds (including the parallel funds and alternative investment vehicles of such funds), partnerships, accounts, including strategic investment accounts or "SIAs," alternative asset companies and other entities for which subsidiaries of the Apollo Operating Group provide investment management or advisory services;

"Apollo Operating Group" refers to (i) the limited partnerships through which our Managing Partners currently operate our businesses and (ii) one or more limited partnerships formed for the purpose of, among other activities, holding certain of our gains or losses on our principal investments in the funds, which we refer to as our "principal investments";

"Assets Under Management", or "AUM", refers to the assets we manage or advise for the funds, partnerships and accounts to which we provide investment management or advisory services, including, without limitation, capital that such funds, partnerships and accounts have the right to call from investors pursuant to capital commitments. Our AUM equals the sum of:

(i) the fair value of the investments of the private equity funds, partnerships and accounts we manage or advise plus the capital that such funds, partnerships and accounts are entitled to call from investors pursuant to capital commitments;

(ii) the net asset value, or "NAV," of the credit funds, partnerships and accounts for which we provide investment management or advisory services, other than certain collateralized loan obligations ("CLOs") and collateralized debt obligations ("CDOs"), which have a fee-generating basis other than the mark-to-market value of the underlying assets, plus used or available leverage and/or capital commitments;

(iii) the gross asset value or net asset value of the real estate funds, partnerships and accounts we manage, and the structured portfolio company investments of the funds, partnerships and accounts we manage or advise, which includes the leverage used by such structured portfolio company investments;

(iv) the incremental value associated with the reinsurance investments of the portfolio company assets we manage or advise; and

(v) the fair value of any other assets that we manage or advise for the funds, partnerships and accounts to which we provide investment management or advisory services, plus unused

credit facilities, including capital commitments to such funds, partnerships and accounts for investments that may require pre-qualification before investment plus any other capital commitments to such funds, partnerships and accounts available for investment that are not otherwise included in the clauses above.

Our AUM measure includes Assets Under Management for which we charge either no or nominal fees. In addition our AUM measure includes certain assets for which we do not have investment discretion. Our definition of AUM is not based on any definition of Assets Under Management contained in our operating agreement or in any of our Apollo fund management agreements. We consider multiple factors for determining what should be included in our definition of AUM. Such factors include but are not limited to (1) our ability to influence the investment decisions for existing and available assets; (2) our ability to generate income from the underlying assets in our funds; and (3) the AUM measures that we use internally or believe are used by other investment managers. Given the differences in the investment strategies and structures among other alternative investment managers, our calculation of AUM may differ from the calculations employed by other investment managers and, as a result, this measure may not be directly comparable to similar measures presented by other investment managers. Our calculation also differs from the manner in which our affiliates registered with the SEC report "Regulatory Assets Under Management" on Form ADV and Form PF in various ways;

"Fee-Generating AUM" consists of assets we manage or advise for the funds, partnerships and accounts to which we provide investment management or advisory services and on which we earn management fees, monitoring fees pursuant to management or other fee agreements on a basis that varies among the Apollo funds, partnerships and accounts we manage or advise. Management fees are normally based on "net asset value," "gross assets," "adjusted par asset value," "adjusted cost of all unrealized portfolio investments," "capital commitments," "adjusted assets," "stockholders' equity," "invested capital" or "capital contributions," each as defined in the applicable management agreement. Monitoring fees, also referred to as advisory fees, with respect to the structured portfolio company investments of the funds, partnerships and accounts we manage or advise, are generally based on the total value of such structured portfolio company investments, which normally includes leverage, less any portion of such total value that is already considered in Fee-Generating AUM.

"Non-Fee-Generating AUM" refers to AUM that does not produce management fees or monitoring fees. This measure generally includes the following:

(i) fair value above invested capital for those funds that earn management fees based on invested capital;

(ii) net asset values related to general partner and co-investment interests;

(iii) unused credit facilities;

(iv) available commitments on those funds that generate management fees on invested capital;

(v) structured portfolio company investments that do not generate monitoring fees; and

(vi) the difference between gross asset and net asset value for those funds that earn management fees based on net asset value.

"Carry-Eligible AUM" refers to the AUM that may eventually produce carried interest income. All funds for which we are entitled to receive a carried interest income allocation are included in Carry-Eligible AUM, which consists of the following:

(i) "Carry-Generating AUM", which refers to invested capital of the funds, partnerships, and accounts we manage or advise, that is currently above its hurdle rate or preferred return, and profit of such funds, partnerships and accounts is being allocated to the general partner in accordance with the applicable limited partnership agreements or other governing agreements;

(ii) "AUM Not Currently Generating Carry", which refers to invested capital of the funds, partnerships and accounts we manage or advise that is currently below its hurdle rate or preferred return; and

(iii) "Uninvested Carry-Eligible AUM", which refers to capital of the funds, partnerships and accounts we manage or advise that is available for investment or reinvestment subject to the provisions of applicable limited partnership agreements or other governing agreements, which capital is not currently part of the NAV or fair value of investments that may eventually produce carried interest income allocable to the general partner.

“AUM with Future Management Fee Potential” refers to the committed uninvested capital portion of total AUM not currently earning management fees. The amount depends on the specific terms and conditions of each fund.

We use Non-Fee-Generating AUM combined with Fee-Generating AUM as a performance measure of our funds’ investment activities, as well as to monitor fund size in relation to professional resource and infrastructure needs. Non-Fee-Generating AUM includes assets on which we could earn carried interest income;

“capital deployed” or “deployment” is the aggregate amount of capital that has been invested during a given period (which may, in certain cases, include leverage) by (i) our drawdown funds, (ii) SIAs that have a defined maturity date and (iii) funds and SIAs in our real estate debt strategy;

“carried interest”, “carried interest income” and “incentive income” refer to interests granted to Apollo by an Apollo fund that entitle Apollo to receive allocations, distributions or fees which are based on the performance of such fund or its underlying investments;

“Contributing Partners” refer to those of our partners and their related parties (other than our Managing Partners) who indirectly beneficially own (through Holdings) Apollo Operating Group units;

“drawdown” refers to commitment-based funds and certain SIAs in which investors make a commitment to provide capital at the formation of such funds and SIAs and deliver capital when called as investment opportunities become available. It includes assets of Athene Holding Ltd. (“Athene Holding”) and its subsidiaries (collectively “Athene”) managed by Athene Asset Management, L.P. (“Athene Asset Management”) that are invested in commitment-based funds;

“gross IRR” of a private equity fund represents the cumulative investment-related cash flows in the fund itself (and not any one investor in the fund) on the basis of the actual timing of investment inflows and outflows (for unrealized investments assuming disposition on December 31, 2015 or other date specified) aggregated on a gross basis quarterly, and the return is annualized and compounded before management fees, carried interest and certain other fund expenses (including interest incurred by the fund itself) and measures the returns on the fund’s investments as a whole without regard to whether all of the returns would, if distributed, be payable to the fund’s investors;

“gross IRR” of a credit fund represents the annualized return of a fund based on the actual timing of all cumulative fund cash flows before management fees, carried interest income allocated to the general partner and certain other fund expenses. Calculations may include certain investors that do not pay fees. The terminal value is the net asset value as of the reporting date. Non-U.S. dollar denominated (“USD”) fund cash flows and residual values are converted to USD using the spot rate as of the reporting date;

“gross IRR” of a real estate fund represents the cumulative investment-related cash flows in the fund itself (and not any one investor in the fund), on the basis of the actual timing of cash inflows and outflows (for unrealized investments assuming disposition on December 31, 2015 or other date specified) starting on the date that each investment closes, and the return is annualized and compounded before management fees, carried interest, and certain other fund expenses (including interest incurred by the fund itself) and measures the returns on the fund’s investments as a whole without regard to whether all of the returns would, if distributed, be payable to the fund’s investors. Non-USD fund cash flows and residual values are converted to USD using the spot rate as of the reporting date;

“gross return” of a credit or real estate fund is the monthly or quarterly time-weighted return that is equal to the percentage change in the value of a fund’s portfolio, adjusted for all contributions and withdrawals (cash flows) before the effects of management fees, incentive fees allocated to the general partner, or other fees and expenses. Returns of Athene sub-advised portfolios and CLOs represent the gross returns on invested assets, which exclude cash. Returns over multiple periods are calculated by geometrically linking each period’s return over time;

“Holdings” means AP Professional Holdings, L.P., a Cayman Islands exempted limited partnership through which our Managing Partners and Contributing Partners indirectly beneficially own their interests in the Apollo Operating Group units;

“inflows” represents (i) at the individual segment level, subscriptions, commitments, and other increases in available capital, such as acquisitions or leverage, net of inter-segment transfers, and (ii) on an aggregate basis, the sum of inflows across the private equity, credit and real estate segments;

“IRS” refers to the Internal Revenue Service;

“liquid/performing” includes CLOs and other performing credit vehicles, hedge fund style credit funds, structured credit funds and SIAs, as well as sub-advised managed accounts owned by or related to Athene. Certain commitment-based SIAs are included as the underlying assets are liquid;

“Managing Partners” refer to Messrs. Leon Black, Joshua Harris and Marc Rowan collectively and, when used in reference to holdings of interests in Apollo or Holdings, includes certain related parties of such individuals;

“net IRR” of a private equity fund means the gross IRR, including returns for related parties which may not pay fees or carried interest, net of management fees, certain fund expenses (including interest incurred by the fund itself) and realized carried interest all offset to the extent of interest income, and measures returns on amounts that, if distributed, would be paid to investors of the fund. To the extent that an Apollo private equity fund exceeds all requirements detailed within the applicable fund agreement, the estimated unrealized value is adjusted such that a percentage of up to 20.0% of the unrealized gain is allocated to the general partner of the fund, thereby reducing the balance attributable to fund investors. Net IRR does not represent the return to any fund investor;

“net IRR” of a credit fund represents the annualized return of a fund after management fees, carried interest income allocated to the general partner and certain other fund expenses, calculated on investors that pay such fees. The terminal value is the net asset value as of the reporting date. Non-USD fund cash flows and residual values are converted to USD using the spot rate as of the reporting date;

“net IRR” of a real estate fund represents the cumulative cash flows in the fund (and not any one investor in the fund), on the basis of the actual timing of cash inflows received from and outflows paid to investors of the fund (assuming the ending net asset value as of December 31, 2015 or other date specified is paid to investors), excluding certain non-fee and non-carry bearing parties, and the return is annualized and compounded after management fees, carried interest, and certain other expenses (including interest incurred by the fund itself) and measures the returns to investors of the fund as a whole. Non-USD fund cash flows and residual values are converted to USD using the spot rate as of the reporting date;

“net return” of a credit or real estate fund represents the gross return after management fees, incentive fees allocated to the general partner, or other fees and expenses. Returns of Athene sub-advised portfolios and CLOs represent the gross or net returns on invested assets, which exclude cash. Returns over multiple periods are calculated by geometrically linking each period’s return over time;

“our manager” means AGM Management, LLC, a Delaware limited liability company that is controlled by our Managing Partners;

“permanent capital vehicles” refers to (a) assets that are managed by Athene Asset Management and Athene Deutschland and its subsidiaries (“Athene Germany”), (b) assets that are owned by or related to MidCap FinCo Limited (“MidCap”) and managed by Apollo Capital Management, L.P., (c) assets of publicly traded vehicles managed by Apollo such as AP Alternative Assets, L.P. (“AAA”), Apollo Investment Corporation (“AINV”), Apollo Commercial Real Estate Finance, Inc. (“ARI”), Apollo Residential Mortgage, Inc. (“AMTG”), Apollo Tactical Income Fund Inc. (“AIF”), and Apollo Senior Floating Rate Fund Inc. (“AFT”), in each case that do not have redemption provisions or a requirement to return capital to investors upon exiting the investments made with such capital, except as required by applicable law and (d) a non-traded business development company sub-advised by Apollo. The investment management arrangements of AINV, AIF and AFT have one year terms, are reviewed annually and remain in effect only if approved by the boards of directors of such companies or by the affirmative vote of the holders of a majority of the outstanding voting shares of such companies, including in either case, approval by a majority of the directors who are not “interested persons” as defined in the Investment Company Act of 1940. In addition, the investment management arrangements of AINV, AIF and AFT may be terminated in certain circumstances upon 60 days’ written notice. The investment management arrangements of ARI and AMTG have one year terms and are reviewed annually by each company’s board of directors and may be terminated under certain circumstances by an affirmative vote of at least two-thirds of such company’s independent directors. The investment management arrangements between MidCap and Apollo Capital Management, L.P. and Athene and Athene Asset Management, may also be terminated under certain circumstances;

“private equity investments” refer to (i) direct or indirect investments in existing and future private equity funds managed or sponsored by Apollo, (ii) direct or indirect co-investments with existing and future private equity funds managed or sponsored by Apollo, (iii) direct or indirect investments in securities which are not immediately capable of resale in a public market that Apollo identifies but does not pursue through its private equity funds, and (iv) investments of the type described in (i) through (iii) above made by Apollo funds;

“Realized Value” refers to all cash investment proceeds received by the relevant Apollo fund, including interest and dividends, but does not give effect to management fees, expenses, incentive compensation or carried interest to be paid by such Apollo fund;

“Remaining Cost” represents the initial investment of the general partner and limited partner investors in a fund, reduced for any return of capital distributed to date, excluding management fees, expenses, and any accrued preferred return;

“Strategic Investors” refer to the California Public Employees’ Retirement System, or “CalPERS,” and an affiliate of the Abu Dhabi Investment Authority, or “ADIA”;

"Total Invested Capital" refers to the aggregate cash invested by the relevant Apollo fund and includes capitalized costs relating to investment activities, if any, but does not give effect to cash pending investment or available for reserves;

"Total Value" represents the sum of the total Realized Value and Unrealized Value of investments;

"traditional private equity fund appreciation (depreciation)" refers to gain (loss) and income for the traditional private equity funds (i.e., Funds I-VIII, each as defined in the notes to the consolidated financial statements) for the periods presented on a total return basis before giving effect to fees and expenses. The performance percentage is determined by dividing (a) the change in the fair value of investments over the period presented, minus the change in invested capital over the period presented, plus the realized income for the period presented, by (b) the beginning unrealized value for the period presented plus the change in invested capital for the period presented; and

"Unrealized Value" refers to the fair value consistent with valuations determined in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), for investments not yet realized and may include pay in kind, accrued interest and dividends receivable, if any. In addition, amounts include committed and funded amounts for certain investments.

PART I.

ITEM 1. BUSINESS

Overview

Founded in 1990, Apollo is a leading global alternative investment manager. We are a contrarian, value-oriented investment manager in private equity, credit and real estate, with significant distressed investment expertise. We have a flexible mandate in many of the funds we manage which enables our funds to invest opportunistically across a company's capital structure. We raise, invest and manage funds on behalf of some of the world's most prominent pension, endowment and sovereign wealth funds, as well as other institutional and individual investors. As of December 31, 2015, we had total AUM of $170 billion, including approximately $38 billion in private equity, $121 billion in credit and $11 billion in real estate. We have consistently produced attractive long-term investment returns in our private equity funds, generating a 39% gross IRR and a 25% net IRR on a compound annual basis from inception through December 31, 2015.

Apollo is led by our Managing Partners, Leon Black, Joshua Harris and Marc Rowan, who have worked together for more than 25 years and lead a team of 945 employees, including 353 investment professionals, as of December 31, 2015. This team possesses a broad range of transaction, financial, managerial and investment skills. We have offices in New York, Los Angeles, Houston, Chicago, Bethesda, Toronto, London, Frankfurt, Madrid, Luxembourg, Mumbai, Delhi, Singapore, Hong Kong and Shanghai. We operate our private equity, credit and real estate investment management businesses in a highly integrated manner, which we believe distinguishes us from other alternative investment managers. Our investment professionals frequently collaborate across disciplines. We believe that this collaboration, including market insight, management, banking and consultant contacts, and investment opportunities, enables the funds we manage to more successfully invest across a company's capital structure. This platform and the depth and experience of our investment team have enabled us to deliver strong long-term investment performance for our funds throughout a range of economic cycles.

Our objective is to achieve superior long-term risk-adjusted returns for our fund investors. The majority of the investment funds we manage are designed to invest capital over periods of seven or more years from inception, thereby allowing us to generate attractive long-term returns throughout economic cycles. Our investment approach is value-oriented, focusing on nine core industries in which we have considerable knowledge and experience, and emphasizing downside protection and the preservation of capital. Our core industry sectors include chemicals, natural resources, consumer and retail, distribution and transportation, financial and business services, manufacturing and industrial, media and cable and leisure, packaging and materials and the satellite and wireless industries. Our contrarian investment management approach is reflected in a number of ways, including:

- our willingness to pursue investments in industries that our competitors typically avoid;
- the often complex structures employed in some of the investments of our funds, including our willingness to pursue difficult corporate carve-out transactions;
- our experience investing during periods of uncertainty or distress in the economy or financial markets when many of our competitors simply reduce their investment activity;
- our orientation towards sole sponsored transactions when other firms have opted to partner with others; and
- our willingness to undertake transactions that have substantial business, regulatory or legal complexity.

We have applied this investment philosophy to identify what we believe are attractive investment opportunities, deploy capital across the balance sheet of industry leading, or "franchise," businesses and create value throughout economic cycles.

We rely on our deep industry, credit and financial structuring experience, coupled with our strengths as a value-oriented, distressed investment manager, to deploy significant amounts of new capital within challenging economic environments. Our approach towards investing in distressed situations often requires our funds to purchase particular debt securities as prices are declining, since this allows us both to reduce our funds' average cost and accumulate sizable positions which may enhance our ability to influence any restructuring plans and maximize the value of our funds' distressed investments. As a result, our investment approach may produce negative short-term unrealized returns in certain of the funds we manage. However, we concentrate on generating attractive, long-term, risk-adjusted realized returns for our fund investors, and we therefore do not overly depend on short-term results and quarterly fluctuations in the unrealized fair value of the holdings in our funds.

In addition to deploying capital in new investments, we seek to enhance value in the investment portfolios of the funds we manage. We have relied on our transaction, restructuring and credit experience to work proactively with our private equity funds' portfolio company management teams to identify and execute strategic acquisitions, joint ventures, and other transactions, generate cost and working capital savings, reduce capital expenditures, and optimize capital structures through several means such as debt exchange offers and the purchase of portfolio company debt at discounts to par value.

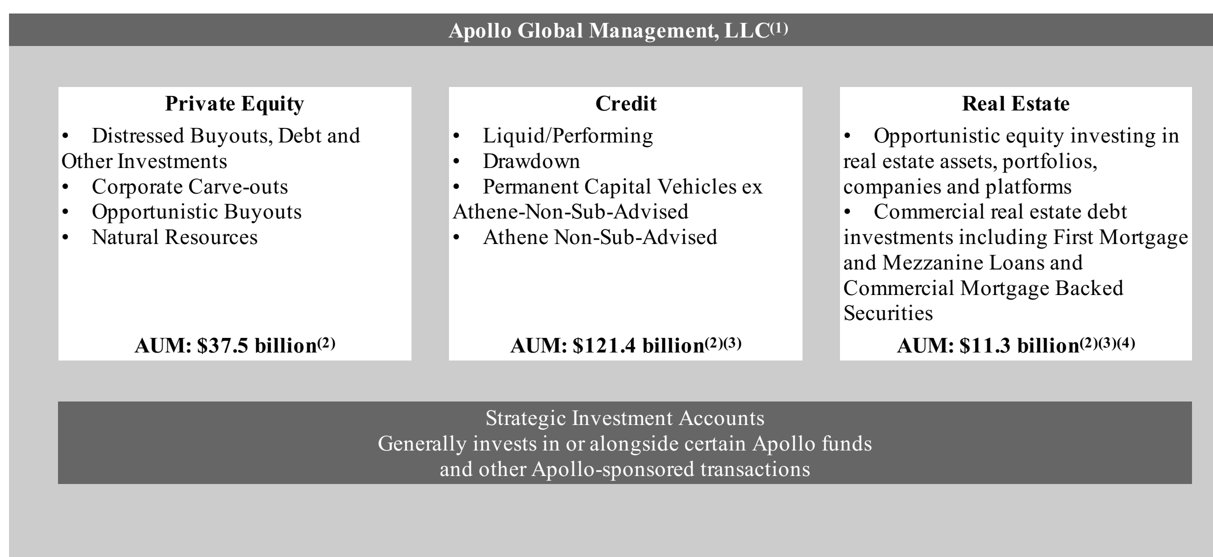
We have grown our total AUM at a 23% compound annual growth rate from December 31, 2005 to December 31, 2015. In addition, we benefit from mandates with long-term capital commitments in our private equity, credit and real estate businesses. Our long-lived capital base allows us to invest our funds' assets with a long-term focus, which is an important component in generating attractive returns for our fund investors. We believe the long-term capital we manage also leaves us well-positioned during economic downturns, when the fundraising environment for alternative assets has historically been more challenging than during periods of economic expansion. As of December 31, 2015, more than 90% of our AUM was in funds with a contractual life at inception of seven years or more, and 49% of our AUM was in permanent capital vehicles.

We expect our growth in AUM to continue over time by seeking to create value in our funds' existing private equity, credit and real estate investments, continuing to deploy our funds' available capital in what we believe are attractive investment opportunities, and raising new funds and investment vehicles as market opportunities present themselves. See "Item 1A. Risk Factors—Risks Related to Our Businesses—We may not be successful in raising new funds or in raising more capital for certain of our funds and may face pressure on carried interest and fee arrangements of our future funds."

Our financial results are highly variable, since carried interest (which generally constitutes a large portion of the income that we receive from the funds we manage), and the transaction and advisory fees that we receive, can vary significantly from quarter to quarter and year to year. We manage our business and monitor our performance with a focus on long-term performance, an approach that is generally consistent with the investment horizons of the funds we manage and is driven by the investment returns of our funds.

Our Businesses

We have three business segments: private equity, credit and real estate. The diagram below summarizes our current businesses:



(1) All data is as of December 31, 2015.
(2) See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information.
(3) Includes funds that are denominated in Euros and translated into U.S. dollars at an exchange rate of €1.00 to $1.09 as of December 31, 2015.
(4) Includes funds that are denominated in pound sterling and translated into U.S. dollars at an exchange rate of £1.00 to $1.47 as of December 31, 2015.

Private Equity

As a result of our long history of private equity investing across market cycles, we believe we have developed a unique set of skills on which we rely to make new investments and to maximize the value of our existing investments. As an example, through our experience with traditional private equity buyouts, which we also refer to herein as buyout equity, we apply a highly disciplined approach towards structuring and executing transactions, the key tenets of which include seeking to acquire companies at below industry average purchase price multiples, and establishing flexible capital structures with long-term debt maturities and few, if any, financial maintenance covenants.

We believe we have a demonstrated ability to adapt quickly to changing market environments and capitalize on market dislocations through our traditional, distressed and corporate buyout approach. In prior periods of strained financial liquidity and economic recession, our private equity funds have made attractive investments by buying the debt of quality businesses (which we refer to as "classic" distressed debt), converting that debt to equity, seeking to create value through active participation with management and ultimately monetizing the investment. This combination of traditional and corporate buyout investing with a "distressed option" has been deployed through prior economic cycles and has allowed our funds to achieve attractive long-term rates of return in different economic and market environments. In addition, during prior economic downturns we have relied on our restructuring experience and worked closely with our funds' portfolio companies to seek to maximize the value of our funds' investments.

We seek to focus on investment opportunities where competition is limited or non-existent. We believe we are often sought out early in the investment process because of our industry expertise, sizable amounts of available long-term capital, willingness to pursue investments in complicated situations and ability to provide value-added advice to portfolio companies regarding operational improvements, acquisitions and strategic direction. We generally prefer sole sponsored transactions and since inception through December 31, 2015, approximately 75% of the investments made by our private equity funds have been proprietary in nature. We believe that by emphasizing our proprietary sources of deal flow, our private equity funds will be able to acquire businesses at more compelling valuations which will ultimately create a more attractive risk/reward proposition. As of December 31, 2015, our private equity segment had total and Fee-Generating AUM of approximately $37.5 billion and $29.3 billion, respectively.

Distressed Buyouts, Debt and Other Investments

During periods of market dislocation and volatility, we rely on our credit and capital markets expertise to build positions in distressed debt. We target assets with what we believe are high-quality operating businesses but low-quality balance sheets, consistent with our traditional buyout strategies. The distressed securities our funds purchase include bank debt, public high-yield debt and privately held instruments, often with significant downside protection in the form of a senior position in the capital structure, and in certain situations our funds also provide debtor-in-possession financing to companies in bankruptcy. Our investment professionals generate these distressed buyout and debt investment opportunities based on their many years of experience in the debt markets, and as such they are generally proprietary in nature.

We believe distressed buyouts and debt investments represent a highly attractive risk/reward profile. Our funds' investments in debt securities have generally resulted in two outcomes. The first and preferred potential outcome, which we refer to as a distressed for control investment, is when our funds are successful in taking control of a company through its investment in the distressed debt. By working proactively through the restructuring process, we are often able to equitize the debt position of our funds to create a well-financed buyout which would then typically be held by the fund for a three-to-five year period, similar to other traditional leveraged buyout transactions. The second potential outcome, which we refer to as a non-control distressed investment is when our funds do not gain control of the company. This typically occurs as a result of an increase in the price of the debt investments to levels which are higher than what we consider to be an attractive acquisition valuation. In these instances, we may forgo seeking control, and instead our funds may seek to sell the debt investments over time, typically generating a higher short-term IRR with a lower multiple of invested capital than in the case of a typical distressed for control transaction. We believe that we are a market leader in distressed investing and that this is one of the key areas that differentiates us from our peers.

We also maintain the flexibility to deploy capital of our private equity funds in other types of investments such as the creation of new companies, which allows us to leverage our deep industry and distressed expertise and collaborate with experienced management teams to seek to capitalize on market opportunities that we have identified, particularly in asset-intensive industries that are in distress. In these types of situations, we have the ability to establish new entities that can acquire distressed assets at what we believe are attractive valuations without the burden of managing an existing portfolio of legacy assets. Other investments, such as the creation of new companies, historically have not represented a large portion of our overall investment activities, although our private equity funds do make these types of investments selectively.

Corporate Carve-outs

Corporate Carve-outs are less market-dependent than distressed investing, but are equally complicated. In these transactions, Apollo funds seek to extract a business that is highly integrated within a larger corporate parent to create a stand-alone business. These are labor-intensive transactions, which we believe require deep industry knowledge, patience and creativity, to unlock value that has largely been overlooked or undermanaged. Importantly, because of the highly negotiated nature of many of these transactions, Apollo believes it is often difficult for the seller to run a competitive process, which ultimately allows Apollo funds to achieve compelling purchase prices.

Opportunistic Buyouts

We have extensive experience completing leveraged buyouts across various market cycles. We take an opportunistic and disciplined approach to these transactions, generally avoiding highly competitive situations in favor of proprietary transactions where there may be opportunities to purchase a company at a discount to prevailing market averages. Oftentimes, we will focus on complex situations such as out-of-favor industries or “broken” (or discontinued) sales processes where the inherent value may be less obvious to potential acquirers. In the case of more conventional buyouts, we seek investment opportunities where we believe our focus on complexity and sector expertise will provide us with a significant competitive advantage, whereby we can leverage our knowledge and experience from the nine core industries in which our investment professionals have historically invested private equity capital. We believe such knowledge and experience can result in our ability to find attractive opportunities for our funds to acquire portfolio company investments at lower purchase price multiples.

To further alter the risk/reward profile in our funds’ favor, we often focus on certain types of buyouts such as physical asset acquisitions and investments in non-correlated assets where underlying values tend to change in a manner that is independent of broader market movements In the case of physical asset acquisitions, our private equity funds seek to acquire physical assets at discounts to where those assets trade in the financial markets, and to lock in that value arbitrage through comprehensive hedging and structural enhancements.

We believe buyouts of non-correlated assets or businesses also represent attractive investments since they are generally less correlated to the broader economy and provide an element of diversification to our funds' overall portfolio of private equity investments.

Natural Resources

In addition to our traditional private equity funds which pursue opportunities in nine core industries, one of which is natural resources, we have two dedicated private equity natural resources funds. In 2011, we established our first dedicated private equity natural resources fund, Apollo Natural Resources Partners, L.P. (together with its alternative investment vehicles, “ANRP I”) and assembled a team of dedicated investment professionals to capitalize on private equity investment opportunities in the natural resources industry, principally in the metals and mining, energy and select other natural resources sectors. In 2015, we launched our second natural resources fund, Apollo Natural Resources II, L.P. (together with its alternative investment vehicles, “ANRP II”). We believe we can source and execute compelling, value-oriented investment opportunities for our funds irrespective of the commodity price environment.

AP Alternative Assets, L.P.

We also manage AAA, a publicly listed permanent capital vehicle. The sole investment held by AAA is its investment in AAA Investments, L.P. (“AAA Investments”). AAA Investments is the largest equity holder of Athene Holding.

AAA is a Guernsey limited partnership whose partners are comprised of (i) AAA Guernsey Limited (“AAA Guernsey”), which holds 100% of the general partner interests in AAA, and (ii) the holders of common units representing limited partner interests in AAA. The common units are non-voting and are listed on NYSE Euronext in Amsterdam under the symbol “AAA”. AAA Guernsey is a Guernsey limited company and is owned 55% by an individual who is not an affiliate of Apollo and 45% by Apollo Principal Holdings III, L.P., an indirect subsidiary of Apollo. AAA Guernsey is responsible for managing the business and affairs of AAA. AAA generally makes all of its investments through AAA Investments, of which AAA is the sole limited partner. Athene Holding is AAA Investments’ only investment.

Building Value in Portfolio Companies

We are a “hands-on” investor organized around nine core industries where we believe we have significant knowledge and expertise, and we remain actively engaged with the management teams of the portfolio companies of our private equity funds. We have established relationships with operating executives that assist in the diligence review of new opportunities and provide strategic and operational oversight for portfolio investments. We actively work with the management of each of the portfolio companies of the funds we manage to maximize the underlying value of the business. To achieve this, we take a holistic approach to value-creation, concentrating on both the asset side and liability side of the balance sheet of a company. On the asset side of the balance sheet, Apollo works with management of the portfolio companies to enhance the operations of such companies. Our investment professionals assist portfolio companies in rationalizing non-core and underperforming assets, generating cost and working capital savings, and maximizing liquidity. On the liability side of the balance sheet, Apollo relies on its deep credit structuring experience and works with management of the portfolio companies to help optimize the capital structure of such companies through proactive restructuring of the balance sheet to address near-term debt maturities. The companies in which our private equity funds invest also seek to capture discounts on publicly traded debt securities through exchange offers and potential debt buybacks. In addition, we have established a group purchasing program to help our funds' portfolio companies leverage the combined corporate spending among Apollo and portfolio companies of the funds it manages in order to seek to reduce costs, optimize payment terms and improve service levels for all program participants.

Exiting Investments

The value of the investments that have been made by our funds are typically realized through either an initial public offering of common stock on a nationally recognized exchange or through the private sale of the companies in which our funds have invested. We believe the advantage of having long-lived funds and investment discretion is that we are able to time our funds’ exit to maximize value.

Private Equity Fund Holdings

The following table presents a list of certain significant portfolio companies of our private equity funds as of December 31, 2015:

Company	Year of Initial Investment	Fund(s)	Buyout Type	Industry	Region
Amissima	2015	Fund VIII	Corporate Carve-Out	Financial & Business Services	Western Europe
CH2M Hill	2015	Fund VIII	Opportunistic Buyout	Financial & Business Services	North America
Presidio	2015	Fund VIII	Opportunistic Buyout	Financial & Business Services	North America
Protection 1	2015	Fund VIII	Opportunistic Buyout	Manufacturing & Industrial	North America
RegionalCare	2015	Fund VIII	Opportunistic Buyout	Consumer & Retail	North America
Tranquilidade	2015	Fund VIII	Opportunistic Buyout	Financial & Business Services	Western Europe
Vectra	2015	Fund VIII	Corporate Carve-Out	Manufacturing & Industrial	North America
Ventia	2015	Fund VIII	Opportunistic Buyout	Financial & Business Services	Australia
Verallia	2015	Fund VIII	Corporate Carve-Out	Manufacturing & Industrial	Western Europe
CEC Entertainment	2014	Fund VIII	Opportunistic Buyout	Media, Cable & Leisure	North America
Caelus Energy Alaska	2014	Fund VIII / ANRP	Corporate Carve-Out	Natural Resources	North America
Double Eagle II	2014	ANRP /ANRP II	Opportunistic Buyout	Natural Resources	North America
Express Energy Services	2014	Fund VIII / ANRP	Opportunistic Buyout	Natural Resources	North America
Jupiter Resources	2014	Fund VIII / ANRP	Corporate Carve-out	Natural Resources	North America
American Gaming Systems	2013	Fund VIII	Opportunistic Buyout	Media, Cable & Leisure	North America
Aurum	2013	Fund VII	Opportunistic Buyout	Consumer & Retail	Western Europe
Hostess	2013	Fund VII	Corporate Carve-out	Consumer & Retail	North America
McGraw-Hill Education	2013	Fund VII	Corporate Carve-out	Media, Cable & Leisure	North America
EP Energy	2012	Fund VII & ANRP	Corporate Carve-out	Natural Resources	North America
Pinnacle	2012	Fund VII & ANRP	Opportunistic Buyout	Natural Resources	North America
Talos	2012	Fund VII & ANRP	Opportunistic Buyout	Natural Resources	North America
Endemol Shine	2011	Fund VII	Distressed Buyout	Media, Cable & Leisure	Global
Welspun	2011	Fund VII & ANRP	Opportunistic Buyout	Natural Resources	India
Gala Coral Group	2010	Fund VII & VI	Distressed Buyout	Media, Cable & Leisure	Western Europe
Caesars Entertainment [1]	2008	Fund VI	Opportunistic Buyout	Media, Cable & Leisure	North America
Norwegian Cruise Line	2008	Fund VII / VI	Opportunistic Buyout	Media, Cable & Leisure	North America
Claire's	2007	Fund VI	Opportunistic Buyout	Consumer & Retail	Global
CEVA Logistics	2006	Fund VI	Corporate Carve-out	Distribution & Transportation	Western Europe
Momentive Performance Materials	2006	Fund VI	Corporate Carve-out	Chemicals	North America
Hexion	Various	Fund IV & V	Corporate Carve-out	Chemicals	North America
Debt Investment Vehicles	Various	Various	Debt Investments	Various	Various

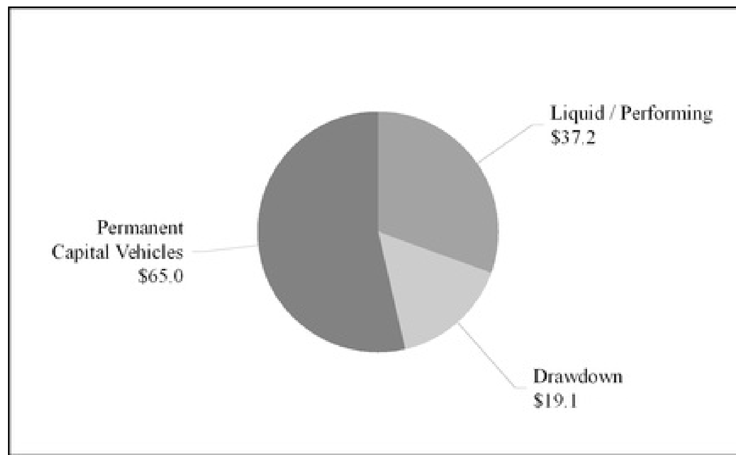
Note: The table above includes portfolio companies of Apollo Investment Fund IV, L.P. (together with its parallel funds, "Fund IV"), Apollo Investment Fund V, L.P. (together with is parallel funds and alternative investment vehicles, "Fund V"), Apollo Investment Fund VI L.P. (together with its parallel funds and alternative investment vehicles, "Fund VI"), Apollo Investment Fund VII, L.P. (together with is parallel funds and alternative investment vehicles, "Fund VII"), Apollo Investment Fund VIII, L.P. (together with is parallel funds and alternative investment vehicles, "Fund VIII") and ANRP I, ANRP II and AION Capital Partners Limited ("AION") with a remaining value greater than $100 million, excluding the value associated with any portion of such private equity funds' portfolio company investments held by co-investment vehicles.

(1) Includes investment in Caesars Entertainment Corp. and Caesars Acquisition Company.

Credit

Since Apollo's founding in 1990, we believe our expertise in credit has served as an integral component of our company's growth and success. Our credit-oriented approach to investing commenced in 1990 with the management of a high-yield bond and leveraged loan portfolio. Since that time, our credit activities have grown significantly, through both organic growth and strategic acquisitions. As of December 31, 2015, Apollo's credit segment had total AUM and Fee-Generating AUM of $121.4 billion and $101.5 billion, respectively, across a diverse range of credit-oriented investments that utilize the same disciplined, value-oriented investment philosophy that we employ with respect to our private equity funds. Apollo's broad credit platform, which we believe is adaptable to evolving market conditions and different risk tolerances, is categorized as follows:

Credit AUM as of December 31, 2015
(in billions)



Liquid/Performing

Our liquid/performing category within the credit segment generally includes funds and accounts where the underlying assets are liquid in nature and/or have some form of periodic redemption right. Liquid/performing includes a variety of hedge funds, CLOs and SIAs that utilize a range of investment strategies including performing credit, structured credit, and liquid opportunistic credit. Performing credit strategies focus on income-oriented, senior loan and bond investment strategies that target issuers primarily domiciled in the U.S. and in Europe. Structured credit strategies target multiple tranches of structured securities with favorable and protective lending terms, predictable payment schedules, well diversified portfolios and low default rates. Liquid opportunistic strategies primarily focus on credit investments that are generally liquid in nature and that utilize a similar value-oriented investment philosophy as our private equity business. This includes investments by our credit funds in a broad array of primary and secondary opportunities encompassing stressed and distressed public and private securities primarily within corporate credit, including senior loans (secured and unsecured), high yield, mezzanine, derivative securities, debtor in possession financings, rescue or bridge financings, and other debt investments. In aggregate, our AUM and Fee-Generating AUM within the liquid/performing category totaled $37.2 billion and $30.6 billion, respectively, as of December 31, 2015.

Hedge Funds

Hedge Funds includes Apollo Credit Strategies Master Fund Ltd., Apollo Credit Master Fund Ltd., Apollo Credit Short Opportunities Fund and Apollo Value Strategic Fund, L.P. Collectively, our credit hedge fund AUM and Fee-Generating AUM totaled $7.1 billion and $2.6 billion, respectively, as of December 31, 2015. Our credit hedge funds may utilize a mix of the investment strategies outlined above. Investments in these funds may be made on a long or short basis and employ leverage to finance the acquisition of various credit investments. Accordingly, the difference between AUM and Fee-Generating AUM for hedge funds is driven by non-fee paying leverage.

CLOs

CLOs includes more than 20 internally managed CLOs focused within the U.S. and Europe. In aggregate, our AUM and Fee-Generating AUM in CLOs totaled $13.4 billion as of December 31, 2015. Through their lifecycle, CLOs employ structured credit and performing credit strategies with the goal of providing investors with competitive yields achieved through highly diversified pools of historically low defaulting assets.

SIAs / Other

SIAs / Other includes a diverse group of separately managed accounts and certain commitment-based funds where the underlying assets are liquid and generally employ a mix of performing credit, structured credit, and liquid opportunistic credit investment strategies. In aggregate, our AUM and Fee-Generating in SIAs and other accounts totaled $16.7 billion and $14.6 billion as of December 31, 2015, respectively. The managed accounts comprising the majority of AUM and Fee-Generating AUM within this subcategory are customized according to an investor's specified risk and target return preferences.

Drawdown

Our drawdown category within the credit segment generally includes commitment-based funds and certain SIAs in which investors make a commitment to provide capital at the formation of such funds and deliver capital when called as investment opportunities become available. Drawdown comprises our fund series' including Credit Opportunity Funds, European Principal Finance Funds, and Structured Credit Funds, including Financial Credit Investment Funds and Structured Credit Recovery Funds, as well as other commitment-based funds not included within a series of funds and certain SIAs. Drawdown funds and SIAs utilize a range of investment strategies including illiquid opportunistic, principal finance, and structured credit strategies. In aggregate, our AUM and Fee-Generating AUM within the drawdown category totaled $19.1 billion and $11.1 billion, respectively, as of December 31, 2015.

Credit Opportunity Funds ("COF")

The Credit Opportunity Fund series primarily employs our illiquid opportunistic investment strategy, which focuses on credit investments that are less liquid in nature and that utilize a similar value-oriented investment philosophy as our private equity business. This includes investments in a broad array of primary and secondary opportunities encompassing stressed and distressed public and private securities primarily within corporate credit, including senior loans (secured and unsecured), high yield, mezzanine, debtor in possession financings, rescue or bridge financings, and other debt investments. Additionally, for certain illiquid opportunistic investments our underwriting process may result in selective and at times concentrated investments by the funds in the various industries on which we focus. In certain cases, leverage can be employed in connection with this strategy by having fund subsidiaries or special-purpose vehicles incur debt or by entering into credit facilities or other debt transactions to finance the acquisition of various credit investments. Our AUM and Fee-Generating AUM within the Credit Opportunity Funds totaled $3.5 billion and $2.3 billion, respectively, as of December 31, 2015.

European Principal Finance Funds ("EPF")

The European Principal Finance Fund series primarily employs our principal finance investment strategy, which is utilized to invest in European commercial and residential real estate, performing loans, non-performing loans, and unsecured consumer loans, as well as acquiring assets as a result of distressed market situations. Certain of the EPF investment vehicles we manage own captive pan-European financial institutions, loan servicing and property management platforms. These entities perform banking and lending activities and manage and service consumer credit receivables and loans secured by commercial and residential properties. In aggregate, these financial institutions, loan servicing, and property management platforms operate in five European countries and employed approximately 1,600 individuals as of December 31, 2015. We believe the post-investment loan servicing and real estate asset management requirements, combined with the illiquid nature of these investments, limits participation by traditional long-only investors, hedge funds, and private equity funds, resulting in what we believe to be an opportunity for our credit business. Our AUM and Fee-Generating AUM within the European Principal Finance Funds totaled $4.3 billion and $3.3 billion, respectively, as of December 31, 2015.

Structured Credit Funds - FCI and SCRF

Our Structured Credit Funds include the Financial Credit Investment Fund series ("FCI") and the Structured Credit Recovery Fund series ("SCRF"). Collectively, the Structured Credit Funds employ our structured credit investing strategy, which targets multiple tranches of less liquid structured securities with favorable and protective lending terms, predictable payment schedules, well-diversified portfolios and low default rates. Our AUM and Fee-Generating AUM within Structured Credit Funds totaled $4.2 billion and $2.4 billion, respectively, as of December 31, 2015.

Permanent Capital Vehicles - Credit

Our permanent capital vehicles category within the credit segment generally includes pools of assets which are not subject to redemption and are generally associated with long term asset management or advisory contracts. This category is comprised of (a) Athene Asset Management and an affiliate of Apollo which provides advisory services to Athene Germany; (b) assets that are owned by or related to Midcap and managed by Apollo Capital Management, L.P.; (c) assets of certain publicly traded vehicles managed by Apollo such as AINV, AMTG, AIF, and AFT and (d) a non-traded business development company sub-advised by Apollo. The permanent capital vehicles within credit utilize a range of investment strategies including performing credit and structured credit as described previously, as well as directly originated credit. Direct origination generally relates to the sourcing of senior credit assets, both secured and unsecured, including asset-backed loans, leveraged loans, mezzanine debt, real estate loans, re-discount loans and venture loans. Directly originated credit is primarily employed by Midcap, AINV, and a non-traded business development company sub-advised by Apollo. In aggregate, our AUM and Fee-Generating AUM within our credit permanent capital vehicles totaled $65.0 billion and $60.0 billion, respectively, as of December 31, 2015.

Permanent Capital Vehicles excluding Athene Non-Sub-Advised Assets

This category includes all permanent capital vehicles within the credit segment described above except for the portion of Athene Asset Management that is not sub-advised by Apollo or invested in Apollo funds as of December 31, 2015. The AUM and Fee-Generating AUM we managed within the permanent capital vehicles excluding Athene Non-Sub-Advised category totaled $15.1 billion and $9.8 billion, respectively, as of December 31, 2015.

Athene Non-Sub-Advised Assets

This category includes (i) the assets which are managed by Athene Asset Management but not sub-advised by Apollo nor invested in Apollo funds or Investment Vehicles and (ii) assets related to Athene Germany for which an affiliate of Apollo provides advisory services. We refer to these assets collectively as "Athene Non-Sub-Advised Assets". Our AUM and Fee-Generating AUM within the Athene Non-Sub-Advised category totaled $50.0 billion as of December 31, 2015. For additional information, please refer to "—Athene" below

Athene

As discussed in the preceding section, permanent capital vehicles within the credit segment includes Athene Asset Management and an affiliate of Apollo which provides advisory services to Athene Germany. As of December 31, 2015, we managed total AUM of $64.5 billion, all of which was Fee-Generating AUM, with respect to Athene Asset Management and Athene Germany. This amount includes $14.6 billion of AUM that was either sub-advised by Apollo or invested in funds and investment vehicles managed by Apollo within the credit, real estate, and private equity business segments.

Athene Holding was founded in 2009 to capitalize on favorable market conditions in the dislocated life insurance sector. Athene Holding is the ultimate parent of various insurance company operating subsidiaries. Through its subsidiaries, Athene Holding provides insurance products focused primarily on the retirement market and its business centers primarily on issuing or reinsuring fixed and equity-indexed annuities. Athene is currently one of the largest fixed annuity companies in the United States.

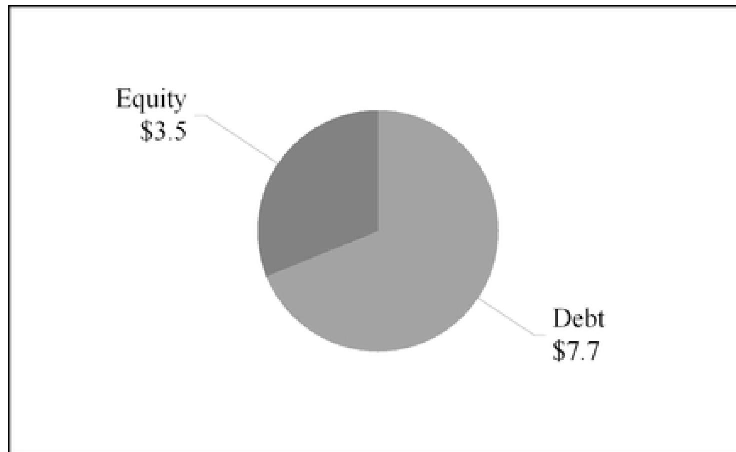
Apollo, through its consolidated subsidiary, Athene Asset Management, provides asset management services to Athene, including asset allocation and portfolio management strategies, and receives fees from Athene Holding for providing such services. As of December 31, 2015, Athene Asset Management managed Athene Holding's entire investment portfolio, except with respect to the assets of Athene Germany, for which a different Apollo affiliate provides investment advisory services. Athene Asset Management had $59.5 billion of AUM as of December 31, 2015 in accounts owned by or related to Athene (the "Athene Accounts"), of which approximately $14.6 billion, or approximately 24.5%, was either sub-advised by Apollo or invested in Apollo funds and investment vehicles. The vast majority of sub-advised assets are in managed accounts that invest in high grade credit asset classes such as CLO debt, commercial mortgage backed securities and insurance-linked securities. We currently expect this percentage to increase over time provided that Athene Asset Management continues to perform successfully in providing asset management services to Athene. Athene Asset Management receives a gross management fee equal to 0.40% per annum on all AUM in the Athene Accounts, with certain limited exceptions for all of the services which Athene Asset Management provides to Athene.

An affiliate of Apollo provides advisory services to Athene Germany including asset allocation and portfolio management strategies. Athene Germany provides life insurance products to the German market and was acquired by Athene Holding on October 1, 2015. Apollo and its subsidiaries advised Athene with respect to $5.1 billion of AUM as of December 31, 2015 related to Athene Germany, all of which was Fee-Generating AUM.

Real Estate

Our real estate group has a dedicated team of multi-disciplinary real estate professionals whose investment activities are integrated and coordinated with our private equity and credit business segments. We take a broad view of markets and property types in targeting debt and equity investment opportunities, including the acquisition and recapitalization of real estate portfolios, platforms and operating companies and distressed for control situations. As of December 31, 2015, our real estate business had total and fee generating AUM of approximately $11.3 billion and $7.3 billion, respectively, through a combination of investment funds, SIAs and Apollo Commercial Real Estate Finance, Inc. ("ARI"), a publicly-traded, commercial mortgage real estate investment trust managed by Apollo.

Real Estate AUM as of December 31, 2015
(in billions)



With respect to our real estate funds' equity investments, we take a value-oriented approach and our funds will invest in assets located in primary, secondary and tertiary markets across the United States. The funds we manage pursue opportunistic investments in various real estate asset classes, which historically have included hospitality, office, industrial, retail, healthcare, residential and non-performing loans. Our real estate equity funds under management currently include AGRE U.S. Real Estate Fund, L.P. ("U.S. RE Fund I") and Apollo U.S. Real Estate Fund II, L.P. ("U.S. RE Fund II"), our U.S. focused, opportunistic funds, and our legacy Citi Property Investors ("CPI") business, the real estate investment management business we acquired from Citigroup in November 2010. In 2015, we expanded our real estate equity strategy through the acquisition of Venator Real Estate Capital Partners ("Venator"), an Asian focused real estate investment manager. In connection with the transaction, we now manage the Trophy Property Development Fund, a China-focused investment fund.

With respect to our real estate debt activities, our real estate funds and accounts offer financing across a broad spectrum of property types and at various points within a property's capital structure, including first mortgage and mezzanine financing and preferred equity. In addition to ARI, we also manage strategic accounts focused on investing in commercial mortgage-backed securities and other commercial real estate loans.

Strategic Investment Accounts

We manage several SIAs established to facilitate investments by third-party investors directly in Apollo funds and other securities. Institutional investors are expressing increasing levels of interest in SIAs since these accounts can provide investors with greater levels of transparency, liquidity and control over their investments as compared to more traditional investment funds. Based on the trends we are currently witnessing among a select group of large institutional investors, we expect our AUM that is managed through SIAs to continue to grow over time. As of December 31, 2015, approximately $17 billion of our total AUM was managed through SIAs.

Fundraising and Investor Relations

We believe our performance track record across our funds and our focus on client service have resulted in strong relationships with our fund investors. Our fund investors include many of the world’s most prominent pension and sovereign wealth funds, university endowments and financial institutions, as well as individuals. We maintain an internal team dedicated to investor relations across our private equity, credit and real estate businesses.

In our private equity business, fundraising activities for new funds begin once the investor capital commitments for the current fund are largely invested or committed to be invested. The investor base of our private equity funds includes both investors from prior funds and new investors. In many instances, investors in our private equity funds have increased their commitments to subsequent funds as our private equity funds have increased in size. During the fundraising effort for Fund VIII, investors representing over 92% of Fund VII’s capital committed to Fund VIII. In addition, many of our investment professionals commit their own capital to each private equity fund. The single largest unaffiliated investor in Fund VIII represents 5% of Fund VIII's commitments.

During the management of a private equity fund, we maintain an active dialogue with the fund's investors. We host quarterly webcasts that are led by members of our senior management team and we provide quarterly reports to the investors detailing recent performance by investment. We also organize an annual meeting for our private equity funds' investors that consists of detailed presentations by the senior management teams of many of our funds' current investments. From time to time, we also hold meetings for the advisory board members of our private equity funds.

In our credit business, we have raised private capital from prominent institutional investors and have also raised capital from public market investors, as in the case of AINV, AFT, AIF and AMTG. AINV is listed on the NASDAQ Global Select Market and complies with the reporting requirements of that exchange. AFT, AIF and AMTG are listed on the NYSE and comply with the reporting requirements of that exchange.

In our real estate business, we have raised capital from prominent institutional investors and we have also raised capital from public market investors, as in the case of ARI. ARI is listed on the NYSE and complies with the reporting requirements of that exchange.

Investment Process

We maintain a rigorous investment process and a comprehensive due diligence approach across all of our funds. We have developed policies and procedures, the adequacy of which are reviewed annually, that govern the investment practices of our funds. Moreover, each fund is subject to certain investment criteria set forth in its governing documents that generally contain requirements and limitations for investments, such as limitations relating to the amount that will be invested in any one company and the geographic regions in which the fund will invest. Our investment professionals are familiar with our investment policies and procedures and the investment criteria applicable to the funds that they manage. Our investment professionals interact frequently across our businesses on a formal and informal basis.

We have in place certain procedures to allocate investment opportunities among our funds. These procedures are meant to ensure that each fund is treated fairly and that transactions are allocated in a way that is equitable, fair and in the best interests of each fund, subject to the terms of the governing agreements of such funds.

Private Equity Investment Process

Our private equity investment professionals are responsible for selecting, evaluating, structuring, due diligence, negotiating, executing, monitoring and exiting investments for our traditional private equity funds, as well as pursuing operational improvements in our funds’ portfolio companies through management consulting arrangements. These investment professionals perform significant research into each prospective investment, including a review of the company’s financial statements, comparisons with other public and private companies and relevant industry data. The due diligence effort will also typically include:

- on-site visits;
- interviews with management, employees, customers and vendors of the potential portfolio company;
- research relating to the company's management, industry, markets, products and services, and competitors; and
- background checks.

After an initial selection, evaluation and diligence process, the relevant team of investment professionals will prepare a detailed analysis of the investment opportunity for our private equity investment committee. Our private equity investment committee generally meets weekly to review the investment activity and performance of our private equity funds.

After discussing the proposed transaction with the deal team, the investment committee will decide whether to give its preliminary approval to the deal team to continue the selection, evaluation, diligence and negotiation process. The investment committee will typically conduct several meetings to consider a particular investment before finally approving that investment and its terms. Both at such meetings and in other discussions with the deal team, our Managing Partners and other investment professionals will provide guidance to the deal team on strategy, process and other pertinent considerations. Every private equity investment requires the approval of our Managing Partners.

Our private equity investment professionals are responsible for monitoring an investment once it is made and for making recommendations with respect to exiting an investment. Disposition decisions made on behalf of our private equity funds are subject to review and approval by the private equity investment committee, including our Managing Partners.

Credit and Real Estate Investment Process

Our credit and real estate investment professionals are responsible for selecting, evaluating, structuring, due diligence, negotiating, executing, monitoring and exiting investments for our credit funds and real estate funds, respectively. The investment professionals perform significant research into and due diligence of each prospective investment, and prepare analyses of recommended investments for the investment committee of the relevant fund.

Investment decisions are scrutinized by the investment committees where applicable, who review potential transactions, provide input regarding the scope of due diligence and approve recommended investments and dispositions. Close attention is given to how well a proposed investment is aligned with the distinct investment objectives of the fund in question, which in many cases have specific geographic or other focuses. The investment committee of each of our credit funds and real estate funds generally is provided with a summary of the investment activity and performance of the relevant funds on at least a monthly basis.

Overview of Fund Operations

Investors in our private equity funds and certain of our credit and real estate funds make commitments to provide capital at the outset of a fund and deliver capital when called by us as investment opportunities become available. We determine the amount of initial capital commitments for such funds by taking into account current market opportunities and conditions, as well as investor expectations. The general partner's capital commitment is determined through negotiation with the fund's underlying investor base. The commitments are generally available for approximately six years during what we call the investment period. We have typically invested the capital committed to such funds over a three to four year period. Generally, as each investment is realized, these funds first return the capital and expenses related to that investment and any previously realized investments to fund investors and then distribute any profits. These profits are typically shared 80% to the investors in our private equity funds and 20% to us so long as the investors receive at least an 8% compounded annual return on their investment, which we refer to as a "preferred return" or "hurdle." Allocation of profits between fund investors and us, as well as the amount of the preferred return, among other provisions, varies for our real estate equity and many of our credit funds. Our private equity funds typically terminate ten years after the final closing, subject to the potential for two one-year extensions. Dissolution of those funds can be accelerated upon a majority vote of investors not affiliated with us and, in any case, all of our funds also may be terminated upon the occurrence of certain other events. Ownership interests in our private equity funds and certain of our credit and real estate funds are not, however, subject to redemption prior to termination of the funds.

The processes by which our credit and real estate funds receive and invest capital vary by type of fund. As noted above, certain of our credit and real estate funds have drawdown structures where investors made a commitment to provide capital at the formation of such funds and deliver capital when called by us as investment opportunities become available. In addition, we have several permanent capital vehicles with unlimited duration. Each of these publicly traded vehicles raises capital by selling shares in the public markets and these vehicles can also issue debt. We also have several credit funds which continuously offer and sell shares or limited partner interests via private placements through monthly subscriptions, which are payable in full upon a fund's acceptance of an investor's subscription. These hedge fund style credit funds have customary redemption rights (in many cases subject to the expiration of an initial lock-up period), and are generally structured as limited partnerships, the terms of which are determined through negotiation with the funds' underlying investor base. Management fees and incentive fees (whether in the form

of carried interest income or incentive allocation) that we earn for management of these credit funds and from their performance as well as the terms governing their operation vary across our credit funds.

We conduct the management of our private equity, credit and real estate funds primarily through a partnership structure, in which partnerships organized by us accept commitments and/or funds for investment from investors. Funds are generally organized as limited partnerships with respect to private equity funds and other U.S. domiciled vehicles and limited partnership and limited liability (and other similar) companies with respect to non-U.S. domiciled vehicles. Typically, each fund has an investment adviser registered under the Investment Advisers Act of 1940, as amended (the “Investment Advisers Act”). Responsibility for the day-to-day operations of the funds is typically delegated to the funds’ respective investment managers pursuant to an investment management (or similar) agreement. Generally, the material terms of our investment management agreements relate to the scope of services to be rendered by the investment manager to the applicable funds, certain rights of termination in respect of our investment management agreements and, generally, with respect to certain of our credit and real estate funds (as these matters are covered in the limited partnership agreements of the private equity funds), the calculation of management fees to be borne by investors in such funds, as well as the calculation of the manner and extent to which other fees received by the investment manager from fund portfolio companies serve to offset or reduce the management fees payable by investors in our funds. The funds themselves generally do not register as investment companies under the Investment Company Act of 1940, as amended (the “Investment Company Act”), generally in reliance on Section 3(c)(7) or Section 7(d) thereof or, typically in the case of funds formed prior to 1997, Section 3(c)(1) thereof. Section 3(c)(7) of the Investment Company Act excepts from its registration requirements funds privately placed in the United States whose securities are owned exclusively by persons who, at the time of acquisition of such securities, are “qualified purchasers” or “knowledgeable employees” for purposes of the Investment Company Act. Section 3(c)(1) of the Investment Company Act exempts from its registration requirements privately placed funds whose securities are beneficially owned by not more than 100 persons. In addition, under current interpretations of the SEC, Section 7(d) of the Investment Company Act exempts from registration any non-U.S. fund all of whose outstanding securities are beneficially owned either by non-U.S. residents or by U.S. residents that are qualified purchasers.

In addition to having an investment manager, each fund that is a limited partnership also has a general partner that makes all policy and investment decisions relating to the conduct of the fund’s business. The general partner is responsible for all decisions concerning the making, monitoring and disposing of investments, but such responsibilities are typically delegated to the fund’s investment manager pursuant to an investment management (or similar) agreement. The limited partners of the funds take no part in the conduct or control of the business of the funds, have no right or authority to act for or bind the funds and have no influence over the voting or disposition of the securities or other assets held by the funds. These decisions are made by the fund’s general partner in its sole discretion, subject to the investment limitations set forth in the agreements governing each fund. The limited partners often have the right to remove the general partner or investment manager for cause or cause an early dissolution by a simple majority vote. In connection with the private offering transactions that occurred in 2007 pursuant to which we sold shares of Apollo Global Management, LLC to certain initial purchasers and accredited investors in transactions exempt from the registration requirements of the Securities Act (“Private Offering Transactions”) and the reorganization of the Company’s predecessor business (the “2007 Reorganization”), we deconsolidated certain of our private equity and credit funds that have historically been consolidated in our financial statements and amended the governing agreements of those funds to provide that a simple majority of a fund’s investors have the right to accelerate the dissolution date of the fund. Additionally, Apollo adopted new U.S. GAAP consolidation guidance during the year ended December 31, 2015, which resulted in the deconsolidation of certain funds and variable interest entities (“VIEs”) as of January 1, 2015.

In addition, the governing agreements of our private equity funds and certain of our credit and real estate funds enable the limited partners holding a specified percentage of the interests entitled to vote, to elect not to continue the limited partners’ capital commitments for new portfolio investments in the event certain of our Managing Partners do not devote the requisite time to managing the fund or in connection with certain triggering events (as defined in the applicable governing agreements). In addition to having a significant, immeasurable negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our funds would likely result in significant reputational damage to us. The loss of the services of any of our Managing Partners would have a material adverse effect on us, including our ability to retain and attract investors and raise new funds, and the performance of our funds. We do not carry any “key man” insurance that would provide us with proceeds in the event of the death or disability of any of our Managing Partners.

Fees and Carried Interest

Our revenues and other income consist principally of (i) management fees, which may be based upon a percentage of the committed or invested capital, adjusted assets, gross invested capital, fund net asset value, stockholders' equity or the capital accounts of the limited partners of the funds, and may be subject to offset as discussed in note 2 to the consolidated financial statements, (ii) advisory and transaction fees, net relating to certain actual and potential private equity, credit and real estate investments as more fully discussed in note 2 to the consolidated financial statements, (iii) income based on the performance of our funds, which consists of allocations, distributions or fees from our private equity, credit and real estate funds, and (iv) investment

income from our investments as general partner and other direct investments primarily in the form of net gains from investment activities as well as interest and dividend income.

The composition of our revenues will vary based on market conditions and the cyclicality of the different businesses in which we operate. Our funds' returns are driven by investment opportunities and general market conditions, including the availability of debt capital on attractive terms and the availability of distressed debt opportunities. Our funds initially record fund investments at cost and then such investments are subsequently recorded at fair value. Fair values are affected by changes in the fundamentals of the underlying portfolio company investments of the funds, the industries in which the portfolio companies operate, the overall economy as well as other market conditions.

General Partner and Professionals Investments and Co-Investments

General Partner Investments

Certain of our management companies, general partners and co-invest vehicles are committed to contribute to our funds and affiliates. As a limited partner, general partner and manager of the Apollo funds, Apollo had unfunded capital commitments as of December 31, 2015 of $566.3 million.

Apollo has an ongoing obligation, subject to certain stipulations, to acquire additional common units of AAA in an amount equal to 25% of the aggregate after-tax cash distributions, if any, that are made by AAA to Apollo's affiliates pursuant to the carried interest distribution rights that are applicable to investments made through AAA Investments.

Managing Partners and Other Professionals Investments

To further align our interests with those of investors in our funds, our Managing Partners and other professionals have invested their own capital in our funds. Our Managing Partners and other professionals will either re-invest their carried interest to fund these investments or use cash on hand or funds borrowed from third parties. We generally have not historically charged management fees or carried interest on capital invested by our Managing Partners and other professionals directly in our private equity, credit, and real estate funds.

Co-Investments

Investors in many of our funds, as well as certain other investors, may have the opportunity to make co-investments with the funds. Co-investments are investments in portfolio companies or other fund assets generally on the same terms and conditions as those to which the applicable fund is subject.

Competition

The investment management industry is intensely competitive, and we expect it to remain so. We compete globally and on a regional, industry and niche basis.

We face competition both in the pursuit of outside investors for our funds and in our funds acquiring investments in attractive portfolio companies and making other fund investments. We compete for outside investors for our funds based on a variety of factors, including:

- investment performance;
- investor perception of investment managers' drive, focus and alignment of interest;
- quality of service provided to and duration of relationship with investors;
- business reputation; and
- the level of fees and expenses charged for services.

Competition is also intense for the attraction and retention of qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

For additional information concerning the competitive risks that we face, see "Item 1A. Risk Factors—Risks Related to Our Businesses—The investment management business is intensely competitive, which could have a material adverse impact on us."

Regulatory and Compliance Matters

Our businesses, as well as the financial services industry generally, are subject to extensive regulation in the United States and elsewhere. All of the investment advisers of our funds are registered as investment advisers either directly or as a "relying

adviser" with the SEC. A "relying adviser" is an investment adviser that relies on the investment adviser registration of a directly registered investment adviser pursuant to the SEC's Division of Investment Management staff guidance dated January 18, 2012, issued in a no-action letter in response to the American Bar Association's request for interpretative guidance (the "ABA No-Action Letter"). Registered investment advisers are subject to the requirements and regulations of the Investment Advisers Act. Such requirements relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, managing conflicts of interest and general anti-fraud prohibitions. Pursuant to the ABA No-Action letter, each "relying adviser" is an investment adviser registered with the SEC and, as such, is required to comply with all of the provisions of the Investment Advisers Act and the rules thereunder that apply to registered advisers.

Each of AFT and AIF is a registered management investment company under the Investment Company Act. AINV is an investment company that has elected to be treated as a business development company under the Investment Company Act. Each of AFT, AIF and AINV has elected for U.S. Federal tax purposes to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). As such, each of AFT, AIF and AINV is required to distribute during each taxable year at least 90% of its ordinary income and realized, net short-term capital gains in excess of realized net long-term capital losses, if any, to its shareholders. In addition, in order to avoid excise tax, each needs to distribute during each calendar year at least 98% of its ordinary income and 98.2% of its capital gains net income for the one-year period ended on October 31st of such calendar year, plus any shortfalls from any prior year's distribution, which would take into account short-term and long-term capital gains and losses. In addition, as a business development company, AINV must not acquire any assets other than "qualifying assets" specified in the Investment Company Act unless, at the time the acquisition is made, at least 70% of AINV's total assets are qualifying assets (with certain limited exceptions).

ARI and AMTG have each elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code. To maintain their qualification as REITs, ARI and AMTG must distribute at least 90% of their taxable income to their shareholders and meet, on a continuing basis, certain other complex requirements under the Internal Revenue Code.

In addition, Apollo Global Securities, LLC ("AGS") is a registered broker dealer with the SEC and is a member of the Financial Industry Regulatory Authority, Inc. From time to time, this entity is involved in transactions with affiliates of Apollo, including portfolio companies of the funds we manage, whereby AGS will earn fees for its services.

Broker-dealers are subject to regulations that cover all aspects of the securities business. In particular, as a registered broker-dealer and member of a self regulatory organization, we are subject to the SEC's uniform net capital rule, Rule 15c3-1. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer's assets be kept in relatively liquid form. The SEC and various self-regulatory organizations impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the regulatory capital composition of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC's uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

As the ultimate parent of the general partner or manager of certain shareholders of Athene Holding, we are subject to insurance holding company system laws and regulations in Delaware, Iowa and New York, which are the states in which the insurance company subsidiaries of Athene Holding are domiciled. These regulations generally require each insurance company subsidiary to register with the insurance department in its state of domicile and to furnish financial and other information about the operations of companies within its holding company system. These regulations also impose restrictions and limitations on the ability of an insurance company subsidiary to pay dividends and make other distributions to its parent company. In addition, transactions between an insurance company and other companies within its holding company system, including sales, loans, investments, reinsurance agreements, management agreements and service agreements, must be on terms that are fair and reasonable and, if material or within a specified category, require prior notice and approval or non-disapproval by the applicable domiciliary insurance department.

The insurance laws of each of Delaware, Iowa and New York prohibit any person from acquiring control of a domestic insurance company or its parent company unless that person has filed a notification with specified information with that state's Commissioner or Superintendent of Insurance (the "Commissioner") and has obtained the Commissioner's prior approval. Under applicable Delaware, Iowa and New York statutes, the acquisition of 10% or more of the voting securities of an insurance company or its parent company is presumptively considered an acquisition of control of the insurance company, although such presumption may be rebutted. Accordingly, any person or entity that acquires, directly or indirectly, 10% or more of the voting securities of Apollo without the requisite prior approvals will be in violation of these laws and may be subject to injunctive action requiring the disposition or seizure of those securities or prohibiting the voting of those securities, or to other actions that may be taken by the applicable state insurance regulators.

In addition, many U.S. state insurance laws require prior notification to state insurance departments of an acquisition of control of a non-domiciliary insurance company doing business in that state if the acquisition would result in specified levels of market concentration. While these pre-notification statutes do not authorize the state insurance departments to disapprove the acquisition of control, they authorize regulatory action in the affected state, including requiring the insurance company to cease and desist from doing certain types of business in the affected state or denying a license to do business in the affected state, if particular conditions exist, such as substantially lessening competition in any line of business in such state. Any transactions that would constitute an acquisition of control of Apollo may require prior notification in those states that have adopted pre-acquisition notification laws. These laws may discourage potential acquisition proposals and may delay, deter or prevent an acquisition of control of Apollo (in particular through an unsolicited transaction), even if Apollo might consider such transaction to be desirable for its shareholders.

Currently, there are proposals to increase the scope of regulation of insurance holding companies in both the United States and internationally. In the United States, the NAIC has promulgated amendments to its insurance holding company system model law and regulations for consideration by the various states that would provide for more extensive informational reporting regarding parents and other affiliates of insurance companies, with the purpose of protecting domestic insurers from enterprise risk, including requiring an annual enterprise risk report by the ultimate controlling person identifying the material risks within the insurance holding company system that could pose enterprise risk to domestic insurers. Changes to existing NAIC model laws or regulations must be adopted by individual states or foreign jurisdictions before they will become effective. To date, each of Delaware, Iowa and New York has enacted laws to adopt such amendments.

Internationally, the International Association of Insurance Supervisors is in the process of adopting a framework for the "group wide" supervision of internationally active insurance groups. The NAIC has also promulgated additional amendments to its insurance holding company system model law that address "group wide" supervision of internationally active insurance groups. To date, Delaware has enacted laws to adopt a form of these amendments, and Iowa has adopted similar provisions under a predecessor statute. We cannot predict with any degree of certainty the additional capital requirements, compliance costs or other burdens these requirements may impose on us and our insurance company affiliates.

In addition, state insurance departments also have broad administrative powers over the insurance business of our insurance company affiliates, including insurance company licensing and examination, agent licensing, establishment of reserve requirements and solvency standards, premium rate regulation, admissibility of assets, policy form approval, unfair trade and claims practices and other matters. State regulators regularly review and update these and other requirements.

Although the federal government does not directly regulate the insurance business, federal legislation and administrative policies in several areas, including pension regulation, age and sex discrimination, financial services regulation, securities regulation and federal taxation, can significantly affect the insurance business. The Dodd-Frank Wall Street Reform and Consumer Protection Act created the FIO within the Department of Treasury headed by a Director appointed by the Treasury Secretary. The FIO is designed principally to exercise a monitoring and information gathering role, rather than a regulatory role. In that capacity, the FIO has been charged with providing reports to the U.S. Congress on (i) modernization of U.S. insurance regulation (provided in December 2013) and (ii) the U.S. and global reinsurance market (provided in November 2013 and January 2015, respectively). Such reports could ultimately lead to changes in the regulation of insurers and reinsurers in the U.S.

We are subject to the jurisdiction of the Federal Energy Regulatory Commission as a result of certain of the funds we manage directly or indirectly owning, controlling or holding, with power to vote, 10% or more of the voting securities in a "public-utility company" or a "holding company" of a public-utility company (as those terms are defined in the U.S. Public Utility Holding Company Act of 2005). See "Item 1A. Risk Factors—Risks Related to Our Businesses—We are a holding company subject to the jurisdiction of the Federal Energy Regulatory Commission (the "FERC"). An acquirer of our Class A shares may be required to obtain prior approval from the FERC and make other filings with the FERC."

Apollo Management International LLP ("AMI") is authorized and regulated by the U.K. Financial Conduct Authority in the United Kingdom, under the Financial Services and Markets Act 2000 ("FSMA") and the rules promulgated thereunder. AMI has permission to engage in certain specified regulated activities, including dealing as agent and arranging deals in relation to certain type of investments. Most aspects of AMI's investment business are governed by the FSMA and related rules, including sales, research, trading practices, provision of investment advice, corporate finance, regulatory capital, record keeping, approval standards for individuals, anti-money laundering and period reporting and settlement procedures. The U.K. Financial Conduct Authority is responsible for administering these requirements and our compliance with the relevant the FSMA and related rules.

AAA is regulated under the Authorized Closed-ended Investment Scheme Rules 2008 issued by the Guernsey Financial Services Commission ("GFSC") with effect from December 15, 2008 under The Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended (the "New Rules"). AAA is deemed to be an authorized closed-ended investment scheme under the New Rules.

Apollo Advisors (Mauritius) Ltd ("Apollo Mauritius"), one of our subsidiaries, and AION Capital Management Limited ("AION Manager"), one of our joint venture investments, are licensed providers of investment management services in the Republic of Mauritius and are subject to applicable Mauritian securities laws and the oversight of the Financial Services Commission (Mauritius) (the "FSC"). Each of Apollo Mauritius and AION Manager is subject to limited regulatory requirements under the Mauritian Securities Act 2005, Mauritian Financial Services Act 2007 and relevant ancillary regulations, including, ongoing reporting and record keeping requirements, anti-money laundering obligations, obligations to ensure that it and its directors, key officers and representatives are fit and proper and requirements to maintain positive shareholders' equity. The FSC is responsible for administering these requirements and ensuring the compliance of Apollo Mauritius and AION Manager with them. If Apollo Mauritius or AION Manager contravenes any such requirements, such entities and/or their officers or representatives may be subject to a fine, reprimand, prohibition order or other regulatory sanctions.

AGM India Advisors Private Limited is regulated by the Company Law Board (also known as the Ministry of Company Affairs) through the Companies Act of 1956 in India. Additionally since there are foreign investments in the company, AGM India Advisors Private Limited is also subject to the rules and regulations applicable under the Foreign Exchange Management Act of 1999 which falls within the purview of Reserve Bank of India.

Apollo Management Singapore Pte Ltd. was granted a Capital Markets Service License with the Monetary Authority of Singapore in October 2013. In addition, Apollo Capital Management, L.P. is registered with the Securities and Exchange Board of India as a foreign institutional investor.

Certain of our businesses are subject to compliance with laws and regulations of U.S. Federal and state governments, non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges relating to, among other things, the privacy of client information, and any failure to comply with these regulations could expose us to liability and/or reputational damage. Our businesses have operated for many years within a legal framework that requires our being able to monitor and comply with a broad range of legal and regulatory developments that affect our activities.

However, additional legislation, changes in rules promulgated by self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, either in the United States or elsewhere, may directly affect our mode of operation and profitability. For additional information concerning the regulatory environment in which we operate, see "Item 1A. Risk Factors—Risks Related To Our Businesses—Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our businesses. Changes in taxation or law and other legislative or regulatory changes could adversely affect us."

Rigorous legal and compliance analysis of our businesses and investments is important to our culture. We strive to maintain a culture of compliance through the use of policies and procedures, such as our code of ethics, compliance systems, communication of compliance guidance and employee education and training. We have a compliance group that monitors our compliance with the regulatory requirements to which we are subject and manages our compliance policies and procedures. Our Chief Compliance Officer supervises our compliance group, which is responsible for addressing all regulatory and compliance matters that affect our activities. Our compliance policies and procedures address a variety of regulatory and compliance risks such as the handling of material non-public information, personal securities trading, valuation of investments on a fund-specific basis, document retention, potential conflicts of interest and the allocation of investment opportunities.

We generally operate without information barriers between our businesses. In an effort to manage possible risks resulting from our decision not to implement these barriers, our compliance personnel maintain a list of issuers for which we have access to material, non-public information and for whose securities our funds and investment professionals are not permitted to trade. We could in the future decide that it is advisable to establish information barriers, particularly as our business expands and diversifies. In such event our ability to operate as an integrated platform will be restricted. See "Item 1A. Risk Factors—Risks Related to Our Businesses—Possession of material, non-public information could prevent Apollo funds from undertaking advantageous transactions; our internal controls could fail, or we could establish information barriers, all of which could adversely affect our business."

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Section 13(a) of the Exchange Act are made available free of charge on or through our website at www.agm.com as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC. The information on our website is not, and shall not be deemed to be, part of this report or incorporated into any other filings we make with the SEC. You may also read and copy any document we file at the SEC's public reference room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition these reports and the other documents we file with the SEC are available on the SEC's website at www.sec.gov.

From time to time, we may use our website as a channel of distribution of material information. Financial and other material information regarding the Company is routinely posted on and accessible at www.agm.com.

ITEM 1A. RISK FACTORS

Risks Related to Our Businesses

Poor performance of our funds would cause a decline in our revenue and results of operations, may obligate us to repay incentive income previously paid to us and would adversely affect our ability to raise capital for future funds.

We derive revenues in part from:

- management fees, which are based generally on the amount of capital committed or invested in our funds;
- transaction and advisory fees relating to the investments our funds make;
- incentive income, based on the performance of our funds; and
- investment income from our investments as general partner.

If a fund performs poorly, we will receive little or no incentive income with regard to the fund and little income or possibly losses from any principal investment in the fund. Furthermore, if, as a result of poor performance of later investments in a fund's life, the fund does not achieve total investment returns that exceed a specified investment return threshold for the life of the fund, we may be obligated to repay the amount by which incentive income that was previously distributed to us exceeds amounts to which we are ultimately entitled. Our fund investors and potential fund investors continually assess our funds' performance and our ability to raise capital. Accordingly, poor fund performance may deter future investment in our funds and thereby decrease the capital committed or invested in our funds and ultimately, our management fee income.

We depend on Leon Black, Joshua Harris and Marc Rowan, and the loss of their services would have a material adverse effect on us.

The success of our businesses depends on the efforts, judgment and personal reputations of our Managing Partners, Leon Black, Joshua Harris and Marc Rowan. Their reputations, expertise in investing, relationships with our fund investors and relationships with members of the business community on whom our funds depend for investment opportunities and financing are each critical elements in operating and expanding our businesses. We believe our performance is strongly correlated to the performance of these individuals. Accordingly, our retention of our Managing Partners is crucial to our success. Our Managing Partners may resign, join our competitors or form a competing firm at any time. If our Managing Partners were to join or form a competitor, some of our investors could choose to invest with that competitor, another competitor or not at all, rather than in our funds. The loss of the services of our Managing Partners would have a material adverse effect on us, including our ability to retain and attract investors and raise new funds, and the performance of our funds. We do not carry any "key man" insurance that would provide us with proceeds in the event of the death or disability of any of our Managing Partners. In addition, the loss of two or more of our Managing Partners may result in the termination of our role as general partner of certain of our funds and the termination of the commitment periods of certain of our funds. See "-If two or more of our Managing Partners or certain other investment professionals leave our company, the commitment periods of certain of our funds may be terminated, and we may be in default under the governing documents of certain of our funds and our credit agreement."

Changes in the debt financing markets may negatively impact the ability of our funds and their portfolio companies to obtain attractive financing for their investments and may increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decreasing our net income.

In the event that our funds are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, our funds may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned by us. Any failure by lenders to provide previously committed financing can also expose us to potential claims by sellers of businesses which we may have contracted to purchase. Our funds' portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations. Similarly, certain of our credit funds rely on the availability of attractive financing for their investments. To the extent that the current credit markets have rendered such financing difficult to obtain or more expensive, this may negatively impact the operating performance of such portfolio companies and credit funds, and lead to lower-yielding investments with respect to such funds and, therefore, the investment returns on our funds. In addition, to the extent that the current markets make it difficult or impossible to refinance debt that is maturing in the near term, a relevant

portfolio company may face substantial doubt as to its status as a going concern (which may result in an event of default under various agreements) or be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection.

Difficult market or economic conditions may adversely affect our businesses in many ways, including by reducing the value or hampering the performance of the investments made by our funds or reducing the ability of our funds to raise or deploy capital, each of which could materially reduce our revenue, net income and cash flow and adversely affect our financial prospects and condition.

Our businesses are materially affected by conditions in the global financial markets and economic conditions throughout the world, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors are outside our control and may affect the level and volatility of securities prices and the liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to these conditions. Global financial markets have experienced considerable volatility in the valuations of equity and debt securities, a contraction in the availability of credit and an increase in the cost of financing. Volatility in the financial markets can materially hinder the initiation of new, large-sized transactions for our private equity segment and, together with volatility in valuations of equity and debt securities, may adversely impact our operating results. If market conditions deteriorate, our businesses could be affected in different ways. In addition, these events and general economic trends are likely to impact the performance of portfolio companies in many industries, particularly industries that are more affected by changes in consumer demand, such as the packaging, manufacturing, chemical and refining industries, as well as travel and leisure, gaming and real estate industries. The performance of our funds and our performance may be adversely affected to the extent our fund portfolio companies in these industries experience adverse performance or additional pressure due to downward trends. Our profitability may also be adversely affected by our fixed costs and the possibility that we would be unable to scale back other costs, within a time frame sufficient to match any further decreases in net income or increases in net losses relating to changes in market and economic conditions.

A financial downturn could adversely affect our operating results in a number of ways, and if the economy were to re-enter a recessionary or inflationary period, it may cause our revenue and results of operations to decline by causing:

- our AUM to decrease, lowering management fees and other income from our funds;
- increases in costs of financial instruments;
- adverse conditions for our portfolio companies (e.g., decreased revenues, liquidity pressures, increased difficulty in obtaining access to financing and complying with the terms of existing financings as well as increased financing costs);
- lower investment returns, reducing incentive income;
- higher interest rates, which could increase the cost of the debt capital we use to acquire companies in our private equity business; and
- material reductions in the value of our fund investments, affecting our ability to realize carried interest from these investments.

Lower investment returns and such material reductions in value may result because, among other reasons, during periods of difficult market conditions or slowdowns (which may be across one or more industries, sectors or geographies), companies in which our funds invest may experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods, these companies may also have difficulty in expanding their businesses and operations and be unable to meet their debt service obligations or other expenses as they become due, including expenses payable to us. In addition, during periods of adverse economic conditions, our funds and their portfolio companies may have difficulty accessing financial markets, which could make it more difficult or impossible to obtain funding for additional investments and harm our AUM and operating results. Furthermore, such conditions would also increase the risk of default with respect to our funds that have significant debt investments, such as our credit funds. Our funds may be affected by reduced opportunities to exit and realize value from their investments, by lower than expected returns on investments made prior to the deterioration of the credit markets, and by the fact that we may not be able to find suitable investments for the funds to effectively deploy capital, which could adversely affect our ability to raise new funds and thus adversely impact our prospects for future growth.

While the adverse effects of the unprecedented turmoil in global financial markets in 2008 and 2009 have abated to a certain degree, markets have recently experienced significant volatility. In addition, while conditions in the U.S. economy have somewhat improved since the credit crisis, many other economies continue to experience weakness, tighter credit conditions and a decreased availability of foreign capital. Further, there is concern that the favorability of conditions in certain markets may be dependent on continued monetary policy accommodation from central banks, especially the Board of Governors of the Federal

Reserve System (the “Federal Reserve”). Although interest rates have been at historically low levels for the last few years, the Federal Reserve could begin to sharply raise interest rates, which could have an adverse impact on our business.

A decline in the pace of investment in our funds, an increase in the pace of sales of investments in our funds, or an increase in the amount of transaction and advisory fees we share with our fund investors would result in our receiving less revenue from transaction and advisory fees.

A variety of fees that we earn, such as transaction and advisory fees, are driven in part by the pace at which our funds make investments. Many factors could cause a decline in the pace of investment, including the inability of our investment professionals to identify attractive investment opportunities, competition for such opportunities among other potential acquirers, decreased availability of capital on attractive terms and our failure to consummate identified investment opportunities because of business, regulatory or legal complexities and adverse developments in the U.S. or global economy or financial markets. Any decline in the pace at which our funds make investments would reduce our transaction and advisory fees and could make it more difficult for us to raise capital. Likewise, during attractive selling environments, our funds may capitalize on increased opportunities to exit investments. Any increase in the pace at which our funds exit investments would reduce transaction and advisory fees. In addition, some of our fund investors have requested, and we expect to continue to receive requests from fund investors, that we share with them a larger portion, or all, of the transaction and advisory fees generated by our funds’ investments. To the extent we accommodate such requests, it would result in a decrease in the amount of fee revenue we could earn. For example, in Fund VIII we have agreed that 100% of certain transaction and advisory fees will be shared with the investors in the fund through a management fee offset mechanism, whereas the percentage was 68% in Fund VII.

If two or more of our Managing Partners or certain other investment professionals leave our company, the commitment periods of certain of our funds may be terminated, and we may be in default under the governing documents of certain of our funds and our credit agreement.

The governing agreements of certain of our funds provide that in the event certain “key persons” (such as two or more of Messrs. Black, Harris and Rowan and/or certain other of our investment professionals) fail to devote the requisite time to our business, the commitment period will terminate if a certain percentage in interest of the investors do not vote to continue the commitment period or may terminate for a variety of other reasons. This is true of Fund VI, Fund VII and Fund VIII, on which our near- to medium-term performance will heavily depend. Apollo Credit Opportunity Fund III, L.P. (“COF III”), Apollo European Principal Finance Fund II, L.P. (“EPF II”), Financial Credit Investment Credit Facilities II, L.P. (“FCI II”) and certain other credit funds have similar provisions. Furthermore, the 2013 AMH Credit Facilities described in Note 12 to our consolidated financial statements provide that an event of default may occur if such “key persons” no longer own a majority of the voting power represented by our issued and outstanding equity and a majority of our economic interests. In addition to having a significant negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our funds or the 2013 AMH Credit Facilities would likely result in significant reputational damage to us.

Messrs. Black, Harris and Rowan may terminate their employment with us at any time.

We may not be successful in raising new funds or in raising more capital for certain of our funds and may face pressure on carried interest and fee arrangements of our future funds.

Our funds may not be successful in consummating their current capital-raising efforts or others that they may undertake, or they may consummate them at investment levels far lower than those currently anticipated. Any capital raising that our funds undertake may be on terms that are unfavorable to us or that are otherwise different from the terms that we have been able to obtain in the past. These risks could occur for reasons beyond our control, including general economic or market conditions, regulatory changes or increased competition.

As a result of the global economic downturn during 2008 and 2009, a large number of institutional investors that invest in alternative assets and have historically invested in our funds experienced negative pressure across their investment portfolios, which may affect our ability to raise capital from them. These institutional investors experienced, among other things, a significant decline in the value of their public equity and debt holdings and a lack of realizations from their existing private equity portfolios. Consequently, many of these investors were left with disproportionately outsized remaining commitments to a number of private equity funds, and were restricted from making new commitments to third-party managed private equity funds such as those managed by us. To the extent economic conditions remain volatile or these issues reoccur, we may be unable to raise sufficient amounts of capital to support the investment activities of our future funds.

In addition, certain institutional investors have publicly criticized certain fund fee and expense structures, including management, transaction and advisory fees. In September 2009, the Institutional Limited Partners Association, or “ILPA,” published a set of Private Equity Principles, or the “Principles,” which were revised in January 2011. The Principles were developed in order to encourage discussion between limited partners and general partners regarding private equity fund partnership terms. Certain of the Principles call for enhanced “alignment of interests” between general partners and limited partners through modifications of some of the terms of fund arrangements, including proposed guidelines for fees and carried interest structures. We provided ILPA our endorsement of the Principles, representing an indication of our general support for the efforts of ILPA. Although we have no obligation to modify any of our fees with respect to our existing funds, we may experience pressure to do so.

In addition, certain institutional investors, including sovereign wealth funds and public pension funds, have demonstrated an increased preference for alternatives to the traditional investment fund structure, such as managed accounts, specialized funds and co-investment vehicles. We also have entered into strategic partnerships with individual investors whereby we manage that investor’s capital across a variety of our products on separately negotiated terms. There can be no assurance that such alternatives will be as profitable to us as traditional investment fund structures, and the impact such a trend could have on our results of operations, if widely implemented, is unclear. Moreover, certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of investment advisors like us. Such institutional investors may become our competitors and could cease to be our clients.

The failure of our funds to raise capital in sufficient amounts and on satisfactory terms could result in a decrease in AUM, carried interest, management fee, transaction fee and advisory revenue or could result in us being unable to achieve an increase in AUM, carried interest and management fee, transaction fee and advisory fee revenue, and could have a material adverse effect on our financial condition and results of operations. Similarly, any modification of our existing fee arrangements or the fee structures for new funds could adversely affect our results of operations.

Third-party investors in our funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund’s operations and performance.

Investors in all of our private equity and certain of our credit and real estate funds make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their obligations when due. Any investor that does not fund a capital call would be subject to several possible penalties, including having a significant amount of its existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

We may not have sufficient cash to satisfy general partner obligations to return carried interest income if and when they are triggered under the governing agreements with our fund investors.

Carried interest income from our private equity funds and certain of our credit and real estate funds is subject to contingent repayment by the general partner if, upon the final distribution, the relevant fund’s general partner has received cumulative carried interest on individual portfolio investments in excess of the amount of carried interest it would be entitled to from the profits calculated for all portfolio investments in the aggregate. The Managing Partners, Contributing Partners and certain other investment professionals have personally guaranteed, subject to certain limitations, our obligations in respect of these general partner obligations. We have agreed to indemnify the Managing Partners and certain Contributing Partners against all amounts that they pay pursuant to any of these personal guarantees in favor of certain funds that we manage (including costs and expenses related to investigating the basis for or objecting to any claims made in respect of the guarantees) for all interests that the Managing Partners and Contributing Partners have contributed or sold to the Apollo Operating Group. To the extent one or more such general partner obligations were to occur, we might not have available cash at the time such obligation is triggered to repay the carried interest and satisfy such obligation, or if applicable, to reimburse the Managing Partners and certain Contributing Partners for the indemnifiable percentage of amounts that they are required to pay in connection with such general partner obligation. If we were unable to repay such carried interest, we would be in breach of the governing agreements with our investors and could be subject to liability.

The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our Class A shares.

We have presented in this report the returns relating to the historical performance of our private equity, credit and real estate funds. The returns are relevant to us primarily insofar as they are indicative of incentive income we have earned in the past and may earn in the future, our reputation and our ability to raise new funds. The returns of the funds we manage are not, however, directly linked to returns on our Class A shares. Therefore, you should not conclude that continued positive performance of the funds we manage will necessarily result in positive returns on an investment in Class A shares. However, poor performance of the funds we manage will cause a decline in our revenue from such funds, and would therefore have a negative effect on our performance and the value of our Class A shares. An investment in our Class A shares is not an investment in any of the Apollo funds.

Moreover, the historical returns of our funds should not be considered indicative of the future returns of these or from any future funds we may raise, in part because:

- market conditions during previous periods may have been significantly more favorable for generating positive performance, particularly in our private equity business, than the market conditions we may experience in the future;
- our private equity funds' rates of return, which are calculated on the basis of net asset value of the funds' investments, reflect unrealized gains, which may never be realized;
- our funds' returns have benefited from investment opportunities and general market conditions that may not repeat themselves, including the availability of debt capital on attractive terms and the availability of distressed debt opportunities, and we may not be able to achieve the same returns or secure the same profitable investment opportunities or deploy capital as quickly;
- the historical returns that we present in this report derive largely from the performance of our current private equity funds, whereas future fund returns will depend increasingly on the performance of our newer funds or funds not yet formed, which may have little or no realized investment track record;
- Fund VII and Fund VIII are larger private equity funds, and this capital may not be deployed as profitably as other funds;
- the attractive returns of certain of our funds have been driven by the rapid return of invested capital, which has not occurred with respect to all of our funds and we believe is less likely to occur in the future;
- our track record with respect to our credit funds and real estate funds is relatively short as compared to our private equity funds;
- in recent years, there has been increased competition for private equity investment opportunities resulting from the increased amount of capital invested in private equity funds and high liquidity in debt markets; and
- our newly established funds may generate lower returns during the period that they take to deploy their capital.

Finally, our private equity IRRs have historically varied greatly from fund to fund. Accordingly, you should realize that the IRR going forward for any current or future fund may vary considerably from the historical IRR generated by any particular fund, or for our private equity funds as a whole. Future returns will also be affected by the risks described elsewhere in this report and risks of the industries and businesses in which a particular fund invests. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-The Historical Investment Performance of Our Funds."

Our funds' reported net asset values, rates of return and the incentive income we receive from affiliates are subject to a number of factors beyond our control and are based in large part upon estimates of the fair value of our funds' investments, which are based on subjective standards that may prove to be incorrect.

A large number of investments held by our funds are illiquid and thus have no readily ascertainable market prices. We value these investments based on our estimate of their fair value as of the date of determination. We estimate the fair value of our funds' investments based on third-party models, or models developed by us, which include discounted cash flow analyses and other techniques and may be based, at least in part, on independently sourced market parameters. The material estimates and assumptions used in these models include the timing and expected amount of cash flows, the appropriateness of discount rates used, and, in some cases, the ability to execute, the timing of and the estimated proceeds from expected financings. The actual results related to any particular investment often vary materially as a result of the inaccuracy of these estimates and assumptions. In addition, because many of the illiquid investments held by our funds are in industries or sectors that are unstable, in distress, or undergoing some uncertainty, such investments are subject to rapid changes in value caused by sudden company-specific or industry-wide developments.

We include the fair value of illiquid assets in the calculations of net asset values, returns of our funds and our AUM. Furthermore, we recognize incentive income from affiliates based in part on these estimated fair values. Because these valuations are inherently uncertain, they may fluctuate greatly from period to period. Also, they may vary greatly from the prices that would be obtained if the assets were to be liquidated on the date of the valuation and often do vary greatly from the prices we eventually realize. See Note 2 to our consolidated financial statements for more detail.

In addition, the values of our funds' investments in publicly traded assets are subject to significant volatility, including due to a number of factors beyond our control. These include actual or anticipated fluctuations in the quarterly and annual results of these companies or other companies in their industries, market perceptions concerning the availability of additional securities for sale, general economic, social or political developments, changes in industry conditions or government regulations, changes in management or capital structure and significant acquisitions and dispositions. Because the market prices of these securities can be volatile, the valuation of these assets will change from period to period, and the valuation for any particular period may not be realized at the time of disposition. In addition, because our private equity funds often hold very large amounts of the securities of their portfolio companies, the disposition of these securities often takes place over a long period of time, which can further expose us to volatility risk. Even if our funds hold a quantity of public securities that may be difficult to sell in a single transaction, we do not discount the market price of the security for purposes of our valuations.

If a fund realizes value on an investment that is significantly lower than the value at which it was reflected in a fund's net asset values, the fund would suffer losses. This could in turn lead to a decline in our asset management fees and a loss equal to the portion of the incentive income from affiliates reported in prior periods that was not realized upon disposition. These effects could become applicable to a large number of our investments if our funds' estimates and assumptions used in estimating their fair values differ from future valuations due to market developments or other factors that are beyond our control. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Segment Analysis" for information related to fund activity that is no longer consolidated. If asset values turn out to be materially different than values reflected in fund net asset values, fund investors could lose confidence which could, in turn, result in redemptions from our funds that permit redemptions or difficulties in raising additional capital.

We have experienced rapid growth, which may be difficult to sustain and which may place significant demands on our administrative, operational and financial resources.

Our AUM has grown significantly in the past and we are pursuing further growth in the near future. Our rapid growth has caused, and planned growth, if successful, will continue to cause, significant demands on our legal, regulatory, accounting and operational infrastructure, and increased expenses. The complexity of these demands, and the expense required to address them, is a function not simply of the amount by which our AUM has grown, but also of the growth in the variety, including the differences in strategy among, and complexity of, our different funds. In addition, we are required to continuously develop our systems and infrastructure in response to the increasing complexity of the investment management market and legal, accounting, regulatory and tax developments.

Our future growth will depend in part on our ability to maintain an operating platform and management system sufficient to address our growth and will require us to incur significant additional expenses and to commit additional senior management and operational resources. As a result, we face significant challenges:

- in maintaining adequate financial, regulatory and business controls;
- in implementing new or updated information and financial systems and procedures; and
- in training, managing and appropriately sizing our work force and other components of our businesses on a timely and cost-effective basis.

We may not be able to manage our expanding operations effectively or be able to continue to grow, and any failure to do so could adversely affect our ability to generate revenue and control our expenses.

Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our businesses. Changes in taxation or law and other legislative or regulatory changes could adversely affect us.

Overview of Our Regulatory Environment. We are subject to extensive regulation, including periodic examinations, by governmental and self-regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators, including U.S. and foreign government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders or the suspension or expulsion of an

investment advisor from registration or memberships. Even if an investigation or proceeding did not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing investors or fail to gain new investors. The requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our funds and may not necessarily be designed to protect our shareholders. Consequently, these regulations often serve to limit our activities. For example, in 2014 federal bank regulatory agencies issued leveraged lending guidance covering transactions characterized by a degree of financial leverage. Such guidance has limited the amount and may increase the cost of financing our funds are able to obtain for transactions, which may lead to a negative impact on the returns on our funds' investments.

Our business may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC or other U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. For example, senior officials at the SEC have recently emphasized their intention to implement a "broken windows" policy, meaning that the SEC will pursue even the most minor violations on the theory that publicly pursuing smaller matters will reduce the prevalence of larger matters. The Director of the SEC's Division of Enforcement has described "broken windows" as a zero tolerance policy.

Regulatory changes could adversely affect our business. As a result of highly publicized financial scandals, investors have exhibited concerns over the integrity of the financial markets and the regulatory environment in which we operate both in the United States and outside the United States is likely to be subject to further regulation. There have been active debates both nationally and internationally over the appropriate extent of regulation and oversight in a number of areas which are or may be relevant to us, including private investment funds and their managers and the so-called "shadow banking" sector.

The regulatory and legal requirements that apply to our activities are subject to change from time to time and may become more restrictive, which may impose additional expenses on us, make compliance with applicable requirements more difficult, require attention of senior management, or otherwise restrict our ability to conduct our business activities in the manner in which they are now conducted. They also may result in fines or other sanctions if we or any of our funds are deemed to have violated any law or regulations. Changes in applicable regulatory and legal requirements, including changes in their enforcement, could materially and adversely affect our business and our financial condition and results of operations.

Investment advisors have come under increased scrutiny from regulators, including the SEC and other government and self-regulatory organizations, with a particular focus on fees, allocation of expenses to funds, valuation practices, and related disclosures to fund investors. Public statements by regulators, in particular the SEC, indicate increased enforcement attention will continue to be focused on investment advisors, which has the potential to affect us. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the "Dodd-Frank Act," continues to impose significant new regulations on almost every aspect of the U.S. financial services industry, including aspects of our business and the markets in which we operate. Among other things, the Dodd-Frank Act includes the following provisions that could have an adverse impact on our ability to continue to operate our businesses.

- The Dodd-Frank Act established the Financial Stability Oversight Council (the "FSOC"), which is comprised of representatives of all the major U.S. financial regulators, to act as the financial system's systemic risk regulator with the authority to review the activities of non-bank financial companies predominantly engaged in financial activities that are designated as "systemically important." Such designation is applicable to companies where material financial distress could pose risk to the financial stability of the United States. On April 3, 2012, the FSOC issued a final rule and interpretive guidance regarding the process by which it will designate nonbank financial companies as systemically important. The final rule and interpretive guidance detail a three-stage process, with the level of scrutiny increasing at each stage. Initially, the FSOC will apply a broad set of uniform quantitative metrics to screen out financial companies that do not warrant additional review. The FSOC will consider whether a company has at least $50 billion in total consolidated assets and whether it meets other thresholds relating to credit default swaps outstanding, derivative liabilities, total debt outstanding, a minimum leverage ratio of total consolidated assets (excluding separate accounts) to total equity of 15 to 1, and a short-term debt ratio of debt (with maturities of less than 12 months) to total consolidated assets (excluding separate accounts) of 10%. A company that meets or exceeds both the asset threshold and one of the other thresholds will be subject to additional review. The review criteria could, and are expected to, evolve over time. While we believe it to be unlikely that we would be designated as systemically important, if such designation were to occur, we

would be subject to significantly increased levels of regulation, which includes, without limitation, a requirement to adopt heightened standards relating to capital, leverage, liquidity, risk management, credit exposure reporting and concentration limits, restrictions on acquisitions and being subject to annual stress tests by the Board of Governors of the Federal Reserve System (the “Federal Reserve”). To date, the FSOC has designated a few non-bank financial institutions for Federal Reserve supervision.

- In connection with the work of the FSOC, on October 31, 2011, the SEC and the Commodity Futures Trading Commission issued a joint final rule on systemic risk reporting designed to assist the FSOC in gathering information from many sectors of the financial system for monitoring risks. The final rule requires large private equity fund advisors, such as Apollo, to submit reports on Form PF focusing primarily on the extent of leverage incurred by their funds’ portfolio companies, the use of bridge financing in their funds’ investments in financial institutions.

- On December 18, 2014, the FSOC released a notice seeking public comment on the potential risks posed by aspects of the asset management industry, including whether asset management products and activities pose potential risks to the U.S. financial system in the areas of liquidity and redemptions, leverage, operational functions, and resolution, or in other areas.

- The Dodd-Frank Act, under what has become known as the “Volcker Rule,” generally prohibits depository institution holding companies (including certain foreign banks with U.S. branches and insurance companies with U.S. depository institution subsidiaries), insured depository institutions and subsidiaries and affiliates of such entities (collectively, “banking entities”) from investing in, sponsoring or having certain other relationships with “covered funds,” which include private equity funds or hedge funds. The final Volcker Rule became effective on April 1, 2014 and is subject to a conformance period (ending July 21, 2016). The Volcker Rule adversely affects our ability to raise funds from banking entities. Furthermore, divestitures by banking entities of interests in covered funds to comply with the Volcker Rule may lead to lower prices in the secondary market for our fund interests, which could have adverse implications for our ability to raise funds from investors who may have considered the availability of secondary market liquidity as a factor in determining whether to invest.

- The Dodd-Frank Act requires many private equity and hedge fund advisers to register with the SEC under the Investment Advisers Act, to maintain extensive records and to file reports if deemed necessary for purposes of systemic risk assessment by certain governmental bodies. As described elsewhere in this Form 10-K, all of the investment advisers of our investment funds operated in the U.S. are registered as investment advisers with the SEC.

- The Dodd-Frank Act authorizes U.S. federal regulatory agencies to review and, in certain cases, prohibit compensation arrangements at financial institutions that give employees incentives to engage in conduct deemed to encourage inappropriate risk taking by covered financial institutions. Such restrictions could limit our ability to recruit and retain investment professionals and senior management executives.

- Rules and regulations required under the Dodd-Frank Act have become effective and comprehensively regulate the “over the counter” (“OTC”) derivatives markets for the first time. The Dodd-Frank Act and the regulations promulgated thereunder require mandatory clearing and exchange or swap execution facility trading of certain swaps and derivative transactions (including formerly unregulated over-the-counter derivatives). The Commodity Futures Trading Commission (the “CFTC”) currently requires that certain interest rate and credit default index swaps be centrally cleared and the requirement to execute those contracts through a swap execution facility is now effective. Additional standardized swap contracts are expected to be subject to new clearing and execution requirements in the future. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible margin requirements imposed by the clearing brokers. For swaps that are cleared through a clearinghouse, the funds will face the clearinghouse as legal counterparty and will be subject to clearinghouse performance and credit risk. Clearinghouse collateral requirements may differ from and be greater than the collateral terms negotiated with derivatives counterparties in the OTC market. This may increase a fund’s cost in entering into these products and impact a fund’s ability to pursue certain investment strategies. OTC derivative dealers are also required to post margin to the clearinghouses through which they clear their customers’ trades instead of using such margin in their operations for cleared derivatives, as is currently permitted for uncleared trades. This will increase the OTC derivative dealers’ costs and these increased costs are expected to be passed through to other market participants in the

form of higher upfront and mark-to-market margin, less favorable trade pricing, and possible new or increased fees.

OTC trades not cleared through a registered clearinghouse may not be subject to the protections afforded to participants in cleared swaps (for example, centralized counterparty, customer asset segregation and mandatory margin requirements). As of December 16, 2015 the regulators have finalized margin requirements for non-cleared OTC derivatives, but these regulations are not yet in effect. Although the Dodd-Frank Act includes limited exemptions from the clearing and margin requirements for so-called "end-users," our funds and portfolio companies may not be able to rely on such exemptions.

The Dodd-Frank Act also creates new categories of regulated market participants, such as "swap-dealers," "security-based swap dealers," "major swap participants" and "major security-based swap participants" who will be subject to significant new capital, registration, recordkeeping, reporting, disclosure, business conduct and other regulatory requirements, which will give rise to new administrative costs. Even if certain new requirements are not directly applicable to us, they may still increase our costs of entering into transactions with the parties to whom the requirements are directly applicable.

Position limits imposed by various regulators, self-regulatory organizations or trading facilities on derivatives may also limit our ability to effect desired trades. Position limits are the maximum amounts of net long or net short positions that any one person or entity may own or control in a particular financial instrument. For example, the CFTC, on December 12, 2013, re-proposed rules that would establish specific limits on positions in 28 physical commodity futures and option contracts as well as swaps that are economically equivalent to such contracts. In addition, the Dodd-Frank Act requires the SEC to set position limits on security-based swaps. If such proposed rules are adopted, we may be required to aggregate the positions of our various investment funds and the positions of our funds' portfolio companies. It is possible that trading decisions may have to be modified and that positions held may have to be liquidated in order to avoid exceeding such limits. Such modification or liquidation, if required, could adversely affect our operations and profitability.

- Effective for CLOs on December 24, 2016, "risk retention" rules promulgated by U.S. federal regulators under the Dodd-Frank Act will require a "securitizer" or "sponsor" (which in the case of a CLO is considered the collateral manager) to retain directly or through a majority-owned affiliate (including an entity that is considered a majority-owned affiliate based on the holding of a controlling financial interest in such entity as determined under U.S. generally accepted accounting practices), at least 5% of the credit risk of the securitized assets (the "U.S. Risk Retention Rules"). The European Union already has similar 5% risk retention rules (the "EU Risk Retention Rules" and together with the U.S. Risk Retention Rules, the "Risk Retention Rules") in place that apply to certain EU investors such as credit institutions (including banks), investment firms, authorized investment fund managers and insurance and reorganization undertakings. In instances in which any such entities subject to the EU Risk Retention Rules invest in a CLO (as a noteholder or otherwise), such investors must ensure that the CLO is required to satisfy the EU Risk Retention Rules.

To the extent the EU Risk Retention Rules are to be satisfied through the EU "sponsor" option, it is expected that the holder of the EU retention interest will be authorized by the UK Financial Conduct Authority under the Financial Services and Markets Act 2000 ("FSMA") and capitalized (with regulatory capital and other required resources) in a manner necessary or advisable to enable it to satisfy the requirements of FSMA and the EU Markets in Financial Instruments Directive (Directive 2004/39/EC) ("MiFID"). In addition, such "sponsor" holding the EU retention interest would be required to demonstrate that: (a) it is a CRR investment firm, (b) it is authorized to, and does, carry on a business of providing investment management services and activities listed in paragraph (7) of Section A of Annex 1 of Directive 2004/39/EC (placing of financial instruments without a firm commitment basis), and (c) it is a "sponsor" for the purposes of Article 405 of the CRR. For purposes of these requirements, "CRR" means Regulation No 575/2013 of the European Parliament and of the Council (as amended from time to time and as implemented by Member States of the European Union) together with any implemented or delegated regulations, technical standards and guidance related thereto. Whether a collateral manager of a CLO qualifies as an EU "sponsor" under the CRR will depend upon the MiFID authorizations (or permissions) the collateral manager holds from its EU home country supervisor.

Certain of the CLOs currently being managed by one of our affiliates have been designed to comply with the EU Risk Retention Rules via the "sponsor" approach. For these CLOs, Apollo Management International LLP ("AMI"), one of our asset-management affiliates with the required MiFID permissions to act as the "sponsor"

of CLOs, has undertaken to hold the EU retention interest for four CLOs to date. In the future, certain other newly-formed affiliates may serve as “sponsor” and holder of the EU retention interest on CLO investments.

The EU Retention Rules may also be satisfied if the “originator” holds the EU retention interest. Article 4(1)(13) of the CRR defines “Originator” as either (1) an entity that itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised or (2) an entity that purchases a third party’s exposures for its own account and then securitises them. In the future, certain newly-formed affiliates may serve as “originator” and holder of the EU retention interest on CLO investments.

Certain of our affiliates will be required from time to time in connection with the CLOs to execute one or more letter or other agreements, the exact form and nature of which will vary and in the case of the U.S. Risk Retention Rules is not known at this time (the “Risk Retention Undertakings”), under which such affiliate will agree to certain undertakings designed to ensure that the CLOs comply with the Risk Retention Rules. Such Risk Retention Undertakings are expected to include a variety of representations, warranties, covenants and other indemnities, each of which may run to various transaction parties. At present, such Risk Retention Undertakings typically include requirements to, among other things, make certain representations, warranties and undertakings (i) in relation to its acquisition and retention (or any of our affiliate’s acquisition and retention) of the Retention Interest for the life of the CLO, and (ii) in the case of the “originator” approach under EU Risk Retention Rules, regarding its agreement (or an agreement of one of our affiliates) to acquire, hold for the required retention period (which period will vary and during which it will be exposed to the credit risk on such loans) and sell a certain percentage of loans to the relevant CLO. AMI has already undertaken various Risk Retention Undertakings in connection with CLOs for which it acts as “sponsor” under the EU Risk Retention Rules. If AMI or any affiliate breaches any such Risk Retention Undertakings, we or such affiliate will be exposed to claims by the other parties thereto, including for any losses incurred as a result of such breach. Such claims may reduce, or entirely diminish any cash or assets that would otherwise be used to make distributions to you.

The EU Risk Retention Rules are in the process of being modified, and any such EU Risk Retention Rules and/or U.S. Risk Retention Rules may be amended, supplemented or revoked at any time or from time to time. Moreover, while the U.S. Risk Retention Rules are not currently effective as to the CLOs, no assurance can be given that the CLOs outstanding prior to the effective date of such U.S. Risk Retention Rules will be, or will continue to be, grandfathered. Such Risk Retention Rules are also subject to varying interpretations, and one or more agencies or governmental officials could take positions regarding such matters that differ from the approach taken or embodied in the Risk Retention Undertakings, which position could be informed by varying regulatory considerations as well as differing legal analyses. Available interpretive authority to date addressing the Risk Retention Rules applicable to CLOs is limited, and there is no judicial decisional authority or applicable agency interpretation that has directly addressed any of the risk retention approaches taken in the CLOs. Accordingly, no assurance can be made that the currently applicable rules and regulations will not be interpreted differently in the future by any applicable authority, or that there will not be a change in applicable law or rules and regulations in the future that could adversely affect us or the CLOs we manage.

The U.S. Risk Retention Rules are not yet in effect, but when such U.S. Risk Retention Rules become effective, any CLO we manage issued after such date will be expected to satisfy the U.S. Risk Retention Rules and any existing CLO which we manage may be expected to satisfy the U.S. Risk Retention Rules in connection with any refinancing, re-pricing or material amendment of such existing CLO.

No assurance can be given as to whether the Risk Retention Rules will have a future material adverse effect on our CLO management business. Although the impact of the rule on CLO managers is generally uncertain, it is possible that the necessity of any of our affiliated entities to raise capital to retain risk (or to utilize capital provided by its majority-owned affiliates) may reduce the number of CLOs that we are able to manage in the future. Currently, although various options are under consideration, we have not formulated a definitive plan for satisfying the requirements of U.S. Risk Retention Rules once they become effective. To the extent a plan for satisfying U.S. Risk Retention is implemented, such a plan may create various conflicts of interest among us and certain of our affiliates or the CLOs we manage and may entail a deployment of capital that is less efficient than the current use of such capital.

While the impact of the Risk Retention Rules on the loan securitization market and the leveraged loan market generally is uncertain, the Risk Retention Rules may impact our ability or desire to manage CLOs in the future.

The Risk Retention Rules also may have an adverse affect on the leveraged loan market generally, which may adversely affect our CLO management business.

- The Dodd-Frank Act requires public companies to adopt and disclose policies requiring, in the event the company is required to issue an accounting restatement, the recoupment of related incentive compensation from current and former executive officers.

- The Dodd-Frank Act amends the Exchange Act to compensate and protect whistleblowers who voluntarily provide original information to the SEC and establishes a fund to be used to pay whistleblowers who will be entitled to receive a payment equal to between 10% and 30% of certain monetary sanctions imposed in a successful government action resulting from the information provided by the whistleblower. We expect that these provisions will result in a significant increase in whistleblower claims across our industry, and investigating such claims could generate significant expenses and take up significant management time, even for frivolous and non-meritorious claims.

Many of these provisions are subject to further rulemaking and to the discretion of regulatory bodies, such as the FSOC, the Federal Reserve and the SEC.

In June 2010, the SEC adopted a "pay-to-play" rule that restricts politically active investment advisors from managing state pension funds. The rule prohibits, among other things, a covered investment advisor from receiving compensation for advisory services provided to a government entity (such as a state pension fund) for a two-year period after the advisor, certain covered employees of the advisor or any covered political action committee controlled by the advisor or its employees makes a political contribution to certain government officials. In addition, a covered investment advisor is prohibited from engaging in political fundraising activities for certain elected officials or candidates in jurisdictions where such advisor is providing or seeking governmental business. This rule complicates and increases the compliance burden for our investment advisors. It will be imperative for a covered investment advisor to adopt an effective compliance program in light of the substantial penalties associated with the rule.

The Financial Industry Regulatory Authority ("FINRA" recently proposed its own set of "pay to play" regulations that are similar to the SEC's regulations. If enacted, the FINRA rule effectively prohibits the receipt of compensation from state or local government agencies for solicitation and distribution activities within two years of a prohibited contribution by a broker-dealer or one of its covered associates. In December 2015, FINRA submitted revised proposals to the SEC for adoption and we are awaiting the release of the final regulations. There have also been similar laws, rules and regulations and/or policies adopted by a number of states and municipal pension plans, which prohibit, restrict or require disclosure of payments to (and/or certain contracts with) state officials by individuals and entities seeking to do business with state entities, including investment by public retirement funds.

It is impossible to determine the full extent of the impact on us of the Dodd-Frank Act or any other new laws, regulations or initiatives that may be proposed or whether any of the proposals will become law. Any changes in the regulatory framework applicable to our business, including the changes described above, may impose additional costs on us, require the attention of our senior management or result in limitations on the manner in which we conduct our business. Moreover, as calls for additional regulation have increased, there may be a related increase in regulatory investigations of the trading and other investment activities of alternative asset management funds, including our funds. Complying with any new laws or regulations could be more difficult and expensive, affect the manner in which we conduct our business and adversely affect our profitability.

Exemptions from Certain Laws. We regularly rely on exemptions from various requirements of law or regulation, including the Securities Act, the Exchange Act, the Investment Company Act, CFTC regulations, the Commodity Exchange Act of 1936, as amended, and the Employment Retirement Income Security Act of 1974, as amended and the laws and regulations of other jurisdictions in conducting our activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. For example, in raising new funds, we typically rely on private placement exemptions from registration under the Securities Act and similar exemptions under the securities laws of other countries.

These exemptions include Regulation D, which was amended in 2013 to prohibit issuers (including our funds) from relying on certain of the exemptions from registration if the fund or any of its "covered persons" (including certain officers and directors, but also including certain third parties including, among others, promoters, placement agents and beneficial owners of 20% of outstanding voting securities of the fund) has been the subject of a "disqualifying event," or constitutes a "bad actor," which can result from a variety of criminal, regulatory and civil matters. If any of the covered persons associated with our funds is subject to a disqualifying event, one or more of our funds could lose the ability to raise capital in a Rule 506 private offering for a significant period of time, which could significantly impair our ability to raise new funds, and, therefore, could materially

adversely affect our business, financial condition and results of operations. In addition, if certain of our employees or any potential significant fund investor has been the subject of a disqualifying event, we could be required to reassign or terminate such an employee or we could be required to refuse the investment of such an investor, which could impair our relationships with investors, harm our reputation, or make it more difficult to raise new funds. If for any reason any of these exemptions were to become unavailable to us, we could become subject to regulatory action, third-party claims or be required to register under certain regulatory regimes, and our businesses could be materially and adversely affected. See, for example, "-Risks Related to Our Organization and Structure-If we were deemed an investment company under the Investment Company Act, applicable restrictions could make it impractical for us to continue our businesses as contemplated and could have a material adverse effect on our businesses and the price of our Class A shares."

These exemptions also include the so-called "de minimis" exemption from commodity pool operator registration, codified in CFTC Rule 4.13(a)(3). If any of our funds cease to qualify for this (or another applicable) exemption, certain Apollo entities associated with and/or affiliated with those funds will be required to register with the CFTC as commodity pool operators. Registration as a commodity pool operator entails several potentially costly and time-consuming requirements, including, without limitation, membership with the National Futures Association, a self-regulatory organization for the U.S. derivatives industry, and compliance with the regulatory framework applicable to registered commodity pool operators. In 2015, one of our investment management entities was required to register as a commodity pool operator. The increased costs associated with such registration may affect the manner in which the funds managed by such investment management entity conducts its business and may adversely affect such fund's profitability.

Fund Regulatory Environment. The regulatory environment in which our funds operate may affect our businesses. For example, changes in antitrust laws or the enforcement of antitrust laws could affect the level of mergers and acquisitions activity, and changes in state laws may limit investment activities of state pension plans. See "Item 1. Business-Regulatory and Compliance Matters" for a further discussion of the regulatory environment in which we conduct our businesses.

Certain of the funds and accounts we manage that engage in originating, lending and/or servicing loans may be subject to state and federal regulation, borrower disclosure requirements, limits on fees and interest rates on some loans, state lender licensing requirements and other regulatory requirements in the conduct of their business. These funds and accounts may also be subject to consumer disclosures and substantive requirements on consumer loan terms and other federal regulatory requirements applicable to consumer lending that are administered by the Consumer Financial Protection Bureau. These state and federal regulatory programs are designed to protect borrowers.

State and federal regulators and other governmental entities have authority to bring administrative enforcement actions or litigation to enforce compliance with applicable lending or consumer protection laws, with remedies that can include fines and monetary penalties, restitution of borrowers, injunctions to conform to law, or limitation or revocation of licenses and other remedies and penalties. In addition, lenders and servicers may be subject to litigation brought by or on behalf of borrowers for violations of laws or unfair or deceptive practices. Failure to conform to applicable regulatory and legal requirements could be costly and have a detrimental impact on certain of our funds and ultimately on Apollo.

Portfolio Company Regulatory Environment. The regulatory environment in which our funds' portfolio companies operate may affect our business. For example, certain of our funds may invest in the natural resources industry where environmental laws, regulations and regulatory initiatives play a significant role and can have a substantial effect on investments in the industry. See for additional examples "-Insurance Regulation" and "-We are a holding company subject to the jurisdiction of the Federal Energy Regulatory Commission (the "FERC"). An acquirer of our Class A shares may be required to obtain prior approval from the FERC and make other filings with FERC." Additionally, we or certain of our investment funds potentially could be held liable under ERISA for the pension obligations of one or more of our funds' portfolio companies if we or the investment fund were determined to be engaged in a "trade or business" and deemed part of the same "controlled group" as the portfolio company, and the pension obligations of any particular portfolio company could be material. In a 2013 decision of a federal appellate court (*Sun Capital Partners III LP v. New England Teamsters & Trucking Indus. Pension Fund*), a private equity fund was held to be engaged in a "trade or business" under ERISA. In addition, regulators may scrutinize, investigate or take action against us as a result of actions or inactions by portfolio companies operating in a regulated industry if such a regulator were to deem, or potentially deem, such portfolio company to be under our control. For example, based on positions taken by European governmental authorities, we or certain of our investment funds potentially could be liable for fines if portfolio companies deemed to be under our control are found to have violated European antitrust laws. Such potential, or future, liability may materially affect our business.

Future Regulation. We may be adversely affected as a result of new or revised legislation or regulations imposed in the U.S. or elsewhere. As calls for additional regulation have increased, there may be a related increase in regulatory investigations of the trading and other investment activities of alternative asset management funds, including our funds. Such investigations may

impose additional expenses on us, may require the attention of senior management and may result in fines or other sanctions if any of our funds are deemed to have violated any regulations.

We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules. New laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business and divert significant management and operational resources and attention from our business.

Apollo provides investment management services through registered investment advisors. Investment advisors are subject to extensive regulation in the United States and in the other countries in which our investment activities occur. The SEC oversees the activities of our registered investment advisors under the Investment Advisers Act. In the United Kingdom, we are subject to regulation by the U.K. Financial Conduct Authority. Our other European operations, and our investment activities around the globe, are subject to a variety of regulatory regimes that vary country by country. A failure to comply with the obligations imposed by the regulatory regimes to which we are subject, including the Investment Advisers Act, could result in investigations, sanctions and reputational damage.

The European Union Alternative Investment Fund Managers Directive ("AIFMD") came into force on July 22, 2013 and was required to be transposed into the laws of the member states ("EEA Member States") of the European Economic Area (the "EEA") (in the case of EEA Member States that are not member states of the European Union ("EU"), subject to AIFMD being incorporated into the EEA Agreement) by no later than July 22, 2013 (although some EEA Member States still have not met this deadline). The AIFMD imposes significant regulatory requirements on investment managers operating within the EEA, including with respect to conduct of business, regulatory capital, valuations, disclosures and marketing, and rules on the structure of remuneration for certain personnel. Alternative investment funds (i) organized outside of the EU and those of the additional EEA member states that have implemented AIFMD and (ii) in which interests are marketed under AIFMD within the EEA, are subject to significant conditions on their operations. In the immediate future, such funds may be marketed only in certain EEA jurisdictions and in compliance with requirements to register the fund for marketing in each relevant jurisdiction and to undertake periodic investor and regulatory reporting. In some countries, additional obligations are imposed: for example, in Germany, marketing of a non-EEA fund also requires the appointment of one or more depositaries (with cost implications for the fund). In the longer term (mid 2016 at the earliest) non-EEA managers of non-EEA funds may be able to register under the AIFMD. Where Apollo registers under the AIFMD, Apollo will have more freedom to promote relevant funds in the EEA, although this will be subject to full compliance with all the requirements of the AIFMD, which include (among other things) satisfying the competent authority of the robustness of internal arrangements with respect to risk management, in particular liquidity risks and additional operational and counterparty risks associated with short selling; the management and disclosure of conflicts of interest; the fair valuation of assets; and the security of depository/custodial arrangements. Additional requirements and restrictions apply where funds invest in an EEA portfolio company, including restrictions that may impose limits on certain investment and realization strategies, such as dividend recapitalizations and reorganizations. Such rules could potentially impose significant additional costs on the operation of our business or investments in the EEA and could limit our operating flexibility within the relevant jurisdictions.

The European Parliament has adopted the Regulation on OTC derivatives, central counterparties and trade repositories, known as "EMIR." EMIR comes into force in stages and implements requirements similar to, but not the same as, those in Title VII of Dodd Frank, in particular requiring reporting of all derivative transactions, risk mitigation (in particular initial and variation margin) for OTC derivative transactions and central clearing of certain OTC derivative contracts. EMIR does not have a material impact on the Apollo funds at present but is likely to apply more fully as additional implementation stages are reached. Compliance with the requirements is likely to increase the burdens and costs of doing business.

Additional laws and regulations will come into force in the EEA in coming years. These are expected to have an impact on Apollo including the costs of, risk to and manner of conducting its business; the markets in which Apollo operates; the assets managed or advised by Apollo; Apollo's ability to raise capital from investors; and ultimately there may be an impact on the returns which can be achieved. Examples include the revisions to the Markets in Financial Instruments Directive; the new regulation relating to Securities Financing Transactions; further changes to or reviews of the extent and interpretation of pay regulation (which may have an impact on the retention and recruitment of key personnel); a proposed new regulation governing securitization arrangements; tentative proposals for enhanced regulation of loan origination; and significant focus on entities considered to be "shadow banks." Regulations affecting specific investor types, such as insurance companies, may impact their businesses; their ability to invest and the assets in which they are permitted to invest; and the requirements which their investments place on us, such as extensive disclosure and reporting obligations. The regulation of some institutions has an effect on their ability and willingness to extend credit and the costs of credit. This has, and is likely to continue to have, an impact on the price and availability of credit. Changes to the regulation of benchmarks, such as the London Interbank Offered Rate, may affect the way in which those benchmarks are calculated, with commercial implications, including on the stability of the benchmark and returns.

In Germany, legislative amendments have been adopted which may limit deductibility of interest and other financing expenses in companies in which our funds have invested or may invest in the future. According to the German interest barrier rule, the tax deduction available to a company in respect of a net interest expense (interest expense less interest income) is limited to 30% of its tax earnings before interest, taxes, depreciation and amortization ("EBITDA"). For existing investments, this may reduce overall returns for our funds. Annual net interest expense that does not exceed the threshold of €3 million can be deducted without any limitations for income tax purposes. Interest expense in excess of the interest deduction limitation may be carried forward indefinitely (subject to change in ownership restrictions) and used in future periods against all profits and gains. In respect of a tax group, interest paid by the German tax group entities to non-tax group parties (e.g. interest on bank debt, capex facility and working capital facility debt) will be restricted to 30% of the tax group's tax EBITDA. However, the interest barrier rule may not apply where German company's gearing under International Financial Reporting Standards ("IFRS") accounting principles is at maximum of 2% higher than the overall group's leverage ratio at the level of the very top level entity which would be subject to IFRS consolidation (the "escape clause test"). This test is failed where any worldwide company of the entire group pays more than 10% of its net interest expense on debt to substantial (i.e. greater than 25%) shareholders, related parties of such shareholders (that are not members of the group) or secured third parties (although security granted by group members should not be harmful). If the group does not apply IFRS accounting principles, EU member countries' generally accepted accounting principles or U.S. GAAP may also be accepted for the purpose of the escape clause test. It should be noted that for trade tax purposes, there is principally a 25% add back on all deductible interest paid or accrued by any German entity after the consideration of a tax exempt amount €100 which is applied to the sum of all add back amounts. For trade tax purposes interest payments within a German tax group will not be considered. Our businesses are subject to the risk that similar measures might be introduced in other countries in which our funds currently have investments or plan to invest in the future, or that other legislative or regulatory measures might be promulgated in any of the countries in which we operate that adversely affect our businesses.

On October 5, 2015, the Organization for Economic Co-Operation and Development ("OECD") published 13 final reports and an explanatory statement outlining consensus actions under the base erosion and profit shifting (BEPS) project. This project calls for a coordinated multi-jurisdictional approach to "aggressive tax planning" by multinational companies. The final reports of October 5, 2015 consolidated the first seven reports endorsed by the G20 Leaders at the Brisbane Summit in 2014 and the final package was endorsed by the G20 Leaders during their summit in November, 2015 in Antalya, Turkey. Implementation may not be uniform across the participating states; certain actions give states options for implementation, certain actions are recommendations only and other jurisdictions may elect to only partially implement rules where it is in the state's interest. Countries including various EU countries have been moving forward on the BEPS agenda independent of agreement and finalization of the BEPS action items and currently are in the process of adapting and introducing the necessary legislation. The EU may implement minimum standards and best practices across 28 member states, which may go further than the OECD plans. As a result, significant uncertainty remains around the impact for the investments of our funds.

Any changes to international tax laws or foreign domestic tax laws, including new definitions of "permanent establishment" and the standardized country by country ("CbC") reporting requirements for transfer pricing documentation, could impact the tax treatment of our foreign earnings and adversely impact the investment returns of our funds. For example, in line with the recommendations of the BEPS Action Plan 6, Preventing the Granting of Treaty Benefits in Inappropriate Circumstances, the latest Tax Treaties signed by Spain include a limitation on benefits clause. The final draft of the BEPS Action Plan 4. Limiting Base Erosion Involving Interest Deductions and Other Financial Payments introduced the definition of "related parties" which includes collective investment vehicles ("CIV"). The CIVs that are engaged in structured arrangements are specifically recommended for targeted rules to counteract the deductibility of interest. Additional legislative changes to limit the deductibility of certain interest deductions in the OECD countries may impact the investment returns of our funds. In addition, with more information available to tax authorities through CbC and the Common Reporting Standard ("CRS"), which is formally referred to as the Standard for Automatic Exchange of Financial Account Information, there is an increased risk of scrutiny and tax audits from various tax authorities. Many tax authorities are unfamiliar with asset management businesses and dealing with challenges from such tax authorities could reduce returns for our funds due to additional taxes paid and increased compliance costs.

Insurance Regulation. State insurance departments have broad administrative powers over the insurance business of our insurance company affiliates, including insurance company licensing and examination, agent licensing, establishment of reserve requirements and solvency standards, premium rate regulation, admissibility of assets, policy form approval, unfair trade and claims practices, payment of dividends and distributions to shareholders, review and/or approval of transactions with affiliates and other matters. State regulators regularly review and update these and other requirements.

Currently, there are proposals to increase the scope of regulation of insurance holding companies in both the United States and internationally. In the United States, the NAIC has promulgated amendments to its insurance holding company system model law and regulations for consideration by the various states that would provide for more extensive informational reporting regarding parents and other affiliates of insurance companies, with the purpose of protecting domestic insurers from enterprise risk, including

requiring an annual enterprise risk report by the ultimate controlling person identifying the material risks within the insurance holding company system that could pose enterprise risk to domestic insurers. Changes to existing NAIC model laws or regulations must be adopted by individual states or foreign jurisdictions before they will become effective. To date, each of Delaware, Iowa and New York has enacted laws to adopt such amendments. Internationally, the International Association of Insurance Supervisors is in the process of adopting a framework for the "group wide" supervision of internationally active insurance groups. The NAIC has also promulgated additional amendments to its insurance holding company system model law that address "group wide" supervision of internationally active insurance groups. To date, Delaware has enacted laws to adopt a form of these amendments, and Iowa has adopted similar provisions under a predecessor statute. We cannot predict with any degree of certainty the additional capital requirements, compliance costs or other burdens these requirements may impose on us and our insurance company affiliates.

The Dodd-Frank Act created the Federal Insurance Office (the "FIO") within the Department of Treasury headed by a Director appointed by the Treasury Secretary. The FIO is designed principally to exercise a monitoring and information gathering role, rather than a regulatory role. In that capacity, the FIO has been charged with providing reports to the U.S. Congress on (i) modernization of U.S. insurance regulation (provided in December 2013) and (ii) the U.S. and global reinsurance market (provided in November 2013 and January 2015, respectively). Such reports could ultimately lead to changes in the regulation of insurers and reinsurers in the U.S.

There can be no assurance that we or our affiliates will avoid regulatory examination and possibly enforcement actions. Recent SEC enforcement actions and settlements involving U.S.-based private fund advisors have involved a number of issues, including the undisclosed allocation of the fees, costs and expenses related to unconsummated co-investment transactions (i.e., the allocation of broken deal expenses), undisclosed legal fee arrangements affording the applicable advisor with greater discounts than those afforded to funds advised by such advisor and the undisclosed acceleration of certain special fees. With respect to the acceleration of certain special fees, we provided information about this topic to the staff of the SEC in connection with the SEC's periodic examination of us in 2013. As previously disclosed, we received an informal request for additional information from the staff of the SEC. We continue to fully and voluntarily cooperate with the informal request. Although we believe the foregoing practices to have been common historically amongst private fund advisors within the United States, if the SEC or any other governmental authority, regulatory agency or similar body takes issue with our past practices or any of our affiliates as they pertain to any of the foregoing, we and/or such affiliates will be at risk for regulatory sanction. Even if an investigation or proceeding did not result in a sanction or the sanction imposed against us and/or our affiliates was small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm us and/or our respective affiliates' reputations which may adversely affect our results of operations. There is also a material risk that regulatory agencies in the United States and beyond will continue to adopt burdensome new laws or regulations (including tax laws or regulations), or change existing laws or regulations, or enhance the interpretation or enforcement of existing laws and regulations. If any such events or changes were to occur they may adversely affect us and our ability to operate and/or pursue our management strategies. Such risks are often difficult or impossible to predict, avoid or mitigate in advance.

Federal, state and foreign anti-corruption and sanctions laws applicable to us and our funds and portfolio companies create the potential for significant liabilities and penalties and reputational harm.

We are subject to a number of laws and regulations governing payments and contributions to political persons or other third parties, including restrictions imposed by the U.S. Foreign Corrupt Practices Act ("FCPA"), as well as trade sanctions and export control laws administered by the Office of Foreign Assets Control, or OFAC, the U.S. Department of Commerce and the U.S. Department of State. The FCPA is intended to prohibit bribery of foreign governments and their officials and political parties, and requires public companies in the United States to keep books and records that accurately and fairly reflect their transactions. OFAC, the U.S. Department of Commerce and the U.S. Department of State administer and enforce various export control laws and regulations, including economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, organizations and individuals. These laws and regulations relate to a number of aspects of our business, including servicing existing fund investors, finding new fund investors, and sourcing new investments, as well as activities by the portfolio companies in our investment portfolio or other controlled investments. In recent years, the U.S. Department of Justice and the SEC have devoted greater resources to enforcement of the FCPA. In addition, the United Kingdom has significantly expanded the reach of its anti-bribery laws. While we have developed and implemented policies and procedures designed to ensure compliance by us and our personnel with the FCPA and other applicable anticorruption and anti-bribery laws, such policies and procedures may not be effective in all instances to prevent violations. Any determination that we have violated the FCPA or other applicable anticorruption laws or anti-bribery laws could subject us to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects and/or financial position.

The Iran Threat Reduction and Syrian Human Rights Act of 2012 (“ITRA”) expands the scope of U.S. sanctions against Iran. Notably, ITRA generally prohibits foreign entities that are majority owned or controlled by U.S. persons from engaging in transactions with Iran. In addition, Section 219 of the ITRA amended the Exchange Act to require public reporting companies to disclose in their annual or quarterly reports certain dealings or transactions the company or its affiliates engaged in during the previous reporting period involving Iran or other individuals and entities targeted by certain OFAC sanctions. In some cases, ITRA requires companies to disclose these types of transactions even if they were permissible under U.S. law or were conducted outside of the United States by a non-U.S. entity. Companies that may be considered our affiliates have publicly filed and/or provided to us the disclosures reproduced in each of the Company’s Annual Reports on Form 10-K filed on March 3, 2014 and March 1, 2013 and the Company’s Quarterly Report on Form 10-Q filed on November 12, 2013. We have not independently verified or participated in the preparation of these disclosures. We are required to separately file, concurrently with this annual report, a notice that such activities have been disclosed in this annual report. The SEC is required to post this notice of disclosure on its website and send the report to the U.S. President and certain U.S. Congressional committees. The U.S. President thereafter is required to initiate an investigation and, within 180 days of initiating such an investigation, to determine whether sanctions should be imposed. Disclosure of such activity, even if such activity is not subject to sanctions under applicable law, and any sanctions actually imposed on us or our affiliates as a result of these activities, could harm our reputation and have a negative impact on our business.

Similar laws in non-U.S. jurisdictions, such as EU sanctions or the U.K. Bribery Act, as well as other applicable anti-bribery, anti-corruption, anti-money laundering, or sanction or other export control laws in the U.S. and abroad, may also impose stricter or more onerous requirements than the FCPA, OFAC, the U.S. Department of Commerce and the U.S. Department of State, and implementing them may disrupt our business or cause us to incur significantly more costs to comply with those laws. Different laws may also contain conflicting provisions, making compliance with all laws more difficult. If we fail to comply with these laws and regulations, we could be exposed to claims for damages, civil or criminal financial penalties, reputational harm, incarceration of our employees, restrictions on our operations and other liabilities, which could negatively affect our business, operating results and financial condition. In addition, we may be subject to successor liability for FCPA violations or other acts of bribery, or violations of applicable sanctions or other export control laws committed by companies in which we or our funds invest or which we or our funds acquire.

We are a holding company subject to the jurisdiction of the Federal Energy Regulatory Commission (the “FERC”). An acquirer of our Class A shares may be required to obtain prior approval from the FERC and make other filings with the FERC.

We are a holding company subject to the jurisdiction of the FERC as a result of certain of the funds we manage directly or indirectly owning, controlling or holding, with power to vote, 10% or more of the voting securities in a “public-utility company” or a “holding company” of a public-utility company (as those terms are defined in the U.S. Public Utility Holding Company Act of 2005, or “PUHCA”). Absent an exemption to or waiver from the FERC’s regulations implementing PUHCA, we and any affiliate, associate company and subsidiary company (as those terms are defined in PUHCA), would be required to maintain and make available to FERC, such books, accounts, memoranda and other records of transactions as the FERC may deem relevant to electric or natural gas rates subject to the FERC’s jurisdiction. We have submitted a notification of holding company status and a notification of waiver of the accounting, record retention and reporting requirements to the FERC. The notification of waiver became effective when FERC took no action within 60 days of filing, as provided in FERC’s regulations. An acquirer of securities representing 10% or more of the total voting power of Apollo Global Management, LLC likewise would be required to submit similar filings to the FERC under PUHCA.

We are a holding company with subsidiaries that are the general partner and manager of certain funds that have an investment in entities that are “public utilities” (as defined in the Federal Power Act (the “FPA”)) and, therefore, subject to FERC’s jurisdiction under the FPA. An acquirer of our Class A shares that (i) is, or is affiliated with, a “holding company” of a public-utility company, or (ii) is itself a public utility under the FPA, may have its own independent obligation to obtain prior approval from, or make other filings with, FERC with respect to an acquisition of 10% or more of the total voting power of Apollo Global Management, LLC.

Our revenue, net income and cash flow are all highly variable, which may make it difficult for us to achieve steady earnings growth on a quarterly basis, and we do not intend to provide earnings guidance, each of which may cause the price of our Class A shares to be volatile.

Our revenue, net income and cash flow are all highly variable, primarily due to the fact that carried interest from our private equity funds and certain of our credit and real estate funds, which constitutes the largest portion of income from our combined businesses, and the transaction and advisory fees that we receive, can vary significantly from quarter to quarter and year to year. In addition, the investment returns of most of our funds are volatile. We may also experience fluctuations in our results

from quarter to quarter and year to year due to a number of other factors, including changes in the values of our funds' investments, changes in the amount of distributions, dividends or interest paid in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. Our future results will also be significantly dependent on the success of our larger funds (e.g., Fund VIII), changes in the value of which may result in fluctuations in our results. In addition, carried interest income from our private equity funds and certain of our credit and real estate funds is subject to contingent repayment by the general partner if, upon the final distribution, the relevant fund's general partner has received cumulative carried interest on individual portfolio investments in excess of the amount of carried interest it would be entitled to from the profits calculated for all portfolio investments in the aggregate. See "-Poor performance of our funds would cause a decline in our revenue and results of operations, may obligate us to repay incentive income previously paid to us and would adversely affect our ability to raise capital for future funds." Such variability may lead to volatility in the trading price of our Class A shares and cause our results for a particular period not to be indicative of our performance in a future period. It may be difficult for us to achieve steady growth in net income and cash flow on a quarterly basis, which could in turn lead to large adverse movements in the price of our Class A shares or increased volatility in our Class A share price generally.

The timing of carried interest generated by our funds is uncertain and will contribute to the volatility of our results. Carried interest depends on our funds' performance. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value or other proceeds of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be several years before any profits can be realized in cash or other proceeds. We cannot predict when, or if, any realization of investments will occur. Generally, with respect to our private equity funds, although we recognize carried interest income on an accrual basis, we receive private equity carried interest payments only upon disposition of an investment by the relevant fund, which contributes to the volatility of our cash flow. If we were to have a realization event in a particular quarter or year, it may have a significant impact on our results for that particular quarter or year that may not be replicated in subsequent periods. We recognize revenue on investments in our funds based on our allocable share of realized and unrealized gains (or losses) reported by such funds, and a decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our revenue, which could further increase the volatility of our results. With respect to a number of our credit funds, our incentive income is generally paid annually, semi-annually or quarterly, and the varying frequency of these payments will contribute to the volatility of our revenues and cash flow. Furthermore, we earn this incentive income only if the net asset value of a fund has increased or, in the case of certain funds, increased beyond a particular threshold. The general partners of certain of our credit funds accrue carried interest when the fair value of investments exceeds the cost basis of the individual investor's investments in the fund, including any allocable share of expenses incurred in connection with such investment, which is referred to as a "high water mark." These high water marks are applied on an individual investor basis. If the high water mark for a particular investor is not surpassed, we would not earn incentive income with respect to such investor during a particular period even though such investor had positive returns in such period as a result of losses in prior periods. If such an investor experiences losses, we will not be able to earn incentive income from such investor until it surpasses the previous high water mark. The incentive income we earn is therefore dependent on the net asset value of investors' investments in the fund, which could lead to significant volatility in our results.

Because our revenue, net income and cash flow can be highly variable from quarter to quarter and year to year, we plan not to provide any guidance regarding our expected quarterly and annual operating results. The lack of guidance may affect the expectations of public market analysts and could cause increased volatility in our Class A share price.

The investment management business is intensely competitive, which could have a material adverse impact on us.

The investment management business is intensely competitive. We face competition both in the pursuit of outside investors for our funds and in acquiring investments in attractive portfolio companies and making other investments. It is possible that it will become increasingly difficult for our funds to raise capital as funds compete for investments from a limited number of qualified investors. As a result of the global economic downturn during 2008 and 2009 and generally poor returns in alternative asset investment businesses during the crisis, institutional investors suffered from decreasing returns, liquidity pressure, increased volatility and difficulty maintaining targeted asset allocations, and a significant number of investors materially decreased or temporarily stopped making new fund investments during this period. In an improved economy, such investors may elect to reduce their overall portfolio allocations to alternative investments such as private equity and hedge funds, resulting in a smaller overall pool of available capital in our industry. Even if such investors continue to invest at historic levels, they may seek to negotiate reduced fee structures or other modifications to fund structures as a condition to investing.

In the event all or part of this analysis proves true, when trying to raise new capital we will be competing for fewer total available assets in an increasingly competitive environment which could lead to fee reductions and redemptions as well as difficulty in raising new capital. Such changes would adversely affect our revenues and profitability.

Competition among funds is based on a variety of factors, including:

- investment performance;
- investor liquidity and willingness to invest;
- investor perception of investment managers' drive, focus and alignment of interest;
- quality of service provided to and duration of relationship with investors;
- business reputation; and
- the level of fees and expenses charged for services.

We compete in all aspects of our businesses with a large number of investment management firms, private equity, credit and real estate fund sponsors and other financial institutions. A number of factors serve to increase our competitive risks:

- fund investors may develop concerns that we will allow a business to grow to the detriment of its performance;
- investors may reduce their investments in our funds or not make additional investments in our funds based upon current market conditions, their available capital or their perception of the health of our businesses;
- some of our competitors have greater capital, lower targeted returns or greater sector or investment strategy-specific expertise than we do, which creates competitive disadvantages with respect to investment opportunities;
- some of our competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities;
- some of our competitors may perceive risk differently than we do, which could allow them either to outbid us for investments in particular sectors or, generally, to consider a wider variety of investments;
- some of our funds may not perform as well as competitors' funds or other available investment products;
- our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment;
- some fund investors may prefer to invest with an investment manager that is not publicly traded;
- the successful efforts of new entrants into our various businesses, including former "star" portfolio managers at large diversified financial institutions as well as such institutions themselves, may result in increased competition;
- there are relatively few barriers to entry impeding other alternative investment management firms from implementing an integrated platform similar to ours or the strategies that we deploy at our funds, such as distressed investing, which we believe are our competitive strengths, except that our competitors would need to hire professionals with the investment expertise or grow it internally; and
- other industry participants continuously seek to recruit our investment professionals away from us.

These and other factors could reduce our earnings and revenues and have a material adverse effect on our businesses. In addition, if we are forced to compete with other alternative investment managers on the basis of price, we may not be able to maintain our current management fee and incentive income structures. We have historically competed primarily on the performance of our funds, and not on the level of our fees or incentive income relative to those of our competitors. However, there is a risk that fees and incentive income in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee or incentive income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.

Our ability to retain our investment professionals is critical to our success and our ability to grow depends on our ability to attract additional key personnel.

Our success depends on our ability to retain our investment professionals and recruit additional qualified personnel. We anticipate that it will be necessary for us to add investment professionals as we pursue our growth strategy. However, we may not succeed in recruiting additional personnel or retaining current personnel, as the market for qualified investment professionals is extremely competitive. Our investment professionals possess substantial experience and expertise in investing, are responsible for locating and executing our funds' investments, have significant relationships with the institutions that are the source of many of our funds' investment opportunities, and in certain cases have key relationships with our fund investors. Therefore, if our investment professionals join competitors or form competing companies it could result in the loss of significant investment opportunities and certain existing fund investors. Legislation has been proposed in the U.S. Congress to treat portions of carried interest as ordinary income rather than as capital gain for U.S. Federal income tax purposes. In addition, the United Kingdom proposed legislation in

April 2015 that could change the scope and tax rate for carried interest. Because we compensate our investment professionals in large part by giving them an equity interest in our business or a right to receive carried interest, if such legislation were passed in the U.S. or the United Kingdom, it could adversely affect our ability to recruit, retain and motivate our current and future investment professionals. See "—Risks Related to Taxation—Our structure involves complex provisions of U.S. Federal income tax law for which no clear precedent or authority may be available. Our structure is also subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis." Many of our investment professionals are also entitled to receive carried interest or incentive income, and fluctuations in the distributions generated from such sources could also impair our ability to attract and retain qualified personnel. The loss of even a small number of our investment professionals could jeopardize the performance of our funds, which would have a material adverse effect on our results of operations. Efforts to retain or attract investment professionals may result in significant additional expenses, which could adversely affect our profitability.

We strive to maintain a work environment that promotes our culture of collaboration, motivation and alignment of interests with our fund investors and shareholders. If we do not continue to develop and implement effective processes and tools to manage growth and reinforce this vision, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

We may not be successful in expanding into new investment strategies, markets and businesses.

We actively consider the opportunistic expansion of our businesses, both geographically and into complementary new investment strategies. We may not be successful in any such attempted expansion. Attempts to expand our businesses involve a number of special risks, including some or all of the following:

- the diversion of management's attention from our core businesses;
- the disruption of our ongoing businesses;
- entry into markets or businesses in which we may have limited or no experience;
- increasing demands on our operational systems;
- potential increase in investor concentration; and
- the broadening of our geographic footprint, increasing the risks associated with conducting operations in foreign jurisdictions.

Additionally, any expansion of our businesses could result in significant increases in our outstanding indebtedness and debt service requirements, which would increase the risks in investing in our Class A shares and may adversely impact our results of operations and financial condition.

We also may not be successful in identifying new investment strategies or geographic markets that increase our profitability, or in identifying and acquiring new businesses that increase our profitability. Because we have not yet identified these potential new investment strategies, geographic markets or businesses, we cannot identify for you all the risks we may face and the potential adverse consequences on us and your investment that may result from our attempted expansion. We also do not know how long it may take for us to expand, if we do so at all. We have also entered into strategic partnerships and separately managed accounts, which lack the scale of our traditional funds and are more costly to administer. The prevalence of these accounts may also present conflicts and introduce complexity in the deployment of capital. We have total discretion, at the direction of our manager, without needing to seek approval from our board of directors or shareholders, to enter into new investment strategies, geographic markets and businesses, other than expansions involving transactions with affiliates which may require board approval.

Many of our funds invest in relatively high-risk, illiquid assets and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of the principal amount we invest in these activities.

Many of our funds invest in securities that are not publicly traded. In many cases, our funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. The ability of many of our funds, particularly our private equity funds, to dispose of investments is heavily dependent on the public equity markets, inasmuch as the ability to realize value from an investment may depend upon the ability to complete an IPO of the portfolio company in which such investment is held. Furthermore, large holdings even of publicly traded equity securities can often be disposed of only over a substantial period of time, exposing the investment returns to risks of downward movement in market prices during the disposition period. Accordingly, our funds may be forced, under certain conditions, to sell securities at a loss.

Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.

Because certain of our funds' investments rely heavily on the use of leverage, our ability to achieve attractive rates of return on investments will depend on our continued ability to access sufficient sources of indebtedness at attractive rates. For example, in many of our private equity fund investments, indebtedness may constitute 70% or more of a portfolio company's total debt and equity capitalization, including debt that may be incurred in connection with the investment, and a portfolio company's leverage may increase as a result of recapitalization transactions subsequent to the company's acquisition by a private equity fund. The absence of available sources of senior debt financing for extended periods of time could therefore materially and adversely affect our funds. An increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness would make it more expensive to finance those investments. Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital. In addition, a portion of the indebtedness used to finance certain of our fund investments often includes high-yield debt securities. Availability of capital from the high-yield debt markets is subject to significant volatility, and there may be times when we might not be able to access those markets at attractive rates, or at all. For example, the dislocation in the credit markets which we believe began in July 2007 and the record backlog of supply in the debt markets resulting from such dislocation materially affected the ability and willingness of banks to underwrite new high-yield debt securities for an extended period. While the debt markets have recovered in recent years, volatility in these markets has recently increased, and the availability of debt facilities has been limited to some degree as a result of guidance issued to banks in March 2013 by the Federal Reserve, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp. relating to loans to highly leveraged companies, and reported recent statements by the Federal Reserve and Office of the Comptroller of the Currency reaffirming their position on such loans.

Investments in highly leveraged entities are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

- give rise to an obligation to make mandatory prepayments of debt using excess cash flow, which might limit the entity's ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities;
- allow even moderate reductions in operating cash flow to render it unable to service its indebtedness, leading to a bankruptcy or other reorganization of the entity and a loss of part or all of the equity investment in it;
- limit the entity's ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt;
- limit the entity's ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth; and
- limit the entity's ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or general corporate purposes.

As a result, the risk of loss associated with a leveraged entity is generally greater than for companies with comparatively less debt. For example, many investments consummated by private equity sponsors during 2005, 2006 and 2007 that utilized significant amounts of leverage subsequently experienced severe economic stress and in certain cases defaulted on their debt obligations due to a decrease in revenues and cash flow precipitated by the economic downturn.

When certain of our funds' existing portfolio investments reach the point when debt incurred to finance those investments matures in significant amounts and must be either repaid or refinanced, those investments may materially suffer if they have generated insufficient cash flow to repay maturing debt and there is insufficient capacity and availability in the financing markets to permit them to refinance maturing debt on satisfactory terms, or at all. If a limited availability of financing for such purposes were to persist for an extended period of time, when significant amounts of the debt incurred to finance these funds' existing portfolio investments came due, these funds could be materially and adversely affected. Additionally, if such limited availability of financing persists, our funds may also not be able to recoup their investments, as issuers of debt become unable to repay their borrowings.

Our credit funds may choose to use leverage as part of their respective investment programs and regularly borrow a substantial amount of their capital. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. The credit funds may borrow money from time to time to purchase or carry securities. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried, and will be lost—and the timing and magnitude of such losses may be accelerated or exacerbated—in the event of a decline in the market value of such securities. Gains realized with borrowed funds may cause the fund's net

asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund's net asset value could also decrease faster than if there had been no borrowings.

In addition, as a business development company under the Investment Company Act, AINV is permitted to issue senior securities in amounts such that its asset coverage ratio equals at least 200% after each issuance of senior securities. Further, AFT and AIF, as registered investment companies, are permitted to (i) issue preferred shares in amounts such that their respective asset coverage equals at least 200% after issuance and (ii) incur indebtedness, including through the issuance of debt securities, so long as immediately thereafter the fund will have an asset coverage of at least 300% after issuance. The ability of each of AFT, AIF and AINV to pay dividends will be restricted if its asset coverage ratio falls below 200% and any amounts that it uses to service its indebtedness are not available for dividends to its common shareholders. An increase in interest rates could also decrease the value of fixed-rate debt investments that our funds make. Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

Certain of our investment funds may invest in high-yield, below investment grade or unrated debt, or securities of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such investments are subject to a greater risk of poor performance or loss.

Certain of our investment funds, especially our credit funds, may invest in below investment grade or unrated debt, including corporate loans and bonds, each of which generally involves a higher degree of risk than investment grade rated debt, and may be less liquid. Issuers of high yield or unrated debt may be highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. As a result, high yield or unrated debt is often less liquid than investment grade rated debt. Also, investments may be made in loans and other forms of debt that are not marketable securities and therefore are not liquid. In the absence of hedging measures, changes in interest rates generally will also cause the value of debt investments to vary inversely to such changes. The obligor of a debt security or instrument may not be able or willing to pay interest or to repay principal when due in accordance with the terms of the associated agreement and collateral may not be available or sufficient to cover such liabilities. Commercial bank lenders and other creditors may be able to contest payments to the holders of other debt obligations of the same obligor in the event of default under their commercial bank loan agreements. Sub-participation interests in syndicated debt may be subject to certain risks as a result of having no direct contractual relationship with underlying borrowers. Debt securities and instruments may be rated below investment grade by recognized rating agencies or unrated and face ongoing uncertainties and exposure to adverse business, financial or economic conditions and the issuer's failure to make timely interest and principal payments.

Certain of our investment funds, especially our credit funds, may invest in business enterprises that are or may become involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions, and may purchase non-performing loans or other high-risk receivables. An investment in such a business enterprise entails the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the fund of the security or other financial instrument in respect of which such distribution is received. In addition, if an anticipated transaction does not in fact occur, the fund may be required to sell its investment at a loss. Investments in troubled companies may also be adversely affected by U.S. federal and state laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss by a fund of its entire investment in such company. Moreover, a major economic recession could have a materially adverse impact on the value of such securities.

Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of securities rated below investment grade or otherwise adversely affect our reputation. For example, certain of our investment funds, especially our credit funds, may receive equity in exchange for debt securities of troubled companies in which they have invested, and thus become equity owners of business enterprises that have not been subject to the same level or kind of due diligence investigation that our funds would typically conduct in connection with an equity investment. This could result in adverse publicity, reputational harm, and possibly control person liability in certain circumstances depending on the size of the funds' equity stake and other factors.

The operational risk we face from errors made in the execution, confirmation or settlement of transactions and our dependence on our headquarters in New York City and third-party providers may have an adverse impact on our ability to continue to operate our businesses without interruption which could result in losses to us or limit our growth.

We face operational risk from errors made in the execution, confirmation or settlement of transactions. We also face operational risk from transactions not being properly recorded, evaluated or accounted for in our funds. In particular, our credit business is highly dependent on our ability to process and evaluate, on a daily basis, transactions across markets and geographies in a time-sensitive, efficient and accurate manner. Consequently, we rely heavily on our financial, accounting and other data processing systems. New investment products we may introduce could create a significant risk that our existing systems may not be adequate to identify or control the relevant risks in the investment strategies employed by such new investment products. In addition, our information systems and technology might not be able to accommodate our growth, and the cost of maintaining such systems might increase from its current level. These risks could cause us to suffer financial loss, a disruption of our businesses, liability to our funds, regulatory intervention and reputational damage.

Furthermore, we depend on our headquarters, which is located in New York City, for the operation of many of our businesses. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, may have an adverse impact on our ability to continue to operate our businesses without interruption which could have a material adverse effect on us. Although we have disaster recovery programs in place, these may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses.

Finally, we rely on third-party service providers for certain aspects of our businesses, including for certain information systems, technology and administration of our funds and compliance matters. Any interruption or deterioration in the performance of these third parties could impair the quality of the funds' operations and could impact our reputation, adversely affect our businesses and limit our ability to grow.

We rely on our information systems to conduct our business, and failure to protect these systems against security breaches could adversely affect our business and results of operations. Additionally, if these systems fail or become unavailable for any significant period of time, our business could be harmed.

The efficient operation of our business is dependent on computer hardware and software systems. Information systems are vulnerable to security breaches by computer hackers and cyber terrorists. We rely on industry accepted security measures and technology to securely maintain confidential and proprietary information maintained on our information systems. However, these measures and technology may not adequately prevent security breaches. In addition, the unavailability of the information systems or the failure of these systems to perform as anticipated for any reason could disrupt our business and could result in decreased performance and increased operating costs, causing our business and results of operations to suffer. Any significant interruption or failure of our information systems or any significant breach of security could adversely affect our business and results of operations.

Our funds' portfolio companies also rely on data processing systems and the secure processing, storage and transmission of information, including payment and health information. A disruption or compromise of these systems could have a material adverse effect on the value of these businesses.

We derive a substantial portion of our revenues from funds managed pursuant to management agreements that may be terminated or fund partnership agreements that permit fund investors to request liquidation of investments in our funds on short notice.

The terms of our funds generally give either the general partner of the fund, the fund's board of directors or the third-party advisor the right to terminate our investment management agreement with the fund. However, insofar as we control the general partner of our funds that are limited partnerships, the risk of termination of investment management agreement for such funds is limited, subject to our fiduciary or contractual duties as general partner. This risk is more significant for certain of our funds which have independent boards of directors.

With respect to our funds that are subject to the Investment Company Act, following the initial two years of operation each fund's investment management agreement must be approved annually by such fund's board of directors or by the vote of a majority of the shareholders and the majority of the independent members of such fund's board of directors. Each investment management agreement for such funds can also be terminated by the majority of the shareholders. Currently, AFT and AIF,

management investment companies under the Investment Company Act, and AINV, a management investment company that has elected to be treated as a business development company under the Investment Company Act, are subject to these provisions of the Investment Company Act. We have also been engaged as a sub-advisor for funds that are subject to Investment Company Act, and those sub-advisory agreements contain, among other things, renewal and termination provisions that are substantially similar to the investment management agreements for each of AFT, AIF and AINV. Termination of these agreements would reduce the fees we earn from the relevant funds, which could have a material adverse effect on our results of operations.

The governing documents of certain of our funds provide that a simple majority of a fund's unaffiliated investors have the right to liquidate that fund, which would cause management fees and incentive income to terminate. Our ability to realize incentive income from such funds also would be adversely affected if we are required to liquidate fund investments at a time when market conditions result in our obtaining less for investments than could be obtained at later times. We do not know whether, and under what circumstances, the investors in our funds are likely to exercise such right.

In addition, the management agreements of our funds would terminate if we were to experience a change of control without obtaining investor consent. Such a change of control could be deemed to occur in the event our Managing Partners exchange enough of their interests in the Apollo Operating Group into our Class A shares such that our Managing Partners no longer own a controlling interest in us. We cannot be certain that consents required for the assignment of our management agreements will be obtained if such a deemed change of control occurs. Termination of these agreements would affect the fees we earn from the relevant funds and the transaction and advisory fees we earn from the underlying portfolio companies, which could have a material adverse effect on our results of operations.

Our use of leverage to finance our businesses will expose us to substantial risks, which are exacerbated by our funds' use of leverage to finance investments.

We have senior notes outstanding and loans outstanding and an undrawn revolving credit facility under the 2013 AMH Credit Facilities described in note 12 to our consolidated financial statements. We may choose to finance our business operations through further borrowings. Our existing and future indebtedness exposes us to the typical risks associated with the use of leverage, including those discussed above under "-Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments." These risks are exacerbated by certain of our funds' use of leverage to finance investments and, if they were to occur, could cause us to suffer a decline in the credit ratings assigned to our debt by rating agencies, if any, which might result in an increase in our borrowing costs or result in other material adverse effects on our businesses.

As these borrowings, notes and other indebtedness mature (or are otherwise repaid prior to their scheduled maturities), we may be required to either refinance them by entering into new facilities or issuing new notes, which could result in higher borrowing costs, or issuing equity, which would dilute existing shareholders. We could also repay them by using cash on hand or cash from the sale of our assets. We could have difficulty entering into new facilities, issuing new notes or issuing equity in the future on attractive terms, or at all.

We are subject to third-party litigation from time to time that could result in significant liabilities and reputational harm, which could have a material adverse effect on our results of operations, financial condition and liquidity.

In general, we will be exposed to risk of litigation by our investors if our management of any fund is alleged to constitute bad faith, gross negligence, willful misconduct, fraud, willful or reckless disregard for our duties to the fund or other forms of misconduct. Investors could sue us to recover amounts lost by our funds due to our alleged misconduct, up to the entire amount of loss. Further, we may be subject to litigation arising from investor dissatisfaction with the performance of our funds or from third-party allegations that we (i) improperly exercised control or influence over companies in which our funds have large investments or (ii) are liable for actions or inactions taken by portfolio companies that such third parties argue we control. By way of example, we, our funds and certain of our employees are each exposed to the risks of litigation relating to investment activities in our funds and actions taken by the officers and directors (some of whom may be Apollo employees) of portfolio companies, such as the risk of shareholder litigation by other shareholders of public companies in which our funds have large investments. As an additional example, we are sometimes listed as a co-defendant in actions against portfolio companies on the theory that we control such portfolio companies. We are also exposed to risks of litigation or investigation relating to transactions that presented conflicts of interest that were not properly addressed. See "—Our failure to deal appropriately with conflicts of interest could damage our reputation and adversely affect our businesses." In addition, our rights to indemnification by the funds we manage may not be upheld if challenged, and our indemnification rights generally do not cover bad faith, gross negligence, willful misconduct, fraud, willful or reckless disregard for our duties to the fund or other forms of misconduct. If we are required to incur

all or a portion of the costs arising out of litigation or investigations as a result of inadequate insurance proceeds or failure to obtain indemnification from our funds, our results of operations, financial condition and liquidity would be materially adversely affected.

In addition, with a workforce that includes many very highly paid investment professionals, we face the risk of lawsuits relating to claims for compensation, which may individually or in the aggregate be significant in amount. Such claims are more likely to occur in the current environment where individual employees may experience significant volatility in their year-to-year compensation due to trading performance or other issues and in situations where previously highly compensated employees were terminated for performance or efficiency reasons. The cost of settling such claims could adversely affect our results of operations.

If any civil or criminal lawsuits brought against us were to result in a finding of substantial legal liability or culpability, the lawsuit could, in addition to any financial damage, cause significant reputational harm to us, which could seriously harm our business. We depend to a large extent on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and qualified professionals and to pursue investment opportunities for our funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses. See "Item 3. Legal Proceedings."

Our failure to deal appropriately with conflicts of interest could damage our reputation and adversely affect our businesses.

As we have expanded and as we continue to expand the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds' investment activities. Certain of our funds have overlapping investment objectives, including funds that have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds. For example, a decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of other funds to take any action. In addition, fund investors (or holders of Class A shares) may perceive conflicts of interest regarding investment decisions for funds in which our Managing Partners, who have and may continue to make significant personal investments in a variety of Apollo funds, are personally invested. Similarly, conflicts of interest may exist in the valuation of our investments and regarding decisions about the allocation of specific investment opportunities among us and our funds and the allocation of fees and costs among us, our funds and their portfolio companies.

Investing throughout the corporate capital structure. Our funds invest in a broad range of asset classes throughout the corporate capital structure. These investments include investments in corporate loans and debt securities, preferred equity securities and common equity securities. In certain cases, we may manage separate funds that invest in different parts of the same company's capital structure. For example, our credit funds may invest in different classes of the same company's debt. In those cases, the interests of our funds may not always be aligned, which could create actual or potential conflicts of interest or the appearance of such conflicts. For example, one of our private equity funds could have an interest in pursuing an acquisition, divestiture or other transaction that, in its judgment, could enhance the value of the private equity investment, even though the proposed transaction would subject one of our credit fund's debt investments to additional or increased risks.

Potential conflicts of interest with our Managing Partners or our directors. Pursuant to the terms of our operating agreement, whenever a potential conflict of interest exists or arises between any of the Managing Partners, one or more directors or their respective affiliates, on the one hand, and us, any of our subsidiaries or any shareholder other than a Managing Partner, on the other, any resolution or course of action by our board of directors shall be permitted and deemed approved by all shareholders if the resolution or course of action (i) has been specifically approved by a majority of the voting power of our outstanding voting shares (excluding voting shares owned by our manager or its affiliates) or by a conflicts committee of the board of directors composed entirely of one or more independent directors, (ii) is on terms no less favorable to us or our shareholders (other than a Managing Partner) than those generally being provided to or available from unrelated third parties or (iii) it is fair and reasonable to us and our shareholders taking into account the totality of the relationships between the parties involved. All conflicts of interest described in this report will be deemed to have been specifically approved by all shareholders. Notwithstanding the foregoing, it is possible that potential or perceived conflicts could give rise to investor dissatisfaction or litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest would have a material adverse effect on our reputation which would materially adversely affect our businesses in a number of ways, including as a result of redemptions by our investors from our funds, an inability to raise additional funds and a reluctance of counterparties to do business with us. See "-Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus

could result in additional burdens on our businesses. Changes in taxation or law and other legislative or regulatory changes could adversely affect us."

Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.

We intend, to the extent that market conditions warrant, to grow our businesses by increasing AUM in existing businesses and expanding into new investment strategies, geographic markets and businesses. Our organizational documents, however, do not limit us to the investment management business. Accordingly, we may pursue growth through acquisitions of other investment management companies, acquisitions of critical business partners or other strategic initiatives, which may include entering into new lines of business, such as the insurance, broker-dealer or financial advisory industries. In addition, we expect opportunities will arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, undertake other strategic initiatives or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (i) the required investment of capital and other resources, (ii) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, (iii) combining or integrating operational and management systems and controls and (iv) the broadening of our geographic footprint, including the risks associated with conducting operations in foreign jurisdictions. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. For example, our planned business initiatives include offering additional registered investment products and creating investment products open to retail investors. These products may have different economic structures than our traditional investment funds and may require a different marketing approach. These activities also will impose additional compliance burdens on us, subject us to enhanced regulatory scrutiny and expose us to greater reputation and litigation risk. Further, these activities may give rise to conflicts of interest, related party transaction risks and may lead to litigation or regulatory scrutiny. If a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control.

Employee misconduct could harm us by impairing our ability to attract and retain investors and by subjecting us to significant legal liability, regulatory scrutiny and reputational harm. Fraud and other deceptive practices or other misconduct at our portfolio companies could similarly subject us to liability and reputational damage and also harm our performance.

Our reputation is critical to maintaining and developing relationships with the investors in our funds, potential fund investors and third parties with whom we do business. In recent years, there have been a number of highly publicized cases involving fraud, conflicts of interest or other misconduct by individuals in the financial services industry. There is a risk that our employees could engage in misconduct that adversely affects our businesses. For example, if an employee were to engage in illegal or suspicious activities, we could be subject to regulatory sanctions and suffer serious harm to our reputation, financial position, investor relationships and ability to attract future investors. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases. Misconduct by our employees, or the employees of our portfolio companies, or even unsubstantiated allegations, could result in a material adverse effect on our reputation and our businesses.

In addition, we could also be adversely affected if there is misconduct by individuals associated with portfolio companies in which our funds invest. For example, failures by personnel, or individuals acting on behalf, of our funds' portfolio companies to comply with anti-bribery, trade sanctions or other legal and regulatory requirements could adversely affect our business and reputation. There are a number of grounds upon which such misconduct at a portfolio company could subject us to criminal and/or civil liability, including on the basis of actual knowledge, willful blindness, or control person liability. Such misconduct might also undermine our funds' due diligence efforts with respect to such companies and could negatively affect the valuation of a fund's investments.

Underwriting activities expose us to risks.

AGS, a subsidiary of ours, may act as an underwriter in securities offerings. We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities or indebtedness we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to potential liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite.

AGS primarily provides these services for our funds' portfolio companies. The relationship between the managers of our funds, their affiliates and AGS may give rise to conflicts of interest between the managers of the funds and the funds with respect to whom AGS provides services or the funds who have an interest in any portfolio companies or investment vehicles to whom AGS provides services.

While AGS's services are primarily provided to our funds, it is possible that in the future, AGS may also provide services (including financing, capital market and advisory services) to third parties, including third parties that are our competitors or one or more of their affiliates or any portfolio companies. In the event that AGS provides services to third parties, it may not take into consideration the interests of our funds or our funds' portfolio companies.

The due diligence process that we undertake in connection with investments by our funds may not reveal all facts that may be relevant in connection with an investment.

Before making fund investments we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

Certain of our funds utilize special situation and distressed debt investment strategies that involve significant risks.

Our funds often invest in obligors and issuers with weak financial conditions, poor operating results, substantial financial needs, negative net worth and/or special competitive problems. These funds also invest in obligors and issuers that are involved in bankruptcy or reorganization proceedings. In such situations, it may be difficult to obtain full information as to the exact financial and operating conditions of these obligors and issuers. Additionally, the fair values of such investments are subject to abrupt and erratic market movements and significant price volatility if they are publicly traded securities, and are subject to significant uncertainty in general if they are not publicly traded securities. Furthermore, some of our funds' distressed investments may not be widely traded or may have no recognized market. A fund's exposure to such investments may be substantial in relation to the market for those investments, and the assets are likely to be illiquid and difficult to sell or transfer. As a result, it may take a number of years for the market value of such investments to ultimately reflect their intrinsic value as perceived by us.

A central feature of our distressed investment strategy is our ability to successfully predict the occurrence of certain corporate events, such as debt and/or equity offerings, restructurings, reorganizations, mergers, takeover offers and other transactions, that we believe will improve the condition of the business. If the corporate event we predict is delayed, changed or never completed, the market price and value of the applicable fund's investment could decline sharply.

In addition, these investments could subject us to certain potential additional liabilities that may exceed the value of our original investment. Under certain circumstances, payments or distributions on certain investments may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, a preferential payment or similar transaction under applicable bankruptcy and insolvency laws. In addition, under certain circumstances, a lender that has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated or disallowed, or may be found liable for damages suffered by parties as a result of such actions. In the case where the investment in securities of troubled companies is made in connection with an attempt to influence a restructuring proposal or plan of reorganization in bankruptcy, our funds may become involved in substantial litigation.

Risk management activities may adversely affect the return on our funds' investments.

When managing our exposure to market risks, we may (on our own behalf or on behalf of our funds) from time to time use forward contracts, options, swaps, caps, collars and floors or pursue other strategies or use other forms of derivative instruments to limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates, currency exchange rates and commodity prices. The scope of risk management activities undertaken by us varies based on the level and volatility of interest rates, prevailing foreign currency exchange rates, the types of investments that are made and other changing market conditions. The use of hedging transactions and other derivative instruments to reduce the effects of a decline in the value of a position does not eliminate the possibility of fluctuations in the value of the position or

prevent losses if the value of the position declines. Such transactions may also limit the opportunity for gain if the value of a position increases. Moreover, it may not be possible to limit the exposure to a market development that is so generally anticipated that a hedging or other derivative transaction cannot be entered into at an acceptable price. The success of any hedging or other derivative transaction generally will depend on our ability to correctly predict market changes, the degree of correlation between price movements of a derivative instrument and the position being hedged, the creditworthiness of the counterparty and other factors. As a result, while we may enter into such a transaction in order to reduce our exposure to market risks, the transaction may result in poorer overall investment performance than if it had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases.

While such hedging arrangements may reduce certain risks, such arrangements themselves may entail certain other risks. These arrangements may require the posting of cash collateral at a time when a fund has insufficient cash or illiquid assets such that the posting of the cash is either impossible or requires the sale of assets at prices that do not reflect their underlying value. Moreover, these hedging arrangements may generate significant transaction costs, including potential tax costs, that reduce the returns generated by a fund. Finally, the CFTC has made several public statements that it may soon issue a proposal for certain foreign exchange products to be subject to mandatory clearing, which could increase the cost of entering into currency hedges.

We often pursue investment opportunities that involve business, regulatory, legal or other complexities.

As an element of our investment style, we often pursue unusually complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could harm the performance of our funds.

Funds we manage may invest in assets denominated in currencies that differ from the currency in which the fund is denominated.

When our investment funds invest in assets denominated in currencies that differ from the currency that the relevant fund is denominated in, fluctuations in currency rates could impact the performance of the investment funds. We also have a number of investment funds which are denominated in U.S. Dollars but invest primarily or exclusively in assets denominated in foreign currencies and therefore whose performance can be negatively impacted by strengthening of the U.S. Dollar even if the underlying investments perform well in local currency.

Our funds may employ hedging techniques to minimize these risks, but we can offer no assurance that such strategies will be effective or tax-efficient. If our funds engage in hedging transactions, we may be exposed to additional risks associated with such transactions.

Certain of our funds make investments in companies that we do not control.

Investments by certain of our funds will include debt instruments, equity securities, and other financial instruments of companies that our funds do not control. Such instruments and securities may be acquired by our funds through trading activities or through purchases of securities or other financial instruments from the issuer. In addition, in the future, our funds may seek to acquire minority equity interests more frequently and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the funds retaining a minority investment. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our funds' interests. If any of the foregoing were to occur, the values of investments by our funds could decrease and our financial condition, results of operations and cash flow could suffer as a result.

Our funds may face risks relating to undiversified investments.

While diversification is generally an objective of many of our funds, we cannot give assurance as to the degree of diversification that will actually be achieved in any fund investments. For example, we manage AAA, and Athene Holding is AAA's only material investment. Because a significant portion or all of a fund's capital may be invested in a single investment or portfolio company, a loss with respect to such an investment or portfolio company could have a significant adverse impact on such fund's capital. Accordingly, a lack of diversification on the part of a fund could adversely affect its performance, which could have a material adverse effect on our business, financial condition and results of operations.

Some of our funds invest in foreign countries and securities of issuers located outside of the United States, which may involve foreign exchange, political, social, economic and tax uncertainties and risks.

Some of our funds invest all or a portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States, including Germany, China, India, Australia, Russia, Singapore, Portugal, Italy and France, as well as a number of jurisdictions commonly referred to as emerging markets. In addition to business uncertainties, such investments may be affected by changes in exchange values as well as political, social and economic uncertainty affecting a country or region. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly with respect to bankruptcy and reorganization. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such companies.

Restrictions imposed or actions taken by foreign governments may adversely impact the value of our funds' investments. Such restrictions or actions could include exchange controls, seizure or nationalization of foreign deposits or other assets and adoption of other governmental restrictions that adversely affect the prices of securities or the ability to repatriate profits on investments or the capital invested itself. Income received by our funds from sources in some countries may be reduced by withholding and other taxes. Any such taxes paid by a fund will reduce the net income or return from such investments. Our fund investments could also expose us to risks associated with trade and economic sanctions prohibitions or other restrictions imposed by the United States or other governments or organizations, including the United Nations, the EU and its member countries, such as the sanctions against certain Russian entities and individuals. While our funds will take these factors into consideration in making investment decisions, including when hedging positions, our funds may not be able to fully avoid these risks or generate targeted risk-adjusted returns.

In addition, as a result of the complexity of, and lack of clear precedent or authority with respect to, the application of various income tax laws to our structures, the application of rules governing how transactions and structures should be reported is also subject to differing interpretations. For example, certain jurisdictions such as Australia, Canada, China, India, Spain, Portugal, Italy, France and Hong Kong, where our funds have made investments, have sought to tax investment gains (including those from real estate) derived by nonresident investors, including private equity funds, from the disposition of the equity in companies operating in those jurisdictions. In some cases this development is the result of new legislation or changes in the interpretation of existing legislation and local authority assertions that investors have a local taxable presence or are holding companies for trading purposes rather than for capital purposes, or are not otherwise entitled to treaty benefits. In addition, the tax authorities in certain jurisdictions have sought to deny the benefits of income tax treaties for withholding taxes on interest and dividends of nonresident entities, if the entity is not the beneficial owner of the income but rather a mere conduit company inserted primarily to access treaty benefits.

For example, under the laws of Hong Kong, profits arising in or derived from Hong Kong from a trade, profession or business carried on by a person or an agent acting on the person's behalf in Hong Kong (excluding profits arising from the sale of capital assets) are subject to Hong Kong profits tax in general. The current profits tax rate is generally 16.5% for corporations and 15% for unincorporated businesses. Although Hong Kong provides a profits tax exemption for offshore funds on profits derived from certain transactions, under the current tax law, transactions in securities of a private company do not benefit from this exemption unless they satisfy certain conditions. Therefore, offshore funds that make use of services of a fund manager, investment advisor or any other person acting on their behalf in Hong Kong to derive profits from transactions in securities of private companies may be subject to Hong Kong profits tax, if the prescribed conditions are not satisfied. There is no assurance that any investments under our structures will be exempt from profits tax under Hong Kong's tax law. It should be noted that offshore fund structures have been subject to scrutiny in recent tax audits by Hong Kong's Inland Revenue Department.

With respect to India, in 2012 the Supreme Court of India held in favor of a taxpayer finding that the sale of a foreign company that indirectly held Indian assets was not subject to Indian tax. However, the tax laws were amended in 2012 to subject such gains to Indian tax with retroactive effect. Further, a general anti-avoidance rule was also introduced that would provide a basis for the tax authorities to subject other sales and investments through intermediate holding jurisdictions such as Mauritius to Indian tax. The Finance Act 2015 deferred the applicability of these general anti-avoidance rules until the tax year beginning on April 1, 2017 onwards. Further, given that the rules governing the treatment of capital gains in connection with indirect sale of an Indian company have not yet been finalized, there are several grey areas which could potentially result in protracted tax litigation. Accordingly, Indian taxation of the capital gains of a foreign investor, upon a direct or indirect sale of an Indian company, remains uncertain.

The U.K. has also enacted legislation that may affect our funds' investments. The U.K. Diverted Profits Tax ("DPT") regime was introduced with effect from April 1, 2015 as a new tax separate from the U.K.'s existing Corporate Income Tax regime.

DPT charges a rate of 25% on profits that, under the terms of the legislation, are considered to have been eroded from the U.K. tax base. The DPT legislation is intended to counteract and deter arrangements used by multinational corporate groups which, it is argued, have resulted in the erosion of the U.K. tax base. DPT operates through two main rules: (i) the first rule aims to prevent U.K. tax resident companies, or U.K. PEs, from creating tax advantages through transacting with entities that lack economic substance; and (ii) the second rule aims to counteract arrangements by which foreign companies sell into the U.K. without creating a U.K. PE. Under the legislation, if it is ”reasonable to assume” a U.K. company is party to an arrangement that lacks economic substance and which results in a tax advantage in the U.K., or it is “reasonable to assume” the activity of the involved parties is designed in such a way as to avoid the creation of a U.K. PE, DPT could apply. Further, the U.K. released draft anti-hybrid legislation for consultation on December 9, 2015. The rules would replace the existing U.K. arbitrage rules as from January 1, 2017. The U.K. tax authorities published examples of the application of the rules in December 2015. The draft U.K. legislation closely follows the recommendations of the OECD’s BEPS Action 2. Neutralizing the Effects of Hybrid Mismatch Arrangements and its publication should provide more clarity in this area. However, uncertainty remains around what, if anything, other countries outside the U.K. will do, and it may be necessary to consider various scenarios when applying the imported mismatch rules. In addition, the U.K. released draft Tax Transparency legislation on December 9, 2015. This legislation requires many large businesses to publish their U.K. tax strategies on their websites before the end of each financial year for accounting periods beginning on or after the date of Royal Assent to the Finance Bill which is expected sometime in July 2016. The scope requirements, which are relatively complex, have extended beyond those of the Senior Accounting Officer regime to include new taxes, new entity types and to interact with the OECD’s country by country reporting regime. This will likely result in additional compliance obligations, which may be costly and ultimately adversely affect our profitability.

Third-party investors in our funds have the right under certain circumstances to terminate commitment periods or to dissolve the funds, and investors in some of our credit funds may redeem their investments in such funds at any time after an initial holding period. These events would lead to a decrease in our revenues, which could be substantial.

The governing agreements of certain of our funds allow the investors of those funds to, among other things, (i) terminate the commitment period of the fund in the event that certain “key persons” (for example, one or more of our Managing Partners and/or certain other investment professionals) fail to devote the requisite time to managing the fund, (ii) (depending on the fund) terminate the commitment period, dissolve the fund or remove the general partner if we, as general partner or manager, or certain key persons engage in certain forms of misconduct, or (iii) dissolve the fund or terminate the commitment period upon the affirmative vote of a specified percentage of limited partner interests entitled to vote. Each of Fund VI, Fund VII and Fund VIII, on which our near- to medium-term performance will heavily depend, include a number of such provisions. COF III, EPF II and certain other credit funds have similar provisions. Also, after undergoing the 2007 Reorganization, subsequent to which we deconsolidated certain funds that had historically been consolidated in our financial statements, we amended the governing documents of our funds at that time to provide that a simple majority of a fund’s unaffiliated investors have the right to liquidate that fund. In addition to having a significant negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our funds would likely result in significant reputational damage to us.

Investors in some of our credit funds may also generally redeem their investments on an annual, semiannual or quarterly basis following the expiration of a specified period of time when capital may not be redeemed (typically between one and five years). Fund investors may decide to move their capital away from us to other investments for any number of reasons in addition to poor investment performance. Factors which could result in investors leaving our funds include changes in interest rates that make other investments more attractive, poor investment performance, changes in investor perception regarding our focus or alignment of interest, unhappiness with changes in or broadening of a fund’s investment strategy, changes in our reputation and departures or changes in responsibilities of key investment professionals. In a declining market, the pace of redemptions and consequent reduction in our AUM could accelerate. The decrease in revenues that would result from significant redemptions in these funds could have a material adverse effect on our businesses, revenues, net income and cash flows.

In addition, the management agreements of all of our funds would be terminated upon an “assignment,” without the requisite consent, of these agreements, which may be deemed to occur in the event the investment advisors of our funds were to experience a change of control. We cannot be certain that consents required to assign our investment management agreements will be obtained if a change of control occurs. In addition, with respect to our publicly traded closed-end funds, each fund’s investment management agreement must be approved annually by the independent members of such fund’s board of directors and, in certain cases, by its shareholders, as required by law. Termination of these agreements would cause us to lose the fees we earn from such funds.

Our financial projections for portfolio companies and other fund investments could prove inaccurate.

Our funds generally establish the capital structure of portfolio companies and certain other fund investments, including real estate investments, on the basis of financial projections for such investments. These projected operating results will normally be based primarily on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. General economic conditions, which are not predictable, along with other factors may cause actual performance to fall short of the financial projections we used to establish a given investment's capital structure. Because of the leverage we typically employ in our fund investments, this could cause a substantial decrease in the value of our equity holdings in such investments. The inaccuracy of financial projections could thus cause our funds' performance to fall short of our expectations.

Our private equity funds' performance, and our performance, may be adversely affected by the financial performance of our funds' portfolio companies and the industries in which our funds invest.

Our performance and the performance of our private equity funds is significantly affected by the value of the companies in which our funds have invested. Our funds invest in companies in many different industries, each of which is subject to volatility based upon a variety of facts, including economic and market factors. The credit crisis caused significant fluctuations in the value of securities held by our funds and the global economic recession had a significant impact in overall performance activity and the demands for many of the goods and services provided by portfolio companies of the funds we manage. Although the U.S. economy has improved, conditions in economies outside the U.S. have generally improved at a less rapid pace (and in some cases have deteriorated), and there remain many obstacles to continued growth in the economy such as global geopolitical events, risks of inflation and high deficit levels for governments in the U.S. and abroad. These factors and other general economic trends may impact the performance of portfolio companies in many industries and in particular, industries that are more impacted by changes in consumer demand, such as the packaging, manufacturing, energy, chemical and refining industries, as well as travel and leisure, gaming, financial services and real estate industries. The performance of our private equity funds, and our performance, may be adversely affected to the extent our fund portfolio companies in these industries experience adverse performance or additional pressure due to downward trends. For example, the performance of certain of our portfolio companies in the packaging, manufacturing, energy chemical and refining industries is subject to the cyclical and volatile nature of the supply-demand balance in these industries. These industries historically have experienced alternating periods of capacity shortages leading to tight supply conditions, causing prices and profit margins to increase, followed by periods when substantial capacity is added, resulting in oversupply, declining capacity utilization rates and declining prices and profit margins. In addition to changes in the supply and demand for products, the volatility these industries experience occurs as a result of changes in energy prices, costs of raw materials and changes in various other economic conditions around the world.

The performance of our funds' investments in the commodities markets is also subject to a high degree of business and market risk, as it is substantially dependent upon prevailing prices of oil and natural gas. Certain of our funds have investments in businesses involved in oil and gas exploration and development, which can be a speculative business involving a high degree of risk, including: the volatility of oil and natural gas prices; the use of new technologies; reliance on estimates of oil and gas reserves in the evaluation of available geological, geophysical, engineering and economic data; and encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures and other accidents in completing wells and otherwise, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, fires, spills and other environmental risks. Prices for oil and natural gas have decreased significantly during the latter part of 2014 and throughout 2015, and there can be no assurance that prices will recover. If prices remain at their current level for an extended period of time, there could be an adverse impact on the performance of certain of our funds, and this impact may be material. These prices are also subject to wide fluctuation in response to relatively minor changes in the supply and demand for oil and natural gas, market uncertainty and a variety of additional factors that are beyond our control, such as level of consumer product demand, the refining capacity of oil purchasers, weather conditions, government regulations, the price and availability of alternative fuels, political conditions, foreign supply of such commodities and overall economic conditions. It is common in making investments in the commodities markets to deploy hedging strategies to protect against pricing fluctuations but such strategies may or may not be employed by us or our funds' portfolio companies, and even when they are employed they may not protect our funds' investments.

Our funds' investments in companies in the financial services sector are subject to a variety of factors, such as market uncertainty, additional government regulations, disclosure requirements, limits on fees, increasing borrowing costs or limits on the terms or availability of credit to such portfolio companies, and other regulatory requirements each of which may impact the conduct of such portfolio companies. Compliance with changing regulatory requirements will likely impose staffing, legal, compliance and other costs and administrative burdens upon our funds' investments in financial services. Various sectors of the global financial markets have been experiencing an extended period of adverse conditions. Market uncertainty has increased

dramatically, particularly in the United States and Europe, and adverse market conditions have expanded to other markets. These conditions have resulted in disruption of the global credit markets, periods of reduced liquidity, greater volatility, general widening of credit spreads, an acute contraction in the availability of credit and a lack of price transparency. These difficult global credit market conditions have adversely affected the market values of equity, fixed income and other securities and these circumstances may continue or even deteriorate further.

In respect of real estate, even though the U.S. residential real estate market has stabilized from a lengthy and deep downturn, various factors could halt or limit a recovery in the housing market and have an adverse effect on the performance of certain of our funds' investments, including, but not limited to, rising mortgage interest rates and a low level of consumer confidence in the economy and/or the residential real estate market.

In addition, our funds' investments in commercial mortgage loans and other commercial real-estate related loans are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with mortgage loans made on the security of residential properties. If the net operating income of the commercial property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of a commercial property can be affected by various factors, such as success of tenant businesses, property management decisions, competition from comparable types of properties and declines in regional or local real estate values and rental or occupancy rates.

Our credit funds are subject to numerous additional risks.

Our credit funds are subject to numerous additional risks, including the risks set forth below.

- Generally, there may be few limitations on the execution of these funds' investment strategies, which are in many cases subject to the sole discretion of the management company or the general partner of such funds, or there may be numerous investment limitations or restrictions that require monitoring, compliance and maintenance.
- While we monitor the concentration of the portfolios of our credit funds, concentration in any one borrower or other issuer, product category, industry, region or country may arise from time to time.
- Given the flexibility and overlapping nature of the mandates and investment strategies of our credit funds, situations arise where certain of these funds hold (including outright positions in issuers and exposure to such issuers derived through any synthetic and/or derivative instrument) in multiple tranches of securities of an issuer (or other interests of an issuer) or multiple funds having interests in the same tranche of an issuer.
- Certain of these funds may engage in short-selling, which is subject to a theoretically unlimited risk of loss.
- These funds are exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss.
- Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their respective liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions.
- The efficacy of the investment and trading strategies of certain credit funds may depend largely on the ability to establish and maintain an overall market position in a combination of different financial instruments, which can be difficult to execute.
- These funds may make investments or hold trading positions in markets that are volatile and which are or may become illiquid.
- Certain of these funds may seek to originate loans, including, but not limited to, secured and unsecured notes, senior and second lien loans, mezzanine loans, and other similar investments.
- These funds' investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to a theoretically unlimited risk of loss in certain circumstances.

Fraud and other deceptive practices could harm fund performance.

Instances of bribery, fraud and other deceptive practices committed by senior management of portfolio companies in which an Apollo fund invests may undermine our due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of a fund's investments. Fraud or other deceptive practices by our own employees or advisors could have a similar effect. In addition, when discovered, financial fraud may contribute to reputational harm and overall

market volatility that can negatively impact an Apollo fund's investment program. As a result, instances of bribery, fraud and other deceptive practices could result in fund performance that is poorer than expected.

Contingent liabilities could harm fund performance.

We may cause our funds to acquire an investment that is subject to contingent liabilities. Such contingent liabilities could be unknown to us at the time of acquisition or, if they are known to us, we may not accurately assess or protect against the risks that they present. Acquired contingent liabilities could thus result in unforeseen losses for our funds. In addition, in connection with the disposition of an investment in a portfolio company, a fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. A fund may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities by a fund, even after the disposition of an investment. Accordingly, the inaccuracy of representations and warranties made by a fund could harm such fund's performance.

Our funds may be forced to dispose of investments at a disadvantageous time.

Our funds may make investments that they do not advantageously dispose of prior to the date the applicable fund is dissolved, either by expiration of such fund's term or otherwise. Although we generally expect that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, and the general partners of the funds generally have a limited ability to extend the term of the fund with the consent of fund investors or the advisory board of the fund, as applicable, our funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. This would result in a lower than expected return on the investments and, perhaps, on the fund itself.

Possession of material, non-public information could prevent Apollo funds from undertaking advantageous transactions, our internal controls could fail, or we could establish information barriers, all of which could adversely affect our business.

Our Managing Partners, investment professionals or other employees may acquire confidential or material non-public information and, as a result, be restricted from initiating transactions in certain securities. This risk affects us more than it does many other investment managers, as we generally do not use information barriers that many firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. Our decision not to implement these barriers could prevent our investment professionals from undertaking advantageous investments or dispositions that would be permissible for them otherwise.

In order to manage possible risks resulting from our decision not to implement information barriers, our compliance personnel maintain a list of restricted securities as to which we have access to material, non-public information and in which our funds and investment professionals are not permitted to trade. This internal control relating to the management of material non-public information could fail with the result that we, or one of our investment professionals, might trade when at least constructively in possession of material non-public information. Inadvertent trading on material non-public information could have adverse effects on our reputation, result in the imposition of regulatory or financial sanctions and as a consequence, negatively impact our financial condition.

In addition, we could in the future decide that it is advisable to establish information barriers, particularly as our business expands and diversifies. In such event, our ability to operate as an integrated platform would be restricted. The establishment of such information barriers might also lead to operational disruptions and result in restructuring costs, including costs related to hiring additional personnel as existing investment professionals are allocated to either side of such barriers, which could adversely affect our business.

Regulations governing AINV's operation as a business development company affect its ability to raise, and the way in which it raises, additional capital.

As a business development company under the Investment Company Act, AINV may issue debt securities or preferred stock and borrow money from banks or other financial institutions, which we refer to collectively as "senior securities," up to the maximum amount permitted by the Investment Company Act. Under the provisions of the Investment Company Act, AINV is permitted to issue senior securities only in amounts such that its asset coverage, as defined in the Investment Company Act, equals at least 200% after each issuance of senior securities. If the value of its assets declines, it may be unable to satisfy this test. If that happens, it may be required to sell a portion of its investments and, depending on the nature of its leverage, repay a portion of its indebtedness at a time when such sales may be disadvantageous.

Business development companies may issue and sell common stock at a price below net asset value per share only in limited circumstances, one of which is during the one-year period after shareholder approval. AINV's shareholders have, in the past, approved a plan so that during the subsequent 12-month period, AINV may, in one or more public or private offerings of its common stock, sell or otherwise issue shares of its common stock at a price below the then current net asset value per share, subject to certain conditions including parameters on the level of permissible dilution, approval of the sale by a majority of its independent directors and a requirement that the sale price be not less than approximately the market price of the shares of its common stock at specified times, less the expenses of the sale. AINV may ask its shareholders for additional approvals from year to year. There is no assurance such approvals will be obtained.

Regulations governing AFT's and AIF's operation affect their ability to raise, and the way in which they raise, additional capital.

As registered investment companies under the Investment Company Act, each of AFT and AIF may issue debt securities or preferred stock and borrow money from banks or other financial institutions, up to the maximum amount permitted by the Investment Company Act. Under the provisions of the Investment Company Act, each of AFT and AIF is permitted to (i) issue preferred shares in amounts such that their respective asset coverage equals at least 200% after issuance and (ii) incur indebtedness, including through the issuance of debt securities, so long as immediately thereafter the fund will have an asset coverage of at least 300% after issuance. If the value of its assets declines, such fund may be unable to satisfy this test. If that happens, such fund may be required to sell a portion of its investments and, depending on the nature of its leverage, repay a portion of its indebtedness at a time when such sales may be disadvantageous. Further, each of AFT and AIF may raise capital by issuing common shares, however, the offering price per common share must equal or exceed the net asset value per share, exclusive of any underwriting commissions or discounts, of the funds' shares.

Risks Related to Our Class A Shares

The market price and trading volume of our Class A shares may be volatile, which could result in rapid and substantial losses for our shareholders.

The market price of our Class A shares may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our Class A shares may fluctuate and cause significant price variations to occur. You may be unable to resell your Class A shares at or above your purchase price, if at all. The market price of our Class A shares may fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of our Class A shares or result in fluctuations in the price or trading volume of our Class A shares include:

- variations in our quarterly operating results or distributions, which variations we expect will be substantial;
- our policy of taking a long-term perspective on making investment, operational and strategic decisions, which is expected to result in significant and unpredictable variations in our quarterly returns;
- failure to meet analysts' earnings estimates;
- publication of research reports about us or the investment management industry or the failure of securities analysts to cover our Class A shares;
- additions or departures of our Managing Partners and other key management personnel;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- actions by shareholders;
- changes in market valuations of similar companies;
- speculation in the press or investment community;
- changes or proposed changes in laws or regulations or differing interpretations thereof affecting our businesses or enforcement of these laws and regulations, or announcements relating to these matters;
- a lack of liquidity in the trading of our Class A shares;
- adverse publicity about the investment management industry generally or individual scandals, specifically; and
- general market and economic conditions.

In addition, from time to time, management may also declare special quarterly distributions based on investment realizations. Volatility in the market price of our Class A shares may be heightened at or around times of investment realizations as well as following such realizations, as a result of speculation as to whether such a distribution may be declared.

An investment in Class A shares is not an investment in any of our funds, and the assets and revenues of our funds are not directly available to us.

Class A shares are securities of Apollo Global Management, LLC only. While our historical consolidated and combined financial information includes financial information, including assets and revenues of certain Apollo funds on a consolidated basis, and our future financial information will continue to consolidate certain of these funds, such assets and revenues are available to the fund and not to us except through management fees, incentive income, distributions and other proceeds arising from agreements with funds, as discussed in more detail in this report.

Our Class A share price may decline due to the large number of shares eligible for future sale and for exchange into Class A shares.

The market price of our Class A shares could decline as a result of sales of a large number of our Class A shares or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. As of December 31, 2015, we had 181,078,937 Class A shares outstanding. The Class A shares reserved under our equity incentive plan are increased on the first day of each fiscal year by (i) the amount (if any) by which (a) 15% of the number of outstanding Class A shares and Apollo Operating Group units ("AOG Units") exchangeable for Class A shares on a fully converted and diluted basis on the last day of the immediately preceding fiscal year exceeds (b) the number of shares then reserved and available for issuance under the Equity Plan, or (ii) such lesser amount by which the administrator may decide to increase the number of Class A shares. Taking into account grants of restricted share units ("RSUs") and options made through December 31, 2015, 37,315,502 Class A shares remained available for future grant under our equity incentive plan. In addition, as of December 31, 2015, Holdings could at any time exchange its AOG Units for up to 216,169,856 Class A shares on behalf of our Managing Partners and Contributing Partners subject to the Amended and Restated Exchange Agreement. See "Item 13. Certain Relationships and Related Party Transactions-Amended and Restated Exchange Agreement." We may also elect to sell additional Class A shares in one or more future primary offerings.

Our Managing Partners and Contributing Partners, through their partnership interests in Holdings, owned an aggregate of 54.4% of the AOG Units as of December 31, 2015. Subject to certain procedures and restrictions (including any transfer restrictions and lock-up agreements applicable to our Managing Partners and Contributing Partners), each Managing Partner and Contributing Partner has the right, upon 60 days' notice prior to a designated quarterly date, to exchange the AOG Units for Class A shares. These Class A shares are eligible for resale from time to time, subject to certain contractual restrictions and Securities Act limitations.

Our Managing Partners and Contributing Partners (through Holdings) have the ability to cause us to register the Class A shares they acquire upon exchange of their AOG Units, as was done in connection with the Company's Secondary Offering in May 2013. See "Item 13. Certain Relationships and Related Party Transactions-Managing Partner Shareholders Agreement- Registration Rights."

The Strategic Investors have the ability to cause us to register any of their non-voting Class A shares, as was done in connection with the Company's Secondary Offering in May 2013. See "Item 13. Certain Relationships and Related Party Transactions-Lenders Rights Agreement."

We have on file with the SEC a registration statement on Form S-8 covering the shares issuable under our equity incentive plan. Subject to vesting and contractual lock-up arrangements, such shares will be freely tradable.

We cannot assure you that our intended quarterly distributions will be paid each quarter or at all.

Our intention is to distribute to our Class A shareholders on a quarterly basis substantially all of our net after-tax cash flow from operations in excess of amounts determined by our manager to be necessary or appropriate to provide for the conduct of our businesses, to make appropriate investments in our businesses and our funds, to comply with applicable laws and regulations, to service our indebtedness or to provide for future distributions to our Class A shareholders for any ensuing quarter. The declaration, payment and determination of the amount of our quarterly dividend, if any, will be at the sole discretion of our manager, who may change our dividend policy at any time. We cannot assure you that any distributions, whether quarterly or otherwise, will or can be paid. In making decisions regarding our quarterly dividend, our manager considers general economic and business conditions, our strategic plans and prospects, our businesses and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, legal, tax, regulatory and other restrictions that may have implications on the payment of distributions by us to our common shareholders or by our subsidiaries to us, and such other factors as our manager may deem relevant.

Our Managing Partners' beneficial ownership of interests in the Class B share that we have issued to BRH Holdings GP, Ltd. ("BRH"), the control exercised by our manager and anti-takeover provisions in our charter documents and Delaware law could delay or prevent a change in control.

Our Managing Partners, through their ownership of BRH, beneficially own the Class B share that we have issued to BRH. The Managing Partners interests in such Class B share represented 61.4% of the total combined voting power of our shares entitled to vote as of December 31, 2015. As a result, they are able to exercise control over all matters requiring the approval of shareholders and are able to prevent a change in control of our company. In addition, our operating agreement provides that so long as the Apollo control condition (as described in "Item 10. Directors, Executive Officers and Corporate Governance-Our Manager") is satisfied, our manager, which is owned and controlled by our Managing Partners, manages all of our operations and activities. The control of our manager will make it more difficult for a potential acquirer to assume control of our Company. Other provisions in our operating agreement may also make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our shareholders. For example, our operating agreement requires advance notice for proposals by shareholders and nominations, places limitations on convening shareholder meetings, and authorizes the issuance of preferred shares that could be issued by our board of directors to thwart a takeover attempt. In addition, certain provisions of Delaware law give us the ability to delay or prevent a transaction that could cause a change in our control. The market price of our Class A shares could be adversely affected to the extent that our Managing Partners' control over our Company, the control exercised by our manager as well as provisions of our operating agreement discourage potential takeover attempts that our shareholders may favor.

We are a Delaware limited liability company, and there are certain provisions in our operating agreement regarding exculpation and indemnification of our officers and directors that differ from the Delaware General Corporation Law (DGCL) in a manner that may be less protective of the interests of our Class A shareholders.

Our operating agreement provides that to the fullest extent permitted by applicable law our directors or officers will not be liable to us. However, under the DGCL, a director or officer would be liable to us for (i) breach of duty of loyalty to us or our shareholders, (ii) intentional misconduct or knowing violations of the law that are not done in good faith, (iii) improper redemption of shares or declaration of dividend, or (iv) a transaction from which the director derived an improper personal benefit. In addition, our operating agreement provides that we indemnify our directors and officers for acts or omissions to the fullest extent provided by law. However, under the DGCL, a corporation can indemnify directors and officers for acts or omissions only if the director or officer acted in good faith, in a manner he reasonably believed to be in the best interests of the corporation, and, in criminal action, if the officer or director had no reasonable cause to believe his conduct was unlawful. Accordingly, our operating agreement may be less protective of the interests of our Class A shareholders, when compared to the DGCL, insofar as it relates to the exculpation and indemnification of our officers and directors.

Awards of our Class A shares may increase shareholder dilution and reduce profitability.

We grant Class A restricted share units to certain of our investment professionals, both when hired and as a portion of the discretionary annual compensation they may receive. We require that a portion of the incentive income distributions payable by the general partners of certain of the funds we manage be used by the recipients of those distributions to purchase restricted Class A shares issued under our equity incentive plan. While this practice promotes alignment with shareholders and encourages investment professionals to maximize the success of the Company as a whole, these equity awards, if fulfilled by issuances of new shares by us rather than by open market purchases (which do not cause any dilution), may increase personnel-related shareholder dilution. In addition, volatility in the price of our Class A shares could adversely affect our ability to attract and retain our investment professionals. To recruit and retain existing and future investment professionals, we may need to increase the level of compensation that we pay to them, which may cause a higher percentage of our revenue to be paid out in the form of compensation, which would have an adverse impact on our profit margins.

Purchases of our Class A shares pursuant to our share repurchase program may affect the value of our Class A shares, and there can be no assurance that our share repurchase program will enhance shareholder value.

Pursuant to our publicly announced share repurchase program, we are authorized to repurchase up to $250 million in the aggregate of our Class A shares, including up to $150 million in the aggregate of our outstanding Class A shares through a share repurchase program and up to $100 million through a reduction of Class A shares to be issued to employees to satisfy associated tax obligations in connection with the settlement of equity-based awards granted under the our equity incentive plan. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors. This activity could increase (or reduce the size of any decrease in) the market price of our Class A shares at that time. Additionally, repurchases under our share repurchase program have and will continue to diminish our cash reserves, which could impact our ability to pursue

possible strategic opportunities and acquisitions and could result in lower overall returns on our cash balances. There can be no assurance that any share repurchases will enhance shareholder value because the market price of our Class A shares could decline. Although our share repurchase program is intended to enhance long-term shareholder value, short-term share price fluctuations could reduce the program's effectiveness.

Risks Related to Our Organization and Structure

Although not enacted, the U.S. Congress has considered legislation that would have: (i) in some cases after a ten-year transition period, precluded us from qualifying as a partnership or required us to hold carried interest through taxable corporations; and (ii) taxed certain income and gains at increased rates. If similar legislation were to be enacted and apply to us, the value of our Class A shares could be adversely affected.

The U.S. Congress, the IRS and the U.S. Treasury Department have over the past several years examined the U.S. Federal income tax treatment of private equity funds, hedge funds and other kinds of investment partnerships. The present U.S. Federal income tax treatment of a holder of Class A shares and/or our own taxation may be adversely affected by any new legislation, new regulations or revised interpretations of existing tax law that arise as a result of such examinations. In May 2010, the U.S. House of Representatives passed legislation (the "May 2010 House Bill") that would have, in general, treated income and gains, including gain on sale, attributable to an interest in an investment services partnership interest ("ISPI") as income subject to a new blended tax rate that is higher than under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. The interests of Class A shareholders and our interests in the Apollo Operating Group that are entitled to receive carried interest may be classified as ISPIs for purposes of this legislation. The United States Senate considered, but did not pass, similar legislation. On February 14, 2012, Representative Levin (D-MI) introduced similar legislation that would have taxed carried interest at ordinary income rates (which would be higher than the proposed blended rate in the May 2010 House Bill). On June 25, 2015. Representative Levin introduced a slightly modified version of his 2012 bill (together with the 2012 bill, the "Levin Bills"). It is unclear whether or when the U.S. Congress will pass similar legislation or what provisions would be included in any legislation, if enacted.

The May 2010 House Bill and both Levin Bills provide that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is treated as ordinary income under the rules discussed above would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. Federal income tax purposes or be required to hold all such ISPIs through corporations, possibly U.S. corporations. If we were taxed as a U.S. corporation or required to hold all ISPIs through corporations, our effective tax rate would increase significantly. The federal statutory rate for corporations is currently 35%. In addition, we could be subject to increased state and local taxes. Furthermore, holders of Class A shares could be subject to tax on our conversion into a corporation or any restructuring required in order for us to hold our ISPIs through a corporation.

On September 12, 2011, the Obama administration submitted similar legislation to Congress in the American Jobs Act that would have taxed income and gain that was treated as capital gains, including gain on disposition of interests attributable to an ISPI, at rates higher than the capital gains rate applicable to such income under then-current law, with an exception for certain qualified capital interests. The proposed legislation also would have characterized certain income and gain in respect of ISPIs as non-qualifying income under the publicly traded partnership rules after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. This proposed legislation followed several prior statements by the Obama administration in support of changing the taxation of carried interest. In its published revenue proposal for 2016, the Obama administration proposed that the current law regarding treatment of carried interest be changed to subject such income to ordinary income tax. The Obama administration's published revenue proposals for 2010, 2011, 2012, 2013, 2014 and 2015 contained similar proposals.

States and other jurisdictions have also considered legislation to increase taxes with respect to carried interest. For example, New York has periodically considered legislation under which non-residents of New York could be subject to New York state income tax on income in respect of our Class A shares as a result of certain activities of our affiliates in New York, although it is unclear when or whether such legislation would be enacted.

On February 26, 2014, Representative Dave Camp, who at the time was chairman of the House Ways and Means Committee, unveiled a detailed comprehensive tax reform proposal that would, among other things significantly limit the ability of publicly traded partnerships (PTPs) to avoid taxation as corporations. Under Representative Camp's proposal, only mining and natural resource PTPs would continue to be taxed on a flow-through basis. Representative Camp's proposal also called for a

formulary approach to the taxation of carried interests. Under the formula, a portion of the gain recognized by partners providing services to certain investment partnerships would have been recharacterized as ordinary income. Representative Camp's carried interest proposal was limited in scope. For instance, it would not have applied to partners engaged in a real property trade or business. Although relatively clear in concept, the proposed legislative text contained ambiguities that could have significantly impacted the reach of the chairman's proposal. Representative Camp has since retired from Congress and his proposal was never taken up on the House floor; however, it is nonetheless significant in that it could serve as a model for a future Congress and presidential administration as they attempt to move forward on comprehensive tax reform legislation. For additional discussion about the potential impact of tax reform on our business, see "Federal tax reform efforts will continue, which may involve uncertainties and risks," below.

Our shareholders do not elect our manager or vote and have limited ability to influence decisions regarding our businesses.

So long as the Apollo control condition is satisfied, our manager, AGM Management, LLC, which is owned and controlled by our Managing Partners, will manage all of our operations and activities. AGM Management, LLC is managed by BRH, a Cayman entity owned by our Managing Partners and managed by an executive committee composed of our Managing Partners. Our shareholders do not elect our manager, its manager or its manager's executive committee and, unlike the holders of common stock in a corporation, have only limited voting rights on matters affecting our businesses and therefore limited ability to influence decisions regarding our businesses. Furthermore, if our shareholders are dissatisfied with the performance of our manager, they will have little ability to remove our manager. As discussed below, the Managing Partners collectively had 61.5% of the voting power of Apollo Global Management, LLC as of December 31, 2015. Therefore, they have the ability to control any shareholder vote that occurs, including any vote regarding the removal of our manager.

Our board of directors has no authority over our operations other than that which our manager has chosen to delegate to it.

For so long as the Apollo control condition is satisfied, our manager, which is owned and controlled by our Managing Partners, manages all of our operations and activities, and our board of directors has no authority other than that which our manager chooses to delegate to it. In the event that the Apollo control condition is not satisfied, our board of directors will manage all of our operations and activities.

For so long as the Apollo control condition is satisfied, our manager (i) nominates and elects all directors to our board of directors, (ii) sets the number of directors of our board of directors and (iii) fills any vacancies on our board of directors. After the Apollo control condition is no longer satisfied, each of our directors will be elected by the vote of a plurality of our shares entitled to vote, voting as a single class, to serve until his or her successor is duly elected or appointed and qualified or until his or her earlier death, retirement, disqualification, resignation or removal.

Control by our Managing Partners of the combined voting power of our shares and holding their economic interests through the Apollo Operating Group may give rise to conflicts of interests.

Our Managing Partners controlled 61.5% of the combined voting power of our shares entitled to vote as of December 31, 2015. Accordingly, our Managing Partners have the ability to control our management and affairs to the extent not controlled by our manager. In addition, they are able to determine the outcome of all matters requiring shareholder approval (such as a proposed sale of all or substantially of our assets, the approval of a merger or consolidation involving the company, and an election by our manager to dissolve the company) and are able to cause or prevent a change of control of our company and could preclude any unsolicited acquisition of our company. The control of voting power by our Managing Partners could deprive Class A shareholders of an opportunity to receive a premium for their Class A shares as part of a sale of our company, and might ultimately affect the market price of the Class A shares.

In addition, our Managing Partners and Contributing Partners, through their partnership interests in Holdings, were entitled to 54.4% of Apollo Operating Group's economic returns through the AOG Units owned by Holdings as of December 31, 2015. Because they hold their economic interest in our businesses directly through the Apollo Operating Group, rather than through the issuer of the Class A shares, our Managing Partners and Contributing Partners may have conflicting interests with holders of Class A shares. For example, our Managing Partners and Contributing Partners may have different tax positions from us, which could influence their decisions regarding whether and when to dispose of assets, and whether and when to incur new or refinance existing indebtedness, especially in light of the existence of the tax receivable agreement. For a description of the tax receivable agreement, see "Item 13. Certain Relationships and Related Party Transactions-Amended and Restated Tax Receivable Agreement." In addition, the structuring of future transactions may take into consideration the Managing Partners' and Contributing Partners' tax considerations even where no similar benefit would accrue to us.

We qualify for, and rely on, exceptions from certain corporate governance and other requirements under the rules of the NYSE.

We qualify for exceptions from certain corporate governance and other requirements under the rules of the NYSE. Pursuant to these exceptions, we may elect not to comply with certain corporate governance requirements of the NYSE, including the requirements (i) that a majority of our board of directors consist of independent directors, (ii) that we have a nominating/corporate governance committee that is composed entirely of independent directors and (iii) that we have a compensation committee that is composed entirely of independent directors. In addition, we are not required to hold annual meetings of our shareholders. Pursuant to the exceptions available to a controlled company under the rules of the NYSE, we have elected not to have a nominating and corporate governance committee comprised entirely of independent directors, nor a compensation committee comprised entirely of independent directors. Although we currently have a board of directors comprised of a majority of independent directors, we plan to continue to avail ourselves of these exceptions. Accordingly, you will not have the same protections afforded to equity holders of entities that are subject to all of the corporate governance requirements of the NYSE.

Potential conflicts of interest may arise among our manager, on the one hand, and us and our shareholders on the other hand. Our manager and its affiliates have limited fiduciary duties to us and our shareholders, which may permit them to favor their own interests to the detriment of us and our shareholders.

Conflicts of interest may arise among our manager, on the one hand, and us and our shareholders, on the other hand. As a result of these conflicts, our manager may favor its own interests and the interests of its affiliates over the interests of us and our shareholders. These conflicts include, among others, the conflicts described below.

- Our manager determines the amount and timing of our investments and dispositions, indebtedness, issuances of additional stock and amounts of reserves, each of which can affect the amount of cash that is available for distribution to you.
- Our manager is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its duties (including fiduciary duties) to our shareholders; for example, our affiliates that serve as general partners of our funds have fiduciary and contractual obligations to our fund investors, and such obligations may cause such affiliates to regularly take actions that might adversely affect our near-term results of operations or cash flow; our manager has no obligation to intervene in, or to notify our shareholders of, such actions by such affiliates.
- Because our Managing Partners and Contributing Partners hold their AOG Units through entities that are not subject to corporate income taxation and Apollo Global Management, LLC holds the AOG Units in part through a wholly-owned subsidiary that is subject to corporate income taxation, conflicts may arise between our Managing Partners and Contributing Partners, on the one hand, and Apollo Global Management, LLC, on the other hand, relating to the selection, structuring, and disposition of investments. For example, the earlier taxable disposition of assets following an exchange transaction by a Managing Partner or Contributing Partner may accelerate payments under the tax receivable agreement and increase the present value of such payments, and the taxable disposition of assets before an exchange or transaction by a Managing Partner or Contributing Partner may increase the tax liability of a Managing Partner or Contributing Partner without giving rise to any rights to such Managing Partner or Contributing Partner to receive payments under the tax receivable agreement.
- Other than as provided in the non-competition, non-solicitation and confidentiality obligations to which our Managing Partners and other professionals are subject, which may not be enforceable, affiliates of our manager and existing and former personnel employed by our manager are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us.
- Our manager has limited its liability and reduced or eliminated its duties (including fiduciary duties) under our operating agreement, while also restricting the remedies available to our shareholders for actions that, without these limitations, might constitute breaches of duty (including fiduciary duty). In addition, we have agreed to indemnify our manager and its affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct. By purchasing our Class A shares, you will have agreed and consented to the provisions set forth in our operating agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might constitute a breach of fiduciary or other duties under applicable state law.
- Our operating agreement does not restrict our manager from causing us to pay it or its affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under the operating agreement.

- Our manager determines how much debt we incur and that decision may adversely affect our credit ratings.
- Our manager determines which costs incurred by it and its affiliates are reimbursable by us.
- Our manager controls the enforcement of obligations owed to us by it and its affiliates.

Our manager decides whether to retain separate counsel, accountants or others to perform services for us. See “Item 13. Certain Relationships and Related Party Transactions” for a more detailed discussion of these conflicts.

Our operating agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our manager and limit remedies available to shareholders for actions that might otherwise constitute a breach of duty. It would be difficult for a shareholder to challenge a resolution of a conflict of interest by our manager or by our conflicts committee.

Our operating agreement contains provisions that waive or consent to conduct by our manager and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our operating agreement provides that when our manager is acting in its individual capacity, as opposed to in its capacity as our manager, it may act without any fiduciary obligations to us or our shareholders whatsoever. When our manager, in its capacity as our manager, is permitted to or required to make a decision in its “sole discretion” or “discretion” or that it deems “necessary or appropriate” or “necessary or advisable,” then our manager will be entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any of our shareholders and will not be subject to any different standards imposed by our operating agreement, the Delaware Limited Liability Company Act or under any other law, rule or regulation or in equity.

Whenever a potential conflict of interest exists between us and our manager, our manager shall resolve such conflict of interest. If our manager determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our manager, then it will be presumed that in making this determination, our manager acted in good faith. A shareholder seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

The above modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and our shareholders would have recourse and be able to seek remedies against our manager only if our manager breaches its obligations pursuant to our operating agreement. Unless our manager breaches its obligations pursuant to our operating agreement, we and our unitholders would not have any recourse against our manager even if our manager were to act in a manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our operating agreement, our operating agreement provides that our manager and its officers and directors would not be liable to us or our shareholders for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the manager or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These provisions are detrimental to the shareholders because they restrict the remedies available to them for actions that without those limitations might constitute breaches of duty, including fiduciary duties.

Also, if our manager obtains the approval of the conflicts committee of the Company’s board of directors, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our manager of any duties it may owe to us or our shareholders. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. If you purchase a Class A share, you will be treated as having consented to the provisions set forth in the operating agreement, including provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, shareholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee.

The control of our manager may be transferred to a third party without shareholder consent.

Our manager may transfer its manager interest to a third party in a merger or consolidation or in a transfer of all or substantially all of its assets without the consent of our shareholders. Furthermore, at any time, the members of our manager may sell or transfer all or part of their membership interests in our manager without the approval of the shareholders, subject to certain restrictions as described elsewhere in this report. A new manager may not be willing or able to form new funds and could form funds that have investment objectives and governing terms that differ materially from those of our current funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as Apollo’s track record. If any of the foregoing

were to occur, our funds could experience difficulty in making new investments, and the value of our funds' existing investments, our businesses, our results of operations and our financial condition could materially suffer.

Our ability to pay regular distributions may be limited by our holding company structure. We are dependent on distributions from the Apollo Operating Group to pay distributions, taxes and other expenses.

As a holding company, our ability to pay distributions will be subject to the ability of our subsidiaries to provide cash to us. We intend to make quarterly distributions to our Class A shareholders. Accordingly, we expect to cause the Apollo Operating Group to make distributions to its unitholders (Holdings, which is 100% owned, directly and indirectly, by our Managing Partners and our Contributing Partners, and the three intermediate holding companies, which are 100% owned by us), pro rata in an amount sufficient to enable us to pay such distributions to our Class A shareholders; however, such distributions may not be made. In addition, our manager can reduce or eliminate our distributions at any time, in its discretion.

There may be circumstances under which we are restricted from paying distributions under applicable law or regulation (for example, due to Delaware limited partnership or limited liability company act limitations on making distributions if liabilities of the entity after the distribution would exceed the value of the entity's assets).

Tax consequences to our Managing Partners and Contributing Partners may give rise to conflicts of interests.

As a result of unrealized built-in gain attributable to the value of our assets held by the Apollo Operating Group entities at the time of the Private Offering Transactions, upon the sale, refinancing or disposition of such assets, our Managing Partners and Contributing Partners may incur different and greater tax liabilities as a result of the disproportionately greater allocations of items of taxable income and gain to the Managing Partners and Contributing Partners upon a realization event. As the Managing Partners and Contributing Partners will not receive a correspondingly greater distribution of cash proceeds, they may, subject to applicable fiduciary or contractual duties, have different objectives regarding the appropriate pricing, timing and other material terms of any sale, refinancing, or disposition, or whether to sell such assets at all. Decisions made with respect to an acceleration or deferral of income or the sale or disposition of assets with unrealized built-in gains may also influence the timing and amount of payments that are received by an exchanging or selling Managing Partner or Contributing Partner under the tax receivable agreement. All other factors being equal, earlier disposition of assets with unrealized built-in gains following such exchange will tend to accelerate such payments and increase the present value of the tax receivable agreement, and disposition of assets with unrealized built-in gains before an exchange will increase a Managing Partner's or Contributing Partner's tax liability without giving rise to any rights to receive payments under the tax receivable agreement (although other offsetting benefits would arise). Decisions made regarding a change of control also could have a material influence on the timing and amount of payments received by our Managing Partners and Contributing Partners pursuant to the tax receivable agreement.

We are required to pay our Managing Partners and Contributing Partners for most of the actual tax benefits we realize as a result of the tax basis step-up we receive in connection with our acquisitions of units from our Managing Partners and Contributing Partners.

Subject to certain restrictions, each Managing Partner and Contributing Partner has the right to exchange the AOG Units that he holds through his partnership interest in Holdings for our Class A shares in a taxable transaction. These exchanges, as well as our acquisitions of units from our Managing Partners or Contributing Partners, may result in increases in the tax basis of the intangible assets of the Apollo Operating Group that otherwise would not have been available. Any such increases may reduce the amount of tax that APO Corp., a wholly owned subsidiary of Apollo Global Management, LLC, would otherwise be required to pay in the future.

We have entered into a tax receivable agreement with our Managing Partners and Contributing Partners that provides for the payment by APO Corp., to our Managing Partners and Contributing Partners of 85% of the amount of actual tax savings, if any, that APO Corp. realizes (or is deemed to realize in the case of an early termination payment by APO Corp. or a change of control, as discussed below) as a result of these increases in tax deductions and tax basis and certain other tax benefits, including imputed interest expense, related to entering into the tax receivable agreement. In April 2015 and April 2014, the Apollo Operating Group made a distribution of $48.4 million and $32.0 million, respectively, to APO Corp. and APO Corp. made a payment to satisfy the liability under the tax receivable agreement to the Managing Partners and Contributing Partners from a realized tax benefit for the tax years 2014 and 2013. Future payments that APO Corp. may make to our Managing Partners and Contributing Partners could be material in amount. In the event that any other of our current or future U.S. subsidiaries become taxable as corporations and acquire AOG Units in the future, or if we become taxable as a corporation for U.S. Federal income tax purposes, we expect, and have agreed that, each U.S corporation will become subject to a tax receivable agreement with substantially similar terms.

The IRS could challenge our claim to any increase in the tax basis of the assets owned by the Apollo Operating Group that results from the exchanges entered into by the Managing Partners or Contributing Partners. The IRS could also challenge any additional tax depreciation and amortization deductions or other tax benefits (including deductions for imputed interest expense associated with payments made under the tax receivable agreement) we claim as a result of, or in connection with, such increases in the tax basis of such assets. If the IRS were to successfully challenge a tax basis increase or tax benefits we previously claimed from a tax basis increase, Holdings would not be obligated under the tax receivable agreement to reimburse APO Corp. for any payments previously made to them (although any future payments would be adjusted to reflect the result of such challenge). As a result, in certain circumstances, payments could be made to our Managing Partners and Contributing Partners under the tax receivable agreement in excess of 85% of the actual aggregate cash tax savings of APO Corp. APO Corp.'s ability to achieve benefits from any tax basis increase and the payments to be made under this agreement will depend upon a number of factors, including the timing and amount of its future income.

In addition, the tax receivable agreement provides that, upon a merger, asset sale or other form of business combination or certain other changes of control, APO Corp.'s (or its successor's) obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such change of control) would be based on certain assumptions, including that APO Corp. would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement. See "Item 13. Certain Relationships and Related Party Transactions-Amended and Restated Tax Receivable Agreement."

If we were deemed an investment company under the Investment Company Act, applicable restrictions could make it impractical for us to continue our businesses as contemplated and could have a material adverse effect on our businesses and the price of our Class A shares.

We do not believe that we are an "investment company" under the Investment Company Act because the nature of our assets and the income derived from those assets allow us to rely on the exception provided by Rule 3a-1 issued under the Investment Company Act. In addition, we believe we are not an investment company under Section 3(b)(1) of the Investment Company Act because we are primarily engaged in non-investment company businesses. We intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, we would be taxed as a corporation and other restrictions imposed by the Investment Company Act, including limitations on our capital structure and our ability to transact with affiliates that apply to us, could make it impractical for us to continue our businesses as contemplated and would have a material adverse effect on our businesses and the price of our Class A shares.

Risks Related to Taxation

You may be subject to U.S. Federal income tax on your share of our taxable income, regardless of whether you receive any cash distributions from us.

Under current law, so long as we are not required to register as an investment company under the Investment Company Act and 90% of our gross income for each taxable year constitutes "qualifying income" within the meaning of the Internal Revenue Code on a continuing basis, we will be treated, for U.S. Federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. You may be subject to U.S. Federal, state, local and possibly, in some cases, foreign income taxation on your allocable share of our items of income, gain, loss, deduction and credit for each of our taxable years ending with or within your taxable year, regardless of whether or not you receive cash distributions from us. Accordingly, you may be required to make tax payments in connection with your ownership of Class A shares that significantly exceed your cash distributions in any specific year.

If we are treated as a corporation for U.S. Federal income tax purposes, the value of the Class A shares would be adversely affected.

The value of your investment will depend in part on our company being treated as a partnership for U.S. Federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Internal Revenue Code, and that we are not required to register as an investment company under the Investment Company Act and related rules. Although we intend to manage our affairs so that our partnership will meet the 90% test described above in each taxable year, we may not meet these requirements or, as discussed below, current law may change so as to cause, in either event, our partnership to be treated as a corporation for U.S. Federal income tax purposes. If we were treated as a corporation for U.S. Federal income tax purposes, (i) we would become subject to corporate income tax and (ii) distributions to shareholders would be taxable as dividends for U.S. Federal income tax purposes to the extent of our earnings and profits.

Current law may change, causing us to be treated as a corporation for U.S. Federal or state income tax purposes or otherwise subjecting us to entity level taxation. See "-Risks Related to Our Organization and Structure-Although not enacted, the U.S. Congress has considered legislation that would have: (i) in some cases after a ten-year transition period, precluded us from qualifying as a partnership or required us to hold carried interest through taxable corporations and (ii) taxed certain income and gains at increased rates. If similar legislation were to be enacted and apply to us, the value of our Class A shares could be adversely affected." Because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our distributions to you would be reduced.

Our structure involves complex provisions of U.S. Federal income tax law for which no clear precedent or authority may be available. Our structure is also subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

The U.S. Federal income tax treatment of holders of Class A shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. Federal income tax law for which no clear precedent or authority may be available. You should be aware that the U.S. Federal income tax rules are constantly under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships and entities taxed as partnerships. The present U.S. Federal income tax treatment of an investment in our Class A shares may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. Changes to the U.S. Federal income tax laws and interpretations thereof could make it more difficult or impossible to meet the exception for us to be treated as a partnership for U.S. Federal income tax purposes that is not taxable as a corporation, affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us, change the character or treatment of portions of our income (including, for instance, the treatment of carried interest as ordinary income rather than capital gain) and adversely affect an investment in our Class A shares. For example, as discussed above under "-Risks Related to Our Organization and Structure-Although not enacted, the U.S. Congress has considered legislation that would have: (i) in some cases after a ten-year transition period, precluded us from qualifying as a partnership or required us to hold carried interest through taxable corporations; and (ii) taxed certain income and gains at increased rates. If similar legislation were to be enacted and apply to us, the value of our Class A shares could be adversely affected," the U.S. Congress has considered various legislative proposals to treat all or part of the capital gain and dividend income that is recognized by an investment partnership and allocable to a partner affiliated with the sponsor of the partnership (i.e., a portion of the carried interest) as ordinary income to such partner for U.S. Federal income tax purposes.

Our operating agreement permits our manager to modify our operating agreement from time to time, without the consent of the holders of Class A shares, to address certain changes in U.S. Federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all holders of Class A shares. For instance, our manager could elect at some point to treat us as an association taxable as a corporation for U.S. Federal (and applicable state) income tax purposes. If our manager were to do this, the U.S. Federal income tax consequences of owning our Class A shares would be materially different. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to holders of Class A shares in a manner that reflects such beneficial ownership of items by holders of Class A shares, taking into account variation in ownership interests during each taxable year because of trading activity. However, those assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Internal Revenue Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects holders of Class A shares.

Our interests in certain of our businesses are held through entities that are treated as corporations for U.S. Federal income tax purposes; such corporations may be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of your investment.

In light of the publicly traded partnership rules under U.S. Federal income tax law and other requirements, we hold our interests in certain of our businesses through entities that are treated as corporations for U.S. Federal income tax purposes. Each such corporation could be liable for significant U.S. Federal income taxes and applicable state, local and other taxes that would not otherwise be incurred, which could adversely affect the value of your investment. Furthermore, it is possible that the IRS could challenge the manner in which such corporation's taxable income is computed by us.

Changes in U.S. tax law could adversely affect our ability to raise funds from certain foreign investors.

Under the Foreign Account Tax Compliance Act, or FATCA, certain U.S. withholding agents, or USWAs, foreign financial institutions, or FFIs, and non-financial foreign entities, or NFFEs, are required to report information about offshore accounts and investments to the U.S. or their local taxing authorities annually. In response to this legislation, various foreign governments have entered into Intergovernmental Agreements, or IGAs, with the U.S. Government and some have enacted similar legislation.

In order to meet these regulatory obligations, Apollo is required to register FFIs with the IRS, evaluate internal FATCA procedures, expand the review of investor Anti-Money Laundering/Know Your Customer and tax forms, evaluate the FATCA offerings by third party administrators and ensure that Apollo is prepared for the new global tax and information reporting requirements created under the U.S. and Non U.S. FATCA regimes.

Further, FATCA as well as Chapters 3 and 61 of the Internal Revenue Code, require Apollo to collect new IRS Tax Forms (W-9 and W-8 series), UK/Cayman Self-Certifications and other supporting documentation from their investors. Apollo has undertaken efforts to re-paper their existing investors.

Failure to meet these regulatory requirements could expose Apollo and/or its investors to a punitive withholding tax of 30% on certain U.S. payments (and beginning in 2019, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities), and possibly limit their ability to open bank accounts and secure funding the global capital markets. The reporting obligations imposed under FATCA require FFIs to comply with agreements with the IRS to obtain and disclose information about certain investors to the IRS. The administrative and economic costs of compliance with FATCA may discourage some foreign investors from investing in U.S. funds, which could adversely affect our ability to raise funds from these investors.

Federal tax reform efforts will continue which may involve tax uncertainties and risks.

It is anticipated that the U.S. Congress will continue examining proposals that would provide for a comprehensive overhaul of U.S. Federal income tax laws, which could result in sweeping changes to many longstanding tax rules. Reform efforts could result in lower statutory tax rates, but those rate reductions could be offset by tax changes intended to broaden the tax base. As noted above in the discussion of “Risks Related to Our Organization and Structure,” tax reform legislation could require many entities currently operating as partnerships to be taxed as corporations and could cause income from carried interests to be taxed as ordinary income.

In addition, tax reform could include other base-broadening provisions spanning a variety of industry sectors, which also could adversely affect our business. For example, proposals affecting financial institutions and products may include changing the tax treatment of executive compensation, including bonuses, as well as the tax treatment of derivatives and other financial instruments. Other changes could include limiting or eliminating certain tax benefits currently available to cash value life insurance and deferred annuity products. Enactment of these or similar changes could adversely affect new sales, and possibly funding, of existing cash value life insurance and deferred annuity products.

Other proposals likely to emerge in the context of fundamental tax reform include: changes to the accelerated cost recovery system, mandatory amortization of certain advertising expenditures, repeal of the domestic production deduction, reforms to the subpart F rules, repeal of the last-in/first-out accounting rules, repeal of incentives currently available to oil and natural gas exploration and production companies, and limitations on the net operating loss deduction. The tax reform debate also may encompass proposals to move the United States toward a territorial system for taxing foreign-source income of United States multinationals and the possibility of a one-time transition tax on previously untaxed foreign earnings. Many of these proposals were included in the tax reform discussion draft that then-House Ways and Means Committee Chairman Dave Camp released in 2014; others were included in various budget proposals President Obama has released during his presidency. It is not possible to predict when tax reform will be enacted and what impact tax reform, if enacted, would have on our funds and our business, but there is the potential for significant changes in U.S. federal laws related to the tax treatment of products and services provided by Apollo and investments made by our funds.

We may hold or acquire certain investments through an entity classified as a PFIC or CFC for U.S. Federal income tax purposes.

Certain of our investments may be in foreign corporations or may be acquired through foreign subsidiaries that would be classified as corporations for U.S. Federal income tax purposes. Such entities may be passive foreign investment companies, or “PFICs,” or controlled foreign corporations, or “CFCs,” for U.S. Federal income tax purposes. For example, APO (FC), LLC and APO (FC II), LLC are considered to be CFCs for U.S. Federal income tax purposes. Class A shareholders indirectly owning an interest in a PFIC or a CFC may experience adverse U.S. tax consequences, including the recognition of taxable income prior

to the receipt of cash relating to such income. In addition, gain on the sale of a PFIC or CFC may be taxable at ordinary income tax rates.

Complying with certain tax-related requirements may cause us to forego otherwise attractive business or investment opportunities or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.

In order for us to be treated as a partnership for U.S. Federal income tax purposes, and not as an association or publicly traded partnership taxable as a corporation, we must meet the qualifying income exception discussed above on a continuing basis and we must not be required to register as an investment company under the Investment Company Act. In order to effect such treatment we (or our subsidiaries) may be required to invest through foreign or domestic corporations, forego attractive business or investment opportunities or enter into borrowings or financings we may not have otherwise entered into. This may cause us to incur additional tax liability and/or adversely affect our ability to operate solely to maximize our cash flow. Our structure also may impede our ability to engage in certain corporate acquisitive transactions because we generally intend to hold all of our assets through the Apollo Operating Group. In addition, we may be unable to participate in certain corporate reorganization transactions that would be tax free to our holders if we were a corporation. To the extent we hold assets other than through the Apollo Operating Group, we will make appropriate adjustments to the Apollo Operating Group agreements so that distributions to Holdings and us would be the same as if such assets were held at that level. Moreover, we are precluded by a contract with one of the Strategic Investors from acquiring assets in a manner that would cause that Strategic Investor to be engaged in a commercial activity within the meaning of Section 892 of the Internal Revenue Code.

Tax gain or loss on disposition of our Class A shares could be more or less than expected.

If you sell your Class A shares, you will recognize a gain or loss equal to the difference between the amount realized and your adjusted tax basis allocated to those Class A shares. Prior distributions to you in excess of the total net taxable income allocated to you will have decreased the tax basis in your Class A shares. Therefore, such excess distributions will increase your taxable gain, or decrease your taxable loss, when the Class A shares are sold and may result in a taxable gain even if the sale price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to you.

We cannot match transferors and transferees of Class A shares, and we have therefore adopted certain income tax accounting conventions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our Class A shares.

Because we cannot match transferors and transferees of Class A shares, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to holders of Class A shares. It also could affect the timing of these tax benefits or the amount of gain on the sale of Class A shares and could have a negative impact on the value of Class A shares or result in audits of and adjustments to the tax returns of holders of Class A shares.

In addition, our taxable income and losses will be determined and apportioned among investors using conventions we regard as consistent with applicable law. As a result, if you transfer your Class A shares, you may be allocated income, gain, loss and deduction realized by us after the date of transfer. Similarly, a transferee may be allocated income, gain, loss and deduction realized by us prior to the date of the transferee's acquisition of our Class A shares. A transferee may also bear the cost of withholding tax imposed with respect to income allocated to a transferor through a reduction in the cash distributed to the transferee.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. Federal income tax purposes. We will be considered to have been terminated for U.S. Federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. Our termination would, among other things, result in the closing of our taxable year for all holders of Class A shares and could result in a deferral of depreciation deductions allowable in computing our taxable income.

Non-U.S. persons face unique U.S. tax issues from owning Class A shares that may result in adverse tax consequences to them.

In light of our investment activities, we may be, or may become, engaged in a U.S. trade or business for U.S. Federal income tax purposes, in which case some portion of our income would be treated as effectively connected income with respect to non-U.S. holders of our Class A shares, or "ECI." Moreover, dividends paid by an investment that we make in a real estate investment trust, or "REIT," that are attributable to gains from the sale of U.S. real property interests and sales of certain investments in interests in U.S. real property, including stock of certain U.S. corporations owning significant U.S. real property, may be treated as ECI with respect to non-U.S. holders of our Class A shares. In addition, certain income of non-U.S. holders from U.S. sources

not connected to any U.S. trade or business conducted by us could be treated as ECI. To the extent our income is treated as ECI, each non-U.S. holder generally would be subject to withholding tax on its allocable share of such income, would be required to file a U.S. Federal income tax return for such year reporting its allocable share of income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. Federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. holders that are corporations may also be subject to a 30% branch profits tax on their allocable share of such income. In addition, certain income from U.S. sources that is not ECI allocable to non-U.S. holders may be reduced by withholding taxes imposed at the highest effective applicable tax rate.

An investment in Class A shares will give rise to UBTI to certain tax-exempt holders.

We will not make investments through taxable U.S. corporations solely for the purpose of limiting unrelated business taxable income ("UBTI") from "debt-financed" property and, thus, an investment in Class A shares will give rise to UBTI to tax-exempt holders of Class A shares. For example, APO Asset Co., LLC will hold interests in entities treated as partnerships, or otherwise subject to tax on a flow-through basis, that will incur indebtedness. Moreover, if the IRS successfully asserts that we are engaged in a trade or business, then additional amounts of income could be treated as UBTI.

We do not intend to make, or cause to be made, an election under Section 754 of the Internal Revenue Code to adjust our asset basis or the asset basis of certain of the Apollo Operating Group Partnerships. Thus, a holder of Class A shares could be allocated more taxable income in respect of those Class A shares prior to disposition than if such an election were made.

We did not make and currently do not intend to make, or cause to be made, an election to adjust asset basis under Section 754 of the Internal Revenue Code with respect to Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P. and Apollo Principal Holdings X, L.P. If no such election is made, there will generally be no adjustment for a transferee of Class A shares even if the purchase price of those Class A shares is higher than the Class A shares' share of the aggregate tax basis of our assets immediately prior to the transfer. In that case, on a sale of an asset, gain allocable to a transferee could include built-in gain allocable to the transferor at the time of the transfer, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

Class A shareholders may be subject to state and local taxes and return filing requirements as a result of investing in our Class A shares.

In addition to U.S. Federal income taxes, our Class A shareholders may be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if our Class A shareholders do not reside in any of those jurisdictions. Our Class A shareholders may also be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, Class A shareholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each Class A shareholder to file all U.S. Federal, state and local tax returns that may be required of such Class A shareholder.

We may not be able to furnish to each Class A shareholder specific tax information within 90 days after the close of each calendar year, which means that holders of Class A shares who are U.S. taxpayers should anticipate the need to file annually a request for an extension of the due date of their income tax return. In addition, it is possible that Class A shareholders may be required to file amended income tax returns.

As a publicly traded partnership, our operating results, including distributions of income, dividends, gains, losses or deductions and adjustments to carrying basis, will be reported on Schedule K-1 and distributed to each Class A shareholder annually. It may require longer than 90 days after the end of our fiscal year to obtain the requisite information from all lower-tier entities so that K-1s may be prepared for us. For this reason, Class A shareholders who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year.

In addition, it is possible that a Class A shareholder will be required to file amended income tax returns as a result of adjustments to items on the corresponding income tax returns of the partnership. Any obligation for a Class A shareholder to file amended income tax returns for that or any other reason, including any costs incurred in the preparation or filing of such returns, are the responsibility of each Class A shareholder.

You may be subject to an additional U.S. Federal income tax on net investment income allocated to you by us and on gain on the sale of the Class A shares.

As of 2013, individuals, estates and trusts are subject to an additional 3.8% tax on "net investment income" (or undistributed "net investment income," in the case of estates and trusts) for each taxable year, with such tax applying to the lesser of such income or the excess of such person's adjusted gross income (with certain adjustments) over a specified amount. Net investment income includes net income from interest, dividends, annuities, royalties and rents and net gain attributable to the disposition of investment property. It is anticipated that net income and gain attributable to an investment in us will be included in a holder of the Class A share's "net investment income" subject to this additional tax.

We may be liable for adjustments to our tax returns as a result of recently enacted legislation.

Legislation was recently enacted that significantly changes the rules for U.S. Federal income tax audits of partnerships. Such audits will continue to be conducted at the partnership level, but with respect to tax returns for taxable years beginning after December 31, 2017, any adjustments to the amount of tax due (including interest and penalties) will be payable by the partnership rather than the partners of such partnership unless the partnership qualifies for and affirmatively elects an alternative procedure. In general, under the default procedures, taxes imposed on us would be assessed at the highest rate of tax applicable for the reviewed year and determined without regard to the character of the income or gain, the tax status of our shareholders or the benefit of any shareholder-level tax attributes (that could otherwise reduce any tax due).

Under the elective alternative procedure, we would issue information returns to persons who were shareholders in the audited year, who would then be required to take the adjustments into account in calculating their own tax liability, and we would not be liable for the adjustments to the amount of tax due (including interest and penalties). The mechanics of the elective alternative procedure are not clear in a number of respects and will likely be clarified by future guidance. Our manager has discretion whether or not to make use of this elective alternative procedure and has not determined whether or to what extent the election will be available or appropriate.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are located in leased office space at 9 West 57th Street, New York, New York 10019. We also lease the space for our offices in New York, Los Angeles, Houston, Chicago, Bethesda, Toronto, London, Frankfurt, Madrid, Luxembourg, Mumbai, Delhi, Singapore, Hong Kong and Shanghai. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operation of our businesses.

ITEM 3. LEGAL PROCEEDINGS

See note 16 to our consolidated financial statements for a summary of the Company's legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II—OTHER INFORMATION

ITEM 5. MARKETS FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A shares are traded on the NYSE under the symbol "APO." Our Class A shares began trading on the NYSE on March 30, 2011.

The number of holders of record of our Class A shares as of February 26, 2016 was 21. This does not include the number of shareholders that hold shares in "street name" through banks or broker-dealers. As of February 26, 2016, there was 1 holder of our Class B share.

The following table sets forth the high and low intra-day sales prices per unit of our Class A shares, for the periods indicated, as reported by the NYSE:

	Sales Price	
2015	High	Low
First Quarter	$ 25.80	$ 20.96
Second Quarter	23.33	20.78
Third Quarter	22.61	15.35
Fourth Quarter	19.18	14.15

	Sales Price	
2014	High	Low
First Quarter	$ 36.51	$ 29.91
Second Quarter	32.44	24.06
Third Quarter	28.18	22.41
Fourth Quarter	25.18	20.02

Cash Distribution Policy

The following table sets forth the cash distributions paid to our Class A shareholders for the fiscal years ended December 31, 2015 and 2014.

Distribution Payment Date	Distribution Per Class A Share Amount
February 26, 2014	$ 1.08
May 30, 2014	0.84
August 29, 2014	0.46
November 21, 2014	0.73
Total 2014 distribution	$ 3.11
February 27, 2015	$ 0.86
May 29, 2015	0.33
August 31, 2015	0.42
November 30, 2015	0.35
Total 2015 distribution	$ 1.96

We have declared an additional cash distribution of $0.28 per Class A share in respect of the fourth quarter of 2015 which will be paid on February 29, 2016 to holders of record of Class A shares at the close of business on February 19, 2016.

Distributable Earnings ("DE"), as well as DE After Taxes and Related Payables are derived from our segment reported results, and are supplemental non-U.S. GAAP measures to assess performance and amounts available for distribution to Class A shareholders, holders of RSUs that participate in distributions and holders of AOG Units. DE represents the amount of net realized

earnings without the effects of the consolidation of any of the affiliated funds. DE, which is a component of EI, is the sum across all segments of (i) total management fees and advisory and transaction fees, excluding monitoring fees received from Athene based on its capital and surplus (as defined in Apollo's transaction advisory services agreement with Athene), (ii) other income (loss), excluding the gains (losses) arising from the reversal of a portion of the tax receivable agreement liability (iii) realized carried interest income, and (iv) realized investment income, less (x) compensation expense, excluding the expense related to equity-based awards, (y) realized profit sharing expense, and (z) non-compensation expenses, excluding depreciation and amortization expense. DE After Taxes and Related Payables represents DE less estimated current corporate, local and non-U.S. taxes as well as the payable under Apollo's tax receivable agreement.

Our current intention is to distribute to our Class A shareholders on a quarterly basis substantially all of our Distributable Earnings attributable to Class A shareholders, in excess of amounts determined by our manager to be necessary or appropriate to provide for the conduct of our businesses, to make appropriate investments in our businesses and our funds, to comply with applicable law, any of our debt instruments or other agreements, or to provide for future distributions to our Class A shareholders for any ensuing quarter. Because we will not know what our actual available cash flow from operations will be for any year until sometime after the end of such year, our fourth quarter distribution may be adjusted to take into account actual net after-tax cash flow from operations for that year.

The declaration, payment and determination of the amount of our quarterly distribution will be at the sole discretion of our manager, which may

change our cash distribution policy at any time. We cannot assure you that any distributions, whether quarterly or otherwise, will or can be paid. In making decisions regarding our quarterly distribution, our manager will take into account general economic and business conditions, our strategic plans and prospects, our businesses and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, legal, tax and regulatory restrictions, restrictions and other implications on the payment of distributions by us to our common shareholders or by our subsidiaries to us and such other factors as our manager may deem relevant.

Because we are a holding company that owns intermediate holding companies, the funding of each distribution, if declared, will occur in three steps, as follows.

- ***First***, we will cause one or more entities in the Apollo Operating Group to make a distribution to all of its partners, including our wholly-owned subsidiaries APO Corp., APO Asset Co., LLC, APO (FC), LLC, APO (FC II), LLC and APO UK (FC), LLC (as applicable), and Holdings, on a pro rata basis;

- ***Second***, we will cause our intermediate holding companies, APO Corp., APO Asset Co., LLC, APO (FC), LLC, APO (FC II), LLC and APO UK (FC), LLC (as applicable), to distribute to us, from their net after-tax proceeds, amounts equal to the aggregate distribution we have declared; and

- ***Third***, we will distribute the proceeds received by us to our Class A shareholders on a pro rata basis.

Payments that any of our intermediate holding companies make under the tax receivable agreement will reduce amounts that would otherwise be available for distribution by us on our Class A shares. See note 15 to our consolidated financial statements.

Under Delaware law we are prohibited from making a distribution to the extent that our liabilities, after such distribution, exceed the fair value of our assets. Our operating agreement does not contain any restrictions on our ability to make distributions, except that we may only distribute Class A shares to holders of Class A shares. The debt arrangements, as described in note 12 to our consolidated financial statements, do not contain restrictions on our or our subsidiaries' ability to pay distributions; however, instruments governing indebtedness that we or our subsidiaries incur in the future may contain restrictions on our or our subsidiaries' ability to pay distributions or make other cash distributions to equity holders.

In addition, the Apollo Operating Group's cash flow from operations may be insufficient to enable it to make tax distributions to its partners, in which case the Apollo Operating Group may have to borrow funds or sell assets, and thus our liquidity and financial condition could be materially adversely affected. Furthermore, by paying cash distributions rather than investing that cash in our businesses, we might risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations, new investments or unanticipated capital expenditures, should the need arise.

Our cash distribution policy has certain risks and limitations, particularly with respect to liquidity. Although we expect to pay distributions according to our cash distribution policy, we may not pay distributions according to our policy, or at all, if, among other things, we do not have the cash necessary to pay the intended distributions.

As of December 31, 2015, approximately 12.5 million RSUs granted to Apollo employees (net of forfeited awards) were entitled to distribution equivalents, which are paid in cash.

Securities Authorized for Issuance Under Equity Compensation Plans

See the table under "Securities Authorized for Issuance Under Equity Compensation Plans" set forth in "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Unregistered Sale of Equity Securities

On October 9, 2015, November 3, 2015, November 12, 2015 and December 10, 2015 we issued 518,849, 1,523,155, 782 and 549 Class A shares, respectively, net of taxes to Apollo Management Holdings, L.P., a subsidiary of Apollo Global Management, LLC, in connection with deliveries of shares to participants in our 2007 equity incentive plan for an aggregate purchase price of $9,681,722, $28,635,314, $14,256 and $10,321, respectively. The issuances were exempt from registration under the Securities Act in accordance with Section 4(a)(2) and Rule 506(b) thereof, as transactions by the issuer not involving a public offering. We determined that the purchaser of Class A shares in the transactions, Apollo Management Holdings, L.P., was an accredited investor.

Class A Shares Repurchases in the Fourth Quarter of 2015

The following table sets forth purchases of our Class A shares made by us or on our behalf in the fourth quarter of the year ended December 31, 2015.

Period	Total Number of Class A Shares Purchased(1)	Average Price Paid per Share
October 1, 2015 through October 31, 2015	—	—
November 1, 2015 through November 30, 2015	3,865	$ 18.19
December 1, 2015 through December 31, 2015	—	—
Total	3,865	

(1) During the fourth quarter of the year ended December 31, 2015, we repurchased a number of our Class A shares equal to the number of Class A restricted shares issued under our equity incentive plan during the quarter. All such repurchases were made in open-market transactions and not pursuant to a publicly-announced repurchase plan or program.

ITEM 6. SELECTED FINANCIAL DATA

The following selected historical consolidated and combined financial and other data of Apollo Global Management, LLC should be read together with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements and related notes included in "Item 8. Financial Statements and Supplementary Data."

The selected historical consolidated statements of operations data of Apollo Global Management, LLC for each of the years ended December 31, 2015, 2014 and 2013 and the selected historical consolidated statements of financial condition data as of December 31, 2015 and 2014 have been derived from our audited consolidated financial statements which are included in "Item 8. Financial Statements and Supplementary Data."

We derived the selected historical consolidated statements of operations data of Apollo Global Management, LLC for the years ended December 31, 2012 and 2011 and the selected consolidated statements of financial condition data as of December 31, 2013, 2012 and 2011 from our audited consolidated financial statements which are not included in this report.

	Year Ended December 31,				
	2015(3)	2014	2013	2012	2011
	(dollars in thousands, except per share amounts)				
Statement of Operations Data					
Revenues:					
Advisory and transaction fees from affiliates, net	$ 14,186	$ 315,587	$ 196,562	$ 149,544	$ 81,953
Management fees from affiliates	930,194	850,441	674,634	580,603	487,559
Carried interest income (loss) from affiliates	97,290	394,055	2,862,375	2,129,818	(397,880)
Total Revenues	1,041,670	1,560,083	3,733,571	2,859,965	171,632
Expenses:					
Compensation and benefits:					
Salary, bonus and benefits	354,524	338,049	294,753	274,574	251,095
Equity-based compensation	97,676	126,320	126,227	598,654	1,149,753
Profit sharing expense	85,229	276,190	1,173,255	872,133	(60,070)
Total Compensation and Benefits	537,429	740,559	1,594,235	1,745,361	1,340,778
Interest expense	30,071	22,393	29,260	37,116	40,850
General, administrative and other	102,255	97,663	98,202	87,961	75,558
Professional fees	68,113	82,030	83,407	64,682	59,277
Occupancy	40,219	40,427	39,946	37,218	35,816
Placement fees	8,414	15,422	42,424	22,271	3,911
Depreciation and amortization	44,474	45,069	54,241	53,236	26,260
Total Expenses	830,975	1,043,563	1,941,715	2,047,845	1,582,450
Other Income:					
Net gains (losses) from investment activities	121,723	213,243	330,235	288,244	(129,827)
Net gains (losses) from investment activities of consolidated variable interest entities	19,050	22,564	199,742	(71,704)	24,201
Income from equity method investments	14,855	53,856	107,350	110,173	13,923
Interest income	3,232	10,392	12,266	9,693	4,731
Other income, net	7,673	60,592	40,114	1,964,679	205,520
Total Other Income	166,533	360,647	689,707	2,301,085	118,548
Income (loss) before income tax provision	377,228	877,167	2,481,563	3,113,205	(1,292,270)
Income tax provision	(26,733)	(147,245)	(107,569)	(65,410)	(11,929)
Net Income (Loss)	350,495	729,922	2,373,994	3,047,795	(1,304,199)
Net (income) loss attributable to Non-controlling Interests(1)(2)	(215,998)	(561,693)	(1,714,603)	(2,736,838)	835,373
Net Income (Loss) Attributable to Apollo Global Management, LLC	$ 134,497	$ 168,229	$ 659,391	$ 310,957	$ (468,826)
Distributions Declared per Class A Share	$ 1.96	$ 3.11	$ 3.95	$ 1.35	$ 0.83
Net Income (Loss) Available to Class A Share – Basic	$ 0.61	$ 0.62	$ 4.06	$ 2.06	$ (4.18)
Net Income (Loss) Available to Class A Share –Diluted	$ 0.61	$ 0.62	$ 4.03	$ 2.06	$ (4.18)

	Year Ended December 31,				
	2015(3)	2014	2013	2012	2011
	(in thousands)				
Statement of Financial Condition Data					
Total assets	$ 4,559,808	$ 23,172,788	$ 22,474,674	$ 20,634,810	$ 7,973,314
Debt (excluding obligations of consolidated variable interest entities)	1,025,255	1,027,965	746,693	735,771	935,957
Debt obligations of consolidated variable interest entities	801,270	14,123,100	12,423,962	11,834,955	3,189,837
Total shareholders' equity	1,388,981	5,943,461	6,688,722	5,703,383	2,648,321
Total Non-controlling Interests	739,476	4,156,979	4,051,453	3,036,565	1,921,920

(1) Reflects Non-controlling Interests attributable to AAA (for all periods prior to January 1, 2015), consolidated variable interest entities and the remaining interests held by certain individuals who receive an allocation of income from certain of our credit management companies.

(2) Reflects the Non-Controlling Interests in the net (income) loss of the Apollo Operating Group relating to the AOG Units held by our Managing Partners and Contributing Partners which is calculated by applying the ownership percentage of Holdings in the Apollo Operating Group. Holdings' ownership interest in the Apollo Operating Group was impacted by the Company's initial public offering in April 2011, issuances of Class A shares in settlement of vested RSUs in each of the periods presented, and exchanges of certain AOG Units. See "Item 8. Financial Statements and Supplementary Data" for details of the ownership percentage in Holdings.

(3) Apollo adopted new U.S. GAAP consolidation and collateralized financing entity ("CFE") guidance during the year ended December 31, 2015 which resulted in the deconsolidation of certain funds and VIEs as of January 1, 2015 and a measurement alternative of the financial assets and liabilities of the remaining consolidated CLOs. The adoption did not impact net income attributable to Apollo Global Management, LLC, but did impact various line items within the statements of operations and financial condition. See note 2 to the consolidated financial statements for details regarding the Company's adoption of the new consolidation and CFE guidance.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Apollo Global Management, LLC's consolidated financial statements and the related notes as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. Actual results and the timing of events may differ significantly from those expressed or implied in such forward-looking statements due to a number of factors, including those included in the section of this report entitled "Item 1A. Risk Factors." The highlights listed below have had significant effects on many items within our consolidated financial statements and affect the comparison of the current period's activity with those of prior periods.

General

Our Businesses

Founded in 1990, Apollo is a leading global alternative investment manager. We are a contrarian, value-oriented investment manager in private equity, credit and real estate with significant distressed expertise and a flexible mandate in the majority of our funds which enables our funds to invest opportunistically across a company's capital structure. We raise, invest and manage funds on behalf of some of the world's most prominent pension, endowment and sovereign wealth funds as well as other institutional and individual investors. Apollo is led by our Managing Partners, Leon Black, Joshua Harris and Marc Rowan, who have worked together for more than 25 years and lead a team of 945 employees, including 353 investment professionals, as of December 31, 2015.

Apollo conducts its management and incentive businesses primarily in the United States and substantially all of its revenues are generated domestically. These businesses are conducted through the following three reportable segments:

(i) ***Private equity***—primarily invests in control equity and related debt instruments, convertible securities and distressed debt instruments;

(ii) ***Credit***—primarily invests in non-control corporate and structured debt instruments including performing, stressed and distressed instruments across the capital structure; and

(iii) ***Real estate***—primarily invests in real estate equity for the acquisition and recapitalization of real estate assets, portfolios, platforms and operating companies, and real estate debt including first mortgage and mezzanine loans, preferred equity and commercial mortgage backed securities.

These business segments are differentiated based on the varying investment strategies. The performance is measured by management on an unconsolidated basis because management makes operating decisions and assesses the performance of each of Apollo's business segments based on financial and operating metrics and data that exclude the effects of consolidation of any of the managed funds.

Our financial results vary since carried interest, which generally constitutes a large portion of the income we receive from the funds that we manage, as well as the transaction and advisory fees that we receive, can vary significantly from quarter to quarter and year to year. As a result, we emphasize long-term financial growth and profitability to manage our business.

In addition, the growth in our Fee-Generating AUM during the last year has primarily been in our credit segment. The average management fee rate for these new credit products is at market rates for such products and in certain cases is below our historical rates. Also, due to the complexity of these new product offerings, the Company has incurred and will continue to incur additional costs associated with managing these products. To date, these additional costs have been offset by realized economies of scale and ongoing cost management.

As of December 31, 2015, we had total AUM of $170.1 billion across all of our businesses. More than 90% of our total AUM was in funds with a contractual life at inception of seven years or more, and 49% of such AUM was in permanent capital vehicles. On December 31, 2013, Fund VIII held a final closing raising a total of $17.5 billion in third-party capital and approximately $880 million of additional capital from Apollo and affiliated investors, and as of December 31, 2015, Fund VIII had $13.0 billion of uncalled commitments remaining. Additionally, Fund VII held a final closing in December 2008, raising a total of $14.7 billion, and as of December 31, 2015, Fund VII had $2.5 billion of uncalled commitments remaining. We have consistently produced attractive long-term investment returns in our traditional private equity funds, generating a 39% gross IRR and a 25% net IRR on a compound annual basis from inception through December 31, 2015. Apollo's traditional private equity funds' depreciation was (0.2)% for the year ended December 31, 2015.

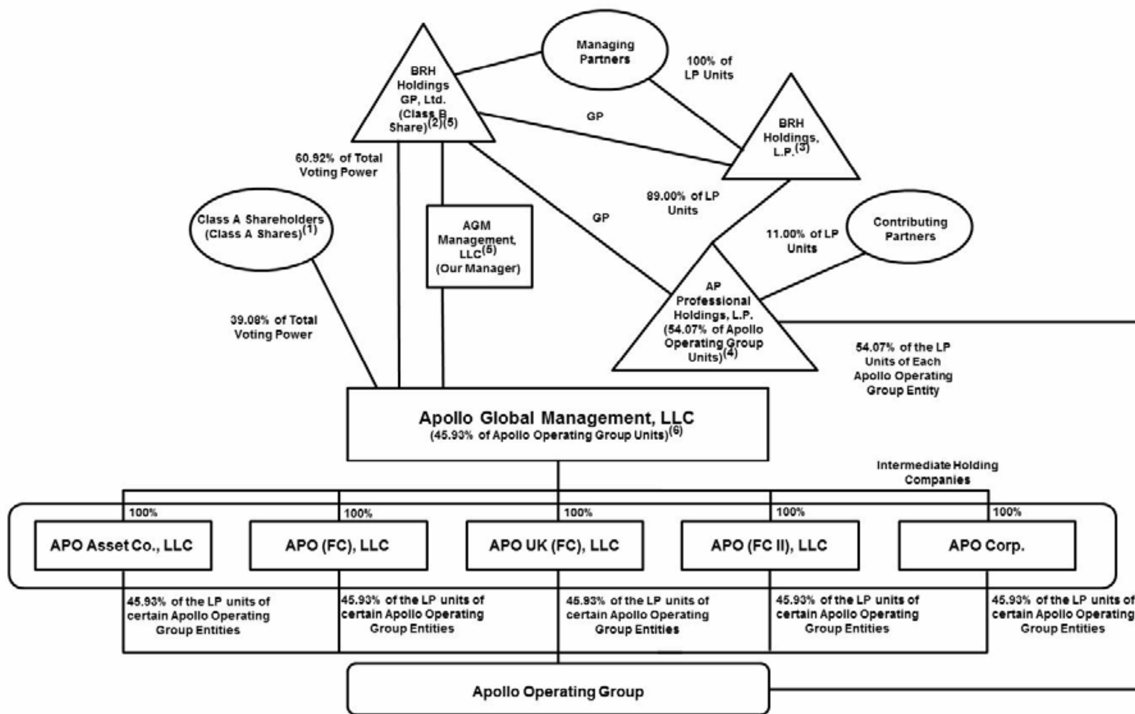
For our credit segment, total gross and net returns, excluding assets managed by Athene Asset Management that are not directly invested in Apollo funds and investment vehicles or sub-advised by Apollo, were 1.3% and 0.3%, respectively, for the year ended December 31, 2015.

For our real estate segment, total gross and net returns for U.S. RE Fund I including co-investment capital were 16.3% and 12.0%, respectively, for the year ended December 31, 2015.

For further detail related to fund performance metrics across all of our businesses, see "—The Historical Investment Performance of Our Funds."

Holding Company Structure

The diagram below depicts our current organizational structure:



Note: The organizational structure chart above depicts a simplified version of the Apollo structure. It does not include all legal entities in the structure. Ownership percentages are as of the date of the filing of this Annual Report on Form 10-K.

(1) The Strategic Investors hold 24.50% of the Class A shares outstanding and 11.25% of the economic interests in the Apollo Operating Group. The Class A shares held by investors other than the Strategic Investors represent 39.08% of the total voting power of our shares entitled to vote and 34.68% of the economic interests in the Apollo Operating Group. Class A shares held by the Strategic Investors do not have voting rights. However, such Class A shares will become entitled to vote upon transfers by a Strategic Investor in accordance with the agreements entered into in connection with the investments made by the Strategic Investors.

(2) Our Managing Partners own BRH Holdings GP, Ltd., which in turn holds our only outstanding Class B share. The Class B share represents 60.92% of the total voting power of our shares entitled to vote but no economic interest in Apollo Global Management, LLC. Our Managing Partners' economic interests are instead represented by their indirect beneficial ownership, through Holdings, of 48.12% of the limited partner interests in the Apollo Operating Group.

(3) Through BRH Holdings, L.P., our Managing Partners indirectly beneficially own through estate planning vehicles, limited partner interests in Holdings.

(4) Holdings owns 54.07% of the limited partner interests in each Apollo Operating Group entity ("AOG Units"). The AOG Units held by Holdings are exchangeable for Class A shares. Our Managing Partners, through their interests in BRH and Holdings, beneficially own 48.12% of the AOG Units. Our Contributing Partners, through their ownership interests in Holdings, beneficially own 5.95% of the AOG Units.

(5) BRH Holdings GP, Ltd. is the sole member of AGM Management, LLC, our manager. The management of Apollo Global Management, LLC is vested in our manager as provided in our operating agreement.

(6) Represents 45.93% of the limited partner interests in each Apollo Operating Group entity, held through intermediate holding companies. Apollo Global Management, LLC, also indirectly owns 100% of the general partner interests in each Apollo Operating Group entity.

Each of the Apollo Operating Group partnerships holds interests in different businesses or entities organized in different jurisdictions.

Our structure is designed to accomplish a number of objectives, the most important of which are as follows:

- We are a holding company that is qualified as a partnership for U.S. federal income tax purposes. Our intermediate holding companies enable us to maintain our partnership status and to meet the qualifying income exception.
- We have historically used multiple management companies to segregate operations for business, financial and other reasons. Going forward, we may increase or decrease the number of our management companies or partnerships within the Apollo Operating Group based on our views regarding the appropriate balance between (a) administrative convenience and (b) continued business, financial, tax and other optimization.

Business Environment

As a global investment manager, we are affected by numerous factors, including the condition of financial markets and the economy. Price fluctuations within equity, credit, commodity, foreign exchange markets, as well as interest rates, which may be volatile and mixed across geographies, can significantly impact the valuation of our funds' portfolio companies and related income we may recognize.

In terms of equity markets, 2015 was a more challenging year compared to the mixed backdrop in 2014. In the U.S., the S&P 500 Index declined 0.7% during 2015 following an increase of 11.4% in 2014. Outside the U.S., global equity markets fell for the second consecutive year as measured by the MSCI All Country World ex USA Index, which declined 2.6% during 2015 after falling 3.9% in 2014.

Conditions in the credit markets also have a significant impact on our business, and in 2015, many indices reversed course from the gains seen in 2014. The BofAML HY Master II Index declined 4.6% in 2015 following an increase of 2.5% in 2014. In addition, the S&P/LSTA Leveraged Loan Index fell 0.7% in 2015 following an increase of 1.6% in 2014. Benchmark interest rates finished the year slightly up following the first increase in the federal funds rate by the Federal Reserve in nearly a decade. As a result, the U.S. 10-year Treasury yield rallied 23 basis points in the fourth quarter to finish the year up 10 basis points at 2.27%.

Foreign exchange rates can materially impact the valuations of our funds' investments that are denominated in currencies other than the U.S. dollar. For example, relative to the U.S. dollar, the Euro depreciated 10.2% in 2015 after depreciating 12.0% in 2014, while the British pound depreciated 5.4% in 2015 after depreciating 5.9% in 2014. Commodities generally saw price declines in 2015 after a particularly weak fourth quarter that was driven by depreciation in oil. The price of crude oil declined 17.9% during the fourth quarter and 30.5% for the full year primarily due to oversupply dynamics.

In terms of economic conditions in the U.S., the Bureau of Economic Analysis reported real GDP increased at an annual rate of 2.4%, the same level growth observed in 2014. As of January 2016, The International Monetary Fund estimated that the U.S. economy will expand by 2.6% in 2016. Additionally, the U.S. unemployment rate continued to decline and stood at 5.0% as of December 31, 2015, compared to 5.1% as of September 30, 2015, marking the lowest level since April 2008.

Despite a more challenging equity and credit market backdrop in 2015 versus 2014, Apollo continued to generate realizations for fund investors. Apollo returned $1.9 billion and $8.5 billion of capital and realized gains to the investors in the funds it manages during the fourth quarter of 2015 and full year ended December 31, 2015, respectively. In general, institutional investors continue to allocate capital towards alternative investment managers for more attractive risk-adjusted returns in a low interest rate environment, and we believe the business environment remains generally accommodative to launch new products and pursue attractive strategic growth opportunities. As such, Apollo had $12.3 billion and $23.7 billion of capital inflows during the fourth quarter of 2015 and full year ended December 31, 2015, respectively.

Regardless of the market or economic environment at any given time, Apollo relies on its contrarian, value-oriented approach to consistently invest capital on behalf of its fund investors by focusing on opportunities that management believes are often overlooked by other investors. Apollo had $4.1 billion and $13.1 billion of dollars invested during the fourth quarter of 2015 and full year ended December 31, 2015, respectively. We believe Apollo's expertise in credit and its focus on nine core industry sectors, combined with 25 years of investment experience, has allowed Apollo to respond quickly to changing environments. Apollo's core industry sectors include chemicals, natural resources, consumer and retail, distribution and transportation, financial and business services, manufacturing and industrial, media and cable and leisure, packaging and materials and the satellite and wireless industries. Apollo believes that these attributes have contributed to the success of its private equity funds investing in buyouts and credit opportunities during both expansionary and recessionary economic periods.

Managing Business Performance

We believe that the presentation of Economic Income (Loss) (previously referred to as Economic Net Income), or "EI", supplements a reader's understanding of the economic operating performance of each of our segments.

Economic Income (Loss)

EI has certain limitations in that it does not take into account certain items included under U.S. GAAP. EI represents segment income (loss) before income tax provision excluding transaction-related charges arising from the 2007 private placement, and any acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions. In addition, segment data excludes non-cash revenue and expense related to equity awards granted by unconsolidated affiliates to employees of the Company, as well as the assets, liabilities and operating results of the funds and VIEs that are included in the consolidated financial statements. We believe the exclusion of the non-cash charges related to the 2007 Reorganization for equity-based compensation provides investors with a meaningful indication of our performance because these charges relate to the equity portion of our capital structure and not our core operating performance. Economic Net Income (Loss) (previously referred to as ENI After Taxes), or "ENI", represents EI adjusted to reflect income tax provision on EI that has been calculated assuming that all income is allocated to Apollo Global Management, LLC, which would occur following an exchange of all AOG Units for Class A shares of Apollo Global Management, LLC. The economic assumptions and methodologies that impact the implied income tax provision are similar to those methodologies and certain assumptions used in calculating the income tax provision for Apollo's consolidated statements of operations under U.S. GAAP.

We further evaluate EI based on what we refer to as our "management business" and "incentive business". Our management business is generally characterized by the predictability of its financial metrics, including revenues and expenses. The management business includes management fee revenues, advisory and transaction fee revenues, carried interest income from one of our opportunistic credit funds and expenses, each of which we believe are more stable in nature. The financial performance of our incentive business is partially dependent upon quarterly mark-to-market unrealized valuations in accordance with U.S. GAAP guidance applicable to fair value measurements. The incentive business includes carried interest income, income from equity method investments and profit sharing expense that are associated with our general partner interests in the Apollo funds, which are generally less predictable and more volatile in nature.

We believe that EI is helpful for an understanding of our business and that investors should review the same supplemental financial measure that management uses to analyze our segment performance. This measure supplements and should be considered in addition to and not in lieu of the results of operations discussed below in "—Overview of Results of Operations" that have been prepared in accordance with U.S. GAAP. See note 18 to the consolidated financial statements for more details regarding management's consideration of EI.

EI may not be comparable to similarly titled measures used by other companies and is not a measure of performance calculated in accordance with U.S. GAAP. We use EI as a measure of operating performance, not as a measure of liquidity. EI should not be considered in isolation or as a substitute for operating income, net income, operating cash flows, investing and

financing activities, or other income or cash flow statement data prepared in accordance with U.S. GAAP. The use of EI without consideration of related U.S. GAAP measures is not adequate due to the adjustments described above. Management compensates for these limitations by using EI as a supplemental measure to U.S. GAAP results, to provide a more complete understanding of our performance as management measures it. A reconciliation of EI to its most directly comparable U.S. GAAP measure of income (loss) before income tax provision can be found in the notes to our financial statements.

During the first quarter of 2015, the Company redefined EI to exclude transaction-related charges related to contingent consideration associated with acquisitions, resulting in the following impact to our credit segment for the years ended December 31, 2014 and 2013:

	Impact of Revised Definition on Economic Income (Loss)[1]		
	Total EI as Previously Reported	Impact of Revised Definition	Total EI After Revised Definition
For the Year Ended December 31, 2014	$ 755,546	$ (495)	$ 755,051
For the Year Ended December 31, 2013	2,127,651	61,449	2,189,100

(1) See note 18 to our consolidated financial statements for further detail regarding the impact of the revised definition on Economic Income (Loss).

Additionally, interest expense, net of interest income ("net interest expense") was reallocated from the management business to the incentive business to align with the earnings from our investments which are principally funded by our outstanding debt. This reallocation resulted in an increase in management business EI and a corresponding decrease in incentive business EI for the years ended December 31, 2014 and 2013 in the amounts listed below:

	Net Interest Expense Reclassification			
	Private Equity Segment	Credit Segment	Real Estate Segment	Total Combined Segments
For the Year Ended December 31, 2014	$ 7,883	$ 9,275	$ 1,941	$ 19,099
For the Year Ended December 31, 2013	10,702	9,685	2,804	23,191

As it relates to the reclassification of net interest expense described above, the impact to the combined segments total Economic Income (Loss) for all periods presented was zero.

These changes have been made to prior period financial data to conform to the current period presentation.

Distributable Earnings

Distributable Earnings ("DE"), as well as DE After Taxes and Related Payables are derived from our segment reported results, and are supplemental non-U.S. GAAP measures to assess performance and amounts available for distribution to Class A shareholders, holders of RSUs that participate in distributions and holders of AOG Units. DE represents the amount of net realized earnings without the effects of the consolidation of any of the affiliated funds. DE, which is a component of EI, is the sum across all segments of (i) total management fees and advisory and transaction fees, excluding monitoring fees received from Athene based on its capital and surplus (as defined in Apollo's transaction advisory services agreement with Athene), (ii) other income (loss), excluding the gains (losses) arising from the reversal of a portion of the tax receivable agreement liability (iii) realized carried interest income, and (iv) realized investment income, less (x) compensation expense, excluding the expense related to equity-based awards, (y) realized profit sharing expense, and (z) non-compensation expenses, excluding depreciation and amortization expense. DE After Taxes and Related Payables represents DE less estimated current corporate, local and non-U.S. taxes as well as the payable under Apollo's tax receivable agreement.

Fee-Related EBITDA

Fee-related EBITDA is a non-U.S. GAAP measure derived from our segment reported results and is used to assess the performance of our operations as well as our ability to service current and future borrowings. Fee-related EBITDA represents management business economic income ("EI") plus amounts for equity-based compensation and depreciation and amortization. "Fee-related EBITDA +100% of net realized carried interest" represents fee-related EBITDA plus realized carried interest less realized profit sharing, combining operating results of the management business and incentive business.

Operating Metrics

We monitor certain operating metrics that are common to the alternative investment management industry. These operating metrics include Assets Under Management, capital deployed and uncalled commitments.

Assets Under Management

Prior period AUM amounts previously not reported within Apollo's three reporting segments have been recast based on expected deployment across each respective segment.

The table below presents Fee-Generating and Non-Fee-Generating AUM by segment as of December 31, 2015 and 2014:

	As of December 31,							
	2015				2014			
	Private Equity	Credit	Real Estate	Total	Private Equity	Credit	Real Estate	Total
	(in millions)							
Fee-Generating	$ 29,258	$ 101,522	$ 7,317	$ 138,097	$ 30,285	$ 92,192	$ 6,237	$ 128,714
Non-Fee-Generating	8,244	19,839	3,943	32,026	11,014	16,767	3,301	31,082
Total Assets Under Management	$ 37,502	$ 121,361	$ 11,260	$ 170,123	$ 41,299	$ 108,959	$ 9,538	$ 159,796

The table below presents AUM with Future Management Fee Potential, which is a component of Non-Fee-Generating AUM, for each of Apollo's three segments as of December 31, 2015 and 2014.

	As of December 31,	
	2015	2014
	(in millions)	
Private Equity	$ 2,093	$ 2,265
Credit	5,763	5,118
Real Estate	986	729
Total AUM with Future Management Fee Potential	$ 8,842	$ 8,112

The following table presents the components of Carry-Eligible AUM for each of Apollo's three segments as of December 31, 2015 and 2014:

	As of December 31,							
	2015				2014			
	Private Equity	Credit	Real Estate	Total	Private Equity	Credit	Real Estate	Total
	(in millions)							
Carry-Generating AUM	$ 9,461	$ 16,923	$ 516	$ 26,900	$ 14,463	$ 16,218	$ 828	$ 31,509
AUM Not Currently Generating Carry	6,793	21,583	865	29,241	2,500	14,243	965	17,708
Uninvested Carry-Eligible AUM	16,528	8,701	1,059	26,288	19,413	8,552	821	28,786
Total Carry-Eligible AUM	$ 32,782	$ 47,207	$ 2,440	$ 82,429	$ 36,376	$ 39,013	$ 2,614	$ 78,003

The following table presents AUM Not Currently Generating Carry for funds that have commenced investing capital for more than 24 months as of December 31, 2015 and the corresponding appreciation required to reach the preferred return or high watermark in order to generate carried interest:

Category / Fund	Invested AUM Not Currently Generating Carry	Investment Period Active > 24 Months	Appreciation Required to Achieve Carry[1]
	(in millions)		
Private Equity:			
Fund VIII	$ 5,001	$ 5,001	10%
Other PE	1,792	$ 1,275	21%
Total Private Equity	6,793	6,276	12%
Credit:			
Drawdown	5,181	4,070	25%
		1,257	< 250bps
Liquid/Performing	16,402	6,488	250-500bps
		1,175	> 500bps
Permanent capital vehicles ex Athene Non-Sub-Advised	—	—	NM
Total Credit	21,583	12,990	11%
Real Estate:			
Total Real Estate	865	734	> 500bps
Total	$ 29,241	$ 20,000	

(1) All investors in a given fund are considered in aggregate when calculating the appreciation required to achieve carry presented above. Appreciation required to achieve carry may vary by individual investor.

The components of Fee-Generating AUM by segment as of December 31, 2015 and 2014 are presented below:

	As of December 31, 2015			
	Private Equity	Credit	Real Estate	Total
	(in millions)			
Fee-Generating AUM based on capital commitments	$ 20,315	$ 5,787	$ 376	$ 26,478
Fee-Generating AUM based on invested capital	8,094	3,860	4,180	16,134
Fee-Generating AUM based on gross/adjusted assets	506	83,728	2,671	86,905
Fee-Generating AUM based on NAV	343	8,147	90	8,580
Total Fee-Generating AUM	$ 29,258 (1)	$ 101,522	$ 7,317	$ 138,097

(1) The weighted average remaining life of the private equity funds excluding permanent capital vehicles at December 31, 2015 was 73 months.

	As of December 31, 2014			
	Private Equity	Credit	Real Estate	Total
	(in millions)			
Fee-Generating AUM based on capital commitments	$ 20,080	$ 6,191	$ 173	$ 26,444
Fee-Generating AUM based on invested capital	9,368	3,100	3,968	16,436
Fee-Generating AUM based on gross/adjusted assets	837	75,585	1,961	78,383
Fee-Generating AUM based on NAV	—	7,316	135	7,451
Total Fee-Generating AUM	$ 30,285 (1)	$ 92,192	$ 6,237	$ 128,714

(1) The weighted average remaining life of the private equity funds excluding permanent capital vehicles at December 31, 2014 was 72 months.

The following table presents total AUM and Fee-Generating AUM amounts for our private equity segment:

	Total AUM		Fee-Generating AUM	
	As of December 31,		As of December 31,	
	2015	2014	2015	2014
	(in millions)			
Traditional Private Equity Funds[1]	$ 30,665	$ 35,310	$ 24,826	$ 27,181
Natural Resources	2,909	1,348	2,436	1,295
Other[2]	3,928	4,641	1,996	1,809
Total	$ 37,502	$ 41,299	$ 29,258	$ 30,285

(1) Refers to Apollo Investment Fund I, L.P. ("Fund I"), AIF II, L.P. ("Fund II"), MIA, Apollo Investment Fund III, L.P. (together with its parallel funds, "Fund III"), Fund IV, Fund V, Fund VI, Fund VII and Fund VIII.

(2) Includes co-investments contributed to Athene by AAA through its investment in AAA Investments as discussed in note 15 of the consolidated financial statements.

The following table presents total AUM and Fee-Generating AUM amounts for our credit segment by category type:

	Total AUM		Fee-Generating AUM	
	As of December 31,		As of December 31,	
	2015	2014	2015	2014
	(in millions)			
Liquid/Performing	$ 37,242	$ 33,396	$ 30,603	$ 28,803
Drawdown	19,112	18,480	11,130	10,504
Permanent capital vehicles ex Athene Non-Sub-Advised[1]	15,058	9,371	9,840	5,172
Athene Non-Sub-Advised[1]	49,949	47,713	49,949	47,713
Total	$ 121,361	$ 108,960	$ 101,522	$ 92,192

(1) Athene Non-Sub-Advised includes AUM of $44.9 billion and $5.1 billion of Athene Asset Management and Athene Germany (for which a different Apollo subsidiary provides investment advisory services), respectively, AUM, which a different Apollo subsidiary provides investment advisory services for, but excludes $14.6 billion of assets that were either sub-advised by Apollo or invested in funds and investment vehicles managed by Apollo.

The following table presents total AUM and Fee-Generating AUM amounts for our real estate segment:

	Total AUM		Fee-Generating AUM	
	As of December 31,		As of December 31,	
	2015	2014	2015	2014
	(in millions)			
Debt	$ 7,737	$ 6,420	$ 5,477	$ 4,785
Equity	3,523	3,118	1,840	1,452
Total	$ 11,260	$ 9,538	$ 7,317	$ 6,237

During the first quarter of 2015, the Company changed the presentation of the components of total AUM and Fee-Generating AUM to inflows, outflows, net flows, realizations and market activity as noted below. As such, prior periods were reclassified to conform with the current period presentation. The following tables summarize changes in total AUM for each of Apollo's three segments for the years ended December 31, 2015 and 2014:

	For the Years Ended December 31,							
	2015				2014			
	Private Equity	Credit	Real Estate	Total	Private Equity	Credit	Real Estate	Total
	(in millions)							
Change in Total AUM(1):								
Beginning of Period	$ 41,299	$ 108,960	$ 9,538	$ 159,797	$ 50,158	$ 101,580	$ 9,439	$ 161,177
Inflows	2,299	18,201	3,188	23,688	4,078	11,676	2,067	17,821
Outflows(2)	(812)	(3,769)	(71)	(4,652)	(2,126)	(2,507)	(659)	(5,292)
Net Flows	1,487	14,432	3,117	19,036	1,952	9,169	1,408	12,529
Realizations	(4,711)	(2,182)	(1,656)	(8,549)	(11,372)	(3,457)	(1,553)	(16,382)
Market Activity(3)(4)	(573)	151	261	(161)	561	1,668	244	2,473
End of Period	$ 37,502	$ 121,361	$ 11,260	$ 170,123	$ 41,299	$ 108,960	$ 9,538	$ 159,797

(1) At the individual segment level, inflows include new subscriptions, commitments, capital raised, other increases in available capital, purchases and acquisitions. Outflows represent redemptions and other decreases in available capital. Realizations represent fund distributions of realized proceeds. Market activity represents gains (losses), the impact of foreign exchange rate fluctuations and other income.

(2) Outflows for Total AUM include redemptions of $626.8 million and $718.6 million during the years ended December 31, 2015 and 2014, respectively.

(3) Includes foreign exchange impacts of $(162.4) million, $(403.7) million and $(136.1) million for private equity, credit and real estate, respectively, during the year ended December 31, 2015.

(4) Includes foreign exchange impacts of $(146.6) million, $(648.1) million and $(206.7) million for private equity, credit and real estate, respectively, during the year ended December 31, 2014.

Assets Under Management

Total AUM was $170.1 billion at December 31, 2015, an increase of $10.3 billion, or 6.5%, compared to $159.8 billion at December 31, 2014. The net increase was primarily due to:

Net inflows of $19.0 billion primarily related to:

- a $14.4 billion increase related to funds we manage in the credit segment primarily consisting of subscriptions of $6.0 billion, acquisitions of $7.4 billion primarily attributable to the acquisition of Delta Lloyd Deutschland by Athene Holding of $5.1 billion, and a net change in leverage of $2.0 billion;
- a $1.5 billion increase related to funds we manage in the private equity segment consisting of subscriptions of $1.9 billion, driven by subscriptions attributable to ANRP II of $1.5 billion, offset by net segment transfers of $0.2 billion and a change in leverage of $0.3 billion; and
- a $3.1 billion increase related to funds we manage in the real estate segment primarily consisting of subscriptions of $1.2 billion, net segment transfers of $1.0 billion and a change in leverage of $0.4 billion.

Offsetting these increases were:

Realizations of $8.5 billion primarily related to:

- $4.7 billion related to funds we manage in the private equity segment primarily consisting of distributions of $4.1 billion attributable to certain traditional private equity funds;
- $2.2 billion related to funds we manage in the credit segment primarily consisting of distributions of $1.1 billion and $0.8 billion in liquid/performing and drawdown funds, respectively; and
- $1.7 billion related to funds we manage in the real estate segment primarily consisting of distributions of $0.9 billion from our real estate debt funds and $0.3 billion related to the CPI funds.

Market activity of $0.2 billion related to:

- $0.6 billion of depreciation in the funds we manage in the private equity segment;
- $0.3 billion of appreciation in the funds we manage in the real estate segment; and
- $0.2 billion of appreciation in the funds we manage in the credit segment

Total AUM was $159.8 billion at December 31, 2014, a decrease of $1.4 billion or 0.9%, compared to $161.2 billion at December 31, 2013. The net decrease was due to:

Realizations of $16.4 billion primarily related to:

- $11.4 billion related to funds we manage in the private equity segment primarily consisting of distributions of $10.1 billion attributable to certain traditional private equity funds;
- $3.5 billion related to funds we manage in the credit segment consisting of distributions of $1.7 billion attributable to certain drawdown funds; and
- $1.6 billion related to funds we manage in the real estate segment consisting of distributions of $0.7 billion from our real estate debt funds and $0.4 billion related to the CPI funds.

Offsetting these decreases were:

Net inflows of $12.5 billion primarily related to:

- a $9.2 billion increase related to funds we manage in the credit segment primarily consisting of subscriptions of $6.1 billion and a net change in leverage of $3.5 billion;
- a $2.0 billion increase related to funds we manage in the private equity segment consisting of subscriptions of $3.0 billion, offset by net segment transfers of $1.2 billion; and
- a $1.4 billion increase related to funds we manage in the real estate segment primarily consisting of net segment transfers of $1.1 billion and subscriptions of $0.7 billion, offset by a net change in leverage of $0.2 billion.

Market activity of $2.5 billion related to:

- $1.7 billion of appreciation in the funds we manage in the credit segment;
- $0.6 billion of appreciation in the funds we manage in the private equity segment; and
- $0.2 billion of appreciation in the funds we manage in the real estate segment.

The following tables summarize changes in Fee-Generating AUM for each of Apollo's three segments for the years ended December 31, 2015 and 2014:

	For the Years Ended December 31,							
	2015				2014			
	Private Equity	Credit	Real Estate	Total	Private Equity	Credit	Real Estate	Total
	(in millions)							
Change in Fee-Generating AUM(1):								
Beginning of Period	$ 30,285	$ 92,192	$ 6,237	$ 128,714	$ 34,173	$ 88,249	$ 5,946	$ 128,368
Inflows	2,610	14,702	2,639	19,951	498	7,967	1,816	10,281
Outflows(2)	(794)	(4,328)	(249)	(5,371)	(1,928)	(2,143)	(30)	(4,101)
Net Flows	1,816	10,374	2,390	14,580	(1,430)	5,824	1,786	6,180
Realizations(3)	(2,839)	(1,664)	(1,328)	(5,831)	(2,457)	(2,258)	(1,470)	(6,185)
Market Activity(4)	(4)	620	18	634	(1)	377	(25)	351
End of Period	$ 29,258	$ 101,522	$ 7,317	$ 138,097	$ 30,285	$ 92,192	$ 6,237	$ 128,714

(1) At the individual segment level, inflows include new subscriptions, commitments, capital raised, other increases in available capital, purchases and acquisitions. Outflows represent redemptions and other decreases in available capital. Realizations represent fund distributions of realized proceeds. Market activity represents gains (losses), the impact of foreign exchange rate fluctuations and other income.
(2) Outflows for Fee-Generating AUM include redemptions of $594.6 million and $474.6 million during the years ended December 31, 2015 and 2014, respectively.
(3) Includes foreign exchange impacts of $(324.2) million and $(71.6) million for credit and real estate, respectively, during the year ended December 31, 2015.
(4) Includes foreign exchange impacts of $(404.6) million and $(115.0) million for credit and real estate, respectively, during the year ended December 31, 2014.

Total Fee-Generating AUM was $138.1 billion at December 31, 2015, an increase of $9.4 billion or 7.3%, compared to $128.7 billion at December 31, 2014. The net increase was primarily due to:

Net inflows of $14.6 billion primarily related to:

- a $10.4 billion increase related to funds we manage in the credit segment primarily consisting of fee-generating capital deployment of $5.1 billion, an increase of $5.1 billion attributable to the acquisition of Delta Lloyd Deutschland by Athene

Holding and subscriptions of $1.7 billion. This was partially offset by $0.6 billion of redemptions and $1.1 billion of net segment transfers;
- a $1.8 billion increase related to funds we manage in the private equity segment consisting of $1.4 billion of subscriptions attributable to ANRP II and $0.5 billion of fee-generating capital deployment. Offsetting these increases was a change in leverage of $0.1 billion; and
- a $2.4 billion increase related to funds we manage in the real estate segment consisting of $1.1 billion of fee-generating capital commitments from the Athene Accounts, $0.6 billion of acquisitions and $0.3 billion of subscriptions.

Market activity of $0.6 billion primarily related to appreciation in the funds we manage in the credit segment.

Offsetting these increases were:

Realizations of $5.8 billion primarily related to:
- $2.8 billion related to funds we manage in the private equity segment primarily driven by distributions of $2.6 billion from certain traditional private equity funds;
- $1.7 billion related to funds we manage in the credit segment primarily driven by certain of our liquid/performing funds, including returns to CLO investors, and distributions of $0.3 billion from permanent capital vehicles; and
- $1.3 billion related to funds we manage in the real estate segment primarily driven by distributions in the CPI funds and Athene Accounts of $0.3 billion and $0.4 billion, respectively.

Total Fee-Generating AUM was $128.7 billion at December 31, 2014, an increase of $0.3 billion or 0.3%, compared to $128.4 billion at December 31, 2013. The net increase was due to:

Net inflows of $6.2 billion primarily related to:
- a $5.8 billion increase related to funds we manage in the credit segment primarily consisting of an increase of $2.8 billion resulting from a change in net leverage, subscriptions of $2.3 billion and fee-generating capital deployment of $1.1 billion. This was partially offset by redemptions of $0.5 billion;
- a $1.8 billion increase related to funds we manage in the real estate segment consisting of $1.1 billion of fee-generating capital commitments from the Athene Accounts and $0.6 billion of subscriptions; and
- a $1.4 billion decrease related to funds we manage in the private equity segment consisting of net segment transfers out of $1.3 billion attributable to traditional private equity funds.

Market activity of $0.4 billion primarily related to appreciation in the funds we manage in the credit segment.

Offsetting these increases were:

Realizations of $6.2 billion primarily related to:
- $2.5 billion related to funds we manage in the private equity segment primarily driven by distributions of $2.1 billion from certain traditional private equity funds;
- $2.3 billion related to funds we manage in the credit segment primarily driven by certain of our liquid/performing funds and distributions of $0.3 billion from permanent capital vehicles; and
- $1.5 billion decrease related to funds we manage in the real estate segment primarily driven by distributions in the CPI funds and Athene Accounts of $0.6 billion and $0.4 billion, respectively.

Capital Deployed and Uncalled Commitments

Capital deployed is the aggregate amount of capital that has been invested during a given period by our drawdown funds, SIAs that have a defined maturity date and funds and SIAs in our real estate debt strategy. Uncalled commitments, by contrast, represents unfunded capital commitments that certain of Apollo's funds and SIAs have received from fund investors to fund future or current fund investments and expenses.

Capital deployed and uncalled commitments are indicative of the pace and magnitude of fund capital that is deployed or will be deployed, and which therefore could result in future revenues that include management fees, transaction fees and incentive income to the extent fee-generating. Capital deployed and uncalled commitments can also give rise to future costs that are related to the hiring of additional resources to manage and account for the additional capital that is deployed or will be deployed. Management uses capital deployed and uncalled commitments as key operating metrics since we believe the results measure our fund's investment activities.

Capital Deployed

The following table summarizes by segment the capital deployed for funds and SIAs with a defined maturity date and certain funds and SIAs in Apollo's real estate debt strategy during the specified reporting periods:

	For the Year Ended December 31,		
	2015	2014	2013
	(in millions)		
Private Equity	$ 5,144	$ 2,163	$ 2,561
Credit	5,531	5,174	2,865
Real Estate [1]	2,458	2,686	2,534
Total capital deployed	$ 13,133	$ 10,023	$ 7,960

(1) Included in capital deployed is $2,140 million, $2,320 million and $2,177 million for the years ended December 31, 2015, 2014 and 2013, respectively, related to funds in Apollo's real estate debt strategy.

Uncalled Commitments

The following table summarizes the uncalled commitments by segment during the specified reporting periods:

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	As of December 31,	
	2015	2014
	(in millions)	
Private Equity	$ 19,487	$ 22,633
Credit	8,557	9,212
Real Estate	984	997
Total Uncalled Commitments[1]	$ 29,028	$ 32,842

(1) As of December 31, 2015 and 2014, $26.1 billion and $29.3 billion, respectively, represented the amount of capital available for investment or reinvestment subject to the provisions of the applicable limited partnership agreements or other governing agreements of our funds.

The Historical Investment Performance of Our Funds

Below we present information relating to the historical performance of our funds, including certain legacy Apollo funds that do not have a meaningful amount of unrealized investments, and in respect of which the general partner interest has not been contributed to us.

When considering the data presented below, you should note that the historical results of our funds are not indicative of the future results that you should expect from such funds, from any future funds we may raise or from your investment in our Class A shares.

An investment in our Class A shares is not an investment in any of the Apollo funds, and the assets and revenues of our funds are not directly available to us. The historical and potential future returns of the funds we manage are not directly linked to returns on our Class A shares. Therefore, you should not conclude that continued positive performance of the funds we manage will necessarily result in positive returns on an investment in our Class A shares. However, poor performance of the funds that we manage would cause a decline in our revenue from such funds, and would therefore have a negative effect on our performance and in all likelihood the value of our Class A shares.

Moreover, the historical returns of our funds should not be considered indicative of the future results you should expect from such funds or from any future funds we may raise. There can be no assurance that any Apollo fund will continue to achieve the same results in the future.

Finally, our private equity IRRs have historically varied greatly from fund to fund. For example, Fund IV generated a 12% gross IRR and a 9% net IRR since its inception through December 31, 2015, while Fund V generated a 61% gross IRR and a 44% net IRR since its inception through December 31, 2015. Accordingly, the IRR going forward for any current or future fund may vary considerably from the historical IRR generated by any particular fund, or for our private equity funds as a whole. Future returns will also be affected by the applicable risks, including risks of the industries and businesses in which a particular fund invests. See "Item 1A. Risk Factors—Risks Related to Our Businesses—The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our Class A shares."

Investment Record

The following table summarizes the investment record by segment of Apollo's significant drawdown funds and SIAs that have a defined maturity date in which investors make a commitment to provide capital at the formation of such funds and deliver capital when called as investment opportunities become available. The funds included in the investment record table below have greater than $500 million of AUM and/or form part of a flagship series of funds. The SIAs included in the investment record table below have greater than $200 million of AUM and did not predominantly invest in other Apollo funds or SIAs.

All amounts are as of December 31, 2015, unless otherwise noted:

									As of December 31, 2015	
($ in millions)	Vintage Year	Total AUM	Committed Capital	Total Invested Capital(1)	Realized Value(1)	Remaining Cost(1)	Unrealized Value(1)	Total Value(1)	Gross IRR(1)	Net IRR(1)
Private Equity:										
Fund VIII	2013	$ 18,398	$ 18,377	$ 4,858	$ 151	$ 4,724	$ 5,034	$ 5,185	11 %	(6)%
Fund VII	2008	7,757	14,677	15,809	28,478	3,923	4,500	32,978	35	27
Fund VI	2006	4,092	10,136	12,457	17,946	3,560	3,349	21,295	12	10
Fund V	2001	373	3,742	5,192	12,681	154	114	12,795	61	44
Fund I, II, III, IV & MIA(3)	Various	46	7,320	8,753	17,398	—	31	17,429	39	26
Traditional Private Equity Funds(4)		$ 30,666	$ 54,252	$ 47,069	$ 76,654	$ 12,361	$ 13,028	$ 89,682	39 %	25 %
AION	2013	751	826	277	89	227	173	262	14 %	(4)%
ANRP I	2012	1,193	1,323	917	213	773	738	951	2	(3)
ANRP II(5)	—	1,716	1,731	239	14	226	213	227	NM (2)	NM (2)
Total Private Equity(10)		$ 34,326	$ 58,132	$ 48,502	$ 76,970	$ 13,587	$ 14,152	$ 91,122		
Credit:										
Credit Opportunity Funds										
COF III	2014	$ 3,038	$ 3,426	$ 3,211	$ 711	$ 2,435	$ 1,876	$ 2,587	(17)%	(18)%
COF I & II	2008	439	3,068	3,787	7,349	150	154	7,503	23	20
European Principal Finance Funds										
EPF II(6)	2012	3,760	3,412	3,268	1,166	2,101	2,848	4,014	19	9
EPF I(6)	2007	512	1,412	1,855	2,820	25	332	3,152	23	17
Structured Credit Funds										
FCI II	2013	2,201	1,555	1,432	342	1,278	1,439	1,781	23	17
FCI	2012	985	559	1,089	645	768	799	1,444	16	12
SCRF III (13)	2015	1,043	1,238	1,025	189	692	813	1,002	NM (2)	NM (2)
SCRF I & II (13)	Various	11	222	706	871	8	11	882	27	21
Other Drawdown Funds & SIAs(7)	Various	4,297	5,920	5,886	6,068	1,652	1,195	7,263	9	7
Total Credit(11)		$ 16,286	$ 20,812	$ 22,259	$ 20,161	$ 9,109	$ 9,467	$ 29,628		
Real Estate:										
U.S. RE Fund II(5)	—	$ 398	$ 395	$ 251	$ 9	$ 247	$ 252	$ 261	NM (2)	NM (2)
U.S. RE Fund I(8)	2012	595	640	614	461	325	411	872	18 %	14 %
AGRE Debt Fund I	2011	915	1,390	1,275	796	686	665	1,461	8	7
CPI Funds(9)	Various	1,183	4,927	2,494	2,483	373	206	2,689	17	13
Total Real Estate(12)		$ 3,091	$ 7,352	$ 4,634	$ 3,749	$ 1,631	$ 1,534	$ 5,283		

(1) Refer to the definitions of Total Invested Capital, Realized Value, Remaining Cost, Unrealized Value, Total Value, Gross IRR and Net IRR described elsewhere in this report.

(2) Returns have not been presented as the fund commenced investing capital less than 24 months prior to the period indicated and therefore such return information was deemed not meaningful.

(3) The general partners and managers of Funds I, II and MIA, as well as the general partner of Fund III, were excluded assets in connection with the 2007 Reorganization. As a result, Apollo did not receive the economics associated with these entities. The investment performance of these funds, combined with Fund IV, is presented to illustrate fund performance associated with Apollo's Managing Partners and other investment professionals.

(4) Total IRR is calculated based on total cash flows for all funds presented.

(5) ANRP II and U.S. RE Fund II were launched prior to December 31, 2015 and have not established their vintage year.

(6) Funds are denominated in Euros and historical figures are translated into U.S. dollars at an exchange rate of €1.00 to $1.09 as of December 31, 2015.

(7) Amounts presented have been aggregated for (i) drawdown funds with AUM greater than $500 million that do not form part of a flagship series of funds and (ii) SIAs with AUM greater than $200 million that do not predominantly invest in other Apollo funds or SIAs. Certain SIAs' historical figures are denominated in Euros and translated into U.S. dollars at an exchange rate of €1.00 to $1.09 as of December 31, 2015. Additionally, certain SIAs totaling $1.4 billion of AUM have been excluded from Total Invested Capital, Realized Value, Remaining Cost, Unrealized Value and Total Value. These SIAs have an open ended life and a significant turnover in their portfolio assets due to the ability to recycle capital. These SIAs had $8.3 billion of Total Invested Capital through December 31, 2015.

(8) U.S. RE Fund I, a closed-end private investment fund, has $150 million of co-investment commitments raised, which are included in the figures in the table. A co-invest entity within U.S. RE Fund I is denominated in GBP and translated into U.S. dollars at an exchange rate of £1.00 to $1.47 as of December 31, 2015.

(9) As part of the acquisition of Citi Property Investors ("CPI"), Apollo acquired general partner interests in fully invested funds. CPI Funds refers to CPI Capital Partners North America, CPI Capital Partners Asia Pacific, CPI Capital Partners Europe and other CPI funds or individual investments of which Apollo is not the general partner or manager and only receives fees pursuant to either a sub-advisory agreement or an investment management and administrative agreement. For CPI Capital Partners North America, CPI Capital Partners Asia Pacific and CPI Capital Partners Europe, the gross and net IRRs are presented in the investment record table since acquisition on November 12, 2010. The aggregate net IRR for these funds from their inception to December 31, 2015 was (1)%. This net IRR was primarily achieved during a period in which Apollo did not make the initial investment decisions and Apollo only became the general partner or manager of these funds upon completing the acquisition on November 12, 2010.

(10) Certain private equity co-investment vehicles and funds with AUM less than $500 million have been excluded. These co-investment vehicles and funds had $3.2 billion of aggregate AUM as of December 31, 2015.

(11) Certain credit funds and SIAs with AUM less than $500 million and $200 million, respectively, have been excluded. These funds and SIAs had $2.8 billion of aggregate AUM as of December 31, 2015.

(12) Certain accounts owned by or related to Athene, certain co-investment vehicles and certain funds with AUM less than $500 million have been excluded. These accounts, co-investment vehicles and funds had $5.3 billion of aggregate AUM as of December 31, 2015.

(13) Remaining cost for certain of our credit funds may include physical cash called, invested or reserved for certain levered investments.

Private Equity

The following table summarizes the investment record for distressed investments made in our traditional private equity fund portfolios, since the Company's inception. All amounts are as of December 31, 2015:

	Total Invested Capital	Total Value	Gross IRR
	(in millions)		
Distressed for Control	$ 6,778	$ 17,999	29%
Non-Control Distressed	6,171	8,445	71
Total	12,949	26,444	49
Corporate Carve-outs, Opportunistic Buyouts and Other Credit[1]	34,120	63,238	22
Total	$ 47,069	$ 89,682	39%

(1) Other Credit is defined as investments in debt securities of issuers other than portfolio companies that are not considered to be distressed.

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The following tables provide additional detail on the composition of the Fund VIII, Fund VII, Fund VI and Fund V private equity portfolios based on investment strategy. Amounts for Fund I, II, III and IV are included in the table above but not presented below as their remaining value is less than $100 million or the fund has been liquidated. All amounts are as of December 31, 2015:

Fund VIII[1]

	Total Invested Capital	Total Value
	(in millions)	
Corporate Carve-outs	$ 2,189	$ 2,118
Opportunistic Buyouts	2,339	2,789
Distressed	330	278
Total	$ 4,858	$ 5,185

Fund VII[1]

	Total Invested Capital	Total Value
	(in millions)	
Corporate Carve-outs	$ 2,298	$ 5,466
Opportunistic Buyouts	4,095	9,366
Distressed/Other Credit[2]	9,416	18,146
Total	$ 15,809	$ 32,978

Fund VI

	Total Invested Capital	Total Value
	(in millions)	
Corporate Carve-outs	$ 3,216	$ 3,943
Opportunistic Buyouts	6,555	12,412
Distressed/Other Credit[2]	2,686	4,940
Total	$ 12,457	$ 21,295

Fund V

	Total Invested Capital	Total Value
	(in millions)	
Corporate Carve-outs	$ 1,605	$ 4,966
Opportunistic Buyouts	2,165	5,332
Distressed	1,422	2,497
Total	$ 5,192	$ 12,795

(1) Committed capital less unfunded capital commitments for Fund VIII and Fund VII was $5.4 billion and $13.7 billion, respectively, which represents capital commitments from limited partners to invest in such funds less capital that is available for investment or reinvestment subject to the provisions of the applicable limited partnership agreement or other governing agreements.

(2) The Distressed investment strategy includes include distressed for control, non-control distressed and other credit.

During the recovery and expansionary periods of 1994 through 2000 and late 2003 through the first half of 2007, our private equity funds invested or committed to invest approximately $13.7 billion primarily in traditional and corporate partner buyouts. During the recessionary periods of 1990 through 1993, 2001 through late 2003 and the recessionary and post recessionary periods (beginning the second half of 2007 through December 31, 2015), our private equity funds have invested $36.3 billion, of which $18.2 billion was in distressed buyouts and debt investments when the debt securities of quality companies traded at deep

discounts to par value. Our average entry multiple for Fund VIII, VII, VI and V was 6.1x, 6.1x, 7.7x and 6.6x, respectively, as of the date of the filing of this Annual Report on Form 10-K. Our average entry multiple for a private equity fund is the average of the total enterprise value over an applicable adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") which may incorporate certain adjustments based on investment team's estimate and we believe captures the true economics of our funds' investments in portfolio companies.

Credit

The following table presents the AUM and gross and net returns information for Apollo's credit segment by category type, excluding assets managed by Athene Asset Management that are not directly invested in Apollo funds and investment vehicles or sub-advised by Apollo:

	As of December 31, 2015				Gross Returns	Net Returns
Category	**AUM**	**Fee-Generating AUM**	**Carry-Eligible AUM**	**Carry-Generating AUM**	**For the Year Ended December 31, 2015[1]**	**For the Year Ended December 31, 2015[1]**
	(in millions)					
Liquid/Performing	$ 37,242	$ 30,603	$ 21,820	$ 3,751	1.7%	1.3%
Drawdown[2]	19,112	11,130	16,681	5,171	(1.3)	(2.8)
Permanent capital vehicles ex Athene Non-Sub-Advised[3]	15,058	9,840	8,706	8,001	4.1	0.1
Athene Non-Sub-Advised[3]	49,949	49,949	—	—	N/A	N/A
Total Credit	$ 121,361	$ 101,522	$ 47,207	$ 16,923	1.3%	0.3%

(1) The gross and net returns for the year ended December 31, 2015 for total credit excludes assets managed by AAM that are not directly invested in Apollo funds and investment vehicles or sub-advised by Apollo.
(2) As of December 31, 2015, significant drawdown funds and strategic investment accounts ("SIAs") had inception-to-date gross and net IRRs of 16.3% and 12.5%, respectively. Significant drawdown funds and SIAs include funds and SIAs with AUM greater than $200 million that do not predominantly invest in other Apollo funds or SIAs.
(3) Athene Non-Sub-Advised includes $44.9 billion and $5.1 billion of AUM of Athene Asset Management and Athene Germany (for which a different Apollo subsidiary provides investment advisory services), respectively, but excludes $14.6 billion of AUM that was either sub-advised by Apollo or invested in funds and investment vehicles managed by Apollo.

Liquid/Performing

The following table summarizes the investment record for funds in the liquid/performing category within Apollo's credit segment. The significant funds included in the investment record table below have greater than $200 million of AUM and do not predominantly invest in other Apollo funds or SIAs.

			Net Returns	
	Vintage Year	**Total AUM**	**For the Year Ended December 31, 2015**	**For the Year Ended December 31, 2014**
Credit:		(in millions)		
Hedge Funds[1]	Various	$ 7,109	—	3%
CLOs[2]	Various	13,437	2%	2
SIAs / Other[3]	Various	15,797	1	3
Total		$ 36,343		

(1) Hedge funds includes Apollo Credit Strategies Master Fund Ltd., Apollo Credit Master Fund Ltd., Apollo Credit Short Opportunities Fund and Apollo Value Strategic Fund, L.P.
(2) CLO returns are calculated based on gross return on invested assets, which excludes cash.
(3) SIAs / Other excludes $0.9 billion of AUM related to advisory assets under management.

Permanent Capital

The following table summarizes the investment record for our permanent capital vehicles, excluding assets managed by AAA, Athene Asset Management and Athene Germany, by segment:

	IPO Year [2]	Total AUM	Total Returns[1] For the Year Ended December 31, 2015	Total Returns[1] For the Year Ended December 31, 2014
Credit:		(in millions)		
MidCap[3]	N/A	$ 5,233	NM [4]	N/A
AIF	2013	369	(4)%	NM [4]
AFT	2011	413	(2)	(1)%
AMTG[5]	2011	3,844	(13)	19
AINV[6]	2004	5,699	(20)	(4)
Real Estate:				
ARI[7]	2009	$ 2,654	17 %	11 %
Totals		$ 18,212		

(1) Total returns are based on the change in closing trading prices during the respective periods presented taking into account dividends and distributions, if any, as if they were reinvested without regard to commission.

(2) IPO year represents the year in which the vehicle commenced trading on a national securities exchange.

(3) MidCap is not a publicly traded vehicle and therefore IPO year is not applicable.

(4) Returns have not been presented as the Permanent Capital Vehicle commenced investing capital less than 24 months prior to the period indicated and therefore such return information was deemed not meaningful.

(5) All amounts are as of September 30, 2015 except for total returns. Refer to www.apolloresidentialmortgage.com for the most recent financial information on AMTG. The information contained on AMTG's website is not part of this report.

(6) All amounts are as of September 30, 2015 except for total returns. Refer to www.apolloic.com for the most recent financial information on AINV. The information contained on AINV's website is not part of this report. Includes $1.4 billion of AUM related to a non-traded business development company sub-advised by Apollo. Total returns exclude performance of the non-traded business development company.

(7) All amounts are as of September 30, 2015 except for total returns. Refer to www.apolloreit.com for the most recent financial information on ARI. The information contained on ARI's website is not part of this report.

Athene and SIAs

As of December 31, 2015, Athene Asset Management had $59.5 billion of total AUM in accounts owned by or related to Athene, of which approximately $14.6 billion, was either sub-advised by Apollo or invested in Apollo funds and investment vehicles. Of the approximately $14.6 billion of AUM, the vast majority were in sub-advisory managed accounts that manage high grade credit asset classes, such as CLO debt, commercial mortgage backed securities, and insurance-linked securities. As of December 31, 2015, Athene Germany had $5.1 billion of total AUM , for which a different Apollo subsidiary provides investment advisory services.

As of December 31, 2015, Apollo managed approximately $17 billion of total AUM in SIAs, which include certain SIAs in the investment record tables above and capital deployed from certain SIAs across Apollo's private equity, credit, and real estate funds.

Overview of Results of Operations

Revenues

Advisory and Transaction Fees from Affiliates, Net. As a result of providing advisory services with respect to actual and potential private equity, credit, and real estate investments, we are entitled to receive fees for transactions related to the acquisition and, in certain instances, disposition of portfolio companies as well as fees for ongoing monitoring of portfolio company operations and directors' fees. We also receive advisory fees for advisory services provided to certain credit funds. In addition, monitoring fees are generated on certain structured portfolio company investments. Under the terms of the limited partnership agreements for certain funds, the management fee payable by the funds may be subject to a reduction based on a certain percentage of such advisory and transaction fees, net of applicable broken deal costs ("Management Fee Offset"). Such amounts are presented

as a reduction to advisory and transaction fees from affiliates, net, in the consolidated statements of operations. See note 2 to our consolidated financial statements for more detail.

The Management Fee Offsets are calculated for each fund as follows:

- 65%-100% for private equity funds, gross advisory, transaction and other special fees;
- 65%-100% for certain credit funds, gross advisory, transaction and other special fees; and
- 100% for certain real estate funds, gross advisory, transaction and other special fees.

Additionally, during the normal course of business, the Company incurs certain costs related to certain transactions that are not consummated ("broken deal costs"). These costs (e.g., research costs, due diligence costs, professional fees, legal fees and other related items) are determined to be broken deal costs upon management's decision to no longer pursue the transaction. In accordance with the related fund agreement, in the event the deal is deemed broken, all of the costs are reimbursed by the funds and then included as a component of the calculation of the Management Fee Offset. If a deal is successfully completed, Apollo is reimbursed by the fund or fund's portfolio company for all costs incurred and no offset is generated.

As the Company acts as an agent for the funds it manages, any transaction costs incurred and paid by the Company on behalf of the respective funds relating to successful or broken deals are presented net on the Company's consolidated statements of operations, and any receivable from the respective funds is presented in Due from Affiliates on the consolidated statements of financial condition.

Management Fees from Affiliates. The significant growth of the assets we manage has had a positive effect on our revenues. Management fees are typically calculated based upon any of "net asset value," "gross assets," "adjusted par asset value," "adjusted costs of all unrealized portfolio investments," "capital commitments," "invested capital," "adjusted assets," "capital contributions," or "stockholders' equity," each as defined in the applicable limited partnership agreement and/or management agreement of the unconsolidated funds.

Carried Interest Income from Affiliates. The general partners of our funds, in general, are entitled to an incentive return that can normally amount to as much as 20% of the total returns on fund capital, depending upon performance of the underlying funds and subject to preferred returns and high water marks, as applicable. The carried interest income from affiliates is recognized in accordance with U.S. GAAP guidance applicable to accounting for arrangement fees based on a formula. In applying the U.S. GAAP guidance, the carried interest from affiliates for any period is based upon an assumed liquidation of the funds' assets at the reporting date, and distribution of the net proceeds in accordance with the funds' allocation provisions.

As of December 31, 2015, approximately 60% of the value of our funds' investments on a gross basis was determined using market-based valuation methods (i.e., reliance on broker or listed exchange quotes) and the remaining 40% was determined primarily by comparable company and industry multiples or discounted cash flow models. For our private equity, credit and real estate segments, the percentage determined using market-based valuation methods as of December 31, 2015 was 27%, 74% and 47%, respectively. See "Item 1A. Risk Factors—Risks Related to Our Businesses—Our private equity funds' performance, and our performance, may be adversely affected by the financial performance of our funds' portfolio companies and the industries in which our funds invest" for a discussion regarding certain industry-specific risks that could affect the fair value of our private equity funds' portfolio company investments.

Carried interest income fee rates can be as much as 20% for our private equity funds. In our private equity funds, the Company does not earn carried interest income until the investors in the fund have achieved cumulative investment returns on invested capital (including management fees and expenses) in excess of an 8% hurdle rate. Additionally, certain of our credit and real estate funds have various carried interest rates and hurdle rates. Certain of our credit and real estate funds allocate carried interest to the general partner in a similar manner as the private equity funds. In our private equity, certain credit and real estate funds, so long as the investors achieve their priority returns, there is a catch-up formula whereby the Company earns a priority return for a portion of the return until the Company's carried interest income equates to its incentive fee rate for that fund; thereafter, the Company participates in returns from the fund at the carried interest income rate. Carried interest income is subject to reversal to the extent that the carried interest income distributed exceeds the amount due to the general partner based on a fund's cumulative investment returns. The Company recognizes potential repayment of previously received carried interest income as a general partner obligation representing all amounts previously distributed to the general partner that would need to be repaid to the Apollo funds if these funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual general partner obligation, however, would not become payable or realized until the end of a fund's life or as otherwise set forth in the respective limited partnership agreement of the fund.

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The table below presents an analysis of Apollo's (i) carried interest receivable on an unconsolidated basis and (ii) realized and unrealized carried interest income (loss) for Apollo's combined segments' incentive business as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013:

	As of December 31, 2015	As of December 31, 2014	For the Year Ended December 31, 2015			For the Year Ended December 31, 2014			For the Year Ended December 31, 2013		
	Carried Interest Receivable on an Unconsolidated Basis		Unrealized Carried Interest Income (Loss)	Realized Carried Interest Income (Loss)	Total Carried Interest Income (Loss)	Unrealized Carried Interest Income (Loss)	Realized Carried Interest Income	Total Carried Interest Income (Loss)	Unrealized Carried Interest Income (Loss)	Realized Carried Interest Income	Total Carried Interest Income (Loss)
	(in thousands)										
Private Equity Funds:											
Fund VII(1)	$ 68,733	$ 288,182	$ (219,449)	$ 229,679	$ 10,230	$ (602,615)	$ 902,421	$ 299,806	$ (13,458)	$ 1,163,399	$ 1,149,941
Fund VI(1)	52,561	183,422	(130,861)	78,812	(52,049)	(514,122)	401,449	(112,673)	427,281	760,345	1,187,626
Fund V	— (3)	3,169 (3)	(13,947)	—	(13,947)	(39,880)	44,850	4,970	(91,202)	99,131	7,929
Fund IV	6,196	5,636	560	640	1,200	(2,093)	—	(2,093)	(3,173)	1,736	(1,437)
AAA/Other(2)	246,381 (3)	191,511 (3)	49,536	30,691	80,227	(37,383)	79,356	41,973	135,274	37,913	173,187
Total Private Equity Funds	373,871	671,920	(314,161)	339,822	25,661	(1,196,093)	1,428,076	231,983	454,722	2,062,524	2,517,246
Total Private Equity Funds, net of profit share	254,888	431,305	(184,903)	163,992	(20,911)	(693,146)	746,756	53,610	307,047	1,179,795	1,486,842
Credit Category:											
Drawdown	163,863 (3)	182,606 (3)	(69,127)	70,970	1,843	(93,140)	216,044	122,904	(71,707)	291,676	219,969
Liquid/Performing	48,933	73,679	(21,808)	27,557	5,749	(63,504)	64,990	1,486	15,139	101,662	116,801
Permanent capital vehicles ex AAM	28,048	10,502	10,401	40,625	51,026	—	—	—	—	—	—
Total Credit Funds	240,844	266,787	(80,534)	139,152	58,618	(156,644)	281,034	124,390	(56,568)	393,338	336,770
Total Credit Funds, net of profit share	75,472	80,501	(70,171)	94,405	24,234	(141,285)	181,887	40,602	(43,032)	298,525	255,493
Real Estate Funds:											
CPI Funds	1,379	1,521	(240)	2,496	2,256	(3,809)	640	(3,169)	(5,207)	542	(4,665)
U.S. RE Fund I	20,728	11,448	7,547	1,981	9,528	5,817	2,663	8,480	5,631	—	5,631
Other	7,085	7,184	(153)	1,380	1,227	2,943	696	3,639	4,256	—	4,256
Total Real Estate Funds	29,192	20,153	7,154	5,857	13,011	4,951	3,999	8,950	4,680	542	5,222
Total Real Estate Funds, net of profit share	17,873	12,203	4,186	3,750	7,936	3,953	2,250	6,203	4,971	128	5,099
Total	$ 643,907	$ 958,860	$ (387,541)	$ 484,831	$ 97,290	$ (1,347,786)	$ 1,713,109	$ 365,323	$ 402,834	$ 2,456,404	$ 2,859,238
Total, net of profit share	$ 348,233 (4)	$ 524,009 (4)	$ (250,888)	$ 262,147	$ 11,259	$ (830,478)	$ 930,893	$ 100,415	$ 268,986	$ 1,478,448	$ 1,747,434

(1) As of December 31, 2015, the remaining investments and escrow cash of Fund VII and Fund VI were valued at 106% and 95% of the fund's unreturned capital, respectively, which were below the required escrow ratio of 115%. As a result, these funds are required to place in escrow current and future carried interest income distributions to the general partner until the specified return ratio of 115% is met (at the time of a future distribution) or upon liquidation. As of December 31, 2015, Fund VI had $167.6 million of gross carried interest income, or $110.7 million net of profit sharing, in escrow. Of these amounts, assuming a hypothetical liquidation on December 31, 2015, $52.6 million of gross carried interest, or $34.7 million net of profit sharing, would be paid to the general partner. As of December 31, 2015, Fund VII had no carried interest held in escrow. With respect to Fund VI, realized carried interest income currently distributed to the general partner is limited to tax distributions per the fund's partnership agreement. As of December 31, 2014, the remaining investments and escrow cash of Fund VI were valued at 104% of the funds unreturned capital, which was below the required escrow ratio of 115%. As a result, Fund VI was required to place in escrow current and future carried interest income distributions to the general partner until the specified return ratio of 115% is met (at the time of a future distribution) or upon liquidation of Fund VI. As of December 31, 2014, Fund VI had $165.6 million of gross carried interest income, or $109.4 million net of profit sharing, in escrow. Of these amounts, assuming a hypothetical liquidation on December 31, 2014, $183.4 million of gross carried interest, or $121.1 million net of profit sharing, would be paid to the general partner.

(2) As of December 31, 2015, AAA includes $185.5 million of carried interest receivable, or $122.6 million net of profit sharing, from AAA Investments, and as of December 31, 2014, AAA includes $121.5 million of carried interest receivable, or $86.6 million net of profit sharing, from AAA Investments, which will be paid in common shares of Athene Holding (valued at the then fair market value) if there is a distribution in kind of shares of Athene Holding (unless such payment in shares would violate Section 16(b) of the U.S. Securities Exchange Act of 1934, as amended), or paid in cash if AAA sells the shares of Athene Holding. In addition, Other includes certain SIAs.

(3) As of December 31, 2015, Fund V, Apollo Asia Private Credit Fund, L.P. ("APC"), ANRP I, Apollo Credit Liquidity Fund, L.P. ("ACLF"), COF II, and certain SIAs within the credit segment had $10.8 million, $2.1 million, $3.4 million, $25.6 million, $0.4 million, and $29.7 million, respectively, in general partner obligations to return previously distributed carried interest income. The fair value gain on investments and income at the fund level needed to reverse the general partner obligations in Fund V, APC, ANRP I, ACLF, COF II, and certain SIAs within the credit segment was $71.7 million, $12.3 million, $217.5 million, $64.5 million, $5.1 million, and $191.5 million, respectively, as of December 31, 2015. As of December 31, 2014, Other SIAs and ACLF had $0.9 million and $2.5 million, respectively, in general partner obligations to return previously distributed carried interest income. The fair value gain on investments and income at the fund level needed to reverse the general partner obligations in Other SIAs and ACLF was $2.2 million and $7.0 million, respectively, as of December 31, 2014.

(4) As of December 31, 2015 and 2014, there was a corresponding profit sharing payable of $295.7 million and $434.9 million, respectively, including profit sharing payable related to amounts in escrow and contingent consideration obligations of $79.6 million and $96.1 million, respectively.

The general partners of the private equity, credit and real estate funds listed in the table above were accruing carried interest income as of December 31, 2015. The investment manager of AINV accrues carried interest in the management company

business as it is earned. The general partners of certain of our credit funds accrue carried interest when the fair value of investments exceeds the cost basis of the individual investors' investments in the fund, including any allocable share of expenses incurred in connection with such investments, which we refer to as "high water marks." These high water marks are applied on an individual investor basis. Certain of our credit funds have investors with various high water marks, the achievement of which are subject to market conditions and investment performance.

Carried interest income from our private equity funds and certain credit and real estate funds is subject to contingent repayment by the general partner in the event of future losses to the extent that the cumulative carried interest distributed from inception to date exceeds the amount computed as due to the general partner at the final distribution. These general partner obligations, if applicable, are included in due to affiliates on the consolidated statements of financial condition. As of December 31, 2015 and 2014, there was $72.0 million and $3.4 million, respectively, of such general partner obligations related to our funds. Carried interest receivable is reported on a separate line item within the consolidated statements of financial condition.

The following table summarizes our carried interest income since inception for our combined segments through December 31, 2015:

	Carried Interest Income Since Inception (1)				
	Undistributed by Fund and Recognized	Distributed by Fund and Recognized (2)	Total Undistributed and Distributed by Fund and Recognized(3)	General Partner Obligation as of December 31, 2015(3)	Maximum Carried Interest Income Subject to Potential Reversal(4)
	(in millions)				
Private Equity Funds:					
Fund VII	$ 68.7	$ 3,091.8	$ 3,160.5	$ —	$ 611.0
Fund VI	52.6	1,658.9	1,711.5	—	1,165.2
Fund V	—	1,455.0	1,455.0	10.8	17.1
Fund IV	6.2	597.8	604.0	—	6.2
AAA/Other	246.4	170.8	417.2	5.5	248.5
Total Private Equity Funds	373.9	6,974.3	7,348.2	16.3	2,048.0
Credit Category(5):					
Drawdown	163.9	896.2	1,060.1	55.7	250.6
Liquid/Performing	48.9	398.6	447.5	—	62.2
Permanent capital vehicles ex AAM	10.4	—	10.4	—	10.4
Total Credit Funds	223.2	1,294.8	1,518.0	55.7	323.2
Real Estate Funds:					
CPI Funds	1.4	8.3	9.7	—	2.5
U.S. RE Fund I	20.7	2.9	23.6	—	20.7
Other	7.1	1.8	8.9	—	5.8
Total Real Estate Funds	29.2	13.0	42.2	—	29.0
Total	$ 626.3	$ 8,282.1	$ 8,908.4	$ 72.0	$ 2,400.2

(1) Certain funds are denominated in Euros and historical figures are translated into U.S. dollars at an exchange rate of €1.00 to $1.09 as of December 31, 2015.

(2) Amounts in "Distributed by Fund and Recognized" for the CPI, Gulf Stream and Stone Tower funds and SIAs are presented for activity subsequent to the respective acquisition dates.

(3) Amounts were computed based on the fair value of fund investments on December 31, 2015. Carried interest income has been allocated to and recognized by the general partner. Based on the amount of carried interest income allocated, a portion is subject to potential reversal or, to the extent applicable, has been reduced by the general partner obligation to return previously distributed carried interest income or fees at December 31, 2015. The actual determination and any required payment of any such general partner obligation would not take place until the final disposition of the fund's investments based on contractual termination of the fund.

(4) Represents the amount of carried interest income that would be reversed if remaining fund investments became worthless on December 31, 2015. Amounts subject to potential reversal of carried interest income include amounts undistributed by a fund (i.e., the carried interest receivable), as well as a portion of the amounts that have been distributed by a fund, net of taxes not subject to a general partner obligation to return previously distributed carried interest income, except for those funds that are gross of taxes as defined in the respective funds' management agreement.

(5) Amounts exclude AINV, as carried interest income from this entity is not subject to contingent repayment.

Expenses

Compensation and Benefits. Our most significant expense is compensation and benefits expense. This consists of fixed salary, discretionary and non-discretionary bonuses, profit sharing expense associated with the carried interest income earned from private equity, credit and real estate funds and compensation expense associated with the vesting of non-cash equity-based awards.

Our compensation arrangements with certain partners and employees contain a significant performance-based incentive component. Therefore, as our net revenues increase, our compensation costs also rise or can be lower when net revenues decrease. In addition, our compensation costs reflect the increased investment in people as we expand geographically and create new funds.

In addition, certain professionals and selected other individuals have a profit sharing interest in the carried interest income earned in relation to our private equity, certain credit and real estate funds in order to better align their interests with our own and with those of the investors in these funds. Profit sharing expense is part of our compensation and benefits expense and is generally based upon a fixed percentage of private equity, credit and real estate carried interest income on a pre-tax and a pre-consolidated basis. Profit sharing expense can reverse during periods when there is a decline in carried interest income that was previously recognized. Profit sharing amounts are normally distributed to employees after the corresponding investment gains have been realized and generally before preferred returns are achieved for the investors. Therefore, changes in our unrealized gains (losses) for investments have the same effect on our profit sharing expense. Profit sharing expense increases when unrealized gains increase. Realizations only impact profit sharing expense to the extent that the effects on investments have not been recognized previously. If losses on other investments within a fund are subsequently realized, the profit sharing amounts previously distributed are normally subject to a general partner obligation to return carried interest income previously distributed back to the funds. This general partner obligation due to the funds would be realized only when the fund is liquidated, which generally occurs at the end of the fund’s term. However, indemnification obligations also exist for pre-reorganization realized gains, which, although our Managing Partners and Contributing Partners would remain personally liable, may indemnify our Managing Partners and Contributing Partners for 17.5% to 100% of the previously distributed profits regardless of the fund’s future performance. See note 15 to our consolidated financial statements for further discussion of indemnification.

Each Managing Partner receives $100,000 per year in base salary for services rendered to us. Additionally, our Managing Partners can receive other forms of compensation. In connection with the 2007 Reorganization, the Managing Partners and Contributing Partners received AOG Units with a vesting period of five to six years (all of which have fully vested) and certain employees were granted RSUs with a vesting period of typically six years (all of which have also fully vested). Managing Partners, Contributing Partners and certain employees have also been granted AAA restricted depositary units (“RDUs”) , or incentive units that provide the right to receive AAA RDUs, which both represent common units of AAA and generally vest over three years for employees and are fully-vested for Managing Partners and Contributing Partners on the grant date. In addition, AHL Awards (as defined in note 14 to our consolidated financial statements) and other equity-based compensation awards have been granted to the Company and certain employees, which amortize over the respective vesting periods. In addition, the Company grants equity awards to certain employees, including RSUs, restricted Class A shares and options, that generally vest and become exercisable in quarterly installments or annual installments depending on the contract terms over a period of three to six years. See note 14 to our consolidated financial statements for further discussion of AOG Units and other equity-based compensation.

Other Expenses. The balance of our other expenses includes interest, professional fees, placement fees, occupancy, depreciation and amortization and other general operating expenses. Interest expense consists primarily of interest related to the 2007 AMH Credit Agreement, the 2013 AMH Credit Facilities and the 2024 Senior Notes as discussed in note 12 to our consolidated financial statements. Placement fees are incurred in connection with our capital raising activities. Occupancy expense represents charges related to office leases and associated expenses, such as utilities and maintenance fees. Depreciation and amortization of fixed assets is normally calculated using the straight-line method over their estimated useful lives, ranging from two to sixteen years, taking into consideration any residual value. Leasehold improvements are amortized over the shorter of the useful life of the asset or the expected term of the lease. Intangible assets are amortized based on the future cash flows over the expected useful lives of the assets. Other general operating expenses normally include costs related to travel, information technology and administration.

Other Income (Loss)

Net Gains (Losses) from Investment Activities. The performance of the consolidated Apollo funds has impacted our net gains (losses) from investment activities. Net gains (losses) from investment activities include both realized gains and losses and the change in unrealized gains and losses in our investment portfolio between the opening reporting date and the closing reporting date. Net unrealized gains (losses) are a result of changes in the fair value of unrealized investments and reversal of unrealized gains (losses) due to dispositions of investments during the reporting period. Prior to the adoption of new accounting

guidance effective January 1, 2015, for results of AAA, a portion of the net gains (losses) from investment activities were attributable to Non-Controlling Interests in the consolidated statements of operations. Significant judgment and estimation goes into the assumptions that drive these models and the actual values realized with respect to investments could be materially different from values obtained based on the use of those models. The valuation methodologies applied impact the reported value of investment company holdings and their underlying portfolios in our consolidated financial statements.

Net Gains (Losses) from Investment Activities of Consolidated Variable Interest Entities. Changes in the fair value of the consolidated VIEs' assets and liabilities and related interest, dividend and other income and expenses subsequent to consolidation are presented within net gains (losses) from investment activities of consolidated variable interest entities and are attributable to Non-Controlling Interests in the consolidated statements of operations.

Other Income (Losses), Net. Other income (losses), net includes gains (losses) arising from the remeasurement of foreign currency denominated assets and liabilities of foreign subsidiaries, reversal of a portion of the tax receivable agreement liability (see note 15 to our consolidated financial statements), gains (losses) arising from the remeasurement of derivative instruments associated with fees from certain of the Company's affiliates and other miscellaneous non-operating income and expenses.

Income Taxes. The Apollo Operating Group and its subsidiaries generally operate as partnerships for U.S. federal income tax purposes. As a result, except as described below, the Apollo Operating Group has not been subject to U.S. income taxes. However, these entities in some cases are subject to New York City Unincorporated Business Tax ("NYC UBT"), and non-U.S. entities, in some cases, are subject to non-U.S. corporate income taxes. In addition, APO Corp., a wholly-owned subsidiary of the Company, is subject to U.S. federal, state and local corporate income tax, and the Company's provision for income taxes is accounted for in accordance with U.S. GAAP.

Significant judgment is required in determining tax expense and in evaluating tax positions, including evaluating uncertainties. We recognize the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained upon examination, including resolutions of any related appeals or litigation, based on the technical merits of the position. The tax benefit is measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. If a tax position is not considered more likely than not to be sustained, then no benefits of the position are recognized. The Company's tax positions are reviewed and evaluated quarterly to determine whether or not we have uncertain tax positions that require financial statement recognition.

Deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amount of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Non-Controlling Interests

For entities that are consolidated, but not 100% owned, a portion of the income or loss and corresponding equity is allocated to owners other than Apollo. The aggregate of the income or loss and corresponding equity that is not owned by the Company is included in Non-Controlling Interests in the consolidated financial statements. The Non-Controlling Interests relating to Apollo Global Management, LLC primarily include the 54.4% and 57.7% ownership interest in the Apollo Operating Group held by the Managing Partners and Contributing Partners through their limited partner interests in Holdings as of December 31, 2015 and 2014, respectively. Non-Controlling Interests also include limited partner interests in certain consolidated funds and VIEs.

The authoritative guidance for Non-Controlling Interests in the consolidated financial statements requires reporting entities to present Non-Controlling Interest as equity and provides guidance on the accounting for transactions between an entity and Non-Controlling Interests. According to the guidance, (1) Non-Controlling Interests are presented as a separate component of shareholders' equity on the Company's consolidated statements of financial condition, (2) net income (loss) includes the net income (loss) attributable to the Non-Controlling Interest holders on the Company's consolidated statements of operations, (3) the primary components of Non-Controlling Interest are separately presented in the Company's consolidated statements of changes in shareholders' equity to clearly distinguish the interests in the Apollo Operating Group and other ownership interests in the consolidated entities and (4) profits and losses are allocated to Non-Controlling Interests in proportion to their ownership interests regardless of their basis.

Results of Operations

Below is a discussion of our consolidated results of operations for the years ended December 31, 2015, 2014 and 2013. For additional analysis of the factors that affected our results at the segment level, see "—Segment Analysis" below:

	For the Year Ended December 31,		Amount Change	Percentage Change	For the Year Ended December 31,		Amount Change	Percentage Change
	2015[1]	2014			2014	2013		
Revenues:	(in thousands)				(in thousands)			
Advisory and transaction fees from affiliates, net	$ 14,186	$ 315,587	$ (301,401)	(95.5)%	$ 315,587	$ 196,562	$ 119,025	60.6 %
Management fees from affiliates	930,194	850,441	79,753	9.4 %	850,441	674,634	175,807	26.1 %
Carried interest income from affiliates	97,290	394,055	(296,765)	(75.3)%	394,055	2,862,375	(2,468,320)	(86.2)%
Total Revenues	1,041,670	1,560,083	(518,413)	(33.2)%	1,560,083	3,733,571	(2,173,488)	(58.2)%
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	354,524	338,049	16,475	4.9 %	338,049	294,753	43,296	14.7 %
Equity-based compensation	97,676	126,320	(28,644)	(22.7)%	126,320	126,227	93	0.1 %
Profit sharing expense	85,229	276,190	(190,961)	(69.1)%	276,190	1,173,255	(897,065)	(76.5)%
Total Compensation and Benefits	537,429	740,559	(203,130)	(27.4)%	740,559	1,594,235	(853,676)	(53.5)%
Interest expense	30,071	22,393	7,678	34.3 %	22,393	29,260	(6,867)	(23.5)%
General, administrative and other	102,255	97,663	4,592	4.7 %	97,663	98,202	(539)	(0.5)%
Professional fees	68,113	82,030	(13,917)	(17.0)%	82,030	83,407	(1,377)	(1.7)%
Occupancy	40,219	40,427	(208)	(0.5)%	40,427	39,946	481	1.2 %
Placement fees	8,414	15,422	(7,008)	(45.4)%	15,422	42,424	(27,002)	(63.6)%
Depreciation and amortization	44,474	45,069	(595)	(1.3)%	45,069	54,241	(9,172)	(16.9)%
Total Expenses	830,975	1,043,563	(212,588)	(20.4)%	1,043,563	1,941,715	(898,152)	(46.3)%
Other Income:								
Net gains from investment activities	121,723	213,243	(91,520)	(42.9)%	213,243	330,235	(116,992)	(35.4)%
Net gains from investment activities of consolidated variable interest entities	19,050	22,564	(3,514)	(15.6)%	22,564	199,742	(177,178)	(88.7)%
Income from equity method investments	14,855	53,856	(39,001)	(72.4)%	53,856	107,350	(53,494)	(49.8)%
Interest income	3,232	10,392	(7,160)	(68.9)%	10,392	12,266	(1,874)	(15.3)%
Other income, net	7,673	60,592	(52,919)	(87.3)%	60,592	40,114	20,478	51.0 %
Total Other Income (Loss)	166,533	360,647	(194,114)	(53.8)%	360,647	689,707	(329,060)	(47.7)%
Income before income tax provision	377,228	877,167	(499,939)	(57.0)%	877,167	2,481,563	(1,604,396)	(64.7)%
Income tax provision	(26,733)	(147,245)	120,512	(81.8)%	(147,245)	(107,569)	(39,676)	36.9 %
Net Income	350,495	729,922	(379,427)	(52.0)%	729,922	2,373,994	(1,644,072)	(69.3)%
Net income attributable to Non-controlling Interests	(215,998)	(561,693)	345,695	(61.5)%	(561,693)	(1,714,603)	1,152,910	(67.2)%
Net Income Attributable to Apollo Global Management, LLC	$ 134,497	$ 168,229	$ (33,732)	(20.1)%	$ 168,229	$ 659,391	$ (491,162)	(74.5)%

(1) Apollo adopted new U.S. GAAP consolidation and collateralized financing entity ("CFE") guidance during the year ended December 31, 2015 which resulted in the deconsolidation of certain funds as of January 1, 2015 and a measurement alternative of the financial assets and liabilities of the remaining consolidated CLOs. See note 2 to the consolidated financial statements for details regarding the Company's adoption of the new consolidation and CFE guidance.

Revenues

Our revenues and other income include fixed components that result from measures of capital and asset valuations and variable components that result from realized and unrealized investment performance, as well as the value of successfully completed transactions.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Advisory and transaction fees from affiliates, net, decreased by $301.4 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to a decrease in monitoring fees from Athene of $224.5 million as a result of the termination of the Athene Services Agreement (as described in note 15 to the consolidated financial statements) as of December 31, 2014, a decrease in net advisory and transaction fees earned with respect to Fund VII of $26.6 million and a legal reserve in connection with an ongoing SEC regulatory matter recorded during the year ended December 31, 2015.

Management fees from affiliates increased by $79.8 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to the adoption of new consolidation guidance which led to the deconsolidation of certain funds and CLOs as of January 1, 2015 as described in notes 2 and 5 to the consolidated financial statements. As a result of the adoption of new consolidation guidance, eliminations of management fees of consolidated CLOs decreased by $59.2 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014. The change in management fees from affiliates was also driven by an increase in management fees in relation to the AHL Awards of $7.0 million granted to the Company's employees, which are liability awards that are marked-to-market based on the valuation of Athene (see note 14 to the consolidated financial statements).

Carried interest income from affiliates decreased by $296.8 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to decreases in carried interest income from the private equity and credit segments of $206.3 million and $107.0 million, respectively, offset by an increase in carried interest income from the real estate segment of $4.1 million during the year ended December 31, 2015 as compared to the same period in 2014. For additional details regarding changes in carried interest income in each segment, see "—Segment Analysis" below.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Advisory and transaction fees from affiliates, net, increased by $119.0 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was attributable to an increase in the credit segment of $140.5 million offset by a decrease in the private equity segment of $20.1 million. The increase in the credit segment was primarily attributable to an increase in monitoring fees from Athene of $118.5 million as a result of Athene's acquisition of U.S. annuity operations of Aviva plc ("Aviva USA"). The decrease in the private equity segment was primarily attributable to lower net advisory fees due to the realization of underlying investments, termination fees and waived fees related to debt investment vehicles, Taminco, Realogy and Caesars Entertainment that occurred during the year ended December 31, 2013 and lower net transaction fees earned for the year ended December 31, 2014 compared to 2013. Advisory and transaction fees are reported net of Management Fee Offsets as calculated under the terms of the applicable limited partnership agreements. See "—Overview of Results of Operations—Revenues—Advisory and Transaction Fees from Affiliates, Net" for a description of how the Management Fee Offsets are calculated.

Management fees from affiliates increased by $175.8 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to an increase in management fees earned by our credit and private equity segments of $146.3 million and $30.2 million, respectively. The primary driver of the increase in management fees earned from the credit funds was an increase in management fees earned from Athene of $126.1 million during the year ended December 31, 2014 as compared to the same period in 2013 as a result of Athene's acquisition of Aviva USA. The primary driver of the increase in management fees earned from the private equity funds was an increase in management fees earned from Fund VIII in the amount of $126.4 million during the year ended December 31, 2014, partially offset by decreased management fees earned from Fund VII of $92.9 million as a result of a change in the management fee rate and basis upon which management fees are earned from capital commitments to invested capital, due to the fund coming to the end of the fund's investment period.

Carried interest income from affiliates decreased by $2.5 billion for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to a decrease in carried interest loss from the private equity segment of $2.3 billion, a decrease in carried interest income earned from the credit segment of $208.1 million and an increase in carried interest income from the real estate segment of $3.7 million during the year ended December 31, 2014 as compared to the same period in 2013. For additional details regarding changes in carried interest income in each segment, see "—Segment Analysis" below.

Expenses

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Compensation and benefits decreased by $203.1 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to a decrease in profit sharing expense of $191.0 million due to lower carried interest income during the year ended December 31, 2015 as compared to the same period in 2014. In any year the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period. Equity-based compensation decreased $28.6 million during the year ended December 31, 2015 as compared to the same period in 2014 primarily due to non-cash expense of $45.6 million incurred in connection with the departure of an executive officer during the year ended December 31, 2014. This decrease was offset by additional expense incurred in relation to the AHL Awards granted to the Company's employees, which are liability awards that are marked to market based on the valuation of Athene (see note 14 to the consolidated financial statements) during the year ended December 31, 2015. The decrease in profit sharing

expense and equity-based compensation were offset by an increase in salary, bonus and benefits of $16.5 million during the year ended December 31, 2015 as a result of an increase in headcount after December 31, 2014.

Included within profit sharing expense was $62.1 million and $62.0 million related to the Incentive Pool for the years ended December 31, 2015 and 2014, respectively. Included in the Incentive Pool is a fixed component which was $1.6 million and $6.5 million for the years ended December 31, 2015 and 2014, respectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular quarter. See "—Profit Sharing Expense" in the Critical Accounting Policies section for an overview of the Incentive Pool.

Interest expense increased by $7.7 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 as a result of the issuance of the 2024 Senior Notes in May, 2014, as described in note 12 to our consolidated financial statements.

General, administrative and other fees increased by $4.6 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 primarily due to a legal reserve in connection with an ongoing SEC regulatory matter recorded during the year ended December 31, 2015, offset by lower technology expenses during the year ended December 31, 2015 as compared to the same period in 2014.

Professional fees decreased by $13.9 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to lower consulting fees during the year ended December 31, 2015 as compared to the same period in 2014.

Placement fees decreased by $7.0 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Placement fees are incurred in connection with raising capital for new and existing funds. The fees are normally payable to placement agents, who are third parties that assist in identifying potential investors, securing commitments to invest from such potential investors, preparing or revising offering marketing materials, developing strategies for attempting to secure investments by potential investors and/or providing feedback and insight regarding issues and concerns of potential investors. This change was primarily attributable to placement fees with respect to COF III of $6.3 million during the year ended December 31, 2014 that did not recur during the year ended December 31, 2015.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Compensation and benefits decreased by $853.7 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to a decrease in profit sharing expense of $897.1 million due to lower carried interest income during the year ended December 31, 2014 as compared to the year ended December 31, 2013. In any year the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds that are generating carried interest in the period. During the year ended December 31, 2014, the fair value of Fund VII's underlying fund investments appreciated while Fund VI's underlying fund investments depreciated, which contributed to an increased profit sharing percentage compared to the year ended December 31, 2013. The decrease in profit sharing expense was offset by an increase in salary, bonus and benefits of $43.3 million during the year ended December 31, 2014.

Included within profit sharing expense was $62.0 million and $62.4 million related to the Incentive Pool for the years ended December 31, 2014 and 2013, respectively. Included in the Incentive Pool is a fixed component which was $6.5 million and $8.0 million, for the years ended December 31, 2014 and 2013, respectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular quarter.

Interest expense decreased by $6.9 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to a lower margin rate incurred from the 2013 AMH Credit Facilities as compared to the 2007 AMH Credit Agreement during the year ended December 31, 2014 as compared to the same period in 2013 (see note 12 to our consolidated financial statements).

Placement fees decreased by $27.0 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. Placement fees are incurred in connection with the raising of capital for new and existing funds. The fees are normally payable to placement agents, who are third parties that assist in identifying potential investors, securing commitments to invest from such potential investors, preparing or revising offering marketing materials, developing strategies for attempting to secure investments by potential investors and/or providing feedback and insight regarding issues and concerns of potential investors. This change was primarily attributable to decreases in placement fees with respect to EPF II and Fund VIII of $14.1 million and $13.2 million, respectively, during the year ended December 31, 2014 as compared to the same period in 2013.

Depreciation and amortization expense decreased by $9.2 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to lower amortization of intangible assets during the year ended December 31, 2014 as compared to the year ended December 31, 2013 as certain intangible assets were fully amortized in 2014.

Other Income (Loss)

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Net gains from investment activities decreased by $91.5 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to net gains from investment activities with respect to AAA of $204.6 million during the year ended December 31, 2014 that did not recur during the year ended December 31, 2015 as a result of the deconsolidation of AAA effective January 1, 2015. (See note 2 to the consolidated financial statements for details regarding the Company's adoption of the new consolidation guidance.) This was offset by an unrealized gain on the Company's investment in Athene of $122.4 million during the year ended December 31, 2015.

Income from equity method investments decreased by $39.0 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily driven by decreases in the values of investments held by certain Apollo funds and other entities in which the Company has a direct interest, mainly with respect to Fund VII, AINV, AION, EPF I, ARI and ACLF which resulted in decreases in income from equity method investments of $12.4 million, $9.3 million, $5.9 million, $3.4 million, $2.7 million and $2.0 million, respectively. These decreases were offset by an increase in the value of Apollo's ownership interest in AAA of $10.0 million.

Interest income decreased by $7.2 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 primarily due to payment-in-kind interest income earned during the year ended December 31, 2014 that did not recur in 2015 as a result of the sale of the Company's investment in HFA during the year ended December 31, 2014.

Other income, net decreased by $52.9 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily due to (i) a gain from the reduction of the tax receivable agreement liability of $32.2 million resulting from changes in projected income estimates and in estimated tax rates (see note 15 to our consolidated financial statements), (ii) a $14.0 million unrealized gain on Athene-related derivative contracts as a result of the settlement of these derivative contracts during 2014 and (iii) a gain on extinguishment of a portion of the contingent consideration obligation related to the acquisition of Stone Tower of $13.4 million, each of which occurred during the year ended December 31, 2014 and did not recur in 2015.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Net gains from investment activities decreased by $117.0 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to a $137.9 million decrease in net unrealized gains related to changes in the fair value of investments held by AAA, offset by a decrease in losses on the investment in HFA Holdings Limited ("HFA") of $21.4 million (see note 4 to the consolidated financial statements).

Net gains from investment activities of consolidated VIEs decreased by $177.2 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The decrease was primarily attributable to a $238.5 million net loss from investment activities for the year ended December 31, 2014 as compared to a $54.2 million net gain from investment activities for the year ended December 31, 2013. The decrease was also driven by a $7.8 million decrease in interest and other income and a $74.6 million increase in other expenses for the year ended December 31, 2014 as compared to the same period in 2013. These changes were offset by a $102.5 million net gain from debt for the year ended December 31, 2014 as compared to a $95.4 million net loss from debt for the year ended December 31, 2013.

Income from equity method investments decreased by $53.5 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily driven by lower appreciation in the net asset value of entities in which the Company has a direct interest for the year ended December 31, 2014 as compared to the year ended December 31, 2013. Fund VI and Fund VII had the most significant impact and together had a reduction of $53.9 million of income from equity method investments during the year ended December 31, 2014 as compared to the same period in 2013.

Interest income decreased by $1.9 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to the decrease of payment-in-kind interest income as a result of the sale of the Company's investment in HFA during July 2014 as compared to the same period in 2013 (see note 4 to the consolidated financial statements).

Other income, net increased by $20.5 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to a gain from the reduction of the tax receivable agreement liability during the year ended December 31, 2014 resulting from changes in projected income estimates and in estimated tax rates (see note 15 to our consolidated financial statements) and a gain on extinguishment of a portion of the contingent consideration obligation related to the acquisition of Stone Tower (see note 16 to our consolidated financial statements) during the period. These increases were offset by losses resulting from fluctuations in exchange rates of foreign denominated assets and liabilities of subsidiaries during the year ended December 31, 2014.

Income Tax Provision

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The income tax provision decreased by $120.5 million primarily due to a decrease in management business income subject to corporate-level tax, as well as a change in the mix of earnings which are subject to corporate-level tax. The Apollo Operating Group and its subsidiaries generally operate as partnerships for U.S. federal income tax purposes. As a result, only a portion of the income we earn is subject to corporate-level tax in the United States and foreign jurisdictions. The provision for income taxes includes federal, state and local income taxes in the United States and foreign income taxes at an effective tax rate of 7.1% and 16.8% for the years ended December 31, 2015 and 2014, respectively. The reconciling items between our statutory tax rate and our effective tax rate were due to the following: (i) income passed through to Non-Controlling Interests; (ii) income passed through to Class A shareholders; and (iii) state and local income taxes including NYC UBT (see note 11 to the consolidated financial statements for further details regarding the Company's income tax provision).

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Income tax provision increased by $39.7 million primarily due to an increase in management business income subject to corporate level taxation. There was also a reduction of the Company's blended state tax rate which caused the Company to reduce its deferred tax assets and increased income tax expense. The provision for income taxes includes federal, state and local income taxes in the United States and foreign income taxes at an effective tax rate of 16.8% and 4.3% for the years ended December 31, 2014 and 2013, respectively. The reconciling items between our statutory tax rate and our effective tax rate were due to the following: (i) income passed through to Non-Controlling Interests; (ii) income passed through to Class A shareholders; (iii) amortization of AOG Units that are nondeductible for income tax purposes which were fully amortized as of June 30, 2013; and (iv) state and local income taxes including NYC UBT.

Non-Controlling Interests

Net income attributable to Non-Controlling Interests in the Apollo Operating Group consisted of the following:

	For the Year Ended December 31,		
	2015	2014	2013
		(in thousands)	
Net income	$ 350,495	$ 729,922	$ 2,373,994
Net income attributable to Non-Controlling Interests in consolidated entities	(21,364)	(157,011)	(456,953)
Net income after Non-Controlling Interests in consolidated entities	329,131	572,911	1,917,041
Adjustments:			
Income tax provision[1]	26,733	147,245	107,569
NYC UBT and foreign tax provision[2]	(10,975)	(10,995)	(10,334)
Net (income) loss in non-Apollo Operating Group entities	449	(31,150)	(11,774)
Total adjustments	16,207	105,100	85,461
Net income after adjustments	345,338	678,011	2,002,502
Approximate weighted average ownership percentage of Apollo Operating Group	55.9%	57.8%	61.0%
Net income attributable to Non-Controlling Interests in Apollo Operating Group	$ 194,634	$ 404,682	$ 1,257,650

(1) Reflects all taxes recorded in our consolidated statements of operations. Of this amount, U.S. federal, state, and local corporate income taxes attributable to APO Corp. are added back to income of the Apollo Operating Group before calculating Non-Controlling Interests as the income allocable to the Apollo Operating Group is not subject to such taxes.

(2) Reflects NYC UBT and foreign taxes that are attributable to the Apollo Operating Group and its subsidiaries related to its operations in the U.S. as partnerships and in non-U.S. jurisdictions as corporations. As such, these amounts are considered in the income attributable to the Apollo Operating Group.

Segment Analysis

Discussed below are our results of operations for each of our reportable segments. They represent the segment information available and utilized by our executive management, which consists of our Managing Partners, who operate collectively as our chief operating decision maker, to assess performance and to allocate resources. Management divides its operations into three reportable segments: private equity, credit and real estate. These segments were established based on the nature of investment activities in each underlying fund, including the specific type of investment made, the frequency of trading, and the level of control over the investment. Segment results represent segment income (loss) before income tax provision excluding transaction-related charges arising from the 2007 private placement, and any acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration and certain other charges associated with acquisitions. In addition, segment data excludes non-cash revenue and expense related to equity awards granted by unconsolidated affiliates to employees of the Company, as well as the assets, liabilities and operating results of the funds and VIEs that are included in the consolidated financial statements.

Our financial results vary, since carried interest, which generally constitutes a large portion of the income from the funds that we manage, as well as the transaction and advisory fees that we receive, can vary significantly from quarter to quarter and year to year. As a result, we emphasize long-term financial growth and profitability to manage our business.

Private Equity

The following tables set forth our segment statement of operations information and our supplemental performance measure, EI, for the “management” and “incentive” businesses within our private equity segment for the years ended December 31, 2015, 2014 and 2013, respectively.

	For the Year Ended December 31, 2015			For the Year Ended December 31, 2014				
	Management	Incentive	Total	Management	Incentive	Total	Total Change	Percentage Change
	(in thousands)							
Private Equity[1]:								
Revenues:								
Advisory and transaction fees from affiliates, net	$ (7,485)	$ —	$ (7,485)	$ 58,241	$ —	$ 58,241	$ (65,726)	NM
Management fees from affiliates	295,836	—	295,836	315,069	—	315,069	(19,233)	(6.1)%
Carried interest income from affiliates:								
Unrealized losses[2]	—	(314,161)	(314,161)	—	(1,196,093)	(1,196,093)	881,932	(73.7)%
Realized gains	—	339,822	339,822	—	1,428,076	1,428,076	(1,088,254)	(76.2)%
Total carried interest income from affiliates	—	25,661	25,661	—	231,983	231,983	(206,322)	(88.9)%
Total Revenues	288,351	25,661	314,012	373,310	231,983	605,293	(291,281)	(48.1)%
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	104,367	—	104,367	96,689	—	96,689	7,678	7.9 %
Equity-based compensation	31,324	—	31,324	49,526	—	49,526	(18,202)	(36.8)%
Profit sharing expense	—	46,572	46,572	—	178,373	178,373	(131,801)	(73.9)%
Total compensation and benefits	135,691	46,572	182,263	146,215	178,373	324,588	(142,325)	(43.8)%
Other expenses	80,109	—	80,109	70,286	—	70,286	9,823	14.0 %
Total Expenses	215,800	46,572	262,372	216,501	178,373	394,874	(132,502)	(33.6)%
Other Income:								
Net interest expense	—	(9,878)	(9,878)	—	(7,883)	(7,883)	(1,995)	25.3 %
Net gains from investment activities	—	6,933	6,933	—	—	—	6,933	NM
Income from equity method investments	—	19,125	19,125	—	30,418	30,418	(11,293)	(37.1)%
Other income, net	1,988	1,160	3,148	12,410	1,617	14,027	(10,879)	(77.6)%
Total Other Income	1,988	17,340	19,328	12,410	24,152	36,562	(17,234)	(47.1)%
Economic Income (Loss)	$ 74,539	$ (3,571)	$ 70,968	$ 169,219	$ 77,762	$ 246,981	$ (176,013)	(71.3)%

(1) Prior period amounts have been recast to conform to the current presentation. See note 18 to our consolidated financial statements for more detail on the reclassifications within our three segments.

(2) Included in unrealized carried interest losses from affiliates for the year ended December 31, 2015 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 15 to our consolidated financial statements for further detail regarding the general partner obligation.

	For the Year Ended December 31, 2014			For the Year Ended December 31, 2013				
	Management	Incentive	Total	Management	Incentive	Total	Total Change	Percentage Change
				(in thousands)				
Private Equity(1):								
Revenues:								
Advisory and transaction fees from affiliates, net	$ 58,241	$ —	$ 58,241	$ 78,371	$ —	$ 78,371	$ (20,130)	(25.7)%
Management fees from affiliates	315,069	—	315,069	284,833	—	284,833	30,236	10.6
Carried interest income from affiliates:								
Unrealized gains (losses)(2)	—	(1,196,093)	(1,196,093)	—	454,722	454,722	(1,650,815)	NM
Realized gains	—	1,428,076	1,428,076	—	2,062,525	2,062,525	(634,449)	(30.8)
Total carried interest income from affiliates	—	231,983	231,983	—	2,517,247	2,517,247	(2,285,264)	(90.8)
Total Revenues	373,310	231,983	605,293	363,204	2,517,247	2,880,451	(2,275,158)	(79.0)
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	96,689	—	96,689	109,761	—	109,761	(13,072)	(11.9)
Equity-based compensation	49,526	—	49,526	31,967	—	31,967	17,559	54.9
Profit sharing expense	—	178,373	178,373	—	1,030,404	1,030,404	(852,031)	(82.7)
Total compensation and benefits	146,215	178,373	324,588	141,728	1,030,404	1,172,132	(847,544)	(72.3)
Other expenses	70,286	—	70,286	100,896	—	100,896	(30,610)	(30.3)
Total Expenses	216,501	178,373	394,874	242,624	1,030,404	1,273,028	(878,154)	(69.0)
Other Income:								
Net interest expense	—	(7,883)	(7,883)	—	(10,701)	(10,701)	2,818	(26.3)
Income from equity method investments	—	30,418	30,418	—	78,811	78,811	(48,393)	(61.4)
Other income, net	12,410	1,617	14,027	12,079	1,695	13,774	253	1.8
Total Other Income	12,410	24,152	36,562	12,079	69,805	81,884	(45,322)	(55.3)
Economic Income	$ 169,219	$ 77,762	$ 246,981	$ 132,659	$ 1,556,648	$ 1,689,307	$ (1,442,326)	NM

(1) Prior period amounts have been recast to conform to the current presentation. See note 18 to our consolidated financial statements for more detail on the reclassifications within our three segments.

(2) Included in unrealized carried interest losses from affiliates for the year ended December 31, 2014 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 15 to our consolidated financial statements for further detail regarding the general partner obligation.

Revenues

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Advisory and transaction fees from affiliates, net decreased by $65.7 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to a change in the fee structure with respect to Fund VIII as a greater portion of the advisory and transaction fees were shared with limited partners of the fund in 2015. In addition, there were decreases in net advisory and transaction fees earned with respect to Fund VII and ANRP I of $26.6 million and $4.3 million, respectively, as well as a legal reserve in connection with an ongoing SEC regulatory matter recorded during the year ended December 31, 2015.

Management fees from affiliates decreased by $19.2 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to decreases in management fees earned with respect to Fund VI and Fund VII of $10.6 million and $10.6 million, respectively, as a result of lower invested capital. In addition, this change was attributable to a decrease in management fees earned with respect to ANRP I of $3.3 million resulting from a step down in fee basis from committed capital to invested capital during the year ended December 31, 2015 compared to the same period in 2014. These decreases were partially offset by an increase related to ANRP II of $7.9 million which launched during 2015.

Carried interest income from affiliates decreased by $206.3 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to decreases in carried interest income earned from Fund VII and ANRP I of $289.6 million and $40.1 million, respectively, partially offset by increased carried interest income earned from AAA/Other and Fund VI of $76.2 million and $60.6 million, respectively. The decreases in carried interest income earned

from Fund VII and ANRP I were primarily driven by depreciation in their energy-related portfolio holdings during the year ended December 31, 2015. Additionally, the decrease in carried interest income earned from Fund VII was attributable to the non-recurrence of carried interest income of approximately $299.8 million with respect to certain of the fund's investments that were sold subsequent to December 31, 2014. The increase in carried interest income earned from AAA/Other as compared to the year ended December 31, 2014 was primarily driven by the appreciation on the investment in Athene. The increase in carried interest income earned from Fund VI for the year ended December 31, 2015 as compared to the same period in 2014 was primarily a result of $112.7 million of carried interest loss relating to one of the fund's public portfolio companies during the year ended December 31, 2014 that did not recur during the year ended December 31, 2015 and an increase in carried interest income earned with respect to the fund's public portfolio company holdings during the year ended December 31, 2015.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Advisory and transaction fees from affiliates, net, decreased by $20.1 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to lower net advisory fees driven by the realization of underlying investments, termination fees and waived fees related to debt investment vehicles, EP Energy, Taminco, Realogy and Caesars Entertainment that occurred during the year ended December 31, 2013 and lower net transaction fees for the year ended December 31, 2014 compared to 2013.

Management fees from affiliates increased by $30.2 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This increase was primarily attributable to increased management fees earned from Fund VIII in the amount of $126.4 million during the year ended December 31, 2014. This increase was partially offset by decreased management fees earned from Fund VII of $92.9 million as a result of a change in the management fee rate and basis upon which management fees are earned from capital commitments to invested capital, due to the fund coming to the end of the fund's investment period.

Carried interest income from affiliates decreased by $2.3 billion for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to a decrease in carried interest income earned from Fund VI, Fund VII and AAA Investments (Co-Invest VI), L.P. ("AAA Co-Invest VI") of $1.3 billion, $850.1 million and $121.7 million, respectively, primarily driven by the depreciation of publicly marked securities in the funds' portfolios. The decrease in carried interest income earned from Fund VI was also a result of the fund entering its catch-up period during the year ended December 31, 2013 whereby the general partner earns higher carried interest rates, resulting in $452.3 million of carried interest income during the year ended December 31, 2013 that did not recur during the year ended December 31, 2014. In addition, the decrease in carried interest income earned from Fund VII was attributable to the non-recurrence of net gains with respect to certain of the fund's investments that were sold subsequent to December 31, 2013.

Expenses

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Compensation and benefits expense decreased by $142.3 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to a decrease in profit sharing expense of $131.8 million as a result of a corresponding decrease in carried interest income earned from Fund VII, ANRP I and Fund V as discussed above, and a decrease in equity-based compensation of $18.2 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014. In any year the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds that are generating carried interest in the period. Equity-based compensation was higher during the year ended December 31, 2014 as a result of a non-cash expense of $17.9 million in connection with the departure of an executive officer during the year ended December 31, 2014. These decreases were offset by an increase in salary, bonus and benefits of $7.7 million due to an increase in headcount after December 31, 2014.

Included in profit sharing expense is $46.6 million and $55.5 million related to the Incentive Pool for the years ended December 31, 2015 and 2014, respectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular quarter.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Compensation and benefits expense decreased by $847.5 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to a decrease in profit sharing expense of $852.0 million, due to lower carried interest income during the year ended December 31, 2014 as compared to the year ended December 31, 2013. In any year, the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating

carried interest in the period. During the year ended December 31, 2014, the fair value of Fund VII's underlying fund investments appreciated while Fund VI's underlying fund investments depreciated, which contributed to an increased profit sharing percentage compared to the year ended December 31, 2013. This decrease was partially offset by increased equity-based compensation of $17.6 million, driven by non-cash expense related to equity-based compensation in connection with the departure of an executive officer during the year ended December 31, 2014.

Included in profit sharing expense is $55.5 million and $46.0 million related to the Incentive Pool for the years ended December 31, 2014 and 2013, respectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular quarter.

Other expenses decreased by $30.6 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to decreased organizational expenses and legal and consulting fees, as well as a reduction in placement fees relating to Fund VIII.

Other Income

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Net interest expense increased by $2.0 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 as a result of the issuance of the 2024 Senior Notes in May, 2014, as described in note 12 to our consolidated financial statements.

Net gains from investment activities increased by $6.9 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 due to an increase in mark-to-market on our investment in Athene Holding.

Income from equity method investments decreased by $11.3 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was driven by decreases in the income from Apollo's equity ownership interest in Fund VII and AION of $12.4 million and $5.9 million, respectively, offset by an increase in the value of Apollo's ownership interest in AAA of $10.0 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Other income, net decreased by $10.9 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily due to a gain of $11.8 million resulting from the reduction of the tax receivable agreement liability during the year ended December 31, 2014 that did not recur in 2015.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Net interest expense decreased by $2.8 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to a lower margin rate incurred with respect to the 2013 AMH Credit Facilities as compared to the 2007 AMH Credit Agreement during the year ended December 31, 2014 as compared to the same period in 2013. See note 12 to our consolidated financial statements.

Income from equity method investments decreased by $48.4 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily driven by lower appreciation in the net asset value, primarily from Apollo's ownership interests in Fund VI and Fund VII, in the amounts of $4.6 million and $49.3 million, respectively, for the year ended December 31, 2014 as compared to the year ended December 31, 2013, which was offset by an increase in the fair value of Apollo's ownership interest in AION in the amount of $5.8 million.

Credit

The following tables set forth segment statement of operations information and EI for the “management” and “incentive” businesses within our credit segment for the years ended December 31, 2015, 2014 and 2013, respectively.

	For the Year Ended December 31, 2015			For the Year Ended December 31, 2014				
	Management	Incentive	Total	Management	Incentive	Total	Total Change	Percentage Change
				(in thousands)				
Credit:(1)								
Revenues:								
Advisory and transaction fees from affiliates, net	$ 17,246	$ —	$ 17,246	$ 255,186	$ —	$ 255,186	$ (237,940)	(93.2)%
Management fees from affiliates	565,241	—	565,241	538,742	—	538,742	26,499	4.9
Carried interest income from affiliates:								
Unrealized losses(2)	—	(80,534)	(80,534)	—	(156,644)	(156,644)	76,110	(48.6)
Realized gains	40,625	98,527	139,152	41,199	281,034	322,233	(183,081)	(56.8)
Total carried interest income from affiliates	40,625	17,993	58,618	41,199	124,390	165,589	(106,971)	(64.6)
Total Revenues	623,112	17,993	641,105	835,127	124,390	959,517	(318,412)	(33.2)
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	213,479	—	213,479	210,546	—	210,546	2,933	1.4
Equity-based compensation	26,683	—	26,683	47,120	—	47,120	(20,437)	(43.4)
Profit sharing expense	—	34,384	34,384	—	83,788	83,788	(49,404)	(59.0)
Total compensation and benefits	240,162	34,384	274,546	257,666	83,788	341,454	(66,908)	(19.6)
Other expenses	127,767	—	127,767	151,252	—	151,252	(23,485)	(15.5)
Total Expenses	367,929	34,384	402,313	408,918	83,788	492,706	(90,393)	(18.3)
Other Income:								
Net interest expense	—	(13,740)	(13,740)	—	(9,274)	(9,274)	(4,466)	48.2
Net gains from investment activities	—	114,199	114,199	—	9,062	9,062	105,137	NM
Income (loss) from equity method investments	—	(6,025)	(6,025)	—	18,812	18,812	(24,837)	NM
Other income (loss), net	4,251	(677)	3,574	25,984	9,279	35,263	(31,689)	(89.9)
Total Other Income (Loss)	4,251	93,757	98,008	25,984	27,879	53,863	44,145	82.0
Non-Controlling Interests	(11,684)	—	(11,684)	(12,688)	—	(12,688)	1,004	(7.9)
Economic Income	$ 247,750	$ 77,366	$ 325,116	$ 439,505	$ 68,481	$ 507,986	$ (182,870)	(36.0)%

(1) Prior period amounts have been recast to conform to the current presentation. See note 18 to our consolidated financial statements for more detail on the reclassifications within our three segments.

(2) Included in unrealized carried interest losses from affiliates for the years ended December 31, 2015 and 2014 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 15 to our consolidated financial statements for further detail regarding the general partner obligation.

	For the Year Ended December 31, 2014			For the Year Ended December 31, 2013				
	Management	Incentive	Total	Management	Incentive	Total	Total Change	Percentage Change
				(in thousands)				
Credit:(1)								
Revenues:								
Advisory and transaction fees from affiliates, net	$ 255,186	$ —	$ 255,186	$ 114,643	$ —	$ 114,643	$ 140,543	122.6 %
Management fees from affiliates	538,742	—	538,742	392,433	—	392,433	146,309	37.3
Carried interest income from affiliates:								
Unrealized losses(2)	—	(156,644)	(156,644)	—	(56,568)	(56,568)	(100,076)	176.9
Realized gains	41,199	281,034	322,233	36,922	393,338	430,260	(108,027)	(25.1)
Total carried interest income from affiliates	41,199	124,390	165,589	36,922	336,770	373,692	(208,103)	(55.7)
Total Revenues	835,127	124,390	959,517	543,998	336,770	880,768	78,749	8.9
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	210,546	—	210,546	153,056	—	153,056	57,490	37.6
Equity-based compensation	47,120	—	47,120	24,167	—	24,167	22,953	95.0
Profit sharing expense	—	83,788	83,788	—	81,279	81,279	2,509	3.1
Total compensation and benefits	257,666	83,788	341,454	177,223	81,279	258,502	82,952	32.1
Other expenses	151,252	—	151,252	147,525	—	147,525	3,727	2.5
Total Expenses	408,918	83,788	492,706	324,748	81,279	406,027	86,679	21.3
Other Income:								
Net interest expense	—	(9,274)	(9,274)	—	(9,686)	(9,686)	412	(4.3)
Net gains (losses) from investment activities	—	9,062	9,062	—	(12,593)	(12,593)	21,655	NM
Income from equity method investments	—	18,812	18,812	—	30,678	30,678	(11,866)	(38.7)
Other income (loss), net	25,984	9,279	35,263	23,685	8,508	32,193	3,070	9.5
Total Other Income	25,984	27,879	53,863	23,685	16,907	40,592	13,271	32.7
Non-Controlling Interests	(12,688)	—	(12,688)	(13,985)	—	(13,985)	1,297	(9.3)
Economic Income	$ 439,505	$ 68,481	$ 507,986	$ 228,950	$ 272,398	$ 501,348	$ 6,638	1.3 %

(1) Prior period amounts have been recast to conform to the current presentation. See note 18 to our consolidated financial statements for more detail on the reclassifications within our three segments.

(2) Included in unrealized carried interest losses from affiliates for the years ended December 31, 2015 and 2013 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 15 to our consolidated financial statements for further detail regarding the general partner obligation.

Revenues

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Advisory and transaction fees from affiliates, net, decreased by $237.9 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease was primarily driven by a decrease in monitoring fees from Athene of $224.5 million as a result of the termination of the Athene Services Agreement (as described in note 15 to the consolidated financial statements) as of December 31, 2014.

Management fees from affiliates increased by $26.5 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to increases in management fees earned with respect to COF III and MidCap of $12.3 million and $8.7 million, respectively, during the year ended December 31, 2015 as compared to the same period during 2014.

Carried interest income from affiliates decreased by $107.0 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to a decrease in carried interest income earned from EPF I, EPF II, an SIA and ACLF of $57.0 million, $35.8 million, $30.2 million and $19.2 million, respectively, partially offset by increased carried interest income earned from FCI II and FCI I of $26.3 million and $9.7 million, respectively, during the year ended December 31, 2015 as compared to the same period in 2014.

The decrease in carried interest income from EPF I was attributable to the non-recurrence of appreciation of investments in the consumer finance sector during the year ended December 31, 2015. Carried interest income from EPF II decreased as a result of market value declines in the fund's investments in the financial and shipping sectors during the year ended December 31, 2015. Carried interest income from one of the SIAs the Company manages and ACLF decreased during the year ended December 31, 2015 compared to the same period in 2014 primarily due to market value declines in energy and natural resources. These

decreases were offset by an increase in carried interest income from FCI II and FCI I during the year ended December 31, 2015 as compared to the year ended December 31, 2014. The portfolios of FCI II and FCI I had unrealized market value increases in their life settlements investments, as a result of an increase in the value of the fund's investments based on observed market transactions. During the year ended December 31, 2014, FCI II was early in its life, and had sizable purchases during the year ended December 31, 2015, therefore similar appreciation did not occur.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Advisory and transaction fees from affiliates, net, increased by $140.5 million during the year ended December 31, 2014 as compared to the year ended December 31, 2013. The increase was primarily driven by an increase in monitoring fees from Athene of $118.5 million as a result of Athene's acquisition of Aviva USA and an increase in net transaction fees with respect to EPF II and FCI II during the year ended December 31, 2014 compared to the same period in 2013.

Management fees from affiliates increased by $146.3 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to increases in management fees earned from Athene (as a result of Athene's acquisition of Aviva USA) and AINV of $126.1 million and $8.4 million, respectively, during the year ended December 31, 2014 compared to the same period in 2013.

Carried interest income from affiliates decreased by $208.1 million during the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to a decrease in carried interest income earned from COF I and COF II, certain sub-advisory arrangements, an SIA, EPF I, certain CLOs, Apollo Offshore Credit Fund, ACLF and AIE II of $57.7 million, $42.3 million, $38.8 million, $25.7 million, $20.6 million, $18.0 million, $12.6 million and $11.3 million, respectively. These decreases in carried interest income were partially offset by increased carried interest income earned from EPF II of $59.4 million during the year ended December 31, 2014 as compared to the year ended December 31, 2013.

The decrease in COF I and COF II was attributable to significant gains in positions that did not recur in 2014. In addition, the funds increased distributions to investors which decreased the asset base resulting in decreased income on a steady basis through 2014. Sub-advisory arrangements had less appreciation in 2014 as compared to 2013. Returns of an SIA were positive in 2014 but were decreased compared to 2013 due to unrealized losses related to energy positions in the second half of 2014. The decrease in EPF I was driven by foreign exchange losses as a result of the decline of the Euro against the US dollar. Decreased carried interest income in certain CLOs resulted from decreased market value gains and interest in 2014 compared to 2013. Apollo Offshore Credit Fund's returns were positive in 2014 but did not exceed the preferred return for the majority of its investors due to decreased interest income as compared to 2013. The decrease was also attributable to unrealized market value gains in 2013 compared to losses in 2014. ACLF had decreased carried interest related to unrealized losses in energy positions in the second half of 2014. AIE II's carried interest and returns experienced smaller gains in 2014 compared to 2013 as a result of significant realizations during 2013 that did not recur during 2014.

Expenses

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Compensation and benefits expense decreased by $66.9 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily due to decreases in profit sharing expense and equity-based compensation of $49.4 million and $20.4 million, respectively, during the year ended December 31, 2015 as compared to the year ended December 31, 2014. Profit sharing expense decreased as a result of a corresponding decrease in carried interest income as described above. In any year the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period. Equity-based compensation was higher during the year ended December 31, 2014 as compared to the same period in 2015 as a result of a non-cash expense of $23.2 million in connection with the departure of an executive officer during the year ended December 31, 2014.

Included in profit sharing expense is $15.2 million and $6.3 million related to the Incentive Pool for the years ended December 31, 2015 and 2014, repectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular quarter.

Other expenses decreased by $23.5 million during the year ended December 31, 2015, as compared to the year ended December 31, 2014. The change was primarily driven by a decrease in professional fees of $7.7 million primarily attributable to lower consulting fees, a decrease in placement fees with respect to COF III of $6.3 million and a decrease in general, administrative and other expense of $7.5 million primarily attributable to lower technology expenses during the year ended December 31, 2015 compared to the same period in 2014.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Compensation and benefits expense increased by $83.0 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily due to an increase in salary, bonus and benefits of $57.5 million due to increased headcount and an increase in equity-based compensation of $23.0 million. The increase in equity-based compensation was driven by non-cash expense of $23.2 million related to equity-based compensation in connection with the departure of an executive officer during the year ended December 31, 2014 as compared to the same period in 2013. Within our credit segment, the Company is seeking to further align total compensation for investment professionals with the profitability of the credit business as a whole rather than on a fund-by-fund basis. As a result, the Company incurred approximately $22.0 million of additional profit sharing expense at the inception of the compensation plan during 2014.

Included within profit sharing expense is the Incentive Pool, which resulted in additional profit sharing expense of $6.3 million and $16.3 million for the years ended December 31, 2014 and 2013, respectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular quarter.

Other Income

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Net gains from investment activities increased by $105.1 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to an increase in unrealized gains on the Company’s investment in Athene of $100.1 million during the year ended December 31, 2015 compared to the same period in 2014.

Income from equity method investments decreased by $24.8 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was driven by decreases in the values of investments in certain of our credit funds, primarily from Apollo’s ownership interests in AINV, certain SIAs, EPF I, and EPF II of $9.3 million, $3.8 million, $3.4 million and $1.5 million, respectively, during the year ended December 31, 2015 as compared to the same period in 2014. The change was also driven by a decrease in the value of our investment in Apollo Energy Opportunity Fund, L.P. (“AEOF”), a fund which launched during 2015, of $2.0 million.

Other income decreased by $31.7 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily due to a gain of $17.3 million resulting from the reduction of the tax receivable agreement liability during the year ended December 31, 2014 that did not recur in 2015 and a $12.4 million unrealized gain on Athene-related derivative contracts during the year ended December 31, 2014 that did not recur in 2015 as a result of settlement of these derivative contracts during 2014.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Net gains from investment activities of $9.1 million increased by $21.7 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013 as a result of appreciation in the Company's investment in HFA during the year ended December 31, 2014 prior to the sale of the investment in HFA (see note 4 to the consolidated financial statements.)

Income from equity method investments decreased by $11.9 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was driven by decreases in the fair values of investments held by certain of our credit funds, primarily COF I, EPF I, AIE II, COF III and Apollo Palmetto Strategic Partnership, L.P. which resulted in decreases in income from equity method investments of $6.1 million, $2.2 million, $1.8 million, $1.6 million and $1.1 million, respectively, during the year ended December 31, 2014 as compared to the same period in 2013.

Other income increased by $3.1 million during the year ended December 31, 2014, as compared to the year ended December 31, 2013, mainly due to a gain from the reduction of the tax receivable agreement liability during the year ended December 31, 2014 resulting from changes in projected income estimates and estimated tax rates (see note 15 to our consolidated financial statements).

Real Estate

The following tables set forth our segment statement of operations information and EI for the "management" and "incentive" businesses within our real estate segment for the years ended December 31, 2015, 2014 and 2013, respectively.

	For the Year Ended December 31, 2015			For the Year Ended December 31, 2014				
	Management	Incentive	Total	Management	Incentive	Total	Total Change	Percentage Change
				(in thousands)				
Real Estate:(1)								
Revenues:								
Advisory and transaction fees from affiliates, net	$ 4,425	$ —	$ 4,425	$ 2,655	$ —	$ 2,655	$ 1,770	66.7 %
Management fees from affiliates	50,816	—	50,816	47,213	—	47,213	3,603	7.6 %
Carried interest income from affiliates:								
Unrealized gains	—	7,154	7,154	—	4,951	4,951	2,203	44.5 %
Realized gains	—	5,857	5,857	—	3,998	3,998	1,859	46.5 %
Total carried interest income from affiliates	—	13,011	13,011	—	8,949	8,949	4,062	45.4 %
Total Revenues	55,241	13,011	68,252	49,868	8,949	58,817	9,435	16.0 %
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	38,076	—	38,076	32,611	—	32,611	5,465	16.8 %
Equity-based compensation	4,177	—	4,177	8,849	—	8,849	(4,672)	(52.8)%
Profit sharing expense	—	5,075	5,075	—	2,747	2,747	2,328	84.7 %
Total compensation and benefits	42,253	5,075	47,328	41,460	2,747	44,207	3,121	7.1 %
Other expenses	22,869	—	22,869	21,669	—	21,669	1,200	5.5 %
Total Expenses	65,122	5,075	70,197	63,129	2,747	65,876	4,321	6.6 %
Other Income:								
Net interest expense	—	(2,915)	(2,915)	—	(1,941)	(1,941)	(974)	50.2 %
Income from equity method investments	—	2,978	2,978	—	5,675	5,675	(2,697)	(47.5)%
Other income, net	1,455	—	1,455	3,409	—	3,409	(1,954)	(57.3)%
Total Other Income	1,455	63	1,518	3,409	3,734	7,143	(5,625)	(78.7)%
Economic Income (Loss)	$ (8,426)	$ 7,999	$ (427)	$ (9,852)	$ 9,936	$ 84	$ (511)	NM

(1) Prior period amounts have been recast to conform to the current presentation. See note 18 to our consolidated financial statements for more detail on the reclassifications within our three segments.

	For the Year Ended December 31, 2014			For the Year Ended December 31, 2013				
	Management	Incentive	Total	Management	Incentive	Total	Total Change	Percentage Change
				(in thousands)				
Real Estate:(1)								
Revenues:								
Advisory and transaction fees from affiliates, net	$ 2,655	$ —	$ 2,655	$ 3,548	$ —	$ 3,548	$ (893)	(25.2)%
Management fees from affiliates	47,213	—	47,213	53,436	—	53,436	(6,223)	(11.6)
Carried interest income from affiliates:								
Unrealized gains	—	4,951	4,951	—	4,681	4,681	270	5.8
Realized gains	—	3,998	3,998	—	541	541	3,457	639.0
Total carried interest income from affiliates	—	8,949	8,949	—	5,222	5,222	3,727	71.4
Total Revenues	49,868	8,949	58,817	56,984	5,222	62,206	(3,389)	(5.4)
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	32,611	—	32,611	31,936	—	31,936	675	2.1
Equity-based compensation	8,849	—	8,849	10,207	—	10,207	(1,358)	(13.3)
Profit sharing expense	—	2,747	2,747	—	123	123	2,624	2,133.3
Total compensation and benefits	41,460	2,747	44,207	42,143	123	42,266	1,941	4.6
Other expenses	21,669	—	21,669	24,528	—	24,528	(2,859)	(11.7)
Total Expenses	63,129	2,747	65,876	66,671	123	66,794	(918)	(1.4)
Other Income:								
Net interest expense	—	(1,941)	(1,941)	—	(2,804)	(2,804)	863	(30.8)
Income from equity method investments	—	5,675	5,675	—	3,722	3,722	1,953	52.5
Other income, net	3,409	—	3,409	2,115	—	2,115	1,294	61.2

Total Other Income	3,409	3,734	7,143	2,115	918	3,033	4,110	135.5
Economic Income (Loss)	$ (9,852)	$ 9,936	$ 84	$ (7,572)	$ 6,017	$ (1,555)	$ 1,639	NM

(1) Prior period amounts have been recast to conform to the current presentation. See note 18 to our consolidated financial statements for more detail on the reclassifications within our three segments.

Revenues

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Advisory and transaction fees from affiliates, net, increased by $1.8 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to an increase in net advisory and transaction fees earned with respect to AGRE Debt Fund I of $1.5 million.

Management fees from affiliates increased by $3.6 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to increases in management fees earned with respect to ARI, a China-based investment fund we manage as a result of the Venator acquisition and U.S. RE Fund II of $4.5 million, $2.6 million and $1.7 million, respectively, which were partially offset by a decrease in management fees earned related to our CPI funds of $6.1 million.

Carried interest income from affiliates increased by $4.1 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to an increase in carried interest income earned from our CPI funds in Europe and U.S. RE Fund I of $5.5 million and $0.9 million, respectively, partially offset by a decrease related to London Prime Apartments Guernsey Holdings Limited ("London Prime Apartments") of $2.3 million. The increase in carried interest income in U.S. RE Fund I was a result of improved performance across many of the fund's underlying investments and higher global real estate values during the year ended December 31, 2015 as compared to the same period in 2014. The increase in carried interest income from our CPI funds in Europe was attributable to an increase in the value of a publicly traded security sold subsequent to December 31, 2014. The decrease in carried interest income in London Prime Apartments was a result of an increase in the values of the underlying properties as compared to the same period in 2014.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Advisory and transaction fees from affiliates, net, decreased by $0.9 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was attributable to a decrease in capital raised and invested and the realization of underlying investments for which transaction fees and exit fees, respectively, were earned during the year ended December 31, 2013.

Management fees decreased by $6.2 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The decrease in management fees was primarily due to decreased management fees from the CPI Funds for the year ended December 31, 2014 as compared to the year ended December 31, 2013.

Carried interest income from affiliates increased by $3.7 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to an increase in carried interest income earned from our CPI funds in Europe and U.S. RE Fund I of $2.9 million and $2.8 million, respectively, partially offset by a decrease in carried interest income earned from our CPI funds in North America of $1.4 million. The increase in carried interest income from our CPI funds in Europe was attributable to a smaller decline in the value of a publicly marked security in the funds' portfolios during the year ended December 31, 2014 as compared to 2013. The increase in carried interest income for U.S. RE Fund I was primarily driven by improved performance across many of the fund's underlying investments and higher real estate values. The decrease in carried interest income earned from our CPI funds in North America was primarily the result of a non-recurring transaction that occurred in 2013.

Expenses

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Compensation and benefits increased by $3.1 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to an increase in salary, bonus and benefits of $5.5 million as a result of a higher headcount in 2015, and an increase in profit sharing expense of $2.3 million due to a corresponding increase in carried interest income earned during the year ended December 31, 2015 as discussed above. These increases were offset by a decrease in equity-based compensation of $4.7 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Other expenses increased by $1.2 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014, primarily attributable to an increase in legal fees of $1.1 million.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Compensation and benefits increased by $1.9 million during the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was primarily attributable to an increase of $2.6 million in profit sharing expense, driven by an increase in carried interest income earned from our real estate funds, and a decrease in equity-based compensation of $1.4 million during the year ended December 31, 2014 as compared to the year ended December 31, 2013.

Other expenses decreased by $2.9 million during the year ended December 31, 2014 as compared to the year ended December 31, 2013, primarily attributable to decreased legal fees and organizational expenses, offset by higher consulting fees and technology expenses.

Other Income

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Income from equity method investments decreased by $2.7 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This decrease is primarily attributable to a $2.7 million decrease in the income from Apollo’s ownership interest in ARI during the year ended December 31, 2015.

Other income decreased by $2.0 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily due to a gain of $3.1 million resulting from the reduction of the tax receivable agreement liability during the year ended December 31, 2014 that did not recur in 2015.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Other income increased by $4.1 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This change was driven by an increase in income from equity method investments of $2.0 million due to an increase in the fair values of our real estate investments held, primarily from Apollo's ownership interest in ARI, and an increase in other income, net primarily due to a gain resulting from the reduction of the tax receivable agreement liability during the year ended December 31, 2014 as a result of a change in projected income estimates and estimated tax rates (see note 15 to our consolidated financial statements).

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Summary Combined Results

The following table combines our management and incentive businesses' statements of operations information and EI for the years ended December 31, 2015, 2014 and 2013, respectively.

	For the Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Management Business:			
Advisory and transaction fees from affiliates, net	$ 14,186	$ 316,082	$ 196,562
Management fees from affiliates	911,893	901,024	730,702
Carried interest income from affiliates	40,625	41,199	36,922
Total Management Business Revenues	966,704	1,258,305	964,186
Salary, bonus and benefits	355,922	339,846	294,753
Equity-based compensation	62,184	105,495	66,341
Other expenses	230,745	243,207	272,949
Total Management Business Expenses	648,851	688,548	634,043
Other income, net	7,694	41,803	37,879
Non-Controlling Interests	(11,684)	(12,688)	(13,985)
Management Business Economic Income	$ 313,863	$ 598,872	$ 354,037
Incentive Business:			
Carried interest income (loss) from affiliates:			
Unrealized gains (losses)[1]	$ (387,541)	$ (1,347,786)	$ 402,835
Realized gains	444,206	1,713,108	2,456,404
Total Carried Interest Income	56,665	365,322	2,859,239
Profit sharing expense:			
Unrealized profit sharing expense	(136,653)	(517,308)	133,850
Realized profit sharing expense	222,684	782,216	977,956
Total Profit Sharing Expense	86,031	264,908	1,111,806
Other Income:			
Net interest expense	(26,533)	(19,098)	(23,191)
Other income, net	483	10,896	10,203
Net gains (losses) from investment activities	121,132	9,062	(12,593)
Income from equity method investments	16,078	54,905	113,211
Total Other Income	111,160	55,765	87,630
Incentive Business Economic Income	$ 81,794	$ 156,179	$ 1,835,063
Economic Income	395,657	755,051	2,189,100
Income tax provision on Economic Income	(10,518)	(185,587)	(173,679)
Economic Net Income	$ 385,139	$ 569,464	$ 2,015,421

(1) Included in unrealized carried interest losses from affiliates for the year ended December 31, 2015 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 18 to our consolidated financial statements for further detail regarding the general partner obligation.

Summary of Distributable Earnings

The following table is a summary of DE for the years ended December 31, 2015, 2014 and 2013.

	For the Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Management Business Economic Income	$ 313,863	$ 598,872	$ 354,037
Less: Non-cash revenues[1]	(5,311)	(260,513)	(123,170)
Add back: Equity-based compensation	62,184	105,495	66,341
Add back: Depreciation, amortization and other	56,476	10,182	11,046
Management Business Distributable Earnings	$ 427,212	$ 454,036	$ 308,254
Incentive Business Economic Income	$ 81,794	$ 156,179	$ 1,835,063
Less: Non-cash carried interest income[2]	(29,900)	—	—
Add back: Net unrealized carried interest loss	250,888	830,478	(268,985)
Less: Unrealized investment and other (income) loss[3]	(107,173)	(10,913)	(3,207)
Incentive Business Distributable Earnings	$ 195,609	$ 975,744	$ 1,562,871
Distributable Earnings	$ 622,821	$ 1,429,780	$ 1,871,125
Taxes and related payables[4]	(9,715)	(73,565)	(41,151)
Distributable Earnings After Taxes and Related Payables	$ 613,106	$ 1,356,215	$ 1,829,974

(1) Includes monitoring fees paid by Athene to Apollo by delivery of common shares of Athene Holding and gains resulting from reductions of the tax receivable agreement liability due to changes in projected income estimates and estimated tax rates.

(2) Represents realized carried interest income settled by receipt of securities.

(3) Represents unrealized gains from our general partner investments in our funds and other investments.

(4) Represents the estimated current corporate, local and non-U.S. taxes as well as the payable under Apollo's tax receivable agreement.

The following table is a reconciliation of Distributable Earnings per share of common and equivalents[1] to net distribution per share of common and equivalent for the years ended December 31, 2015, 2014 and 2013.

	For the Year Ended December 31,		
	2015	2014	2013
	(in thousands, except per share data)		
Distributable Earnings After Taxes and Related Payables	$ 613,106	$ 1,356,215	$ 1,829,974
Add back: Tax and related payables attributable to common and equivalents	12	66,429	32,192
Distributable Earnings before certain payables[2]	613,118	1,422,644	1,862,166
Percent to common and equivalents	47%	45%	42%
Distributable Earnings before other payables attributable to common and equivalents	290,420	633,380	784,268
Less: Tax and related payables attributable to common and equivalents	(12)	(66,429)	(32,192)
Distributable Earnings attributable to common and equivalents	$ 290,408	$ 566,951	$ 752,076
Distributable Earnings per share of common and equivalent[3]	$ 1.50	$ 3.13	$ 4.49
Retained capital per share of common and equivalent[3][4]	(0.12)	(0.24)	(0.51)
Net distribution per share of common and equivalent[3]	$ 1.38	$ 2.89	$ 3.98

(1) Common and equivalents refers to Class A shares outstanding and RSUs that participate in distributions.

(2) Distributable earnings before certain payables represents Distributable Earnings before the deduction for the estimated current corporate taxes and the payable under Apollo's tax receivable agreement.

(3) Per share calculations are based on end of period total Class A shares outstanding and RSUs that participate in distributions.

(4) Retained capital is withheld pro-rata from common and equivalent holders and AOG unitholders.

Summary of Non-U.S. GAAP Measures

The table below sets forth a reconciliation of our non-U.S. GAAP performance measures to net income attributable to Apollo Global Management, LLC for the years ended December 31, 2015, 2014 and 2013:

	For the Year Ended December 31,		
	2015	2014	2013
Net Income Attributable to Apollo Global Management, LLC	**$ 134,497**	**$ 168,229**	**$ 659,391**
Net income attributable to Non-Controlling Interests in consolidated entities and Appropriated Partners' Capital	21,364	157,011	456,953
Net income attributable to Non-Controlling Interests in the Apollo Operating Group	194,634	404,682	1,257,650
Net Income	**$ 350,495**	**$ 729,922**	**$ 2,373,994**
Income tax provision	26,733	147,245	107,569
Income Before Income Tax Provision	**$ 377,228**	**$ 877,167**	**$ 2,481,563**
Transaction-related charges and equity-based compensation	39,793	34,895	164,490
Net income attributable to Non-Controlling Interests in consolidated entities	(21,364)	(157,011)	(456,953)
Economic Income	**$ 395,657**	**$ 755,051**	**$ 2,189,100**
Income tax provision on Economic Income	(10,518)	(185,587)	(173,679)
Economic Net Income	**$ 385,139**	**$ 569,464**	**$ 2,015,421**
Income tax provision on Economic Income	10,518	185,587	173,679
Carried interest loss from affiliates	(56,665)	(365,322)	(2,859,239)
Profit sharing expense	86,031	264,908	1,111,806
Other income	(111,160)	(55,765)	(87,630)
Equity-based compensation[(1)]	62,184	105,495	66,341
Depreciation and amortization[(2)]	11,476	10,182	11,046
Fee-Related EBITDA	**$ 387,523**	**$ 714,549**	**$ 431,424**
Net realized carried interest income	221,522	930,892	1,478,448
Fee-Related EBITDA + 100% of Net Realized Carried Interest	**$ 609,045**	**$ 1,645,441**	**$ 1,909,872**
Realized investment and other income	3,987	44,852	84,423
Non-cash revenues	(35,211)	(260,513)	(123,170)
Other[(3)]	45,000	—	—
Distributable Earnings	**$ 622,821**	**$ 1,429,780**	**$ 1,871,125**
Taxes and related payables	(9,715)	(73,565)	(41,151)
Distributable Earnings After Taxes and Related Payables	**$ 613,106**	**$ 1,356,215**	**$ 1,829,974**

(1) Includes RSUs (excluding RSUs granted in connection with the 2007 private placement) and share options. Excludes equity-based compensation expense comprising amortization of AOG Units.

(2) Includes amortization of leasehold improvements.

(3) Includes a reserve of $45 million accrued during the year ended December 31, 2015 in connection with an ongoing SEC regulatory matter principally concerning the acceleration of fees from fund portfolio companies. See note 16 to our consolidated financial statements for further detail regarding the ongoing SEC regulatory matter.

Liquidity and Capital Resources

Historical

Although we have managed our historical liquidity needs by looking at deconsolidated cash flows, our historical consolidated statements of cash flows reflects the cash flows of Apollo, as well as those of the consolidated Apollo funds.

The primary cash flow activities of Apollo are:

- Generating cash flow from operations;
- Making investments in Apollo funds;
- Meeting financing needs through credit agreements; and
- Distributing cash flow to equity holders and Non-Controlling Interests.

Primary cash flow activities of the consolidated Apollo funds and VIEs are:

- Raising capital from their investors, which have been reflected historically as Non-Controlling Interests of the consolidated subsidiaries in our financial statements;
- Using capital to make investments;
- Generating cash flow from operations through distributions, interest and the realization of investments;
- Distributing cash flow to investors; and
- Issuing debt to finance investments (CLOs)

While primarily met by cash flows generated through fee income and carried interest income received, working capital needs have also been met (to a limited extent) through borrowings as described in note 12 to the consolidated financial statements.

We determine whether to make capital commitments to our funds in excess of our minimum required amounts based on a variety of factors, including estimates regarding our liquidity resources over the estimated time period during which commitments will have to be funded, estimates regarding the amounts of capital that may be appropriate for other funds that we are in the process of raising or are considering raising, and our general working capital requirements.

Cash Flows

Significant amounts from our consolidated statements of cash flows for the years ended December 31, 2015, 2014 and 2013 are summarized and discussed within the table and corresponding commentary below:

	For the Year Ended December 31,		
	2015	2014	2013
		(in thousands)	
Operating Activities	$ 582,673	$ (372,917)	$ 1,134,458
Investing Activities	(202,936)	13,432	2,651
Financing Activities	(968,078)	485,611	(1,005,023)
Net (Decrease) Increase in Cash and Cash Equivalents	$ (588,341)	$ 126,126	$ 132,086

Operating Activities

Our net cash provided by (used in) operating activities was $582.7 million, $(372.9) million and $1.1 billion during the years ended December 31, 2015, 2014 and 2013, respectively. These amounts were primarily driven by:

- net income of $350.5 million, $729.9 million and $2.4 billion during the years ended December 31, 2015, 2014 and 2013, respectively, as well as non-cash adjustments of $12.0 million, $214.0 million and $269.9 million, respectively;
- net decrease (increase) in our carried interest receivable of $303.3 million, $1.4 billion and ($408.8) million during the years ended December 31, 2015, 2014 and 2013, respectively, due to a change in the fair value of our funds that

generate carried interest of $181.5 million, $397.4 million and $2.8 billion during the years ended December 31, 2015, 2014 and 2013, respectively, offset by fund distributions to the Company (net of non-cash settlements) of $485.0 million, $1.8 billion and $2.4 billion during the years ended December 31, 2015, 2014 and 2013, respectively;

- purchases of investments held by consolidated VIEs in the amount of $521.2 million, $10.3 billion and $9.8 billion, offset by proceeds from sales of investments held by consolidated VIEs in the amount of $409.2 million, $8.5 billion and $8.4 billion during the during the years ended December 31, 2015, 2014 and 2013, respectively; and
- net (decrease) increase in our profit sharing payable of ($122.6) million, ($518.0) million and $141.2 million during the years ended December 31, 2015, 2014 and 2013, respectively, due to profit sharing expense (inclusive of the return of profit sharing distributions from employees, former employees and Contributing Partners that would be due if certain funds were liquidated) of $100.1 million, $276.2 million and $1.2 billion during the years ended December 31, 2015, 2014 and 2013, respectively, offset by payments of $239.2 million, $833.6 million and $1.0 billion during the years ended December 31, 2015, 2014 and 2013, respectively.

Investing Activities

Our net cash (used in) provided by investing activities was $(202.9) million, $13.4 million and $2.7 million during the years ended December 31, 2015, 2014 and 2013, respectively. These amounts were primarily driven by:

- net cash contributions from our equity method investments of $172.8 million and $33.6 million during the years ended December 31, 2015, and 2014, respectively, and net cash distributions of $8.8 million in 2013
- proceeds from sales of investments (net of purchases of investments) in the amount of $50.0 million during the year ended December 31, 2014, respectively; and
- loans made to Apollo employees in the amount of $25.0 million during the year ended December 31, 2015.

Financing Activities

Our net cash (used in) provided by financing activities was ($968.1) million, $485.6 million and ($1.0) billion during the years ended December 31, 2015, 2014 and 2013, respectively. These amounts were primarily driven by:

- issuance of debt (net of debt issuance costs and repayments of principal) in the amount of $278.5 million and $4.4 million for the years ended December 31, 2014 and 2013, respectively;
- payments made towards the satisfaction of our tax receivable agreement liability of $48.4 million, $32.0 million and $30.4 million during the years ended December 31, 2015, 2014 and 2013, respectively (see note 15 for further discussion of the tax receivable agreement liability);
- cash distributions of $78.9 million and $85.9 million related to deliveries of Class A shares for RSUs for the years ended December 31, 2015 and 2013, respectively;
- cash distributions paid to our Class A shareholders of $354.4 million, $506.0 million and $584.5 million during the years ended December 31, 2015, 2014 and 2013, respectively;
- cash distributions paid to the Non-Controlling Interest holders in the Apollo Operating Group of $453.3 million, $816.4 million and $975.5 million during the years ended December 31, 2015, 2014 and 2013, respectively;
- issuance of debt (net of repayments of principal) held by consolidated VIEs in the amount of $1.9 billion and $529.0 million during the years ended December 31, 2014 and 2013, respectively; and
- net cash (distributions paid by) contributions to our consolidated funds and VIEs of ($3.4) million, ($263.8) million and $207.3 million during the years ended December 31, 2015, 2014 and 2013, respectively.

Distributions

In addition to other distributions such as payments pursuant to the tax receivable agreement, see note 15 to the consolidated financial statements for information regarding the quarterly distributions which were made at the sole discretion of the Company's manager during 2015, 2014 and 2013.

Future Cash Flows

Our ability to execute our business strategy, particularly our ability to increase our AUM, depends on our ability to establish new funds and to raise additional investor capital within such funds. Our liquidity will depend on a number of factors, such as our ability to project our financial performance, which is highly dependent on our funds and our ability to manage our projected costs, fund performance, our access to credit facilities, our being in compliance with existing credit agreements, as well as industry and market trends. Also during economic downturns the funds we manage might experience cash flow issues or liquidate entirely. In these situations we might be asked to reduce or eliminate the management fee and incentive fees we charge, which could adversely impact our cash flow in the future.

An increase in the fair value of our funds' investments, by contrast, could favorably impact our liquidity through higher management fees where the management fees are calculated based on the net asset value, gross assets and adjusted assets. Additionally, higher carried interest income not yet realized would generally result when investments appreciate over their cost basis which would not have an impact on the Company's cash flow.

As of December 31, 2015, Fund VII's and Fund VI's remaining investments and escrow cash were valued at 106% and 95% of the fund's unreturned capital, respectively, which was below the required escrow ratio of 115%. As a result, these funds are required to place in escrow current and future carried interest income distributions to the general partner until the specified return ratio of 115% is met (at the time of a future distribution) or upon liquidation.

On April 20, 2010, the Company announced that it entered into a strategic relationship agreement with CalPERS. The strategic relationship agreement provides that Apollo will reduce fees charged to CalPERS on funds it manages, or in the future will manage, solely for CalPERS by $125 million over a five-year period or as close a period as required to provide CalPERS with that benefit. The agreement further provides that Apollo will not use a placement agent in connection with securing any future capital commitments from CalPERS. As of December 31, 2015, the Company had reduced fees charged to CalPERS on the funds it manages by approximately $100.7 million. Based on the Company's current estimates, the reduction of fees will extend until 2017 in order for CalPERS to receive the full benefit of this arrangement.

Although we expect to pay distributions according to our distribution policy, we may not pay distributions according to our policy, or at all, if, among other things, we do not have the cash necessary to pay the intended distributions. To the extent we do not have cash on hand sufficient to pay distributions, we may have to borrow funds to pay distributions, or we may determine not to pay distributions. The declaration, payment and determination of the amount of our quarterly distributions are at the sole discretion of our manager.

On February 3, 2016, the Company announced its adoption of a plan to repurchase up to $250 million in the aggregate of its common shares, including up to $150 million in the aggregate of its outstanding common Class A shares through a share repurchase program and up to $100 million through a reduction of common Class A shares to be issued to employees to satisfy associated tax obligations in connection with the settlement of equity-based awards granted under the Company's equity incentive plan. Under the share repurchase program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise, with the size and timing of these repurchases depending on legal requirements, price, market and economic conditions and other factors.

Carried interest income from our funds can be distributed to us on a current basis, but is subject to repayment by the subsidiaries of the Apollo Operating Group that act as general partner of such funds in the event that certain specified return thresholds are not ultimately achieved. The Managing Partners, Contributing Partners and certain other investment professionals have personally guaranteed, to the extent of their ownership interest, subject to certain limitations, the obligations of these subsidiaries in respect of this general partner obligation. Such guarantees are several and not joint and are limited to a particular Managing Partner's or Contributing Partner's distributions. Pursuant to the shareholders agreement dated July 13, 2007, as amended (the "Shareholders Agreement"), we agreed to indemnify each of our Managing Partners and certain Contributing Partners against all amounts that they pay pursuant to any of these personal guarantees in favor of Fund IV, Fund V and Fund VI (including costs and expenses related to investigating the basis for or objecting to any claims made in respect of the guarantees) for all interests that our Managing Partners and Contributing Partners have contributed or sold to the Apollo Operating Group.

Accordingly, in the event that our Managing Partners, Contributing Partners and certain investment professionals are required to pay amounts in connection with a general partner obligation to return previously distributed carried interest income with respect to Fund IV, Fund V and Fund VI, we will be obligated to reimburse our Managing Partners and certain Contributing Partners for the indemnifiable percentage of amounts that they are required to pay even though we did not receive the distribution to which that general partner obligation related.

On November 9, 2015, Apollo announced that it mutually agreed with RCS Capital Corporation ("RCAP") to amend the terms of the previously announced sale of RCAP's wholesale distribution business and certain related entities to Apollo. The amended purchase agreement provided for RCAP to sell its wholesale distribution business, including Realty Capital Securities and Strategic Capital, to Apollo for $6 million, subject to certain purchase price adjustments. On December 2, 2015, RCAP announced that it had authorized plans to wind down the operations of Realty Capital Securities. On January 4, 2016, RCAP announced its intent to file a voluntary petition for a prearranged Chapter 11 bankruptcy in late January 2016 and on January 31, 2016, RCAP filed such petition. As a result of these developments, the transactions contemplated by the amended purchase agreement with RCAP will not be consummated. Apollo is evaluating its rights with respect to these developments.

On January 14, 2016, the Company issued 529,395 Class A shares in settlement of vested RSUs. This issuance caused the Company's ownership interest in the Apollo Operating Group to increase from 45.6% to 45.7%.

On February 3, 2016, the Company declared a cash distribution of $0.28 per Class A share, which will be paid on February 29, 2016 to holders of record on February 19, 2016.

On February 5, 2016, the Company issued 2,745,799 Class A shares in settlement of vested RSUs. This issuance caused the Company's ownership interest in the Apollo Operating Group to increase from 45.7% to 46.0%.

Athene

Athene Holding is the ultimate parent of various insurance company operating subsidiaries. Through its subsidiaries, Athene Holding provides insurance products focused primarily on the retirement market and its business centers primarily on issuing or reinsuring fixed indexed annuities.

Apollo, through its consolidated subsidiary, Athene Asset Management, L.P. ("Athene Asset Management"), provides asset management services to Athene, including asset allocation and portfolio management strategies, and receives fees from Athene for providing such services. As of December 31, 2015, Athene Asset Management managed all of Athene's portfolio assets, except with respect to the assets of Athene Germany, for which a different Apollo affiliate provides investment advisory services. Athene Asset Management had $59.5 billion of total AUM as of December 31, 2015 in the Athene Accounts, of which approximately $14.6 billion, or approximately 24.5%, was either sub-advised by Apollo or invested in Apollo funds and investment vehicles. The vast majority of such assets are in sub-advisory managed accounts that manage high grade credit asset classes, such as CLO debt, commercial mortgage backed securities and insurance-linked securities. We expect this percentage to increase over time provided that Athene Asset Management continues to perform successfully in providing asset management services to Athene.

In accordance with the services agreement among AAA, AAA Investments and the other service recipients party thereto and Apollo (the "AAA Services Agreement"), AAA was obligated to pay a fee (the "Unwind Fee") to Apollo if AAA commenced prior to December 31, 2015 a specified tender offer to all its qualified unitholders to purchase all of their equity interests in AAA in exchange for equity interests in a new carry vehicle to be managed by Apollo (the "Wind Up Tender Offer") and thereafter distributed the common shares of Athene Holding held by AAA following the consummation of such Wind-Up Tender Offer (or distributed the proceeds of any disposition of such shares). The obligation for AAA to pay the Unwind Fee terminated if the Wind Up Tender Offer was not commenced on or prior to December 31, 2015. At December 31, 2015, a Wind Up Tender Offer had not commenced. Accordingly, no Unwind Fee was incurred. In addition, pursuant to the AAA limited partnership agreement, AAA was obligated to, no later than promptly following the expiration of an initial lock-up period in respect of the Athene IPO, commence the Wind Up Tender Offer. Pursuant to the AAA limited partnership agreement, the obligation to make the Wind Up Tender Offer terminated if the Unwind Fee was no longer an obligation to Apollo. Accordingly, since the obligation to pay the Unwind Fee did not occur, there is no longer an obligation to make the Wind Up Tender Offer following the Athene IPO, and therefore no such Wind Up Tender Offer will be made to AAA's shareholders.

In connection with the Athene Private Placement, Athene Holding amended its registration rights agreement to provide (i) investors who are party to such agreement, including AAA Investments, the potential opportunity for liquidity on their shares of Athene Holding through sales in registered public offerings over a 15 month period beginning on the date of Athene Holding's initial public offering (the "Athene IPO") and (ii) Athene Holding the right to cause certain investors who are party to the registration rights agreement to include in such offerings a certain percentage of their common shares of Athene Holding subject to the terms and conditions set forth in the agreement. However, pursuant to the registration rights agreement, any shares of Athene Holding held by Apollo will not be subject to such arrangements and instead will be subject to a lock-up period of two years following the effective date of the registration statement relating to the Athene IPO, but Athene Holding will not have the right to cause any shares owned by Apollo to be included in the Athene IPO or any follow-on offering.

As part of its ongoing financial integration of Aviva USA, Athene identified material weaknesses in its internal controls over financial reporting for its U.S. GAAP and statutory financials as of December 31, 2013. A material weakness is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented, or detected and corrected on a timely basis. If Athene fails to maintain effective internal control over financial reporting, it may not be able to accurately report its financial results. While Athene was delayed in releasing financial statements within normal reporting periods over the past year, Athene released full year 2014 GAAP audited consolidated financial statements on September 9, 2015 and consolidated financial statements as of and for the six months ended June 30, 2015 on October 6, 2015, and consolidated financial statements as of and for the nine months ended September 30, 2015 on December 17, 2015. Notwithstanding these remediation efforts and delays in the release of its GAAP financial statements, Athene has continued to meet all regulatory filing deadlines with regard to financial statements prepared in accordance with Statutory Accounting principles and expects to do so for the quarter ended December 31, 2015.

During the year ended December 31, 2015, Apollo changed the valuation method used to value the investment in Athene Holding from the embedded value approach to the GAAP book value multiple approach. This change was driven by developments in Athene's business as discussed in note 6 to the consolidated financial statements.

Distributions to Managing Partners and Contributing Partners

The three Managing Partners who became employees of Apollo on July 13, 2007 each receive a $100,000 base salary. Additionally, our Managing Partners can receive other forms of compensation. Any additional consideration will be paid to them in their proportional ownership interest in Holdings. Additionally, as a result of the tax receivable agreement, 85% of any tax savings APO Corp. recognizes will be paid to the Managing Partners.

Subsequent to the 2007 Reorganization, the Contributing Partners retained ownership interests in subsidiaries of the Apollo Operating Group. Therefore, any distributions that flow up to management or general partner entities in which the Contributing Partners retained ownership interests are shared pro rata with the Contributing Partners who have a direct interest in such entities prior to flowing up to the Apollo Operating Group. These distributions are considered compensation expense.

The Contributing Partners are entitled to receive the following:

- Profit sharing related to private equity carried interest income, from direct ownership of advisory entities. Any changes in fair value of the underlying fund investments would result in changes to Apollo Global Management, LLC's profit sharing payable;
- Additional consideration based on their proportional ownership interest in Holdings; and
- As a result of the tax receivable agreement, 85% of any tax savings APO Corp. recognizes will be paid to the Contributing Partners.

Potential Future Costs

We may make grants of RSUs or other equity-based awards to employees and independent directors that we appoint in the future.

Critical Accounting Policies

This Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates. A summary of our significant accounting policies is presented in note 2 to our consolidated financial statements. The following is a summary of our accounting policies that are affected most by judgments, estimates and assumptions.

Consolidation

The types of entities with which Apollo is involved generally include subsidiaries (e.g., general partners and management companies related to the funds the Company manages), entities that have all the attributes of an investment company (e.g., funds) and securitization vehicles (e.g., collateralized loan obligations). Each of these entities is assessed for consolidation on a case by case basis depending on the specific facts and circumstances surrounding that entity.

Pursuant to the new consolidation guidance adopted during the year, effective as of January 1, 2015, the Company first evaluates whether it holds a variable interest in an entity. Fees that are customary and commensurate with the level of services provided, and where the Company doesn't hold other economic interests in the entity that would absorb more than an insignificant amount of the expected losses or returns of the entity, would not be considered a variable interest. Apollo factors in all economic interests including proportionate interests through related parties, to determine if fees are to be considered a variable interest. As Apollo's interests in many of these entities are solely through carried interests, performance fees, and/or insignificant indirect interests through related parties, Apollo is generally not considered to have a variable interest in many of these entities under the new guidance and no further consolidation analysis is performed. Prior to adoption of the new consolidation guidance, fees received by the Company for investment management services (e.g. carried interest and performance fees) were considered variable interests. For the remaining entities where the Company has determined that it does hold a variable interest, the Company performs an assessment to determine whether each of those entities qualify as a variable interest entity ("VIE").

Entities that do not qualify as VIEs are generally assessed for consolidation as voting interest entities ("VOEs") under the voting interest model. Under the voting interest model, Apollo consolidates those entities it controls through a majority voting interest. Apollo does not consolidate those VOEs in which substantive kick-out rights have been granted to the unaffiliated investors to either dissolve the fund or remove the general partner.

The consolidation assessment, including the determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and therefore certain of Apollo's funds may qualify as VIEs whereas others may qualify as VOEs. The granting of substantive kick-out rights is a key consideration in determining whether a limited partnership or similar entity is a VIE and whether or not that entity should be consolidated. For example, when the unaffiliated holders of equity investment at risk of a fund (assumed to be limited partnerships or similar entities) with sufficient equity to permit the fund to finance its activities without additional subordinated financial support are not granted substantive kick-out rights the fund is determined to be a VIE. Alternatively, when the unaffiliated holders of equity investment at risk are granted substantive kick-out rights, the fund is generally determined to be a VOE.

If the entity is determined to be a VIE, the Company assesses whether the entity should be consolidated by determining if Apollo is the primary beneficiary of the entity. The Company is determined to be the primary beneficiary if it holds a controlling financial interest defined as possessing both (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. When Apollo alone is not considered to have a controlling financial interest but Apollo and its related parties on an aggregate basis do have a controlling financial interest, Apollo is deemed to be the primary beneficiary if substantially all the activities of the entity are performed on behalf of Apollo.

Apollo determines whether it is the primary beneficiary of a VIE at the time it becomes initially involved with the VIE and reconsiders that conclusion continuously. Investments and redemptions (either by Apollo, affiliates of Apollo or third parties) or amendments to the governing documents of the respective entity may affect an entity's status as a VIE or the determination of the primary beneficiary.

The assessment of whether an entity is a VIE and the determination of whether Apollo should consolidate such VIE requires judgment. Under both the previous and the new guidance, those judgments include, but are not limited to: (i) determining whether the total equity investment at risk is sufficient to permit the entity to finance its activities without additional subordinated financial support, (ii) evaluating whether the holders of equity investment at risk, as a group, can make decisions that have a significant effect on the success of the entity, (iii) determining whether the equity investors have proportionate voting rights to their obligations to absorb losses or rights to receive the expected residual returns from an entity, and (iv) evaluating the nature of the relationship and activities of the parties involved in determining which party within a related-party group (only for those related parties with shared power or under common control under the new guidance) is most closely associated with the VIE. Judgments are also made in determining whether a member in the equity group has a controlling financial interest including power to direct activities that most significantly impact the VIEs' economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE. This analysis includes interests through related parties. Prior to adoption of the new guidance, where the VIEs had qualified for the deferral, judgments were made in estimating cash flows to evaluate which member within the equity group absorbed a majority of the expected losses or residual returns of the VIE.

Revenue Recognition

Carried Interest Income from Affiliates. We earn carried interest income from our funds as a result of such funds achieving specified performance criteria. Such carried interest income generally is earned based upon a fixed percentage of realized and unrealized gains of various funds after meeting any applicable hurdle rate or threshold minimum. Carried interest income from certain of the funds that we manage is subject to contingent repayment and is generally paid to us as particular investments made by the funds are realized. If, however, upon liquidation of a fund, the aggregate amount paid to us as carried interest exceeds the amount actually due to us based upon the aggregate performance of the fund, the excess (in certain cases net of taxes) is required to be returned by us to that fund. For a majority of our credit funds, once the annual carried interest income has been determined, there generally is no look-back to prior periods for a potential contingent repayment, however, carried interest income on certain other credit funds can be subject to contingent repayment at the end of the life of the fund. We have elected to adopt Method 2 from U.S. GAAP guidance applicable to accounting for management fees based on a formula, and under this method, we accrue carried interest income quarterly based on fair value of the underlying investments and separately assess if contingent repayment is necessary. The determination of carried interest income and contingent repayment considers both the terms of the respective partnership agreements and the current fair value of the underlying investments within the funds. Estimates and assumptions are made when determining the fair value of the underlying investments within the funds and could vary depending on the valuation methodology that is used. See "Investments, at Fair Value" below for further discussion related to significant estimates and assumptions used for determining fair value of the underlying investments in our private equity, credit and real estate funds.

Management Fees from Affiliates. The management fees related to our private equity funds are generally based on a fixed percentage of the committed capital or invested capital. The corresponding fee calculations that consider committed capital or invested capital are both objective in nature and therefore do not require the use of significant estimates or assumptions. Management fees related to our credit funds, by contrast, can be based on net asset value, gross assets, adjusted cost of all unrealized portfolio investments, capital commitments, adjusted assets, capital contributions, or stockholders' equity all as defined in the respective partnership agreements. The credit management fee calculations that consider net asset value, gross assets, adjusted cost of all unrealized portfolio investments and adjusted assets, are normally based on the terms of the respective partnership agreements and the current fair value of the underlying investments within the funds. Estimates and assumptions are made when determining the fair value of the underlying investments within the funds and could vary depending on the valuation methodology that is used. The management fees related to our real estate funds are generally based on a specific percentage of the funds' stockholders' equity or committed or net invested capital or the capital accounts of the limited partners. See "Investments, at Fair Value" below for further discussion related to significant estimates and assumptions used for determining fair value of the underlying investments in our private equity, credit and real estate funds.

Investments, at Fair Value

On a quarterly basis, Apollo utilizes valuation committees consisting of members from senior management, to review and approve the valuation results related to the investments of the funds it manages. For certain publicly traded vehicles managed by Apollo, a review is performed by an independent board of directors. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses. However, because of the inherent uncertainty of valuation, the estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Private Equity Investments. The majority of the illiquid investments within our private equity funds are valued using the market approach, which provides an indication of fair value based on a comparison of the subject company to comparable publicly traded companies and transactions in the industry.

Market Approach. The market approach is driven by current market conditions, including actual trading levels of similar companies and, to the extent available, actual transaction data of similar companies. Judgment is required by management when assessing which companies are similar to the subject company being valued. Consideration may also be given to any of the following factors: (1) the subject company's historical and projected financial data; (2) valuations given to comparable companies; (3) the size and scope of the subject company's operations; (4) the subject company's individual strengths and weaknesses; (5) expectations relating to the market's receptivity to an offering of the subject company's securities; (6) applicable restrictions on transfer; (7) industry and market information; (8) general economic and market conditions; and (9) other factors deemed relevant. Market approach valuation models typically employ a multiple that is based on one or more of the factors described above. Sources for gaining additional knowledge related to comparable companies include public filings, annual reports, analyst research reports, and press releases. Once a comparable company set is determined, we review certain aspects of the subject company's performance and determine how its performance compares to the group and to certain individuals in the group. We compare certain measurements such as EBITDA margins, revenue growth over certain time periods, leverage ratios, and growth opportunities. In addition, we compare our entry multiple and its relation to the comparable set at the time of acquisition to understand its relation to the comparable set on each measurement date.

Income Approach. For investments where the market approach does not provide adequate fair value information, we rely on the income approach. The income approach is also used to value investments or validate the market approach within our private equity funds. The income approach provides an indication of fair value based on the present value of cash flows that a business or security is expected to generate in the future. The most widely used methodology for the income approach is a discounted cash flow method. Inherent in the discounted cash flow method are significant assumptions related to the subject company's expected results and a calculated discount rate, which is normally based on the subject company's weighted average cost of capital, or "WACC." The WACC represents the required rate of return on total capitalization, which is comprised of a required rate of return on equity, plus the current tax-effected rate of return on debt, weighted by the relative percentages of equity and debt that are typical in the industry. The most critical step in determining the appropriate WACC for each subject company is to select companies that are comparable in nature to the subject company and the credit quality of the subject company. Sources for gaining additional knowledge about the comparable companies include public filings, annual reports, analyst research reports, and press releases. The general formula then used for calculating the WACC considers the after-tax rate of return on debt capital and the rate of return on common equity capital, which further considers the risk-free rate of return, market beta, market risk premium and small stock premium, if applicable. The variables used in the WACC formula are inferred from the comparable market data obtained.

The Company evaluates the comparable companies selected and concludes on WACC inputs based on the most comparable company or analyzes the range of data for the investment.

The value of liquid investments, where the primary market is an exchange (whether foreign or domestic), is determined using period end market prices. Such prices are generally based on the close price on the date of determination.

Credit Investments. The majority of investments in Apollo's credit funds are valued based on quoted market prices and valuation models.

Quoted market prices are valued based on the average of the "bid" and the "ask" quotes provided by multiple brokers wherever possible without any adjustments. Apollo will designate certain brokers to use to value specific securities. In order to determine the designated brokers, Apollo considers the following: (i) brokers with which Apollo has previously transacted, (ii) the underwriter of the security and (iii) active brokers indicating executable quotes. In addition, when valuing a security based on broker quotes wherever possible Apollo tests the standard deviation amongst the quotes received and the variance between the concluded fair value and the value provided by a pricing service. When broker quotes are not available, we use pricing service quotes or other sources to mark a position. When relying on a pricing service as a primary source, (i) Apollo analyzes how the price has moved over the measurement period (ii) reviews the number of brokers included in the pricing service's population and (iii) validates the valuation levels with Apollo's pricing team and traders.

Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value utilizing a model based approach is used to determine fair value. When determining fair value when no observable market value exists, the value attributed to an investment is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation approaches used to estimate the fair value of illiquid credit investments also may include the market approach and the income approach, as previously described above. The valuation approaches used consider, as applicable, market risks, credit risks, counterparty risks and foreign currency risks.

The credit funds also enter into foreign currency exchange contracts, total return swap contracts, credit default swap contracts, and other derivative contracts, which may include options, caps, collars and floors. Foreign currency exchange contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. If securities are held at the end of this period, the changes in value are recorded in income as unrealized. Realized gains or losses are recognized when contracts are settled. Total return swap and credit default swap contracts are recorded at fair value as an asset or liability, with changes in fair value recorded as unrealized appreciation or depreciation. Realized gains or losses are recognized at the termination of the contract based on the difference between the close-out price of the total return or credit default swap contract and the original contract price. Forward contracts are valued based on market rates obtained from counterparties or prices obtained from recognized financial data service providers.

Real Estate Investments. For the CMBS portfolio of Apollo's funds, the estimated fair value of the CMBS portfolio is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. Broker quotes are only indicative of fair value and may not necessarily represent what the funds would receive in an actual trade for the applicable instrument. Additionally, the loans held-for-investment are stated at the principal amount outstanding, net of deferred loan fees and costs. The Company evaluates its loans for possible impairment on a quarterly basis. For Apollo's real estate funds, valuations of non-marketable underlying investments are determined using methods that include, but are not limited to (i) discounted cash flow estimates or comparable analysis prepared internally, (ii) third party appraisals or valuations by qualified real estate appraisers, and (iii) contractual sales value of investments/properties subject to bona fide purchase contracts. Methods (i) and (ii) also incorporate consideration of the use of the income, cost, or sales comparison approaches of estimating property values.

The fair values of the investments in our private equity, credit and real estate funds can be impacted by changes to the assumptions used in the underlying valuation models. For further discussion on the impact of changes to valuation assumptions see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk—Sensitivity" in this Annual Report on Form 10-K. There have been no material changes to the underlying valuation models during the periods that our financial results are presented in this report.

Fair Value of Financial Instruments

Except for the Company's debt obligations related to the 2013 AMH Credit Facilities and 2024 Senior Notes (each as defined in note 12 to our consolidated financial statements), Apollo's financial instruments are recorded at fair value or at amounts whose carrying values approximate fair value. See "—Investments, at Fair Value" above. While Apollo's valuations of portfolio investments are based on assumptions that Apollo believes are reasonable under the circumstances, the actual realized gains or losses will depend on, among other factors, future operating results, the value of the assets and market conditions at the

time of disposition, any related transaction costs and the timing and manner of sale, all of which may ultimately differ significantly from the assumptions on which the valuations were based. Financial instruments' carrying values generally approximate fair value because of the short-term nature of those instruments or variable interest rates related to the borrowings.

Profit Sharing Expense. Profit sharing expense is primarily a result of agreements with our Contributing Partners and employees to compensate them based on the ownership interest they have in the general partners of the Apollo funds. Therefore, changes in the fair value of the underlying investments in the funds we manage and advise affect profit sharing expense. The Contributing Partners and employees are allocated approximately 30% to 50% of the total carried interest income which is driven primarily by changes in fair value of the underlying fund's investments and is treated as compensation expense. Additionally, profit sharing expenses paid may be subject to clawback from employees, former employees and Contributing Partners to the extent not indemnified.

Changes in the fair value of the contingent obligations that were recognized in connection with certain Apollo acquisitions are reflected in the Company's consolidated statements of operations as profit sharing expense.

The Company has adopted a performance based incentive arrangement for certain Apollo partners and employees designed to more closely align compensation on an annual basis with the overall realized performance of the Company. This arrangement, which we refer to herein as the "Incentive Pool," enables certain partners and employees to earn discretionary compensation based on carried interest realizations earned by the Company in a given year, which amounts are reflected in profit sharing expense in the accompanying consolidated financial statements. The Company adopted the Incentive Pool to attract and retain, and provide incentive to, partners and employees of the Company and to more closely align the overall compensation of partners and employees with the overall realized performance of the Company. Allocations to the Incentive Pool and to its participants contain both a fixed and a discretionary component and may vary year-to-year depending on the overall realized performance of the Company and the contributions and performance of each participant. There is no assurance that the Company will continue to compensate individuals through performance-based incentive arrangements in the future and there may be periods when the executive committee of the Company's manager determines that allocations of realized carried interest income are not sufficient to compensate individuals, which may result in an increase in salary, bonus and benefits.

Equity-Based Compensation. Equity-based compensation is accounted for in accordance with U.S. GAAP, which requires that the cost of employee services received in exchange for an award is generally measured based on the grant date fair value of the award. Equity-based awards that do not require future service (i.e., vested awards) are expensed immediately. Equity-based employee awards that require future service are recognized over the relevant service period. Further, as required under U.S. GAAP, the Company estimates forfeitures using industry comparables or historical trends for equity-based awards that are not expected to vest. Apollo's equity-based awards consist of, or provide rights with respect to, AOG Units, RSUs, share options, restricted shares, AHL Awards and other equity-based compensation awards. For more information regarding Apollo's equity-based compensation awards, see note 14 to our consolidated financial statements. The Company's assumptions made to determine the fair value on grant date and the estimated forfeiture rate are embodied in the calculations of compensation expense.

A significant part of our compensation expense is derived from amortization of RSUs. The fair value of all RSU grants after March 29, 2011 is based on the grant date fair value, which considers the public share price of the Company. RSUs are comprised of Plan Grants, which generally do not pay distributions until vested and, for grants made after 2011, the underlying shares are generally issued by March 15th after the year in which they vest, and Bonus Grants, which pay distributions on both vested and unvested grants and are generally issued after vesting on an approximate two-month lag. For Plan Grants, the grant date fair value is based on the public share price of the Company, and is discounted for transfer restrictions and lack of distributions until vested. For Bonus Grants, the grant date fair value is based on the public share price of the Company, and is discounted for transfer restrictions.

We utilized the present value of a growing annuity formula to calculate a discount for the lack of pre-vesting distributions on Plan Grant RSUs. The weighted average for the inputs utilized for the shares granted during the years ended December 31, 2015, 2014 and 2013 are presented in the table below for Plan Grants:

	For the Year Ended December 31,		
	2015	2014	2013
Distribution Yield[(1)]	11.0%	14.3%	9.5%
Discount Rate for Pre-Vesting Distributions not Accrued[(2)]	9.1%	12.3%	17.6%

(1) Calculated based on the historical distributions paid during the last twelve months and the Company's Class A share price as of the measurement date of the grant on a weighted average basis.

(2) Assumes a discount rate that was equivalent to the opportunity cost of foregoing distributions on unvested Plan Grant RSUs as of the valuation date, based on the Capital Asset Pricing Model ("CAPM"). CAPM is a commonly used mathematical model for developing expected returns.

The following table summarizes the weighted average discounts for Plan Grants for the years ended December 31, 2015, 2014 and 2013:

	For the Year Ended December 31,		
	2015	2014	2013
Plan Grants:			
Discount for the lack of distributions until vested[1]	26.0%	32.5%	30.5%

(1) Based on the present value of a growing annuity calculation.

We utilized the Finnerty Model to calculate a marketability discount on the Plan Grant and Bonus Grant RSUs to account for the lag between vesting and issuance. The Finnerty Model provides for a valuation discount reflecting the holding period restriction embedded in a restricted security preventing its sale over a certain period of time.

The Finnerty Model proposes to estimate a discount for lack of marketability such as transfer restrictions by using an option pricing theory. This model has gained recognition through its ability to address the magnitude of the discount by considering the volatility of a company's stock price and the length of restriction. The concept underpinning the Finnerty Model is that a restricted security cannot be sold over a certain period of time. Further simplified, a restricted share of equity in a company can be viewed as having forfeited a put on the average price of the marketable equity over the restriction period (also known as an "Asian Put Option"). If we price an Asian Put Option and compare this value to that of the assumed fully marketable underlying security, we can effectively estimate the marketability discount.

The inputs utilized in the Finnerty Model were (i) length of holding period, (ii) volatility and (iii) distribution yield. The weighted average for the inputs utilized for the shares granted during the years ended December 31, 2015, 2014 and 2013 are presented in the table below for Plan Grants and Bonus Grants:

	For the Year Ended December 31,		
	2015	2014	2013
Plan Grants			
Holding Period Restriction (in years)	0.6	0.6	0.6
Volatility[1]	25.7%	31.4%	30.4%
Distribution Yield[2]	11.0%	14.3%	8.2%
Bonus Grants			
Holding Period Restriction (in years)	0.2	0.2	0.2
Volatility[1]	22.2%	32.1%	30.0%
Distribution Yield[2]	10.8%	13.7%	12.2%

(1) The Company determined the expected volatility based on the volatility of the Company's Class A share price as of the grant date with consideration to comparable companies.

(2) Calculated based on the historical distributions paid during the last twelve months and the Company's Class A share price as of the measurement date of the grant on a weighted average basis.

The following table summarizes the weighted average marketability discounts for Plan Grants and Bonus Grants for the years ended December 31, 2015, 2014 and 2013:

	For the Year Ended December 31,		
	2015	2014	2013
Plan Grants:			
Marketability discount for transfer restrictions(1)	4.2%	5.1%	6.0%
Bonus Grants:			
Marketability discount for transfer restrictions(1)	2.2%	3.2%	3.2%

(1) Based on the Finnerty Model calculation.

After the grant date fair value is determined, an estimated forfeiture rate is applied. The estimated fair value was determined and recognized over the vesting period on a straight-line basis. A 6.0% forfeiture rate is estimated for RSUs, based on the Company's historical attrition rate as well as industry comparable rates. If employees are no longer associated with Apollo or if there is no turnover, we will revise our estimated compensation expense to the actual amount of expense based on the RSUs vested at the reporting date in accordance with U.S. GAAP.

Fair Value Measurements

See note 6 to our consolidated financial statements for a discussion of the Company's fair value measurements.

Recent Accounting Pronouncements

A list of recent accounting pronouncements that are relevant to Apollo and its industry is included in note 2 to our consolidated financial statements.

Off-Balance Sheet Arrangements

In the normal course of business, we engage in off-balance sheet arrangements, including transactions in derivatives, guarantees, commitments, indemnifications and potential contingent repayment obligations. See note 16 to our consolidated financial statements for a discussion of guarantees and contingent obligations.

Contractual Obligations, Commitments and Contingencies

As of December 31, 2015, the Company's material contractual obligations consisted of lease obligations, contractual commitments as part of the ongoing operations of the funds and debt obligations. Fixed and determinable payments due in connection with these obligations are as follows:

	2016	2017	2018	2019	2020	Thereafter	Total
				(in thousands)			
Operating lease obligations(1)	$ 37,812	$ 35,871	$ 31,207	$ 30,641	$ 14,159	$ 10,817	$ 160,507
Other long-term obligations(2)	10,594	5,282	4,908	2,329	—	—	23,113
2013 AMH Credit Facilities - Term Facility(3)	8,254	8,254	8,254	500,413	—	—	525,175
2013 AMH Credit Facilities - Revolver Facility(4)	625	625	625	8	—	—	1,883
2024 Senior Notes (5)	20,000	20,000	20,000	20,000	20,000	568,333	668,333
2014 AMI Term Facility I	298	298	298	14,693	—	—	15,587
2014 AMI Term Facility II	295	295	295	17,108	—	—	17,993
Obligations as of December 31, 2015	$ 77,878	$ 70,625	$ 65,587	$ 585,192	$ 34,159	$ 579,150	$ 1,412,591

(1) The Company has entered into sublease agreements and is expected to contractually receive approximately $3.4 million over the life of the agreements.
(2) Includes (i) payments on management service agreements related to certain assets and (ii) payments with respect to certain consulting agreements entered into by the Company. Note that a significant portion of these costs are reimbursable by funds.
(3) $500 million of the outstanding Term Facility matures in January 2019. The interest rate on the $500 million Term Facility as of December 31, 2015 was 1.65%. See note 12 of the consolidated financial statements for further discussion of the 2013 AMH Credit Facilities.

(4) The commitment fee as of December 31, 2015 on the $500 million undrawn Revolver Facility was 0.125%. See note 12 of the consolidated financial statements for further discussion of the 2013 AMH Credit Facilities.

(5) $500 million of the 2024 Senior Notes matures in May 2024. The interest rate on the 2024 Senior Notes as of December 31, 2015 was 4.00%. See note 12 of the consolidated financial statements for further discussion of the 2024 Senior Notes.

Note: Due to the fact that the timing of certain amounts to be paid cannot be determined or for other reasons discussed below, the following contractual commitments have not been presented in the table above.

(i) As noted previously, we have entered into a tax receivable agreement with our Managing Partners and Contributing Partners which requires us to pay to our Managing Partners and Contributing Partners 85% of any tax savings received by APO Corp. from our step-up in tax basis. The tax savings achieved may not ensure that we have sufficient cash available to pay this liability and we might be required to incur additional debt to satisfy this liability.

(ii) Debt amounts related to the consolidated VIEs are not presented in the table above as the Company is not a guarantor of these non-recourse liabilities.

(iii) In connection with the Stone Tower and Gulf Stream acquisitions, the Company agreed to pay the former owners of Stone Tower and Gulf Stream a specified percentage of any future carried interest income earned from certain of the Stone Tower and Gulf Stream funds, CLOs and strategic investment accounts. This contingent consideration liability is remeasured to fair value at each reporting period until the obligations are satisfied. See note 16 for further information regarding the contingent consideration liability.

Commitments

Certain of our management companies and general partners are committed to contribute to the funds we manage and certain affiliates. While a small percentage of these amounts are funded by us, the majority of these amounts have historically been funded by our affiliates, including certain of our employees and certain Apollo funds. The table below presents the commitment and remaining commitment amounts of Apollo and its affiliates, the percentage of total fund commitments of Apollo and its affiliates, the commitment and remaining commitment amounts of Apollo only (excluding affiliates), and the percentage of total fund commitments of Apollo only (excluding affiliates) for each private equity, credit and real estate fund as of December 31, 2015 as follows ($ in millions):

Fund	Apollo and Affiliates Commitments	% of Total Fund Commitments	Apollo Only (Excluding Affiliates) Commitments	Apollo Only (Excluding Affiliates) % of Total Fund Commitments	Apollo and Affiliates Remaining Commitments	Apollo Only (Excluding Affiliates) Remaining Commitments
Private Equity:						
Fund IV	$ 100.0	2.78%	$ 0.2	0.01%	$ 0.5	$ —
Fund V	100.0	2.67	0.5	0.01	6.3	—
Fund VI	246.3	2.43	6.1	0.06	9.7	0.2
Fund VII	467.2	3.18	178.0	1.21	80.9	29.6
Fund VIII	1,543.5	8.40	401.6	2.19	1,099.3	289.9
ANRP I	426.1	32.21	10.0	0.75	132.8	3.2
ANRP II	292.0	16.87	42.0	2.43	242.8	35.4
AION	151.5	18.34	50.0	6.05	106.9	35.0
APC	158.5	69.06	0.1	0.04	67.6	—
Apollo Rose, L.P.	215.7	100.00	—	—	46.8	—
A.A Mortgage Opportunities, L.P.	440.0	87.44	—	—	154.4	—
Champ, L.P.	74.4	100.00	19.0	25.56	11.5	2.9
Apollo Royalties Management, LLC	100.0	100.00	—	—	6.3	—
Credit:						
ACLF	23.9	2.43	23.9	2.43	1.2	1.2
COF I	449.2	30.26	29.7	2.00	237.1	4.2
COF II	30.5	1.93	23.4	1.48	0.8	0.6
COF III	358.1	10.45	83.1	2.43	104.3	24.5
EPF I[2]	292.8	20.74	19.3	1.37	48.3	4.5
EPF II[2]	410.2	12.25	63.0	1.88	143.2	24.3
AIE II[2]	7.1	3.15	4.4	1.94	—	—
AIE III[2]	9.8	2.91	9.8	2.91	6.1	6.1
Palmetto	18.0	1.19	18.0	1.19	10.9	10.9
AEC	7.3	2.50	3.2	1.08	2.5	1.1
AESI[2]	3.2	0.99	3.2	0.99	0.2	0.2
AESI II	2.8	0.99	2.8	0.99	1.4	1.4
ACSP	18.8	2.44	18.8	2.44	6.7	6.7
Apollo SK Strategic Investments, L.P.	2.0	0.99	2.0	0.99	0.4	0.4
Apollo Tactical Value SPN Investments, L.P.	10.0	1.96	10.0	1.96	8.0	8.0

Franklin Fund	9.9	9.09	9.9	9.09	—	—
Apollo Zeus Strategic Investments, L.P.	14.0	3.38	14.0	3.38	4.0	4.0
Apollo Lincoln Fixed Income Fund	2.5	0.99	2.5	0.99	0.6	0.6
Apollo Lincoln Private Credit Fund, L.P.	2.5	0.99	2.5	0.99	2.1	2.1
Stone Tower Structured Credit Recovery Master Fund II, Ltd.	7.8	7.47	—	—	—	—
Apollo Structured Credit Recovery Master Fund III, Ltd.	230.2	18.59	3.6	0.29	101.2	1.6
MidCap	1,208.6	74.71	79.9	4.94	—	—
AEOF	125.5	12.01	25.5	2.44	72.0	14.6
Apollo A-N Credit Fund, L.P.	7.0	1.96	7.0	1.96	2.6	2.0
Union Street Partners	4.4	2.00	4.4	2.00	3.3	3.3
FCI	95.3	17.05	—	—	53.6	—
FCI II	244.6	15.72	—	—	88.9	—
Apollo/Palmetto Loan Portfolio, L.P.	—	100.00	—	100.00	—	—
Apollo/Palmetto Short-Maturity Loan Portfolio, L.P.	300.0	100.00	—	—	—	—
Apollo Hercules Partners, L.P.	7.5	2.44	7.5	2.44	6.4	6.4
Real Estate:						
U.S. RE Fund I	433.3 [1]	69.46	16.1	2.45	132.2 [1]	3.2
U.S. RE Fund II	323.8	82.04	7.4	1.89	211.6	4.9
CPI Capital Partners North America	7.6	1.27	2.1	0.35	0.6	0.2
CPI Capital Partners Europe[2]	6.0	0.47	—	—	0.4	—
CPI Capital Partners Asia Pacific	6.9	0.53	0.5	0.04	0.4	—
BEA/AGRE China Real Estate Fund, L.P.	0.1	1.03	0.1	1.03	—	—
Apollo-IC, L.P. (Shanghai Village)	0.8	100.00	0.8	100.00	0.4	0.4
AGRE Cobb West Investor, L.P.	0.1	0.39	0.1	0.39	—	—
AGRE Asia Co-Invest I Limited	50.0	100.00	—	—	35.7	—
CAI Strategic European Real Estate Ltd.[2]	15.8	92.13	—	—	3.0	—
London Prime Apartments Guernsey Holdings Limited (London Prime Apartments)[3]	26.0	7.80	0.8	0.23	6.4	0.2
2012 CMBS I Fund, L.P.	89.5	100.00	—	—	—	—
2012 CMBS II Fund, L.P.	96.6	100.00	—	—	—	—
AGRE CMBS Fund, L.P.	418.8	100.00	—	—	—	—
Apollo USREF II (Williams Square Co-Invest) L.P.	25.0	28.90	—	—	4.1	—
Other:						
Apollo SPN Investments I, L.P.	36.7	0.91	36.7	0.91	32.5	32.5
Total	$ 9,755.7		$ 1,243.5		$ 3,298.9	$ 566.3

(1) Figures for U.S. RE Fund I include base, additional, and co-investment commitments. A co-investment vehicle within U.S. RE Fund I is denominated in pound sterling and translated into U.S. dollars at an exchange rate of £1.00 to $1.47 as of December 31, 2015.

(2) Apollo's commitment in these funds is denominated in Euros and translated into U.S. dollars at an exchange rate of €1.00 to $1.09 as of December 31, 2015.

(3) Apollo's commitment in these investments is denominated in pound sterling and translated into U.S. dollars at an exchange rate of £1.00 to $1.47 as of December 31, 2015.

As a limited partner, the general partner and manager of the Apollo private equity, credit and real estate funds, Apollo had unfunded capital commitments of $566.3 million at December 31, 2015.

Apollo has an ongoing obligation to acquire additional common units of AAA in an amount equal to 25% of the aggregate after-tax cash distributions, if any, that are made by AAA to Apollo's affiliates pursuant to the carried interest distribution rights that are applicable to investments made through AAA Investments. In addition, on April 30, 2015, Apollo entered into a revolving credit agreement with AAA Investments (the "AAA Investments Credit Agreement"). Under the terms of the AAA Investments Credit Agreement, the Company shall make available to AAA Investments one or more advances at the discretion of AAA Investments in the aggregate amount not to exceed a balance of $10.0 million at an applicable rate of LIBOR plus 1.5%. The Company receives an annual commitment fee of 0.125% on the unused portion of the loan. As of December 31, 2015, no advance on the AAA Investments Credit Agreement was made by the Company.

The 2013 AMH Credit Facilities and 2024 Senior Notes will have future impacts on our cash uses. See note 12 of our consolidated financial statements for information regarding the Company's debt arrangements.

In accordance with the Shareholders Agreement, we have indemnified the Managing Partners and certain Contributing Partners (at varying percentages) for any carried interest income distributed from Fund IV, Fund V and Fund VI that is subject to contingent repayment by the general partner. The Company recorded an indemnification liability of $4.6 million as of December 31, 2015 related to this obligation. As of December 31, 2014, the Company had not recorded an obligation for any previously made distributions.

Contingent Obligations—Carried interest income in private equity and certain credit and real estate funds is subject to reversal in the event of future losses to the extent of the cumulative carried interest recognized in income to date. If all of the existing investments became worthless, the amount of cumulative revenues recognized by Apollo through December 31, 2015 that would be reversed approximates $2.4 billion. Management views the possibility of all of the investments becoming worthless as remote. Carried interest income is affected by changes in the fair values of the underlying investments in the funds that Apollo manages. Valuations, on an unrealized basis, can be significantly affected by a variety of external factors including, but not limited to, bond yields and industry trading multiples. Movements in these items can affect valuations quarter to quarter even if the underlying business fundamentals remain stable.

Additionally, at the end of the life of certain funds that the Company manages, there could be a payment due to a fund by the Company if the Company as general partner has received more carried interest income than was ultimately earned. This general partner obligation amount, if any, will depend on final realized values of investments at the end of the life of each fund or as otherwise set forth in the respective limited partnership agreement or other governing document of the fund. As of December 31, 2015, the Company recorded a general partner obligation to return previously distributed carried interest income of $72.0 million. See note 15 to the consolidated statements for further information regarding the general partner obligation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our predominant exposure to market risk is related to our role as investment manager and general partner for our funds and the sensitivity to movements in the fair value of their investments and resulting impact on carried interest income and management fee revenues. Our direct investments in the funds also expose us to market risk whereby movements in the fair values of the underlying investments will increase or decrease both net gains (losses) from investment activities and income (loss) from equity method investments. For a discussion of the impact of market risk factors on our financial instruments see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Investments, at Fair Value."

The fair value of our financial assets and liabilities of our funds may fluctuate in response to changes in the value of investments, foreign exchange, commodities and interest rates. The net effect of these fair value changes impacts the gains and losses from investments in our consolidated statements of operations. However, the majority of these fair value changes are absorbed by the Non-Controlling Interests.

The Company is subject to a concentration risk related to the investors in its funds. Although there are more than 1,000 investors in Apollo's active private equity, credit and real estate funds, no individual investor accounts for more than 10% of the total committed capital to Apollo's active funds.

Risks are analyzed across funds from the "bottom up" and from the "top down" with a particular focus on asymmetric risk. We gather and analyze data, monitor investments and markets in detail, and constantly strive to better quantify, qualify and circumscribe relevant risks.

Each risk management process is subject to our overall risk tolerance and philosophy and our enterprise-wide risk management framework. This framework includes identifying, measuring and managing market, credit and operational risks at each segment, as well as at the fund and Company level.

Each segment runs its own investment and risk management process subject to our overall risk tolerance and philosophy:

- The investment process of our private equity funds involves a detailed analysis of potential acquisitions, and investment management teams assigned to monitor the strategic development, financing and capital deployment decisions of each portfolio investment.
- Our credit funds continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios, as well as, fund-wide risks.

At the direction of the Company's manager, the Company has established a risk committee comprised of various members of senior management including the Company's Chief Financial Officer, Chief Legal Officer, and the Company's Chief Risk Officer. The risk committee is tasked with assisting the Company's manager in monitoring and managing enterprise-wide risk. The risk committee generally meets on a monthly basis and reports to the executive committee of the Company's manager at such times as the committee deems appropriate and at least on an annual basis.

On at least a monthly basis, the Company's risk department provides a summary analysis of fund level market and credit risk to the portfolio managers of the Company's funds and the heads of the various business segments. On a periodic basis, the Company's risk department presents a consolidated summary analysis of fund level market and credit risk to the Company's risk committee. In addition, the Company's Chief Risk Officer reviews specific investments from the perspective of risk mitigation and discusses such analysis with the Company's risk committee and/or the executive committee of the Company's manager at such times as the Company's Chief Risk Officer determines such discussions are warranted. On an annual basis, the Company's Chief Risk Officer provides the executive committee of the Company's manager with a comprehensive overview of risk management along with an update on current and future risk initiatives.

Impact on Management Fees—Our management fees are based on one of the following:

- capital commitments to an Apollo fund;
- capital invested in an Apollo fund;
- the gross, net or adjusted asset value of an Apollo fund, as defined; or
- as otherwise defined in the respective agreements.

Management fees could be impacted by changes in market risk factors and management could consider an investment permanently impaired as a result of (i) such market risk factors causing changes in invested capital or in market values to below cost, in the case of our private equity funds and certain credit funds, or (ii) such market risk factors causing changes in gross or net asset value, for the credit funds. The proportion of our management fees that are based on NAV is dependent on the number and types of our funds in existence and the current stage of each fund's life cycle.

Impact on Advisory and Transaction Fees—We earn transaction fees relating to the negotiation of private equity, credit and real estate transactions and may obtain reimbursement for certain out-of-pocket expenses incurred. Subsequently, on a quarterly or annual basis, ongoing advisory fees, and additional transaction fees in connection with additional purchases, dispositions, or follow-on transactions, may be earned. Management Fee Offsets and any broken deal costs are reflected as a reduction to advisory and transaction fees from affiliates, net. Advisory and transaction fees will be impacted by changes in market risk factors to the extent that they limit our opportunities to engage in private equity, credit and real estate transactions or impair our ability to consummate such transactions. The impact of changes in market risk factors on advisory and transaction fees is not readily predicted or estimated.

Impact on Carried Interest Income—We earn carried interest income from our funds as a result of such funds achieving specified performance criteria. Our carried interest income will be impacted by changes in market risk factors. However, several major factors will influence the degree of impact:

- the performance criteria for each individual fund in relation to how that fund's results of operations are impacted by changes in market risk factors;
- whether such performance criteria are annual or over the life of the fund;
- to the extent applicable, the previous performance of each fund in relation to its performance criteria; and
- whether each funds' carried interest distributions are subject to contingent repayment.

As a result, the impact of changes in market risk factors on carried interest income will vary widely from fund to fund. The impact is heavily dependent on the prior and future performance of each fund, and therefore is not readily predicted or estimated.

Market Risk—We are directly and indirectly affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues and expenses will be adversely affected by changes in market conditions. Market risk is inherent in each of our investments and activities, including equity investments, loans, short-term borrowings, long-term debt, hedging instruments, credit default swaps, and derivatives. Just a few of the market conditions that may shift from time to time, thereby exposing us to market risk, include fluctuations in interest and currency exchange rates, equity prices, changes in the implied volatility of interest rates and price deterioration. Volatility in debt and equity markets can impact our pace of capital deployment, the timing of receipt of transaction fee revenues, and the timing of realizations. These market conditions could have an impact on the value of fund investments and rates of return. Accordingly, depending on the instruments or activities impacted, market risks can have wide ranging, complex adverse effects on our results from operations and our overall financial condition. We monitor market risk using certain strategies and methodologies which management evaluates periodically for appropriateness. We intend to continue to monitor this risk going forward and continue to monitor our exposure to all market factors.

Interest Rate Risk—Interest rate risk represents exposure we and our funds have to instruments whose values vary with the change in interest rates. These instruments include, but are not limited to, loans, borrowings and derivative instruments. We may seek to mitigate risks associated with the exposures by having our funds take offsetting positions in derivative contracts. Hedging instruments allow us to seek to mitigate risks by reducing the effect of movements in the level of interest rates, changes in the shape of the yield curve, as well as, changes in interest rate volatility. Hedging instruments used to mitigate these risks may include related derivatives such as options, futures and swaps.

Credit Risk—Certain of our funds are subject to certain inherent risks through their investments.

Certain of our entities invest substantially all of their excess cash in open-end money market funds and money market demand accounts, which are included in cash and cash equivalents. The money market funds invest primarily in government securities and other short-term, highly liquid instruments with a low risk of loss. We continually monitor the funds' performance in order to manage any risk associated with these investments.

Certain of our funds hold derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. We seek to minimize our risk exposure by limiting the counterparties with which our funds enter into contracts to banks and investment banks who meet established credit and capital guidelines. As of December 31, 2015, we do not expect any counterparty to default on its obligations and therefore do not expect to incur any loss due to counterparty default.

Foreign Exchange Risk—Foreign exchange risk represents exposures our funds have to changes in the values of current fund holdings and future cash flows denominated in other currencies and investments in non-U.S. companies. The types of investments exposed to this risk include investments in foreign subsidiaries, foreign currency-denominated loans, foreign currency-denominated transactions, and various foreign exchange derivative instruments whose values fluctuate with changes in currency exchange rates or foreign interest rates. Instruments used to mitigate this risk are foreign exchange options, currency swaps, futures and forwards. These instruments may be used to help insulate our funds against losses that may arise due to volatile movements in foreign exchange rates and/or interest rates.

In our capacity as investment manager of the funds we manage, we continuously monitor a variety of markets for attractive opportunities for managing risk. For example, certain of the funds we manage may put in place foreign exchange hedges or borrowings with respect to certain foreign currency denominated investments to provide a hedge against foreign exchange exposure.

Non-U.S. Operations—We conduct business throughout the world and are continuing to expand into foreign markets. We currently have offices outside the U.S. in Toronto, London, Frankfurt, Madrid, Luxembourg, Mumbai, Delhi, Singapore, Hong Kong and Shanghai and have been strategically growing our international presence. Our fund investments and our revenues are primarily derived from our U.S. operations. With respect to our non-U.S. operations, we are subject to risk of loss from currency fluctuations, social instability, changes in governmental policies or policies of central banks, expropriation, nationalization, unfavorable political and diplomatic developments and changes in legislation relating to non-U.S. ownership. Our funds also invest in the securities of companies which are located in non-U.S. jurisdictions. As we continue to expand globally, we will continue to focus on monitoring and managing these risk factors as they relate to specific non-U.S. investments.

Sensitivity

Interest Rate Risk—Apollo has debt obligations that accrue interest at variable rates. Interest rate changes may therefore affect the amount of our interest payments, future earnings and cash flows. Based on our debt obligations payable as of December 31, 2015 and 2014, we estimate that interest expense would increase on an annual basis, in the event interest rates were to increase by one percentage point, by approximately $5.3 million and $5.4 million, respectively.

In addition to our debt obligations, we are also subject to interest rate risk through the investments of our funds. For funds that pay management fees based on NAV or other bases that are sensitive to market value fluctuations, we anticipate our management fees would change consistent with the increase or decrease experienced by the underlying funds’ portfolios. In the event that interest rates were to increase by one percentage point, we estimate that management fees earned on a segment basis that were dependent upon estimated fair value would decrease by approximately $10.9 million during the year ended December 31, 2015.

Credit Risk—Similar to interest rate risk, we are also subject to credit risk through the investments of our funds. In the event that credit spreads were to increase by one percentage point, we estimate that management fees earned on a segment basis that were dependent upon estimated fair value would decrease by approximately $18.3 million during the year ended December 31, 2015.

Foreign Exchange Risk—We estimate for the years ended December 31, 2015 and 2014, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in the following declines in management fees, carried interest income and income from equity method investments:

	For the Years Ended December 31,	
	2015	**2014**
Management fees	$ 2,717	$ 4,005
Carried interest income	1,953	10,508
Income from equity method investments	22	691

Net Gains From Investment Activities and Income From Equity Method Investments—Our assets and unrealized gains, and our related equity and net income are sensitive to changes in the valuations of our funds’ underlying investments and could vary materially as a result of changes in our valuation assumptions and estimates. See “Item 7. Management’s Discussion and Analysis of Financial Conditions and Results of Operations—Critical Accounting Policies—Investments, at Fair Value” for details related to the valuation methods that are used and the key assumptions and estimates employed by such methods. We also quantify the Level III investments that are included on our consolidated statements of financial condition by valuation methodology in note 6 to the consolidated financial statements. We employ a variety of valuation methods. Furthermore, the investments that we manage but are not on our consolidated statements of financial condition, and therefore impact carried interest, also employ a variety of valuation methods of which no single methodology is used more than any other. Changes in fair value will have the

following impacts before a reduction of profit sharing expense and Non-Controlling Interests in the Apollo Operating Group and on a pre-tax basis on our results of operations for the years ended December 31, 2015 and 2014:

Management Fees—Management fees from the funds in our credit segment are based on the net asset value of the relevant fund, gross assets, capital commitments or invested capital, each as defined in the respective management agreements. Changes in the fair values of the investments in credit funds that earn management fees based on net asset value or gross assets will have a direct impact on the amount of management fees that are earned. Management fees earned from our credit segment on a segment basis that were dependent upon estimated fair value during the years ended December 31, 2015 and 2014 would decrease by approximately $50.5 million and $37.7 million, respectively, if the fair values of the investments held by such funds were 10% lower during the same respective periods.

Management fees for our private equity, real estate and certain credit funds, excluding AAA, generally are charged on either (a) a fixed percentage of committed capital over a stated investment period or (b) a fixed percentage of invested capital of unrealized portfolio investments. Changes in values of investments could indirectly affect future management fees from private equity funds by, among other things, reducing the funds' access to capital or liquidity and their ability to currently pay the management fees or if such change resulted in a write-down of investments below their associated invested capital.

Carried Interest Income—Carried interest income from most of our credit, private equity and real estate funds generally is earned based on achieving specified performance criteria and is impacted directly by changes in the fair value of the funds' investments. We anticipate that a 10% decline in the fair values of investments held by all of the credit, private equity and real estate funds at December 31, 2015 and 2014 would decrease carried interest income on a segment basis for the years ended December 31, 2015 and 2014 as presented in the table below:

	For the Years Ended December 31,	
	2015	**2014**
10% Decline in Fair Value of Investments Held		
Credit	140,461	160,554
Private Equity	202,171	301,705
Real Estate	10,865	12,617

Net Gains From Investment Activities—Net gains from investment activities related to the Company's investment in Athene Holding would decrease by approximately $51.0 million and $32.4 million for the years ended December 31, 2015 and 2014, respectively, if the fair value of the Company's investment in Athene Holding decreased by 10% during the same respective periods.

Income From Equity Method Investments—For select Apollo funds, our share of income from equity method investments as a general partner in such funds is derived from unrealized gains or losses on investments in funds included in the consolidated financial statements. For funds in which we have an interest, but are not included in our consolidated financial statements, our share of investment income is limited to our direct investments in the funds, which ranges from 0.001% to 9.091%.

We anticipate that a 10% decline in the fair value of investments at December 31, 2015 and 2014 would result in an approximate $63.1 million and $37.8 million decrease in investment income at the consolidated level, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Apollo Global Management, LLC
New York, New York

We have audited the accompanying consolidated statements of financial condition of Apollo Global Management, LLC and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015. We also have audited the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Apollo Global Management, LLC and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
New York, New York
February 29, 2016

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2015 AND DECEMBER 31, 2014
(dollars in thousands, except share data)

	December 31,	
	2015	2014
Assets:		
Cash and cash equivalents	$ 612,505	$ 1,204,052
Cash and cash equivalents held at consolidated funds	4,817	1,611
Restricted cash	5,700	6,353
Investments	1,154,749	2,880,006
Assets of consolidated variable interest entities:		
Cash and cash equivalents	56,793	1,088,952
Investments, at fair value	910,566	15,658,653
Other assets	63,413	323,240
Carried interest receivable	643,907	911,666
Due from affiliates	247,835	268,015
Deferred tax assets	646,207	606,717
Other assets	95,844	114,241
Goodwill	88,852	49,243
Intangible assets, net	28,620	60,039
Total Assets	**$ 4,559,808**	**$ 23,172,788**
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	$ 92,012	$ 44,246
Accrued compensation and benefits	54,836	59,278
Deferred revenue	177,875	199,614
Due to affiliates	594,536	565,153
Profit sharing payable	295,674	434,852
Debt	1,025,255	1,027,965
Liabilities of consolidated variable interest entities:		
Debt, at fair value	801,270	14,123,100
Other liabilities	85,982	728,718
Other liabilities	43,387	46,401
Total Liabilities	**3,170,827**	**17,229,327**
Commitments and Contingencies (see note 16)		
Shareholders' Equity:		
Apollo Global Management, LLC shareholders' equity:		
Class A shares, no par value, unlimited shares authorized, 181,078,937 and 163,046,554 shares issued and outstanding at December 31, 2015 and December 31, 2014, respectively	—	—
Class B shares, no par value, unlimited shares authorized, 1 share issued and outstanding at December 31, 2015 and December 31, 2014	—	—
Additional paid in capital	2,005,509	2,254,283
Accumulated deficit	(1,348,384)	(1,400,661)
Appropriated partners' capital	—	933,166
Accumulated other comprehensive loss	(7,620)	(306)
Total Apollo Global Management, LLC shareholders' equity	649,505	1,786,482
Non-Controlling Interests in consolidated entities	86,561	3,222,195
Non-Controlling Interests in Apollo Operating Group	652,915	934,784
Total Shareholders' Equity	**1,388,981**	**5,943,461**
Total Liabilities and Shareholders' Equity	**$ 4,559,808**	**$ 23,172,788**

See accompanying notes to consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(dollars in thousands, except share data)

	For the Years Ended December 31,		
	2015	2014	2013
Revenues:			
Advisory and transaction fees from affiliates, net	$ 14,186	$ 315,587	$ 196,562
Management fees from affiliates	930,194	850,441	674,634
Carried interest income from affiliates	97,290	394,055	2,862,375
Total Revenues	1,041,670	1,560,083	3,733,571
Expenses:			
Compensation and benefits:			
Salary, bonus and benefits	354,524	338,049	294,753
Equity-based compensation	97,676	126,320	126,227
Profit sharing expense	85,229	276,190	1,173,255
Total Compensation and Benefits	537,429	740,559	1,594,235
Interest expense	30,071	22,393	29,260
General, administrative and other	102,255	97,663	98,202
Professional fees	68,113	82,030	83,407
Occupancy	40,219	40,427	39,946
Placement fees	8,414	15,422	42,424
Depreciation and amortization	44,474	45,069	54,241
Total Expenses	830,975	1,043,563	1,941,715
Other Income:			
Net gains from investment activities	121,723	213,243	330,235
Net gains from investment activities of consolidated variable interest entities	19,050	22,564	199,742
Income from equity method investments	14,855	53,856	107,350
Interest income	3,232	10,392	12,266
Other income, net	7,673	60,592	40,114
Total Other Income	166,533	360,647	689,707
Income before income tax provision	377,228	877,167	2,481,563
Income tax provision	(26,733)	(147,245)	(107,569)
Net Income	350,495	729,922	2,373,994
Net income attributable to Non-controlling Interests	(215,998)	(561,693)	(1,714,603)
Net Income Attributable to Apollo Global Management, LLC	$ 134,497	$ 168,229	$ 659,391
Distributions Declared per Class A Share	1.96	3.11	3.95
Net Income Per Class A Share:			
Net Income Available to Class A Share – Basic	$ 0.61	$ 0.62	$ 4.06
Net Income Available to Class A Share – Diluted	$ 0.61	$ 0.62	$ 4.03
Weighted Average Number of Class A Shares Outstanding – Basic	173,271,666	155,349,017	139,173,386
Weighted Average Number of Class A Shares Outstanding – Diluted	173,271,666	155,349,017	142,214,350

See accompanying notes to consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(dollars in thousands, except share data)

	For the Years Ended December 31,		
	2015	2014	2013
Net Income	**$ 350,495**	**$ 729,922**	**$ 2,373,994**
Other Comprehensive Loss, net of tax:			
Allocation of currency translation adjustment of consolidated CLOs and funds (net of taxes of $0.9 million, $0.0 million and $0.0 million for Apollo Global Management, LLC for the years ended December 31, 2015, 2014 and 2013, respectively, and $0.0 million, $0.0 million and $0.0 million for Non-Controlling Interests in Apollo Operating Group for the years ended December 31, 2015, 2014 and 2013, respectively)	(13,535)	724	—
Net gain (loss) from change in fair value of cash flow hedge instruments	105	(990)	—
Net loss on available-for-sale securities	(904)	(2)	(8)
Total Other Comprehensive Loss, net of tax	(14,334)	(268)	(8)
Comprehensive Income	**336,161**	**729,654**	**2,373,986**
Comprehensive Income attributable to Non-Controlling Interests	(208,978)	(631,831)	(1,564,710)
Comprehensive Income Attributable to Apollo Global Management, LLC	**$ 127,183**	**$ 97,823**	**$ 809,276**

See accompanying notes to consolidated financial statements.

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APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(dollars in thousands, except share data)

	Apollo Global Management, LLC Shareholders									
	Class A Shares	Class B Shares	Additional Paid in Capital	Accumulated Deficit	Appropriated Partners' Capital	Accumulated Other Comprehensive Loss	Total Apollo Global Management, LLC Shareholders' Equity	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Apollo Operating Group	Total Shareholders' Equity
Balance at January 1, 2013	**130,053,993**	**1**	**$ 3,043,334**	**$ (2,142,020)**	**$ 1,765,360**	**$ 144**	**$ 2,666,818**	**$ 1,893,212**	**$ 1,143,353**	**$ 5,703,383**
Dilution impact of issuance of Class A shares	—	—	4,865	—	—	—	4,865	—	—	4,865
Capital increase related to equity-based compensation	—	—	104,935	—	—	—	104,935	—	19,163	124,098
Capital contributions	—	—	—	—	—	—	—	689,172	—	689,172
Distributions	—	—	(650,189)	—	(334,215)	—	(984,404)	(159,573)	(975,488)	(2,119,465)
Distributions related to deliveries of Class A shares for RSUs	5,181,389	—	37,263	(85,858)	—	—	(48,595)	—	—	(48,595)
Purchase of AAA units	—	—	—	—	—	—	—	(62,326)	—	(62,326)
Net transfers of AAA ownership interest to (from) Non-Controlling Interests in consolidated entities	—	—	(2,226)	—	—	—	(2,226)	2,226	—	—
Satisfaction of liability related to AAA RDUs	—	—	1,205	—	—	—	1,205	—	—	1,205
Exchange of AOG Units for Class A shares	11,045,402	—	85,395	—	—	—	85,395	—	(62,996)	22,399
Net income	—	—	—	659,391	149,934	—	809,325	307,019	1,257,650	2,373,994
Net gain (loss) on available-for-sale securities (from equity method investment)	—	—	—	—	—	(49)	(49)	—	41	(8)
Balance at December 31, 2013	**146,280,784**	**1**	**$ 2,624,582**	**$ (1,568,487)**	**$ 1,581,079**	**$ 95**	**$ 2,637,269**	**$ 2,669,730**	**$ 1,381,723**	**$ 6,688,722**
Dilution impact of issuance of Class A shares	—	—	5,267	—	—	—	5,267	—	—	5,267
Capital increase related to equity-based compensation	—	—	108,871	—	—	—	108,871	—	—	108,871
Capital contributions	—	—	—	—	135,356	—	135,356	936,915	—	1,072,271
Distributions	—	—	(555,532)	—	(713,264)	—	(1,268,796)	(615,301)	(816,412)	(2,700,509)
Distributions related to deliveries of Class A shares for RSUs	10,491,649	—	27,899	(403)	—	—	27,496	—	—	27,496
Purchase of AAA units	—	—	—	—	—	—	—	(312)	—	(312)
Net transfers of AAA ownership interest to (from) Non-Controlling Interests in consolidated entities	—	—	(3,423)	—	—	—	(3,423)	3,423	—	—
Satisfaction of liability related to AAA RDUs	—	—	1,183	—	—	—	1,183	—	—	1,183
Exchange of AOG Units for Class A shares	6,274,121	—	45,436	—	—	—	45,436	—	(34,618)	10,818
Net income	—	—	—	168,229	(70,729)	—	97,500	227,740	404,682	729,922
Allocation of currency translation adjustment of consolidated CLO entities	—	—	—	—	724	—	724	—	—	724
Change in cash flow hedge instruments	—	—	—	—	—	(399)	(399)	—	(591)	(990)
Net loss on available-for-sale securities (from equity method investment)	—	—	—	—	—	(2)	(2)	—	—	(2)
Balance at December 31, 2014	**163,046,554**	**1**	**$ 2,254,283**	**$ (1,400,661)**	**$ 933,166**	**$ (306)**	**$ 1,786,482**	**$ 3,222,195**	**$ 934,784**	**$ 5,943,461**
Cumulative effect adjustment from adoption of accounting principles	—	—	1,771	(3,350)	(933,166)	—	(934,745)	(3,134,518)	—	(4,069,263)
Dilution impact of issuance of Class A shares	—	—	3,588	—	—	—	3,588	—	—	3,588
Capital increase related to equity-based compensation	—	—	67,959	—	—	—	67,959	—	—	67,959
Capital contributions	—	—	—	—	—	—	—	5,916	—	5,916
Distributions	—	—	(367,894)	—	—	—	(367,894)	(21,317)	(453,324)	(842,535)
Distributions related to deliveries of Class A shares for RSUs and restricted shares	11,521,762	—	6,276	(78,870)	—	—	(72,594)	—	—	(72,594)
Exchange of AOG Units for Class A shares	6,510,621	—	39,526	—	—	—	39,526	—	(23,238)	16,288
Net income	—	—	—	134,497	—	—	134,497	21,364	194,634	350,495
Allocation of currency translation adjustment of consolidated CLOs and fund entities	—	—	—	—	—	(6,456)	(6,456)	(7,079)	—	(13,535)
Change in cash flow hedge instruments	—	—	—	—	—	46	46	—	59	105
Net loss on available-for-sale securities (from equity method investment)	—	—	—	—	—	(904)	(904)	—	—	(904)
Balance at December 31, 2015	**181,078,937**	**1**	**$ 2,005,509**	**$ (1,348,384)**	**$ —**	**$ (7,620)**	**$ 649,505**	**$ 86,561**	**$ 652,915**	**$ 1,388,981**

See accompanying notes to consolidated financial statements.

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APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(dollars in thousands, except share data)

	For the Years Ended December 31,		
	2015	2014	2013
Cash Flows from Operating Activities:			
Net income	$ 350,495	$ 729,922	$ 2,373,994
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity-based compensation	97,676	126,320	126,227
Non-cash management fees	(27,066)	(16,738)	—
Depreciation and amortization	44,474	45,069	54,241
Unrealized (gains) losses from investment activities	(122,426)	(21,726)	12,962
Cash distributions of earnings from equity method investments	30,931	83,656	109,076
Income from equity method investments	(14,855)	(53,856)	(107,350)
Excess tax benefits from share-based payment arrangements	(1,234)	(27,899)	(37,263)
Deferred taxes, net	26,431	80,356	62,701
Other non-cash amounts included in net income, net	(21,912)	(1,223)	49,326
Changes in assets and liabilities:			
Carried interest receivable	303,296	1,375,409	(408,819)
Due from affiliates	1,500	(252,339)	(130,525)
Other assets	16,275	(24,868)	6,250
Accounts payable and accrued expenses	49,403	33,986	34,034
Accrued compensation and benefits	(9,916)	16,185	(17,244)
Deferred revenue	(18,370)	(79,865)	27,322
Due to affiliates	12,521	(97,521)	(44,223)
Profit sharing payable	(122,632)	(518,003)	141,225
Other liabilities	(2,281)	6,889	(5,822)
Apollo Funds related:			
Net realized gains from investment activities	(6,988)	(79,277)	(87,881)
Net unrealized (gains) losses from investment activities	(8,392)	113,423	(309,138)
Net realized gains on debt	—	(101,745)	(137,098)
Net unrealized (gains) losses on debt	(3,057)	(809)	232,510
Distributions from investment activities	—	—	66,796
Change in cash held at consolidated variable interest entities	256,623	(13,813)	587,526
Purchases of investments	(521,205)	(10,330,057)	(9,841,763)
Proceeds from sale of investments and liquidating distributions	409,218	8,509,361	8,422,195
Change in other assets	(24,428)	(43,521)	19,260
Change in other liabilities	(111,408)	169,767	(64,061)
Net Cash Provided by (Used in) Operating Activities	**$ 582,673**	**$ (372,917)**	**$ 1,134,458**
Cash Flows from Investing Activities:			
Purchases of fixed assets	$ (6,203)	$ (5,949)	$ (7,577)
Proceeds from disposals of fixed assets	—	115	2,282
Proceeds from sale of investments	25,000	50,000	—
Purchase of investments	(25,000)	—	—
Cash contributions to equity method investments	(234,382)	(109,923)	(98,422)
Cash distributions from equity method investments	61,576	76,343	107,208
Change in restricted cash	653	2,846	(840)
Issuance of employee loans	(25,000)	—	—
Other investing activities	420	—	—
Net Cash (Used in) Provided by Investing Activities	**$ (202,936)**	**$ 13,432**	**$ 2,651**
Cash Flows from Financing Activities:			
Principal repayments of debt	$ —	$ (250,000)	$ (737,818)
Issuance of debt	—	533,956	750,000
Issuance costs	—	(5,478)	(7,750)

Net loss related to cash flow hedge instruments	—	(1,051)	—
Satisfaction of tax receivable agreement	(48,420)	(32,032)	(30,403)
Satisfaction of contingent obligations	(15,743)	(37,271)	(67,535)
Purchases of equity securities	(3,120)	—	—
Distributions related to deliveries of Class A shares for RSUs	(78,870)	(403)	(85,858)
Distributions paid to Non-Controlling Interests in consolidated entities	(12,102)	(19,425)	(12,171)
Contributions from Non-Controlling Interests in consolidated entities	147	2,001	273
Distributions paid	(354,434)	(506,043)	(584,465)
Distributions paid to Non-Controlling Interests in Apollo Operating Group	(453,324)	(816,412)	(975,488)
Excess tax benefits from share-based payment arrangements	1,234	27,899	37,263
Apollo Funds related:			
Issuance of debt	—	4,225,451	2,747,033
Principal repayment of debt	—	(2,371,499)	(2,218,060)
Purchase of AAA units	—	(312)	(62,326)
Distributions paid	—	(703,041)	(334,215)
Distributions paid to Non-Controlling Interests in consolidated variable interest entities	(9,215)	(450,419)	(147,402)
Contributions from Non-Controlling Interests in consolidated variable interest entities	5,769	889,690	688,899
Subscriptions received in advance	—	—	35,000
Net Cash (Used in) Provided by Financing Activities	**$ (968,078)**	**$ 485,611**	**$ (1,005,023)**
Net (Decrease) Increase in Cash and Cash Equivalents	(588,341)	126,126	132,086
Cash and Cash Equivalents, Beginning of Period	1,205,663	1,079,537	947,451
Cash and Cash Equivalents, End of Period	**$ 617,322**	**$ 1,205,663**	**$ 1,079,537**
Supplemental Disclosure of Cash Flow Information:			
Interest paid	$ 32,270	$ 22,191	$ 43,760
Interest paid by consolidated variable interest entities	17,574	157,812	120,149
Income taxes paid	7,922	57,276	9,233
Supplemental Disclosure of Non-Cash Investing Activities:			
Non-cash contributions to equity method investments	$ 36,634	$ —	$ —
Non-cash distributions from equity method investments	(7,724)	(6,720)	(1,303)
Transfer of fixed assets held for sale	—	—	6,486
Supplemental Disclosure of Non-Cash Financing Activities:			
Declared and unpaid distributions	$ (13,460)	$ (49,489)	$ (65,724)
Non-cash distributions from Non-Controlling Interests in consolidated entities to Appropriated Partners' Capital	—	(135,356)	—
Non-cash contributions from Non-Controlling Interests in Apollo Operating Group related to equity-based compensation	—	—	19,163
Capital increases related to equity-based compensation	67,959	108,871	104,935
Other non-cash financing activities	3,559	6,448	6,021
Adjustments related to exchange of Apollo Operating Group units:			
Deferred tax assets	$ 61,720	$ 58,696	$ 149,327
Due to affiliates	(45,432)	(47,878)	(126,928)
Additional paid in capital	(16,288)	(10,818)	(22,399)
Non-Controlling Interest in Apollo Operating Group	23,238	34,618	62,996
Net Assets Deconsolidated from Consolidated Variable Interest Entities and Funds:			
Cash and cash equivalents	$ 760,491	$ —	$ —
Investments, at fair value	16,930,227	—	—
Other Assets	280,428	—	—
Debt, at fair value	(13,229,570)	—	—
Other liabilities	(529,080)	—	—
Non-Controlling Interests in consolidated entities	(3,134,518)	—	—
Appropriated partners’ capital	(929,708)	—	—

See accompanying notes to consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

1. ORGANIZATION AND BASIS OF PRESENTATION

Apollo Global Management, LLC (together with its consolidated subsidiaries, the "Company" or "Apollo") is a global alternative investment manager whose predecessor was founded in 1990. Its primary business is to raise, invest and manage private equity, credit and real estate funds as well as strategic investment accounts ("SIAs"), on behalf of pension, endowment and sovereign wealth funds, as well as other institutional and individual investors. For these investment management services, Apollo receives management fees generally related to the amount of assets managed, transaction and advisory fees and carried interest income related to the performance of the respective funds that it manages. Apollo has three primary business segments:

- ***Private equity***—primarily invests in control equity and related debt instruments, convertible securities and distressed debt investments;
- ***Credit***—primarily invests in non-control corporate and structured debt instruments including performing, stressed and distressed investments across the capital structure; and
- ***Real estate***—primarily invests in real estate equity for the acquisition and recapitalization of real estate assets, portfolios, platforms and operating companies, and real estate debt including first mortgage and mezzanine loans, preferred equity and commercial mortgage backed securities.

Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The consolidated financial statements include the accounts of the Company, its wholly-owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities ("VIEs") and for which the Company is considered the primary beneficiary, and certain entities which are not considered VIEs but which the Company controls through a majority voting interest. Intercompany accounts and transactions have been eliminated upon consolidation.

Certain reclassifications, when applicable, have been made to the prior period's consolidated financial statements and notes to conform to the current period's presentation and are disclosed accordingly.

Organization of the Company

The Company was formed as a Delaware limited liability company on July 3, 2007 and completed a reorganization of its predecessor businesses on July 13, 2007 (the "2007 Reorganization"). The Company is managed and operated by its manager, AGM Management, LLC, which in turn is indirectly wholly-owned and controlled by Leon Black, Joshua Harris and Marc Rowan (the "Managing Partners").

As of December 31, 2015, the Company owned, through five intermediate holding companies that include APO Corp., a Delaware corporation that is a domestic corporation for U.S. federal income tax purposes, APO Asset Co., LLC, a Delaware limited liability company that is a disregarded entity for U.S. federal income tax purposes, APO (FC), LLC, an Anguilla limited liability company that is treated as a corporation for U.S. federal income tax purposes, APO (FC II), LLC, an Anguilla limited liability company that is treated as a corporation for U.S. federal income tax purposes and APO UK (FC), LLC, an Anguilla limited liability company that is treated as a corporation for U.S. federal income tax purposes (collectively, the "Intermediate Holding Companies"), 45.6% of the economic interests of, and operated and controlled all of the businesses and affairs of, the Apollo Operating Group through its wholly-owned subsidiaries.

AP Professional Holdings, L.P., a Cayman Islands exempted limited partnership ("Holdings"), is the entity through which the Managing Partners and certain of the Company's other partners (the "Contributing Partners") indirectly beneficially own interests in each of the partnerships that comprise the Apollo Operating Group ("AOG Units"). As of December 31, 2015, Holdings owned the remaining 54.4% of the economic interests in the Apollo Operating Group. The Company consolidates the financial results of the Apollo Operating Group and its consolidated subsidiaries. Holdings' ownership interest in the Apollo Operating Group is reflected as a Non-Controlling Interest in the accompanying consolidated financial statements.

Pursuant to an exchange agreement between Apollo, Holdings and the other parties thereto (as amended, the "Exchange Agreement"), the holders of the AOG Units (and certain permitted transferees thereof) may, upon notice and subject to the applicable vesting and minimum retained ownership requirements, transfer restrictions and other terms of the Exchange Agreement, exchange

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
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(dollars in thousands, except share data, except where noted)

their AOG Units for the Company's Class A shares on a one-for-one basis a limited number of times each year, subject to customary conversion rate adjustments for splits, distributions and reclassifications. Pursuant to the Exchange Agreement, a holder of AOG Units must simultaneously exchange one partnership unit in each of the Apollo Operating Group partnerships to effectuate an exchange for one Class A share. As a holder exchanges its AOG Units, the Company's indirect interest in the Apollo Operating Group is correspondingly increased.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The types of entities with which Apollo is involved generally include subsidiaries (e.g., general partners and management companies related to the funds the Company manages), entities that have all the attributes of an investment company (e.g., funds) and securitization vehicles (e.g., collateralized loan obligations). Each of these entities is assessed for consolidation on a case by case basis depending on the specific facts and circumstances surrounding that entity.

In February 2015, the Financial Accounting Standards Board ("FASB") issued new consolidation guidance which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period, and adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company has elected to adopt this new guidance using the modified retrospective method, which results in an effective date of adoption of January 1, 2015. Restatement of prior period results is not required. Amounts presented for the year ended December 31, 2015 in the consolidated statements of operations reflect the adoption of this accounting guidance as of January 1, 2015.

Pursuant to the new consolidation guidance, the Company first evaluates whether it holds a variable interest in an entity. Fees that are customary and commensurate with the level of services provided, and where the Company doesn't hold other economic interests in the entity that would absorb more than an insignificant amount of the expected losses or returns of the entity, would not be considered a variable interest. Apollo factors in all economic interests including proportionate interests through related parties, to determine if fees are considered a variable interest. As Apollo's interests in many of these entities are solely through carried interests, performance fees, and/or insignificant indirect interests through related parties, Apollo is not considered to have a variable interest in many of these entities under the new guidance and no further consolidation analysis is performed. Prior to adoption of the new consolidation guidance, fees received by the Company for investment management services (e.g. carried interests and performance fees) were considered variable interests. For the remaining entities where the Company has determined that it does hold a variable interest, the Company performs an assessment to determine whether each of those entities qualify as a VIE.

An entity is considered a VIE if any one of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support, (b) the holders of equity investment at risk (as a group) lack either the direct or indirect ability through voting rights or similar rights to make decisions about a legal entity's activities that have a significant effect on the success of the legal entity or the obligation to absorb the expected losses or right to receive the expected residual returns, or (c) the voting rights of some investors are disproportionate to their obligation to absorb the expected losses of the legal entity, their rights to receive the expected residual returns of the legal entity, or both and substantially all of the legal entity's activities either involve or are conducted on behalf of an investor with disproportionately few voting rights. Under the new guidance, for limited partnerships and other similar entities, unaffiliated investors must be granted rights to either dissolve the fund or remove the general partner ("kick-out rights") in order to not qualify as a VIE under condition (b) above. Entities that do not qualify as VIEs are generally assessed for consolidation as voting interest entities ("VOEs") under the voting interest model.

Under the voting interest model, Apollo consolidates those entities it controls through a majority voting interest. Apollo does not consolidate those VOEs in which substantive kick-out rights have been granted to the unaffiliated investors to either dissolve the fund or remove the general partner.

As previously indicated, the consolidation assessment, including the determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and therefore certain of Apollo's funds may qualify as VIEs whereas others may qualify as VOEs. The granting of substantive kick-out rights is a key consideration in determining whether a limited partnership or similar entity is a VIE and whether or not that entity should be consolidated. For example, when the unaffiliated holders of equity investment at risk of a fund (assumed to be limited partnerships or similar entities) with sufficient equity to permit the fund to finance its activities without additional subordinated financial support are not granted substantive kick-out rights the fund is determined to be a VIE. Alternatively, when the unaffiliated holders of equity investment at risk are

granted substantive kick-out rights, the fund is generally determined to be a VOE. Prior to adoption of the new guidance, in certain cases where the Company held a substantive equity investment at risk in the fund, the fund may have been determined to be a VOE even though substantive kick-out rights were not granted to the unaffiliated holders of equity investment at risk. Under the new guidance for limited partnerships or similar entities, unaffiliated investors must have kick-out rights to be considered a VOE.

If the entity is determined to be a VIE under the conditions above, the Company assesses whether the entity should be consolidated by determining if Apollo is the primary beneficiary of the entity. Prior to adoption of the new consolidation guidance, this analysis differed depending on the type of VIE being assessed and which consolidation model was applied. For VIEs that qualified for the deferral of the then amended consolidation rules (i.e. investment company entities), Apollo was determined to be the primary beneficiary when its interests, through holding interests directly or indirectly in the VIE or contractually through other variable interests (e.g., carried interest and performance fees), would be expected to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. In cases where two or more Apollo related parties held a variable interest in a VIE, and the aggregate variable interest held by those parties would, if held by a single party, identify that party as the primary beneficiary, then the Company was determined to be the primary beneficiary to the extent it was the party within the related party group that was most closely associated with the VIE.

For VIEs that did not qualify for the deferral, such as Apollo's CLOs which applied the then amended consolidation rules, the Company was determined to be the primary beneficiary if it held a controlling financial interest defined as possessing both (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Under the new guidance, for all VIEs including investment company entities that previously met the deferral requirements, the Company is only determined to be the Primary Beneficiary when it has a controlling financial interest as defined above. Prior to adoption of the new guidance, when Apollo alone was not considered to have a controlling financial interest but Apollo and its related parties on an aggregate basis did have a controlling financial interest, an analysis regarding which party was most closely associated with the VIE was performed. Under the new guidance, determining which party is more closely associated with an entity is only performed when the related party group that has a controlling financial interest, shares power or is under common control. When the related party group holding a controlling financial interest is not under common control, then Apollo would only be deemed to be the primary beneficiary if substantially all the activities of the entity are performed on behalf of Apollo.

Apollo continues to determine whether it is the primary beneficiary of a VIE at the time it becomes initially involved with the VIE and reconsiders that conclusion continuously. Investments and redemptions (either by Apollo, affiliates of Apollo or third parties) or amendments to the governing documents of the respective entity may affect an entity's status as a VIE or the determination of the primary beneficiary.

The assessment of whether an entity is a VIE and the determination of whether Apollo should consolidate such VIE requires judgment. Under both the previous and the new guidance, those judgments include, but are not limited to: (i) determining whether the total equity investment at risk is sufficient to permit the entity to finance its activities without additional subordinated financial support, (ii) evaluating whether the holders of equity investment at risk, as a group, can make decisions that have a significant effect on the success of the entity, (iii) determining whether the equity investors have proportionate voting rights to their obligations to absorb losses or rights to receive the expected residual returns from an entity, and (iv) evaluating the nature of the relationship and activities of the parties involved in determining which party within a related-party group (only for those related parties with shared power or under common control under the new guidance) is most closely associated with the VIE. Judgments are also made in determining whether a member in the equity group has a controlling financial interest including power to direct activities that most significantly impact the VIEs' economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE. This analysis includes interests through related parties. Prior to adoption of the new guidance, where the VIEs had qualified for the deferral, judgments were made in estimating cash flows to evaluate which member within the equity group absorbed a majority of the expected losses or residual returns of the VIE.

Assets and liabilities of the consolidated VIEs are shown in separate sections within the consolidated statements of financial condition as of December 31, 2015 and 2014.

For additional disclosures regarding VIEs, see note 5. Intercompany transactions and balances, if any, have been eliminated in consolidation.

Cash and Cash Equivalents—Apollo considers all highly liquid short-term investments with original maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts are on deposit in interest-bearing accounts with major financial institutions and exceed insured limits.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
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(dollars in thousands, except share data, except where noted)

Restricted Cash—Restricted cash represents cash deposited at a bank, which is pledged as collateral in connection with leased premises.

Deferred Revenue—Apollo earns management fees subject to the Management Fee Offset. When advisory and transaction fees are earned by the management company, the Management Fee Offset reduces the management fee obligation of the fund. When the management company receives cash for advisory and transaction fees, a certain percentage of such advisory and/or transaction fees, as applicable, is allocated as a credit to reduce future management fees, otherwise payable by such fund. Such credit is classified as deferred revenue in the consolidated statements of financial condition. A portion of any excess advisory and transaction fees may be required to be returned to the limited partners of certain funds upon such fund's liquidation. As the management fees earned by the management company are presented on a gross basis, any Management Fee Offsets calculated are presented as a reduction to advisory and transaction fees from affiliates in the consolidated statements of operations.

Additionally, Apollo earns advisory fees pursuant to the terms of the advisory agreements with certain of the portfolio companies that are owned by the funds. When Apollo receives a payment from a portfolio company that exceeds the advisory fees earned at that point in time, the excess payment is classified as deferred revenue in the consolidated statements of financial condition. The advisory agreements with the portfolio companies vary in duration and the associated fees are received monthly, quarterly or annually. Deferred revenue is reversed and recognized as revenue over the period that the agreed upon services are performed.

Under the terms of the funds' partnership agreements, Apollo is normally required to bear organizational expenses over a set dollar amount and placement fees or costs in connection with the offering and sale of interests in the funds to investors. The placement fees are payable to placement agents, who are independent third parties that assist in identifying potential investors, securing commitments to invest from such potential investors, preparing or revising offering and marketing materials, developing strategies for attempting to secure investments by potential investors and/or providing feedback and insight regarding issues and concerns of potential investors, when a limited partner either commits or funds a commitment to a fund. In certain instances the placement fees are paid over a period of time. Based on the management agreements with the funds, Apollo considers placement fees and organizational costs paid in determining if cash has been received in excess of the management fees earned. Placement fees and organizational costs are normally the obligation of Apollo but can be paid for by the funds. When these costs are paid by the fund, the resulting obligations are included within deferred revenue. The deferred revenue balance will also be reduced during future periods when management fees are earned but not paid.

Due from/to Affiliates—Apollo considers its existing partners, employees, certain former employees, portfolio companies of the funds and nonconsolidated private equity, credit and real estate funds to be affiliates or related parties.

Investments, at Fair Value—The Company follows U.S. GAAP attributable to fair value measurements which, among other things, requires enhanced disclosures about investments that are measured and reported at fair value. Investments, at fair value represent investments of the consolidated funds, investments of the consolidated VIEs and certain financial instruments for which the fair value option has been elected. The unrealized gains and losses resulting from changes in the fair value are reflected as net gains (losses) from investment activities and net gains (losses) from investment activities of the consolidated VIEs in the consolidated statements of operations. In accordance with U.S. GAAP, investments measured and reported at fair value are classified and disclosed in one of the following categories:

> *Level I*—Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed derivatives. As required by U.S. GAAP, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and the sale of such position would likely deviate from the quoted price.

> *Level II*—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives where the fair value is based on observable inputs. These investments exhibit higher levels of liquid market observability as compared to Level III investments. The Company subjects broker quotes to various criteria in making the determination as to whether a particular investment would qualify for treatment as a Level II investment. These criteria include, but are not limited to, the number and quality of broker quotes, the standard deviation of obtained broker quotes, and the percentage deviation from independent pricing services.

Level III—Pricing inputs are unobservable for the investment and includes situations where there is little observable market activity for the investment. The inputs into the determination of fair value may require significant management judgment or estimation. Investments that are included in this category generally include general and limited partner interests in corporate private equity and real estate funds, opportunistic credit funds, distressed debt and non-investment grade residual interests in securitizations and CDOs and CLOs where the fair value is based on observable inputs as well as unobservable inputs. When a security is valued based on broker quotes, the Company subjects those quotes to various criteria in making the determination as to whether a particular investment would qualify for treatment as a Level II or Level III investment. These criteria include, but are not limited to, the number and quality of the broker quotes, the standard deviations of the observed broker quotes, and the percentage deviation from independent pricing services.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment when the fair value is based on unobservable inputs.

In cases where an investment or financial instrument that is measured and reported at fair value is transferred between levels of the fair value hierarchy, the Company accounts for the transfer as of the end of the reporting period.

On a quarterly basis, Apollo utilizes valuation committees consisting of members from senior management, to review and approve the valuation results related to the investments of the funds it manages. For certain publicly traded vehicles, a review is performed by an independent board of directors. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Equity Method Investments—For investments in entities over which the Company exercises significant influence but which do not meet the requirements for consolidation and for which the Company has not elected the fair value option, the Company uses the equity method of accounting, whereby the Company records its share of the underlying income or loss of such entities. The carrying amounts of equity method investments are reflected in investments in the consolidated statements of financial condition. As the underlying entities that the Company manages and invests in are, for U.S. GAAP purposes, primarily investment companies which reflect their investments at estimated fair value, the carrying value of the Company's equity method investments in such entities approximates fair value.

Private Equity Investments

The value of liquid investments, where the primary market is an exchange (whether foreign or domestic) is determined using period end market prices. Such prices are generally based on the close price on the date of determination.

Valuation approaches used to estimate the fair value of investments that are less liquid include the market approach and the income approach. The market approach provides an indication of fair value based on a comparison of the subject company to comparable publicly traded companies and transactions in the industry. The market approach is driven more by current market conditions, including actual trading levels of similar companies and, to the extent available, actual transaction data of similar companies. Judgment is required by management when assessing which companies are similar to the subject company being valued. Consideration may also be given to such factors as the Company's historical and projected financial data, valuations given to comparable companies, the size and scope of the Company's operations, the Company's strengths, weaknesses, expectations relating to the market's receptivity to an offering of the Company's securities, applicable restrictions on transfer, industry and market information and assumptions, general economic and market conditions and other factors deemed relevant. The income approach provides an indication of fair value based on the present value of cash flows that a business or security is expected to generate in the future. The most widely used methodology in the income approach is a discounted cash flow method. Inherent in the discounted cash flow method are assumptions of expected results and a calculated discount rate.

Credit Investments

The majority of investments in Apollo's credit funds are valued based on quoted market prices and valuation models. Quoted market prices are valued based on the average of the "bid" and the "ask" quotes provided by multiple brokers wherever possible without any adjustments. Apollo will designate certain brokers to use to value specific securities. In order to determine the designated brokers, Apollo considers the following: (i) brokers with which Apollo has previously transacted, (ii) the underwriter of the security and (iii) active brokers indicating executable quotes. In addition, when valuing a security based on broker quotes wherever possible Apollo tests the standard deviation amongst the quotes received and the variance between the concluded fair value and the value provided by a pricing service. When broker quotes are not available Apollo considers the use of pricing service quotes or other sources to mark a position. When relying on a pricing service as a primary source, (i) Apollo analyzes how the price has moved over the measurement period (ii) reviews the number of brokers included in the pricing service's population and (iii) validates the valuation levels with Apollo's pricing team and traders.

Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value utilizing a model based approach to determine fair value. When determining fair value when no observable market value exists, the value attributed to an investment is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation approaches used to estimate the fair value of illiquid credit investments also may include the market approach and the income approach, as previously described above. The valuation approaches used consider, as applicable, market risks, credit risks, counterparty risks and foreign currency risks.

The credit funds also enter into foreign currency exchange contracts, total return swap contracts, credit default swap contracts, and other derivative contracts, which may include options, caps, collars and floors. Foreign currency exchange contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. If securities are held at the end of this period, the changes in value are recorded in income as unrealized. Realized gains or losses are recognized when contracts are settled. Total return swap and credit default swap contracts are recorded at fair value as an asset or liability with changes in fair value recorded as unrealized appreciation or depreciation. Realized gains or losses are recognized at the termination of the contract based on the difference between the close-out price of the total return or credit default swap contract and the original contract price. Forward contracts are valued based on market rates obtained from counterparties or prices obtained from recognized financial data service providers.

Real Estate Investments

The estimated fair value of commercial mortgage-backed securities ("CMBS") in Apollo's funds is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. Broker quotes are only indicative of fair value and may not necessarily represent what the funds would receive in an actual trade for the applicable instrument. Additionally, the loans held-for-investment are stated at the principal amount outstanding, net of deferred loan fees and costs for certain investments. The Company evaluates its loans for possible impairment on a quarterly basis. For Apollo's real estate funds, valuations of non-marketable underlying investments are determined using methods that include, but are not limited to (i) discounted cash flow estimates or comparable analysis prepared internally, (ii) third party appraisals or valuations by qualified real estate appraisers, and (iii) contractual sales value of investments/properties subject to bona fide purchase contracts. Methods (i) and (ii) also incorporate consideration of the use of the income, cost, or sales comparison approaches of estimating property values.

Fair Value of Financial Instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Except for the Company's debt obligations (as described in note 12), Apollo's financial instruments are recorded at fair value or at amounts whose carrying values approximate fair value. See "Investments, at Fair Value" above. While Apollo's valuations of portfolio investments are based on assumptions that Apollo believes are reasonable under the circumstances, the actual realized gains or losses will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may ultimately differ significantly from the assumptions on which the valuations were based. Financial instruments' carrying values generally approximate fair value because of the short-term nature of those instruments or variable interest rates related to the borrowings.

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Fair Value Option—Apollo has elected the fair value option for the Company's investment in Athene Holding Ltd. ("Athene Holding" and, together with its subsidiaries, "Athene") and for the assets and liabilities of the consolidated VIEs. Such election is irrevocable and is applied to financial instruments on an individual basis at initial recognition. Apollo has applied the fair value option for certain corporate loans, other investments and debt obligations held by the consolidated VIEs that otherwise would not have been carried at fair value. See notes 4, 5, and 6 for further disclosure on the investments in Athene Holding and financial instruments of the consolidated VIEs for which the fair value option has been elected.

Financial Instruments held by Consolidated VIEs

The Company has adopted the measurement alternative included in the new collateralized financing entity ("CFE") guidance. In applying the amendments introduced by the CFE guidance, the Company used a modified retrospective approach by recording a cumulative-effect adjustment to shareholders' equity as of January 1, 2015. Amounts presented for the year ended December 31, 2015 in the consolidated statements of operations reflect the adoption of this accounting guidance as of January 1, 2015.

Pursuant to the new CFE guidance, the Company measures both the financial assets and financial liabilities of the consolidated collateralized loan obligations ("CLOs") in its consolidated financial statements using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. The Company believes the fair value of the financial assets of the consolidated CLOs are more observable than the fair value of the financial liabilities of the consolidated CLOs. As a result, the financial assets of the consolidated CLOs are measured at fair value and the financial liabilities are measured in consolidation as: (i) the sum of the fair value of the financial assets and the carrying value of any non-financial assets that are incidental to the operations of the CLOs less (ii) the sum of the fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services) and the Company's carrying value of any beneficial interests that represent compensation for services. The resulting amount is allocated to the individual financial liabilities (other than the beneficial interest retained by the Company) using a reasonable and consistent methodology. Under the measurement alternative, the Company's consolidated net income reflects the Company's own economic interests in the consolidated CLOs including (i) changes in the fair value of the beneficial interests retained by the Company and (ii) beneficial interests that represent compensation for collateral management services.

Prior to the adoption of the new CFE guidance, the Company elected the fair value option for the assets and liabilities of the consolidated CLOs. The Company accounted for the difference between the fair value of the assets and the fair value of the liabilities of the consolidated CLOs in net gains from investment activities of consolidated variable interest entities in the consolidated statements of operations. This amount was attributed to the Company and other beneficial interest holders based on each beneficial holder's residual interest in the consolidated CLOs. The amount attributed to other beneficial interest holders was reflected in the consolidated statements of operations in net income attributable to Non-Controlling Interests and in the consolidated statements of financial condition in appropriated partners' capital within shareholders' equity. The amount was recorded as appropriated partners' capital since the other holders of the CLOs' beneficial interests, not the Company, received the benefits or absorbed the losses associated with their proportionate share of the CLOs' assets and liabilities.

The consolidated VIEs hold investments that could be traded over-the-counter. Investments in securities that are traded on a securities exchange or comparable over-the-counter quotation systems are valued based on the last reported sale price at that date. If no sales of such investments are reported on such date, and in the case of over-the-counter securities or other investments for which the last sale date is not available, valuations are based on independent market quotations obtained from market participants, recognized pricing services or other sources deemed relevant, and the prices are based on the average of the "bid" and "ask" prices, or at ascertainable prices at the close of business on such day. Market quotations are generally based on valuation pricing models or market transactions of similar securities adjusted for security-specific factors such as relative capital structure priority and interest and yield risks, among other factors. When market quotations are not available, a model based approach is used to determine fair value.

The consolidated VIEs also have debt obligations that are recorded at fair value. As previously noted, effective January 1, 2015 with the adoption of the new CFE guidance, the Company measures CLO debt obligations on the basis of the fair value of financial assets of the CLO. Prior to the adoption of the new CFE guidance, the primary valuation methodology used to determine fair value for debt obligations was market quotation. Prices were based on the average of the "bid" and "ask" prices. In the event that market quotations were not available, a model based approach was used. The model based approach used to estimate the fair values of debt obligations for which market quotations were not available was the discounted cash flow method, which includes consideration of the cash flows of the debt obligation based on projected quarterly interest payments and quarterly amortization.

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Debt obligations were discounted based on the appropriate yield curve given the loan's respective maturity and credit rating. Management used its discretion and judgment in considering and appraising relevant factors for determining the valuations of the consolidated VIEs' debt obligations.

Pending Deal Costs

Pending deal costs consist of certain costs incurred (e.g. research costs, due diligence costs, professional fees, legal fees and other related items) related to private equity, credit and real estate fund transactions that the Company is pursuing but which have not yet been consummated. These costs are deferred until such transactions are broken or successfully completed. A transaction is determined to be broken upon management's decision to no longer pursue the transaction. In accordance with the related fund agreements, in the event the deal is broken, all of the costs are generally reimbursed by the funds and considered in the calculation of the Management Fee Offset. These offsets are included in advisory and transaction fees from affiliates, net in the Company's consolidated statements of operations. If a deal is successfully completed, Apollo is reimbursed by the fund or a fund's portfolio company for all costs incurred.

Fixed Assets

Fixed Assets consist primarily of leasehold improvements, furniture, fixtures and equipment, computer hardware and software and are recorded at cost, net of accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the assets' estimated useful lives and in the case of leasehold improvements the lesser of the useful life or the term of the lease. Expenditures for repairs and maintenance are charged to expense when incurred. The Company evaluates long-lived assets for impairment periodically and whenever events or changes in circumstances indicate the carrying amounts of the assets may be impaired. During 2015, presentation of fixed assets was combined with other assets on the consolidated statements of financial condition and the prior period was adjusted to conform to the combined presentation.

Business Combinations

The Company accounts for acquisitions using the purchase method of accounting in accordance with U.S. GAAP. Under the purchase method of accounting, the purchase price of an acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date.

Goodwill and Intangible Assets

Goodwill and indefinite-life intangible assets must be reviewed annually for impairment or more frequently if circumstances indicate impairment may have occurred. Identifiable finite-life intangible assets, by contrast, are amortized over their estimated useful lives, which are periodically re-evaluated for impairment or when circumstances indicate an impairment may have occurred. Apollo amortizes its identifiable finite-life intangible assets using a method of amortization reflecting the pattern in which the economic benefits of the finite-life intangible asset are consumed or otherwise used up. If that pattern cannot be reliably determined, Apollo uses the straight-line method of amortization.

Profit Sharing Payable

Profit sharing payable primarily represents the amounts payable to employees and former employees who are entitled to a proportionate share of carried interest income in one or more funds. This portion of the liability is calculated based upon the changes to realized and unrealized carried interest and is therefore not payable until the carried interest itself is realized. Profit sharing payable also includes contingent obligations that were recognized in connection with certain Apollo acquisitions.

Debt Issuance Costs

Debt issuance costs consist of costs incurred in obtaining financing and are amortized over the term of the financing using the effective interest method. These costs are recorded as a direct deduction from the carrying amount of the related debt liability on the consolidated statements of financial condition.

Foreign Currency

The Company may, from time to time, hold foreign currency denominated assets and liabilities. Such assets and liabilities are translated using the exchange rates prevailing at the end of each reporting period. The functional currency of the Company's international subsidiaries is the U.S. Dollar, as their operations are considered an extension of U.S. parent operations. Non-monetary assets and liabilities of the Company's international subsidiaries are remeasured into the functional currency using historical exchange rates specific to each asset and liability. The results of the Company's foreign operations are normally remeasured using an average exchange rate for the respective reporting period. All currency remeasurement adjustments are included within other income (loss), net in the consolidated statements of operations. Gains and losses on the settlement of foreign currency transactions are also included within other income (loss), net in the consolidated statements of operations.

Revenues—Revenues are reported in three separate categories that include (i) advisory and transaction fees from affiliates, net, which relate to the investments of the funds and may include individual monitoring agreements the Company has with the portfolio companies and debt investment vehicles of the private equity funds and credit funds; (ii) management fees from affiliates, which are based on committed capital, invested capital, net asset value, gross assets or as otherwise defined in the respective agreements; and (iii) carried interest income (loss) from affiliates, which is normally based on the performance of the funds subject to preferred return.

Advisory and Transaction Fees from Affiliates, Net—Advisory and transaction fees, including directors' fees, are recognized when the underlying services rendered are substantially completed in accordance with the terms of the transaction and advisory agreements. Additionally, during the normal course of business, the Company incurs certain costs related to certain transactions that are not consummated ("broken deal costs"). These costs (e.g., research costs, due diligence costs, professional fees, legal fees and other related items) are determined to be broken deal costs upon management's decision to no longer pursue the transaction. In accordance with the related fund agreement, in the event the deal is deemed broken, all of the costs are reimbursed by the funds and then included as a component of the calculation of the Management Fee Offset described below. If a deal is successfully completed, Apollo is reimbursed by the fund or fund's portfolio company for all costs incurred and no offset is generated. As the Company acts as an agent for the funds it manages, any transaction costs incurred and paid by the Company on behalf of the respective funds relating to successful or broken deals are presented net on the Company's consolidated statements of operations, and any receivable from the respective funds is presented in due from affiliates on the consolidated statements of financial condition.

Advisory and transaction fees from affiliates, net, also includes underwriting fees. Underwriting fees include gains, losses and fees, net of syndicate expenses, arising from securities offerings in which one of the Company's subsidiaries participates in the underwriter syndicate. Underwriting fees are recognized at the time the underwriting is completed and the income is reasonably assured and are included in the consolidated statements of operations. Underwriting fees recognized but not received are included in other assets on the consolidated statements of financial condition.

As a result of providing advisory services to certain private equity and credit portfolio companies, Apollo is generally entitled to receive fees for transactions related to the acquisition, in certain cases, and disposition of portfolio companies as well as ongoing monitoring of portfolio company operations and directors' fees. The amounts due from portfolio companies are included in due from affiliates, which is discussed further in note 15. Under the terms of the limited partnership agreements for certain funds, the management fee payable by the funds may be subject to a reduction based on a certain percentage of such advisory and transaction fees, net of applicable broken deal costs ("Management Fee Offset"). Advisory and transaction fees from affiliates are presented net of the Management Fee Offset in the consolidated statements of operations.

Management Fees from Affiliates—Management fees for private equity, credit, and real estate funds are recognized in the period during which the related services are performed in accordance with the contractual terms of the related agreement, and are generally based upon (1) a percentage of the capital committed during the commitment period, and thereafter based on the remaining invested capital of unrealized investments, or (2) net asset value, gross assets or as otherwise defined in the respective agreements.

Carried Interest Income from Affiliates—Apollo is entitled to an incentive return that can normally amount to as much as 20% of the total returns on a fund's capital, depending upon performance. Performance-based fees are assessed as a percentage of the investment performance of the funds. The carried interest income from affiliates

for any period is based upon an assumed liquidation of the fund's net assets on the reporting date, and distribution of the net proceeds in accordance with the fund's income allocation provisions. Carried interest receivable is presented separately in the consolidated statements of financial condition. The carried interest income from affiliates may be subject to reversal to the extent that the carried interest income recorded exceeds the amount due to the general partner based on a fund's cumulative investment returns. When applicable, the accrual for potential repayment of previously received carried interest income, which is a component of due to affiliates, represents all amounts previously distributed to the general partner that would need to be repaid to the Apollo funds if these funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual general partner obligation, however, would not become payable or realized until the end of a fund's life.

Compensation and Benefits

Equity-Based Compensation—Equity-based awards granted to employees as compensation are measured based on the grant date fair value of the award. Equity-based awards that do not require future service (i.e., vested awards) are expensed immediately. Equity-based employee awards that require future service are expensed over the relevant service period. The Company estimates forfeitures for equity-based awards that are not expected to vest. Equity-based awards granted to non-employees for services provided to affiliates are remeasured to fair value at the end of each reporting period and expensed over the relevant service period.

Salaries, Bonus and Benefits—Salaries, bonus and benefits include base salaries, discretionary and non-discretionary bonuses, severance and employee benefits. Bonuses are generally accrued over the related service period.

The Company sponsors a 401(k) savings plan whereby U.S.-based employees are entitled to participate in the plan based upon satisfying certain eligibility requirements. The Company may provide discretionary contributions from time to time. No contributions relating to this plan were made by the Company for the years ended December 31, 2015 and 2014.

Profit Sharing Expense—Profit sharing expense primarily consists of a portion of carried interest recognized in one or more funds allocated to employees and former employees. Profit sharing expense is recognized on an accrued basis as the related carried interest income is earned. Profit sharing expense can be reversed during periods when there is a decline in carried interest income that was previously recognized. Additionally, profit sharing amounts previously distributed may be subject to clawback from employees, former employees and Contributing Partners.

Changes in the fair value of the contingent consideration obligations that were recognized in connection with certain Apollo acquisitions are reflected in the Company's consolidated statements of operations as profit sharing expense.

The Company has a performance based incentive arrangement for certain Apollo partners and employees designed to more closely align compensation on an annual basis with the overall realized performance of the Company. This arrangement enables certain partners and employees to earn discretionary compensation based on carried interest realizations earned by the Company in a given year, which amounts are reflected in profit sharing expense in the accompanying consolidated financial statements.

Other Income (Loss)

Net Gains (Losses) from Investment Activities—Net gains (losses) from investment activities include both realized gains and losses and the change in unrealized gains and losses in the Company's investment portfolio between the opening reporting date and the closing reporting date. The consolidated financial statements include the net realized and unrealized gains (losses) of investments, at fair value. For the years ending December 31, 2014 and December 31, 2013, for the Company's investments held by AAA (see notes 4 and 5), a portion of the net gains (losses) from investment activities are attributable to Non-Controlling Interests in the consolidated statements of operations.

Net Gains (Losses) from Investment Activities of Consolidated Variable Interest Entities—Changes in the fair value of the consolidated VIEs' assets and liabilities and related interest, dividend and other income and expenses are presented within net gains (losses) from investment activities of consolidated variable interest entities and are attributable to Non-Controlling Interests in the consolidated statements of operations.

Other Income (Loss), Net—Other income (loss), net includes the recognition of gains (losses) arising from the remeasurement of foreign currency denominated assets and liabilities of foreign subsidiaries, reversal of a portion of the tax receivable agreement liability (see note 15), gains (losses) arising from the remeasurement of derivative instruments associated

with fees from certain of the Company's affiliates, gains arising from extinguishment of contingent consideration obligations and other miscellaneous non-operating income and expenses.

Comprehensive Income (Loss)—U.S. GAAP guidance establishes standards for reporting comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements. U.S. GAAP requires that the Company classify items of OCI by their nature in the financial statements and display the accumulated balance of OCI separately in the shareholders' equity section of the Company's consolidated statements of financial condition. Comprehensive income (loss) consists of net income (loss) and OCI. Apollo's OCI is primarily comprised of the effective portion of changes in the fair value of the interest rate swap agreements discussed previously and foreign currency translation adjustments associated with the Company's non-U.S. dollar denominated subsidiaries.

Income Taxes—The Apollo Operating Group and its subsidiaries generally operate as partnerships for U.S. Federal income tax purposes. As a result, except as described below, the Apollo Operating Group has not been subject to U.S. income taxes. However, these entities in some cases are subject to New York City unincorporated business taxes ("NYC UBT") and non-U.S. entities, in some cases, are subject to non-U.S. corporate income taxes. In addition, APO Corp., a wholly-owned subsidiary of the Company, is subject to U.S. Federal, state and local corporate income tax, and the Company's provision for income taxes is accounted for in accordance with U.S. GAAP.

Significant judgment is required in determining tax expense and in evaluating tax positions, including evaluating uncertainties. The Company recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit is measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. If a tax position is not considered more likely than not to be sustained, then no benefits of the position are recognized. The Company's tax positions are reviewed and evaluated quarterly to determine whether or not the Company has uncertain tax positions that require financial statement recognition.

Deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amount of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Non-Controlling Interests—For entities that are consolidated, but not 100% owned, a portion of the income or loss and corresponding equity is allocated to owners other than Apollo. The aggregate of the income or loss and corresponding equity that is not owned by the Company is included in Non-Controlling Interests in the consolidated financial statements. As of December 31, 2015, the Non-Controlling Interests relating to Apollo Global Management, LLC primarily include the ownership interest in the Apollo Operating Group held by the Managing Partners and Contributing Partners through their limited partner interests in Holdings and other ownership interests in consolidated entities. Non-Controlling Interests also include limited partner interests of Apollo managed funds in certain consolidated VIEs.

Non-Controlling Interests are presented as a separate component of shareholders' equity on the Company's consolidated statements of financial condition. The primary components of Non-Controlling Interests are separately presented in the Company's consolidated statements of changes in shareholders' equity to clearly distinguish the interest in the Apollo Operating Group and other ownership interests in the consolidated entities. Net income (loss) includes the net income (loss) attributable to the holders of Non-Controlling Interests on the Company's consolidated statements of operations. Profits and losses are allocated to Non-Controlling Interests in proportion to their relative ownership interests regardless of their basis.

Net Income (Loss) Per Class A Share—As Apollo has issued participating securities, U.S. GAAP requires use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating security as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for distributions declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for distributions declared on participating securities only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity. Participating securities include vested and unvested RSUs that participate in distributions, as well as unvested restricted shares.

Whether during a period of net income or net loss, under the two-class method the remaining earnings are allocated to Class A shares and participating securities to the extent that each security shares in earnings as if all of the earnings for the

period had been distributed. Earnings or losses allocated to each class of security are then divided by the applicable weighted average outstanding shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes all outstanding Class A shares and includes the number of additional Class A shares that would have been outstanding if the dilutive potential Class A shares had been issued. The numerator is adjusted for any changes in income or loss that would result from the issuance of these potential Class A shares.

Use of Estimates—The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Apollo's most significant estimates include goodwill, intangible assets, income taxes, carried interest income from affiliates, contingent consideration obligations related to acquisitions, non-cash compensation, and fair value of investments and debt. Actual results could differ materially from those estimates.

Recent Accounting Pronouncements

In April 2014, the FASB issued guidance to improve the definition of discontinued operations. The new definition limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. The guidance is effective for all disposals (or classifications as held for sale) of components of an entity and all businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In May 2014, the FASB issued guidance to establish a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity's revenue across industries, transactions, and geographies. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. As such, this new guidance could impact the timing of revenue recognition. The new guidance also requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The new guidance will apply to all entities. In August 2015, FASB issued its final standard formally amending the effective date of the new revenue recognition guidance. The amended guidance defers the effective date of the new guidance to interim reporting periods within annual reporting periods beginning after December 15, 2017. Entities are permitted to apply the new guidance early, but not before the original effective date (i.e., interim periods within annual periods beginning after December 15, 2016). The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements, including the timing of the recognition of carried interest income.

In June 2014, the FASB issued guidance to resolve diversity in practice in the accounting for share-based payments where the terms of an award provide that a performance target could be achieved after the requisite service period. The new guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and therefore should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early application is permitted. The Company adopted this guidance as of December 31, 2015. The early adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In August 2014, the FASB issued guidance to eliminate diversity in practice in the accounting for measurement differences in both the initial consolidation and subsequent measurement of the financial assets and the financial liabilities of a collateralized financing entity. A reporting entity that consolidates a collateralized financing entity within the scope of the new guidance may elect to measure the financial assets and the financial liabilities of that collateralized financing entity using either the measurement alternative included in the new guidance or the existing guidance on fair value measurement. When a reporting entity elects the measurement alternative included in the new guidance for a collateralized financing entity, the reporting entity should measure both the financial assets and the financial liabilities of that collateralized financing entity in its consolidated financial statements using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted. As noted earlier, the Company adopted this guidance on a modified retrospective basis by recording a cumulative-effect adjustment to shareholders' equity as of January 1, 2015.

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In August 2014, the FASB issued guidance regarding management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new guidance requires that management evaluate each annual and interim reporting period whether conditions exist that give rise to substantial doubt about the entity's ability to continue as a going concern within one year from the financial statement issuance date, and if so, provide related disclosures. Substantial doubt exists when conditions and events, considered in the aggregate, indicate that it is probable that a company will be unable to meet its obligations as they become due within one year after the financial statement issuance date. The new guidance applies to all companies. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. Early adoption is permitted. This guidance is not expected to have an impact on the consolidated financial statements of the Company.

In November 2014, the FASB issued guidance to clarify how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the new guidance clarifies that an entity should consider all relevant terms and features-including the embedded derivative feature being evaluated for bifurcation when evaluating the nature of the host contract. The new guidance applies to all entities that are issuers of, or investors in, hybrid financial instruments that are issued in the form of a share. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted. The Company adopted this guidance as of December 31, 2015. The early adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In January 2015, the FASB issued guidance to simplify income statement presentation by eliminating the concept of extraordinary items. The new guidance eliminates the requirement for reporting entities to consider whether an underlying event or transaction is extraordinary. However, the presentation and disclosure requirements under existing guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. Under the new guidance, items that are both unusual in nature and infrequently occurring should be presented within income from continuing operations or disclosed in the notes to the financial statements. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company adopted this guidance as of December 31, 2015. The early adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In February 2015, the FASB issued new consolidation guidance which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Existing guidance includes different requirements for performing a consolidation analysis if, among other factors, the entity under evaluation is any one of the following: (1) a legal entity that qualifies for the indefinite deferral under the amended consolidation rules, (2) a legal entity that is within the scope of the amended consolidation rules, or (3) a limited partnership or similar entity that is considered a voting interest entity. Under the new guidance, all reporting entities are within the scope of the new standard, including limited partnerships and similar legal entities, unless a scope exception applies. The presumption that a general partner controls a limited partnership has been eliminated. In addition, fees paid to decision makers that meet certain conditions (e.g., are both customary and commensurate with the level of effort required for the services provided or where the decision maker does not hold other interests in the VIE that individually, or in the aggregate, would absorb more than an insignificant amount of the VIEs expected losses or receive more than an insignificant amount of the VIEs expected residual returns) no longer cause decision makers to consolidate VIEs in certain instances. The new guidance places more emphasis in the consolidation evaluation on variable interests other than the fee arrangements such as principal investment risk (for example, debt or equity interests), guarantees of the value of the assets or liabilities of the VIE, written put options on the assets of the VIE, or similar obligations, including some liquidity commitments or agreements (explicit or implicit). Additionally, the new guidance reduces the extent to which related party arrangements cause an entity to be considered a primary beneficiary. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period, and adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. A reporting entity may apply the new guidance using either a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or by applying the amendments retrospectively. As noted in the "Summary of Significant Accounting Policies" above the Company has adopted this guidance on a modified retrospective basis. This guidance has resulted in the deconsolidation of certain investment vehicles the Company manages, as further described in note 4.

In April 2015, the FASB issued guidance to simplify the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the

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carrying amount of that debt liability (i.e., versus being capitalized as an asset and amortized as required under existing guidance), consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the new guidance (i.e., debt issuance costs will continue to be amortized as an increase to interest expense). The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The Company adopted this guidance as of December 31, 2015 and applied the guidance retrospectively. The early adoption of this guidance did not have a material impact on the Company's consolidated financial statements. See note 12 for further details regarding the presentation of debt issuance costs.

In May 2015, the FASB issued guidance to eliminate diversity in practice related to how certain investments measured at net asset value are categorized within the fair value hierarchy. The guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Pursuant to the guidance, a reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements.

In September 2015, the FASB issued guidance to simplify the accounting for adjustments made to the provisional amounts recognized in a business combination. The guidance requires that an acquirer recognize adjustments to provisional amounts that are identified during the one year period following the acquisition date (i.e., measurement period) in the reporting period in which the adjustment amounts are determined (i.e., versus as of the acquisition date as is required by existing guidance). The guidance also requires an acquirer to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. The guidance should be applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance with earlier application permitted for financial statements that have not been issued. The Company adopted this guidance as of December 31, 2015. The early adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In January 2016, the FASB issued guidance that revises the accounting related to the classification and measurement of investments in equity securities as well as the presentation for certain fair value changes in financial liabilities measured at fair value, and amends certain disclosure requirements. The guidance requires that all equity investments, except those accounted for under the equity method of accounting or those resulting in the consolidation of the investee, be accounted for at fair value with all fair value changes recognized in income. For financial liabilities measured using the fair value option, the guidance requires that any change in fair value caused by a change in instrument-specific credit risk be presented separately in other comprehensive income until the liability is settled or reaches maturity. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted for certain provisions. A reporting entity would generally record a cumulative-effect adjustment to beginning retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements.

3. GOODWILL AND INTANGIBLE ASSETS

On May 5, 2015, the Company acquired 100% of the assets and liabilities of Venator Real Estate Capital Partners (Hong Kong) Limited and its wholly-owned subsidiary, Venator Investment Management Consulting (Shanghai) Limited (together referred to as "Venator"), in exchange for restricted shares of Apollo Global Management, LLC. The acquisition provided the Company's real estate segment with additional real estate investment management and related service capabilities in Asia. The transaction was accounted for as a business combination. Identifiable assets with a combined fair value of $3.0 million were acquired and liabilities with a combined fair value of $2.1 million were assumed, resulting in a bargain purchase gain of $0.9 million as of the acquisition date, which was recorded in other income, net in the consolidated statement of operations.

The carrying value of goodwill was $88.9 million and $49.2 million as of December 31, 2015 and 2014, respectively. As of December 31, 2014, due to the consolidation of certain funds and CLOs, the goodwill relating to certain acquisitions was eliminated in consolidation. As a result of the Company's adoption of new accounting guidance as described in note 2, the Company deconsolidated certain funds and CLOs as of January 1, 2015, resulting in the goodwill balance no longer eliminating in consolidation as of December 31, 2015. At June 30, 2015 and 2014, the Company performed its annual impairment testing, and, as the fair value of each of the Company's reporting units was in excess of its carrying value, there was no impairment of goodwill.

Intangible assets, net consists of the following:

	As of December 31,	
	2015	**2014**
Finite-lived intangible assets/management contracts	$ 242,863	$ 240,285
Accumulated amortization	(214,243)	(180,246)
Intangible assets, net	$ 28,620	$ 60,039

The changes in intangible assets, net consist of the following:

	For the Year Ended December 31,		
	2015	**2014**	**2013**
Balance, beginning of year	$ 60,039	$ 94,927	$ 137,856
Amortization expense	(33,998)	(34,888)	(43,194)
Acquisitions	2,579	—	265

Balance, end of year	$ 28,620 (1)	$ 60,039	$ 94,927

(1) Includes $1.0 million of indefinite-life intangible assets as of December 31, 2015.

Expected amortization of these intangible assets for each of the next 5 years and thereafter is as follows:

	2016	2017	2018	2019	2020	Thereafter	Total
Amortization of intangible assets	$ 8,655	$ 5,220	$ 3,677	$ 3,677	$ 3,677	$ 2,684	$ 27,590

There was no impairment of indefinite-life intangible assets as of December 31, 2015.

4. INVESTMENTS

The following table represents Apollo's investments:

	As of December 31,	
	2015	2014
Investments, at fair value	$ 539,080	$ 2,499,128
Equity method investments	615,669	380,878
Total Investments	$ 1,154,749	$ 2,880,006

Investments, at Fair Value

Investments, at fair value, consist of investments for which the fair value option has been elected and include the Company's investment in Athene Holding, investments held by the Company's consolidated funds and other investments held by the Company. See note 6 for further discussion regarding investments, at fair value.

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Net Gains (Losses) from Investment Activities

The following table presents the realized and net change in unrealized gains (losses) on investments, at fair value for the years ended December 31, 2015, 2014 and 2013:

	For the Year Ended December 31,		
	2015	2014	2013
Realized gains (losses) on sales of investments	$ 889	$ (12,651)	$ 409
Net change in unrealized gains due to changes in fair values	120,834	225,894	329,826
Net Gains from Investment Activities	$ 121,723	$ 213,243	$ 330,235

Equity Method Investments

Apollo's equity method investments include its investments in Apollo private equity, credit and real estate funds, which are not consolidated, but in which the Company exerts significant influence. Apollo's share of operating income generated by these investments is recorded within income from equity method investments in the consolidated statements of operations.

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Equity method investments, excluding those for which the fair value option was elected, as of December 31, 2015 and 2014 consisted of the following:

	Equity Held as of			
	December 31, 2015	% of Ownership	December 31, 2014	% of Ownership
Private Equity Funds:				
AP Alternative Assets, L.P. ("AAA")(6)	$ 65,961	2.370%	$ —	—%
AAA Investments, L.P. ("AAA Investments")	1,676	0.057	1,293	0.057
Apollo Investment Fund IV, L.P. ("Fund IV")	9	0.024	8	0.022
Apollo Investment Fund V, L.P. ("Fund V")	57	0.048	68	0.031
Apollo Investment Fund VI, L.P. ("Fund VI")	2,369	0.119	6,173	0.114
Apollo Investment Fund VII, L.P. ("Fund VII")	58,334	1.245	78,286	1.223
Apollo Investment Fund VIII, L.P. ("Fund VIII")	116,443	2.223	33,099	2.241
Apollo Natural Resources Partners, L.P. ("ANRP I")	6,246	0.836	5,608	0.807
Apollo Natural Resources Partners II, L.P. ("ANRP II")	5,194	2.447	—	—
AION Capital Partners Limited ("AION")	16,497	5.938	14,707	6.113
Apollo Asia Private Credit Fund, L.P. ("APC")	49	0.045	47	0.044
VC Holdings, L.P. Series A ("Vantium A/B")	15	6.450	12	6.450
VC Holdings, L.P. Series C ("Vantium C")	63	2.071	48	2.071
VC Holdings, L.P. Series D ("Vantium D")	169	6.345	180	6.345
Other	41	NM	—	—
Total Private Equity Funds(5)	273,123		139,529	
Credit Funds:				
Apollo Special Opportunities Managed Account, L.P. ("SOMA")	5,992	0.816	6,997	0.841
Apollo Value Strategic Fund, L.P. ("VIF")	39	0.084	146	0.067
Apollo Strategic Value Fund, L.P. ("SVF")	7	0.030	10	0.033
Apollo Credit Liquidity Fund, L.P. ("ACLF")	2,253	4.106	4,128	2.771
Apollo Credit Opportunity Fund I, L.P. ("COF I")	1,463	1.954	2,298	1.870
Apollo Credit Opportunity Fund II, L.P. ("COF II")	1,281	1.523	2,249	1.497
Apollo Credit Opportunity Fund III, L.P. ("COF III")	19,612	1.052	13,102	1.061
Apollo European Principal Finance Fund, L.P. ("EPF I")	5,195	1.372	7,647	1.449
Apollo European Principal Finance Fund II, L.P. ("EPF II")	47,867	1.760	44,523	1.760
Apollo Investment Europe II, L.P. ("AIE II")	2,193	3.990	3,203	1.937
Apollo Investment Europe III, L.P. ("AIE III")	3,917	2.920	1,540	2.914
Apollo Palmetto Strategic Partnership, L.P. ("Palmetto")	15,158	1.186	14,049	1.186
Apollo Senior Floating Rate Fund Inc. ("AFT")	78	0.030	86	0.031
Apollo Residential Mortgage, Inc. ("AMTG") (3)	3,997 (1)	0.707 (1)	4,263 (2)	0.593 (2)
Apollo European Credit, L.P. ("AEC")	2,303	1.081	2,443	1.081
Apollo European Strategic Investments, L.P. ("AESI")	2,323	0.990	3,834	0.990
Apollo European Strategic Investments II, L.P. (AESI II")	1,224	0.990	123	0.990
Apollo Centre Street Partnership, L.P. ("ACSP")	11,870	2.488	11,474	2.439
Apollo Investment Corporation ("AINV") (4)	61,944 (1)	3.434 (1)	64,382 (2)	3.057 (2)
Apollo SK Strategic Investments, L.P. ("SK")	1,152	0.990	1,693	0.990
Apollo SPN Investments I, L.P.	5,490	0.392	5,500	0.720
CION Investment Corporation ("CION")	1,000	0.107	1,000	0.206
Apollo Tactical Income Fund Inc. ("AIF")	73	0.031	84	0.032
Apollo Franklin Partnership, L.P. ("Franklin Fund")	8,147	9.091	9,647	9.091
Apollo Zeus Strategic Investments, L.P. ("Zeus")	7,764	3.398	6,404	3.392
Apollo Lincoln Fixed Income Fund, L.P.	1,941	1.041	1,398	0.993
Apollo Lincoln Private Credit Fund, L.P.	211	0.990	194	0.990
Apollo Structured Credit Recovery Master Fund III, L.P.	1,804	0.293	315	0.126
Apollo Total Return Fund L.P.	162	0.032	163	0.046
Apollo Credit Short Opportunities Fund L.P.	20	0.012	19	0.027
MidCap FinCo Limited ("MidCap")	79,326	4.940	—	—

Apollo Energy Opportunity Fund, L.P. (“AEOF”)	8,898	2.440	—	—

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Apollo A-N Credit Fund, L.P.	4,962	1.970	—	—
Apollo Tactical Value SPN Investments, L.P.	1,168	1.482	—	—
Apollo Union Street Partners, L.P.	1,139	2.002	—	—
Apollo Hercules Partners L.P.	1,094	2.439	—	—
Total Credit Funds(5)	313,067		212,914	
Real Estate:				
ARI(3)	13,845 (1)	1.043 (1)	13,989 (2)	1.495 (2)
U.S. RE Fund I	9,275	5.000	10,519	1.845
U.S. RE Fund II	2,712	1.886	38	4.761
CPI Capital Partners North America, L.P.	28	0.404	137	0.408
CPI Capital Partners Europe, L.P.	5	0.001	5	0.001
CPI Capital Partners Asia Pacific, L.P.	80	0.039	96	0.039
Apollo GSS Holding (Cayman), L.P.	3,082	4.750	3,564	4.750
BEA/AGRE China Real Estate Fund, L.P.	83	1.030	87	1.031
Apollo-IC, L.P. (Shanghai Village)	359	3.100	—	—
Other	10	NM	—	—
Total Real Estate Funds(5)	29,479		28,435	
Total	$ 615,669		$ 380,878	

(1) Amounts are as of September 30, 2015.
(2) Amounts are as of September 30, 2014.
(3) Investment value includes the fair value of RSUs granted to the Company as of the grant date. These amounts are not considered in the percentage of ownership until the RSUs are vested and issued to the Company, at which point the RSUs are converted to common stock and delivered to the Company.
(4) The value of the Company's investment in AINV was $41,833 and $53,693 based on the quoted market price as of December 31, 2015 and December 31, 2014, respectively.
(5) Certain funds invest across multiple segments. The presentation in the table above is based on the classification of the majority of such funds' investments.
(6) AAA was deconsolidated effective January 1, 2015 as a result of the Company's adoption of new accounting guidance, as described in note 2. As a result, the Company's investment in AAA no longer eliminates in consolidation.

The Company's equity method investment in Athene Holding, for which the fair value option was elected, met the significance criteria as defined by the SEC for the year ended December 31, 2015. As such, the following tables present summarized financial information of Athene Holding as of December 31, 2015 and 2014, and for the years ended December 31, 2015, 2014 and 2013:

	As of December 31,	
	2015(1)	**2014**
	in millions	
Statements of Financial Condition		
Investments	$ 57,284	$ 59,050
Assets	74,335	82,182
Liabilities	68,865	77,584
Equity	5,470	4,598

(1) The financial statement information for the year ended December 31, 2015 is presented a quarter in arrears and is comprised of the financial information as of September 30, 2015, which represents the latest available financial information as of the date of this report.

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	For the Year Ended December 31,		
	2015[(1)]	2014	2013
	in millions		
Statements of Operations			
Revenues	$ 2,767	$ 4,133	$ 1,760
Expenses	2,161	3,598	750
Income before income tax provision	606	535	1,010
Income tax provision (benefit)	71	40	(1)
Net income	535	495	1,011
Net income attributable to Non-controlling Interests	(43)	(12)	(116)
Net income available to Athene common shareholders	$ 492	$ 483	$ 895

(1) The financial statement information for the year ended December 31, 2015 is presented a quarter in arrears and is comprised of the financial information for the year ended September 30, 2015, which represents the latest available financial information as of the date of this report.

The tables below present summarized aggregate financial information of the Company's equity method investments, as of December 31, 2015 and 2014, and for the years ended December 31, 2015, 2014 and 2013:

	Private Equity		Credit		Real Estate		Aggregate Totals	
	As of December 31,		As of December 31,		As of December 31,		As of December 31,	
Statement of Financial Condition	2015[(1)]	2014[(1)]	2015[(1)]	2014[(1)]	2015[(1)]	2014[(1)]	2015[(1)]	2014[(1)]
Investments	$ 17,080,292	$ 16,082,723	$ 18,830,120	$ 17,888,199	$ 3,188,822	$ 2,584,097	$ 39,099,234	$ 36,555,019
Assets	17,970,417	16,924,291	21,255,463	20,076,656	3,484,842	2,772,857	42,710,722	39,773,804
Liabilities	37,416	128,257	7,646,492	6,216,702	1,287,051	1,028,203	8,970,959	7,373,162
Equity	17,933,001	16,796,034	13,608,971	13,859,954	2,197,791	1,744,654	33,739,763	32,400,642

	Private Equity			Credit			Real Estate			Aggregate Totals		
	For the Year Ended December 31,			For the Year Ended December 31,			For the Year Ended December 31,			For the Year Ended December 31,		
Statement of Operations	2015[(1)]	2014[(1)]	2013[(1)]	2015[(1)]	2014[(1)]	2013[(1)]	2015[(1)]	2014[(1)]	2013[(1)]	2015[(1)]	2014[(1)]	2013[(1)]
Revenues/Investment Income	$ 408,971	$ 340,380	$ 675,844	$ 1,352,017	$ 1,954,270	$ 1,297,324	$ 120,340	$ 89,579	$ 73,429	$ 1,881,328	$ 2,384,229	$ 2,046,597
Expenses	306,044	326,126	239,750	464,610	417,967	583,410	35,340	29,022	39,153	805,994	773,115	862,313
Net Investment Income	102,927	14,254	436,094	887,407	1,536,303	713,914	85,000	60,557	34,276	1,075,334	1,611,114	1,184,284
Net Realized and Unrealized Gain (Loss)	20,757	1,300,343	10,411,556	(1,643,758)	(548,088)	953,227	(1,699)	62,516	214,764	(1,624,700)	814,771	11,579,547
Net Income	$ 123,684	$ 1,314,597	$ 10,847,650	$ (756,351)	$ 988,215	$ 1,667,141	$ 83,301	$ 123,073	$ 249,040	$ (549,366)	$ 2,425,885	$ 12,763,831

(1) Certain private equity, credit and real estate fund amounts are as of and for the twelve months ended September 30, 2015, 2014 and 2013.

5. VARIABLE INTEREST ENTITIES

As described in note 2, the Company consolidates entities that are VIEs for which the Company has been designated as the primary beneficiary. There is no recourse to the Company for the consolidated VIEs' liabilities.

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Consolidated Variable Interest Entities

Apollo has consolidated VIEs in accordance with the policy described in note 2. Through its role as investment manager of these VIEs, the Company determined that Apollo has the power to direct the activities that most significantly impact the economic performance of these VIEs. Additionally, Apollo determined that its interests, both directly and indirectly from these VIEs, represent rights to returns that could potentially be significant to such VIEs. As a result, Apollo determined that it is the primary beneficiary and therefore should consolidate the VIEs.

Deconsolidation of CLOs

CLOs are generally determined to be VIEs if they are formed solely to issue collateralized notes in the legal form of debt and therefore do not have sufficient total equity investment at risk to permit the entity to finance its activities without additional subordinated financial support. Prior to adoption of the new consolidation guidance, Apollo was considered to possess a controlling financial interest in, and therefore consolidated, such CLOs as Apollo's role as collateral manager provided the Company with the power to direct the activities that most significantly impacted the CLO's economic performance and the Company had the right to receive certain benefits from the CLO through incentive fees that could potentially be significant to the CLO. Under the new guidance, the majority of these CLOs have been deconsolidated as the incentive fees received by Apollo from the deconsolidated CLOs are not considered variable interests. Accordingly, the Company deconsolidated approximately $14.6 billion in assets and $13.7 billion in liabilities related to these entities reflected as of January 1, 2015. The net impact of the deconsolidation is reflected in the consolidated statement of changes in shareholders' equity within Appropriated Partners Capital for the year ended December 31, 2015.

As a result of the adoption, certain deconsolidation adjustments have been recorded to various line items on the consolidated financial statements, including adjustments to remove the impact of intercompany eliminations. These adjustments impacted multiple line items within total revenues and other income, as well as net income attributable to Non-Controlling Interests on the consolidated statements of operations, as well as multiple line items within the consolidated statements of financial condition, including goodwill (See note 3 to our consolidated financial statements for further detail regarding the impact related to goodwill).

Consolidated CLOs

Certain CLOs remain consolidated by Apollo as the Company continues to be considered to hold a controlling financial interest through direct and indirect interests in these CLOs exclusive of management and performance based fees received. Through its role as collateral manager of these VIEs, the Company determined that Apollo had the power to direct the activities that most significantly impact the economic performance of these VIEs. These CLOs were formed for the sole purpose of issuing collateralized notes to investors. The assets of these VIEs are primarily comprised of senior secured loans and the liabilities are primarily comprised of debt.

The assets of these consolidated CLOs are not available to creditors of the Company. In addition, the investors in these consolidated VIEs have no recourse against the assets of the Company. The Company has elected the fair value option for financial instruments held by its consolidated CLOs, which includes investments in loans and corporate bonds, as well as debt obligations and contingent obligations held by such consolidated CLOs. Other assets include amounts due from brokers and interest receivables. Other liabilities include payables for securities purchased, which represent open trades within the consolidated VIEs and primarily relate to corporate loans that are expected to settle within the next 60 days. From time to time, Apollo makes investments in certain consolidated CLOs denominated in foreign currencies. As of December 31, 2015 and December 31, 2014, the Company had invested $42.3 million and $47.4 million, respectively, in consolidated foreign currency denominated CLOs, which eliminates in consolidation.

Investment in Champ L.P.

On September 30, 2014, the Company, through a wholly-owned subsidiary, acquired a 25.6% ownership interest in Champ L.P. following which a wholly-owned subsidiary of Champ L.P. then acquired a 35% ownership interest in KBC Bank Deutschland AG ("KBC Bank"), the German subsidiary of Belgian KBC Group NV (the "KBC Transaction"). Following the closing of the transaction, KBC Bank was renamed Bremer Kreditbank AG and the bank began to operate under the name BKB Bank. As of December 31, 2015, the Company had invested $18.2 million in Champ L.P. The Company, together with other affiliated investors which are not consolidated, in aggregate, own 100% of Champ L.P.

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The Company, through its aforementioned wholly-owned subsidiary, is the general partner and primary beneficiary of Champ L.P., which meets the definition of a VIE. Accordingly, the Company has consolidated Champ L.P. in accordance with the policy described in note 2. The Company's investment in Champ L.P. is eliminated in consolidation.

Net Gains (Losses) from Investment Activities of Consolidated Variable Interest Entities

The following table presents net gains (losses) from investment activities of the consolidated VIEs for the years ended December 31, 2015, 2014 and 2013:

	For the Year Ended December 31,		
	2015	2014	2013
Net unrealized gains (losses) from investment activities	$ 9,021	$ (317,591)	$ (33,275)
Net realized gains from investment activities	6,766	79,057	87,472
Net gains (losses) from investment activities	15,787	(238,534)	54,197
Net unrealized gains (losses) from debt	3,057	809	(232,509)
Net realized gains from debt	—	101,745	137,098
Net gains from debt	3,057	102,554	(95,411)
Interest and other income	37,404	666,486	674,324
Interest and other expenses	(37,198)	(507,942)	(433,368)
Net Gains from Investment Activities of Consolidated Variable Interest Entities	$ 19,050	$ 22,564	$ 199,742

Senior Secured Notes and Subordinated Notes—Included within debt are amounts due to third-party institutions by the consolidated VIEs. The following table summarizes the principal provisions of the debt of the consolidated VIEs as of December 31, 2015 and 2014:

	As of December 31, 2015			As of December 31, 2014		
	Principal Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Principal Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes[2][3]	$ 735,792	2.17%	12.1	$ 13,459,387	1.60%	7.8
Subordinated Notes[2][3]	82,365	N/A [1]	15.1	1,183,834	N/A [1]	9.0
Total	$ 818,157			$ 14,643,221		

(1) The subordinated notes do not have contractual interest rates but instead receive distributions from the excess cash flows of the VIEs.
(2) The fair value of Senior Secured Notes and Subordinated Notes as of December 31, 2015 and 2014 was $801.3 million and $14,123.1 million, respectively.
(3) The debt at fair value of the consolidated VIEs is collateralized by assets of the consolidated VIEs and assets of one vehicle may not be used to satisfy the liabilities of another vehicle. As of December 31, 2015 and 2014, the fair value of the consolidated VIE assets was $1,030.8 million and $17,070.8 million, respectively. This collateral consisted of cash and cash equivalents, investments, at fair value, and other assets.

The consolidated VIEs' debt obligations contain various customary loan covenants as described above. As of December 31, 2015, the Company was not aware of any instances of non-compliance with any of these covenants.

As of December 31, 2015, the table below presents the contractual maturities for debt of the consolidated VIEs:

	2016	2017	2018	2019	2020	Thereafter	Total
Senior Secured Notes	$ —	$ —	$ —	$ —	$ —	$ 735,792	$ 735,792
Subordinated Notes	—	—	—	—	—	82,365	82,365
Total Obligations as of December 31, 2015	$ —	$ —	$ —	$ —	$ —	$ 818,157	$ 818,157

Variable Interest Entities Which are Not Consolidated

The Company holds variable interests in certain VIEs which are not consolidated, as it has been determined that Apollo is not the primary beneficiary.

The following tables present the carrying amounts of the assets and liabilities of the VIEs for which Apollo has concluded that it holds a significant variable interest, but that it is not the primary beneficiary as of December 31, 2015 and 2014. In addition, the tables present the maximum exposure to losses relating to these VIEs. As noted earlier, as a result of the adoption of the FASB's new consolidation guidance, the Company is no longer considered to have a variable interest in many of the entities that it manages where its sole interest in an entity is either through carried interest, performance fees or other indirect interests which are not considered to absorb more than an insignificant amount of expected losses or returns of the entity.

	As of December 31, 2015		
	Total Assets	Total Liabilities	Apollo Exposure
Total	$ 5,378,456 (1)	$ 1,626,743 (2)	$ 202,146 (3)

(1) Consists of $219.8 million in cash, $5,149.0 million in investments and $9.6 million in receivables.
(2) Represents $1,626.7 million in debt and other payables.
(3) Represents Apollo's direct equity method investment in those entities in which Apollo holds a significant variable interest. Additionally, cumulative carried interest income is subject to reversal in the event of future losses. The maximum amount of future reversal of carried interest income from all of Apollo's funds, including those entities in which Apollo holds a significant variable interest, was $2.4 billion as of December 31, 2015 as discussed in note 16.

	As of December 31, 2014		
	Total Assets	Total Liabilities	Apollo Exposure
Total	$ 11,676,038 (1)	$ 729,515 (2)	$ 30,752 (3)

(1) Consists of $794.5 million in cash, $10,456.0 million in investments and $425.6 million in receivables.
(2) Represents $362.0 million in debt and other payables, $359.4 million in securities sold, not purchased, and $8.2 million in capital withdrawals payable.
(3) Represents Apollo's direct equity method investment in those entities in which Apollo holds a significant variable interest. Additionally, cumulative carried interest income is subject to reversal in the event of future losses. The maximum amount of future reversal of carried interest income from all of Apollo's funds, including those entities in which Apollo holds a significant variable interest, was $2.9 billion as of December 31, 2014.

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6. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following tables summarize the valuation of the Company's financial assets and liabilities for which the fair value option has been elected by the fair value hierarchy as of December 31, 2015 and 2014, respectively:

	As of December 31, 2015					
	Level I[5]	Level II[5]	Level III	Total		Cost of Investments, at Fair Value
Assets						
Investments, at fair value:						
Investments held by Apollo Senior Loan Fund	$ —	$ 26,913	$ 1,634	$ 28,547		$ 29,344
Other investments	—	—	434	434		831
Investment in Athene Holding[1]	—	—	510,099	510,099		387,526
Total investments, at fair value	—	26,913	512,167	539,080	(6)	$ 417,701
Investments of VIEs, at fair value[3]	—	803,412	107,154	910,566		
Total Assets	$ —	$ 830,325	$ 619,321	$ 1,449,646		
Liabilities						
Liabilities of VIEs, at fair value[3][4]	$ —	$ 801,270	$ 11,411	$ 812,681		
Contingent consideration obligations[2]	—	—	79,579	79,579		
Total Liabilities	$ —	$ 801,270	$ 90,990	$ 892,260		

	As of December 31, 2014					
	Level I[5]	Level II[5]	Level III	Total		Cost of Investments, at Fair Value
Assets						
Investments, at fair value:						
Investment in AAA Investments	$ —	$ —	$ 2,144,118	$ 2,144,118		$ 1,494,358
Investments held by Apollo Senior Loan Fund	—	25,537	4,359	29,896		30,100
Other investments	—	—	600	600		3,318
Investment in Athene Holding[1]	—	—	324,514	324,514		324,293
Total investments, at fair value	—	25,537	2,473,591	2,499,128	(6)	$ 1,852,069
AAA/Athene Receivable[1]	—	—	61,292	61,292		
Investments of VIEs, at fair value[3]	176	13,135,564	2,522,913	15,658,653		
Total Assets	$ 176	$ 13,161,101	$ 5,057,796	$ 18,219,073		
Liabilities						
Liabilities of VIEs, at fair value[3][4]	$ —	$ 1,793,353	$ 12,343,021	$ 14,136,374		
Contingent consideration obligations[2]	—	—	96,126	96,126		
Total Liabilities	$ —	$ 1,793,353	$ 12,439,147	$ 14,232,500		

(1) See note 15 for further disclosure regarding the investment in Athene Holding and the AAA/Athene receivable.

(2) See note 16 for further disclosure regarding contingent consideration obligations.

(3) See note 5 for further disclosure regarding VIEs.

(4) As of December 31, 2015, liabilities of VIEs, at fair value included debt and other liabilities of $801.3 million and $11.4 million, respectively. As of December 31, 2014, liabilities of VIEs, at fair value included debt and other liabilities of $14,123.1 million and $13.3 million, respectively. Other liabilities include contingent obligations classified as Level III.

(5) All Level I and Level II investments and liabilities were valued using third party pricing.

(6) See note 4 to our consolidated financial statements for further detail regarding our investments at fair value and reconciliation to the consolidated statements of financial condition.

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There were no transfers of financial assets into Level I for the years ended December 31, 2015 and 2014. In addition, there were no transfers of financial liabilities between Level I and Level II for the years ended December 31, 2015 and 2014. The following table summarizes the transfers of financial assets from Level I into Level II for positions that existed as of the years ended December 31, 2015 and 2014, respectively:

	For the Year Ended December 31,	
	2015	**2014**
Transfers from Level I into Level II	$ —	$ 4,084

Transfers were a result of subjecting the broker quotes on these investments to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes and the percentage deviation from independent pricing services.

The following tables summarize the changes in fair value in financial assets measured at fair value for which Level III inputs have been used to determine fair value for the years ended December 31, 2015 and 2014, respectively:

	For the Year Ended December 31, 2015							
	Investment in AAA Investments	**Investments held by Apollo Senior Loan Fund**	**Other Investments**	**Investment in Athene Holding**	**AAA/Athene Receivable**	**Investment in RCAP**	**Investments of Consolidated VIEs**	**Total**
Balance, Beginning of Period	$ 2,144,118	$ 4,359	$ 600	$ 324,514	$ 61,292	$ —	$ 2,522,913	$ 5,057,796
Adoption of accounting guidance	(2,144,118)	—	—	—	—	—	(2,399,130)	(4,543,248)
Fees	—	—	—	—	1,942	—	—	1,942
Purchases	—	5,913	272	—	—	25,000	44,116	75,301
Sales of investments/distributions	—	(6,996)	(115)	—	—	(25,667)	(36,909)	(69,687)
Net realized gains/accrued interest	—	48	—	—	—	667	5,539	6,254
Changes in net unrealized gains (losses)	—	(263)	(323)	122,351	—	—	8,816	130,581
Cumulative translation adjustment	—	—	—	—	—	—	(12,111)	(12,111)
Transfer into Level III[1]	—	5,439	—	—	—	—	59,316	64,755
Transfer out of Level III[1]	—	(6,866)	—	—	—	—	(85,396)	(92,262)
Settlement of receivable[2]	—	—	—	63,234	(63,234)	—	—	—
Balance, End of Period	$ —	$ 1,634	$ 434	$ 510,099	$ —	$ —	$ 107,154	$ 619,321
Change in net unrealized gains (losses) included in net gains (losses) from investment activities related to investments still held at reporting date	$ —	$ (677)	$ (323)	$ 122,351	$ —	$ —	$ —	$ 121,351
Change in net unrealized gains included in Net Gains from Investment Activities of Consolidated VIEs related to investments still held at reporting date	—	—	—	—	—	—	8,963	8,963

(1) Transfers between Level II and III were a result of subjecting the broker quotes on these financial assets to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes and the percentage deviation from independent pricing services.

(2) See note 15 for further disclosure regarding the settlement of the AAA/Athene receivable and the investment in Athene Holding.

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	For the Year Ended December 31, 2014							
	Investment in AAA Investments	Investments held by Apollo Senior Loan Fund	Other Investments	Athene and AAA Services Derivatives	Investment in Athene Holding	AAA/Athene Receivable	Investments of Consolidated VIEs	Total
Balance, Beginning of Period	$ 1,942,051	$ 892	$ 40,373	$ 130,709	$ —	$ —	$ 1,919,537	$ 4,033,562
Elimination of investments attributable to consolidation of VIEs	—	—	—	—	—	—	19,187	19,187
Fees	—	—	—	60,422	—	178,332	—	238,754
Purchases	—	4,707	1,844	—	2,080	—	1,036,810	1,045,441
Sales of investments/distributions	(2,500)	(1,543)	(51,052)	—	—	—	(825,429)	(880,524)
Net realized gains (losses)	—	10	(12,871)	24,242	—	—	20,972	32,353
Changes in net unrealized gains (losses)	204,567	(66)	22,306	(10,203)	224	—	(9,302)	207,526
Cumulative translation adjustment	—	—	—	—	—	—	(5,834)	(5,834)
Transfer into Level III(1)	—	1,594	—	—	—	—	1,413,688	1,415,282
Transfer out of Level III(1)	—	(1,235)	—	—	—	—	(1,046,716)	(1,047,951)
Settlement of derivatives(2)	—	—	—	(205,170)	322,210	(117,040)	—	—
Balance, End of Period	$ 2,144,118	$ 4,359	$ 600	$ —	$ 324,514	$ 61,292	$ 2,522,913	$ 5,057,796
Change in net unrealized gains included in Net Gains from Investment Activities related to investments still held at reporting date	$ 204,567	$ (66)	$ 580	$ —	$ 224	$ —	$ —	$ 205,305
Change in net unrealized gains included in Net Gains from Investment Activities of Consolidated VIEs related to investments still held at reporting date	—	—	—	—	—	—	(52,485)	(52,485)

(1) Transfers between Level II and III were a result of subjecting the broker quotes on these financial assets to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes and the percentage deviation from independent pricing services.

(2) See note 15 for further disclosure regarding the settlement of the AAA/Athene receivable and the investment in Athene Holding.

	For the Year Ended December 31,					
	2015			2014		
	Liabilities of Consolidated VIEs	Contingent Consideration Obligations	Total	Liabilities of Consolidated VIEs	Contingent Consideration Obligations	Total
Balance, Beginning of Period	$ 12,343,021	$ 96,126	$ 12,439,147	$ 9,994,147	$ 135,511	$ 10,129,658
Elimination of debt attributable to consolidation of VIEs	—	—	—	13,493	—	13,493
Adoption of accounting guidance	(11,433,815)	—	(11,433,815)	—	—	—
Additions	—	—	—	3,965,725	—	3,965,725
Payments/Extinguishment(4)	—	(15,743)	(15,743)	(1,551,533)	(50,666)	(1,602,199)
Net realized gains	—	—	—	(101,745)	—	(101,745)
Changes in net unrealized (gains) losses(2)	(8,244)	(804)	(9,048)	(25,685)	11,281	(14,404)
Cumulative translation adjustment	(92,593)	—	(92,593)	(71,558)	—	(71,558)
Transfers into Level III	—	—	—	500,837 (1)	—	500,837
Transfers out of Level III	(796,958) (3)	—	(796,958)	(380,660) (1)	—	(380,660)
Balance, End of Period	$ 11,411	$ 79,579	$ 90,990	$ 12,343,021	$ 96,126	$ 12,439,147
Change in net unrealized gains included in Net Gains from Investment Activities of consolidated VIEs related to liabilities still held at reporting date	$ —	$ —	$ —	$ (113,874)	$ —	$ (113,874)

(1) Transfers between Level II and III were a result of subjecting the broker quotes on these financial liabilities to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes and the percentage deviation from independent pricing services.

(2) Changes in fair value of contingent consideration obligations are recorded in profit sharing expense in the consolidated statements of operations.

(3) Upon adoption of new accounting guidance (see note 2), the debt obligations of consolidated CLOs are no longer categorized as Level III financial liabilities under the fair value hierarchy. Effective January 1, 2015, these financial liabilities are measured and leveled on the basis of the fair value of the financial assets of the consolidated CLOs and were categorized as Level II as of December 31, 2015.

(4) For the year ended December 31, 2014, includes a $13.4 million extinguishment of contingent consideration obligations, which is recorded in other income on the consolidated statements of operations.

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The following tables summarize the quantitative inputs and assumptions used for financial assets and liabilities categorized as Level III under the fair value hierarchy as of December 31, 2015 and 2014, respectively:

	As of December 31, 2015				
	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average
Financial Assets					
Investments of Consolidated Apollo Funds:					
Apollo Senior Loan Fund	$ 1,634	Third Party Pricing[1]	N/A	N/A	N/A
Investments in Other	434	Other	N/A	N/A	N/A
Investment in Athene Holding	510,099	Book Value Multiple	Book Value Multiple	1.18x	1.18x
Investments of Consolidated VIEs:					
Bank Debt Term Loans	15,776	Third Party Pricing[1]	N/A	N/A	N/A
Corporate Loans/Bonds/CLO Notes	22,409	Third Party Pricing[1]	N/A	N/A	N/A
Equity Securities	62,756	Market Comparable Companies	Comparable Multiples	0.60x	0.60x
		Discounted Cash Flow	Discount Rate	14.6%	14.6%
Other	6,213	Net Asset Value	N/A	N/A	N/A
Total Investments of Consolidated VIEs	107,154				
Total Financial Assets	$ 619,321				
Financial Liabilities					
Liabilities of Consolidated VIEs:					
Contingent Obligation	$ 11,411	Other	N/A	N/A	N/A
Contingent Consideration Obligation	79,579	Discounted Cash Flow	Discount Rate	11.0% - 18.5%	17.0%
Total Financial Liabilities	$ 90,990				

(1) These securities are valued primarily using unadjusted broker quotes.

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	As of December 31, 2014				
	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average
Financial Assets					
Investments of Consolidated Apollo Funds:					
AAA Investments[1]	$ 2,144,118	Net Asset Value	N/A	N/A	N/A
Apollo Senior Loan Fund	4,359	Third Party Pricing[2]	N/A	N/A	N/A
Other Investments	600	Other	N/A	N/A	N/A
Investment in Athene Holding	324,514	Discounted Cash Flow	Discount Rate	15.0%	15.0%
AAA/Athene Receivable	61,292	Discounted Cash Flow	Discount Rate	15.0%	15.0%
Investments of Consolidated VIEs:					
Bank Debt Term Loans	1,340,296	Third Party Pricing[2]	N/A	N/A	N/A
	87,314	Discounted Cash Flow	Discount Rate	7.1% - 14.0%	8.4%
Corporate Loans/Bonds/CLO Notes[3]	1,009,873	Third Party Pricing[2]	N/A	N/A	N/A
Equity Securities	930	Third Party Pricing[2]	N/A	N/A	N/A
	4,610	Market Comparable Companies	Comparable Multiples	5.8x	5.8x
	58,923	Transaction	Purchase Price	N/A	N/A
	20,967	Transaction	Implied Multiple	5.2x	5.2x
Total Investments of Consolidated VIEs	2,522,913				
Total Financial Assets	$ 5,057,796				
Financial Liabilities					
Liabilities of Consolidated VIEs:					
Subordinated Notes	$ 908,831	Discounted Cash Flow	Discount Rate	10.0% - 12.5%	11.5%
			Default Rate	1.0% - 2.0%	1.7%
			Recovery Rate	75.0%	75.0%
Subordinated Notes	106,090	Other	N/A	N/A	N/A
Senior Secured Notes	9,283,534	Third Party Pricing[2]	N/A	N/A	N/A
Senior Secured and Subordinated Notes	2,031,292	Discounted Cash Flow	Discount Rate	1.6% - 1.8%	1.7%
			Default Rate	2.0%	2.0%
			Recovery Rate	15.0% - 75.0%	69.0%
Contingent Obligation	13,274	Other	N/A	N/A	N/A
Total Liabilities of Consolidated VIEs	12,343,021				
Contingent Consideration Obligation	96,126	Discounted Cash Flow	Discount Rate	11.0% - 18.5%	15.7%
Total Financial Liabilities	$ 12,439,147				

(1) The net asset value of the underlying securities held by AAA Investments represents its sole investment in Athene, offset by other net liabilities. The investment in Athene was valued at $2,244.2 million as of December 31, 2014 using the embedded value method based on the present value of the future expected regulatory distributable income generated by the net assets of Athene plus the excess capital (i.e., the capital in excess of what is required to be held against Athene's liabilities). The unobservable inputs and respective ranges used are the same as noted for the Investment in Athene Holding and the AAA/Athene Receivable in the table above. See note 15 for discussion of the investment in Athene Holding.
(2) These securities are valued primarily using unadjusted broker quotes.
(3) Balance includes investments in an affiliated fund, which primarily invests in corporate loans, bonds, and CLO notes. Balance at December 31, 2014 includes investments in an affiliated fund in the amount of $865.9 million, which were valued based on NAV.

Investment in Athene Holding and AAA/Athene Receivable

The Company elected the fair value option for its investment in Athene Holding at the time of settlement of the derivative contract between Athene and Apollo (the "Athene Services Derivative") and the derivative contract between AAA Investments and Apollo (the "AAA Services Derivative"). The Company has classified this investment as a Level III asset in the fair value hierarchy, as the pricing inputs into the determination of fair value require significant judgment and estimation. The investment is valued based on the price of a common share of Athene Holding. During the third quarter of 2015, the Company changed the valuation method used to value its investment in Athene Holding from the embedded value approach to the GAAP book value multiple approach. This change was driven by developments in Athene's business as noted below.

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Athene's business was principally built through a series of acquisitions of individual portfolios of fixed index annuities since its inception in 2009. As of and prior to June 30, 2015, in valuing Apollo's investment in Athene Holding, the embedded value method was employed to determine the fair value of shares in Athene Holding in periods where there was not an observable market value. The embedded value methodology is widely used by market participants in the insurance industry in private company acquisitions of individual portfolios of annuities. The embedded value method estimates the present value of the future expected regulatory distributable income generated by the net assets plus the excess capital (i.e., the capital in excess of what is required to be held against liabilities) in determining fair value. Thus the embedded value method, as historically applied to the Athene valuation, was used to derive a value of Athene's existing block of business as well as the value of undeployed capital equivalent to the excess capital held. As of June 30, 2015 and prior, Apollo also calculated an implied U.S. GAAP book value multiple for Athene, based on a projected U.S. GAAP book value, and compared that multiple to Athene's publicly traded insurance peers as a secondary valuation point to assess the reasonableness of the valuation derived under the embedded value method.

As of December 31, 2015, the fair value of Apollo's investment in Athene Holding was estimated under the U.S. GAAP book value multiple approach by applying a book value multiple to the U.S. GAAP book value per share of Athene Holding. The conversion price for all Athene management incentive shares granted was added to Athene's U.S. GAAP book value excluding accumulated other comprehensive income ("AOCI") for purposes of determining U.S. GAAP book value per share. Apollo calculated a multiple for public company peers of Athene by dividing each peer's market capitalization by its reported U.S. GAAP equity, excluding AOCI. A regression analysis was then prepared based on the calculated multiple of each peer relative to its expected return on U.S. GAAP equity, excluding AOCI, relative to Athene. From this analysis, a comparable book value multiple for Athene was derived and then appropriately discounted to factor in the projected time frame of an initial public offering ("IPO") of Athene and subsequent liquidity of shares (taking into consideration any post-IPO lock-up restrictions on the shares). As a result of the above analysis, Apollo concluded it was appropriate to apply a multiple of 1.18 to Athene's U.S. GAAP book value per share, in estimating the value per share of Athene Holding at December 31, 2015.

The unrealized gain recorded during the year ended December 31, 2015 was driven by activity as Athene continued to evolve its business model and position itself for becoming a public company, including achieving "A-" ratings from all of Athene's three ratings agencies, hiring a new President and CFO, investing in a broad-based marketing campaign for its retail product offering, launching a Funding Agreement Backed Note ("FABN") program, and diversifying into new businesses via the closing of the acquisition of Athene Germany. Further, during the year ended December 31, 2015, Athene published its 2014 audited U.S. GAAP financial statements and issued its unaudited U.S. GAAP financial statements for the nine months ended September 30, 2015 (which facilitated the ability to use a book value multiple as a primary methodology). All of these activities are drivers of incremental value that occurred during 2015. The embedded valuation methodology is well suited for valuing individual insurance portfolios, however, management believes the book value multiple methodology best reflects the fair value of Athene going forward given the evolution of Athene's business in 2015. The U.S. GAAP book value multiple also serves as a common industry benchmark for Athene's public insurance company peers. In addition, as a secondary valuation consideration, the Company performed analysis under other methodologies including price to earnings multiple and embedded value approaches which supported the reasonableness of the fair market value estimate by the book value multiple method.

As of December 31, 2015, the significant unobservable input used in the fair value measurement of the investment in Athene Holding was the U.S. GAAP book value multiple. This input in isolation can cause significant increases or decreases in fair value. Specifically, when the U.S. GAAP book value multiple method is used to determine fair value, the significant input used in the valuation model is the U.S. GAAP book value multiple itself. An increase in the U.S. GAAP book value multiple can significantly increase the fair value of an investment; conversely a decrease in the U.S. GAAP book value multiple can significantly decrease the fair value of an investment. The sensitivity of the valuation to changes in the multiple is directly proportional to the change in the multiple itself.

As of December 31, 2014, Athene's fair value was determined using the embedded value method which was based on the present value of the future expected regulatory distributable income generated by the net assets of Athene plus the excess capital (i.e., the capital in excess of what is required to be held against Athene's liabilities). The net assets of Athene consist of the current and projected assets less the current and projected liabilities related to in force insurance contracts. For purposes of the excess capital calculation the assets are valued at fair value using the Company's valuation methodology. The approach of using actuarially projected asset and liability income to value an insurance company is widely used by market participants in the insurance industry, particularly in private company acquisitions. The embedded value of the in force insurance contracts incorporates actuarial projections of expected income utilizing most recently available policyholder contract and experience data, industry information and assumptions, general economic and market conditions, and other factors deemed relevant, including the cost of capital. In addition, consideration is also given to comparable company multiples in the determination of fair value.

As of December 31, 2014, the significant unobservable input used in the fair value measurement of the investment in Athene Holding was the discount rate applied in the valuation model. This input in isolation can cause significant increases or decreases in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. An increase in the discount rate can significantly lower the fair value of an investment; conversely a decrease in the discount rate can significantly increase the fair value of an investment. The discount rate is determined based on the expected required rate of return based on the risk profile of similar cash flows.

Apollo Senior Loan Fund

The Company is the sole investor in the Apollo Senior Loan Fund and therefore consolidates the assets and liabilities of the fund. The fund invests in U.S. denominated senior secured loans, senior secured bonds and other income generating fixed-income investments.

Consolidated VIEs

Investments

The significant unobservable inputs used in the fair value measurement of the bank debt term loans and equity securities include the discount rate applied and the multiples applied in the valuation models. These unobservable inputs in isolation can cause significant increases or decreases in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of an investment; conversely decreases in the discount rate can significantly increase the fair value of an investment. The discount rate is determined based on the market rates an investor would expect for a similar investment with similar risks. When a comparable multiple model is used to determine fair value, the comparable multiples are generally multiplied by the underlying companies' earnings before interest, taxes, depreciation and amortization ("EBITDA") to establish the total enterprise value of the company. The comparable multiple is determined based on the implied trading multiple of public industry peers.

Liabilities

As of December 31, 2015, due to the adoption of new accounting guidance (see note 2), the debt obligations of the consolidated CLOs were measured on the basis of the fair value of the financial assets of the CLOs as the financial assets were determined to be more observable and, as a result, categorized as Level II in the fair value hierarchy. As of December 31, 2014, the significant unobservable inputs used in the fair value measurement of the subordinated and senior secured notes include the discount rate applied in the valuation models, default and recovery rates applied in the valuation models. These inputs in isolation can cause significant increases or decreases in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of subordinated and senior secured notes; conversely a decrease in the discount rate can significantly increase the fair value of subordinated and senior secured notes. The discount rate is determined based on the market rates an investor would expect for similar subordinated and senior secured notes with similar risks.

Contingent Consideration Obligations

The significant unobservable input used in the fair value measurement of the contingent consideration obligations is the discount rate applied in the valuation models. This input in isolation can cause significant increases or decreases in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of the contingent consideration obligations; conversely a decrease in the discount rate can significantly increase the fair value of the contingent consideration obligations. The discount rate was based on the weighted average cost of capital for the Company. See note 16 for further discussion of the contingent consideration obligations.

7. CARRIED INTEREST RECEIVABLE

Carried interest receivable from private equity, credit and real estate funds consisted of the following:

	As of December 31, 2015	As of December 31, 2014
Private Equity	$ 373,871	$ 672,119
Credit	240,844	226,430
Real Estate	29,192	13,117
Total carried interest receivable	$ 643,907	$ 911,666

The table below provides a roll-forward of the carried interest receivable balance for the years ended December 31, 2015 and 2014:

	Private Equity	Credit	Real Estate	Total
Carried interest receivable, January 1, 2014	$ 1,867,771	$ 408,342	$ 10,962	$ 2,287,075
Change in fair value of funds	231,983	159,350	6,104	397,437
Fund cash distributions to the Company	(1,427,635)	(341,262)	(3,949)	(1,772,846)
Carried interest receivable, December 31, 2014	$ 672,119	$ 226,430	$ 13,117	$ 911,666
Change in fair value of funds	42,016	126,426	13,074	181,516
Fund distributions to the Company	(340,264)	(152,370)	(4,035)	(496,669)
Adoption of new accounting guidance	—	40,358	7,036	47,394
Carried interest receivable, December 31, 2015	$ 373,871	$ 240,844	$ 29,192	$ 643,907

The change in fair value of funds includes the reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. The general partner obligation is recognized based upon a hypothetical liquidation of a fund's net assets as of the reporting date. The actual determination and any required payment of any such general partner obligation would not take place until the final disposition of a fund's investments based on the contractual termination of the fund or as otherwise set forth in the respective limited partnership agreement of the fund. See note 15 for further disclosure regarding the general partner obligation.

The timing of the payment of carried interest due to the general partner or investment manager varies depending on the terms of the applicable fund agreements. Generally, carried interest with respect to the private equity funds and certain credit and real estate funds is payable and is distributed to the fund's general partner upon realization of an investment if the fund's cumulative returns are in excess of the preferred return. For most credit funds, carried interest is payable based on realizations after the end of the relevant fund's fiscal year or fiscal quarter, subject to certain return thresholds, or "high water marks," having been achieved.

8. PROFIT SHARING PAYABLE

Profit sharing payable from private equity, credit and real estate funds consisted of the following:

	As of December 31, 2015	As of December 31, 2014
Private Equity	$ 118,963	$ 240,595
Credit	165,392	186,307
Real Estate	11,319	7,950
Total profit sharing payable	$ 295,674	$ 434,852

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The table below provides a roll-forward of the profit sharing payable balance for the years ended December 31, 2015 and 2014:

	Private Equity	Credit	Real Estate	Total
Profit sharing payable, January 1, 2014	$ 751,192	$ 234,504	$ 6,544	$ 992,240
Profit sharing expense(1)	178,373	95,070	2,747	276,190
Payments/other	(688,970)	(143,267)	(1,341)	(833,578)
Profit sharing payable, December 31, 2014	$ 240,595	$ 186,307	$ 7,950	$ 434,852
Profit sharing expense(1)(2)	52,807	42,172	5,076	100,055
Payments/other	(174,439)	(63,087)	(1,707)	(239,233)
Profit sharing payable, December 31, 2015	$ 118,963	$ 165,392	$ 11,319	$ 295,674

(1) Includes (i) changes in amounts payable to employees and former employees entitled to a share of carried interest income in Apollo's funds and (ii) changes to the fair value of the contingent consideration obligations recognized in connection with certain Apollo acquisitions. See notes 6 and 16 for further disclosure regarding the contingent consideration obligations.

(2) The Company has recorded a receivable from the Contributing Partners and certain employees and former employees for the potential return of profit sharing distributions that would be due if certain funds were liquidated as of December 31, 2015. See note 15 for further disclosure.

9. OTHER ASSETS

Other assets consisted of the following:

	As of December 31,	
	2015	2014
Fixed assets	$ 105,439	$ 104,617
Less: Accumulated depreciation and amortization	(73,803)	(68,711)
Fixed assets, net	31,636	35,906
Prepaid expenses	48,421	32,873
Tax receivables	4,466	23,286
Interest Receivable	105	11,059
Other	11,216	11,117
Total Other Assets	$ 95,844	$ 114,241

Depreciation expense for the years ended December 31, 2015, 2014 and 2013 was $10.5 million, $10.2 million and $11.0 million, respectively.

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10. OTHER INCOME, NET

Other income, net consisted of the following:

	For the Year Ended December 31,		
	2015	2014	2013
Tax receivable agreement adjustment	$ —	$ 32,182	$ 13,038
Gain on derivatives	—	14,039	10,203
Gain (Loss) on extinguishment of liability/debt	—	13,395	(2,741)
Rental income	4,349	5,566	5,334
Foreign exchange gain (loss)	1,719	(7,131)	4,142
Loss on assets held for sale	—	—	(1,087)
Other	1,605	2,541	11,225
Total Other Income, Net	$ 7,673	$ 60,592	$ 40,114

11. INCOME TAXES

The Company is treated as a partnership for income tax purposes and is therefore not subject to U.S. federal, state and local income taxes. APO Corp., a wholly-owned subsidiary of the Company, is subject to U.S. federal, state and local corporate income taxes. Certain other subsidiaries of the Company are subject to NYC UBT attributable to the Company's operations apportioned to New York City. In addition, certain non-U.S. subsidiaries of the Company are subject to income taxes in their local jurisdictions.

The Company's provision for income taxes totaled $26.7 million, $147.2 million and $107.6 million for the years ended December 31, 2015, 2014 and 2013, respectively. The Company's effective tax rate was approximately 7.1%, 16.8% and 4.3% for the years ended December 31, 2015, 2014 and 2013, respectively.

The provision for income taxes is presented in the following table:

	For the Year Ended December 31,		
	2015	2014	2013
Current:			
Federal income tax	$ (10,108)	$ 53,426	$ 30,422
Foreign income tax	7,842 [1]	6,080	4,733
State and local income tax	2,573	7,369	9,728
Subtotal	307	66,875	44,883
Deferred:			
Federal income tax	19,581	28,702	40,955
Foreign income tax	(256) [1]	(137)	130
State and local income tax	7,101	51,805	21,601
Subtotal	26,426	80,370	62,686
Total Income Tax Provision	$ 26,733	$ 147,245	$ 107,569

(1) The foreign income tax provision was calculated on $27.6 million of pre-tax income generated in foreign jurisdictions.

The following table reconciles the provision for taxes to the U.S. Federal statutory tax rate:

	For the Year Ended December 31,		
	2015	2014	2013
U.S. Statutory Tax Rate	35.0 %	35.0 %	35.0 %
Income Passed Through to Non-Controlling Interests	(26.4)	(23.4)	(24.1)
Income Passed Through to Class A Shareholders	(4.4)	0.1	(7.9)
Equity Based Compensation - AOG Units	—	—	0.2
Foreign Income Tax	1.1	0.4	0.1
State and Local Income Taxes (net of Federal Benefit)	2.1	4.7	1.1
Amortization & Other Accrual Adjustments	(0.3)	—	(0.1)
Effective Income Tax Rate	7.1 %	16.8 %	4.3 %

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated statements of financial condition. These temporary differences result in taxable or deductible amounts in future years.

The Company's deferred tax assets and liabilities on the consolidated statements of financial condition consist of the following:

	As of December 31,	
	2015	2014
Deferred Tax Assets:		
Depreciation and amortization	$ 567,018	$ 543,288
Revenue recognition	31,363	40,250
Net operating loss carryforwards	47,139	—
Equity-based compensation - RSUs and AAA RDUs	4,551	35,678
Foreign tax credit	8,996	3,457
Other	5,472	1,437
Total Deferred Tax Assets	664,539	624,110
Deferred Tax Liabilities:		
Unrealized gains from investments	13,274	13,053
Other	5,058	4,340
Total Deferred Tax Liabilities	$ 18,332	$ 17,393

As of December 31, 2015, the Company had approximately $121.3 million of federal net operating loss ("NOL") carryforwards and $94.8 million of state and local net operating loss carryforwards that will begin to expire in 2036. As a result of certain realization requirements of ASC 718, the table of deferred tax assets and liabilities does not include certain deferred tax assets as of December 31, 2015 that arose directly from tax deductions related to equity-based compensation greater than compensation recognized for financial reporting. Equity will be increased by $22.3 million if and when such excess tax benefits are ultimately realized. The Company uses tax law ordering when determining when excess tax benefits have been realized. In addition, the Company's foreign tax credit carryforwards will begin to expire in 2021.

The Company considered its historical and current year earnings, current utilization of existing deferred tax assets and deferred tax liabilities, the 15 year amortization periods of the tax basis of its intangible assets and short and long term business forecasts in evaluating whether it should establish a valuation allowance. Based on this positive evidence, the Company concluded it is more likely than not that the deferred tax assets will be realized and that no valuation allowance was needed at December 31, 2015.

Under U.S. GAAP, a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. Based upon the Company's review of its federal, state, local and foreign income tax returns and tax filing positions, the Company determined that no unrecognized tax benefits for uncertain tax positions were required to be recorded. In addition, the Company does not believe that it has any tax positions for which it is reasonably possible that it will be required to record significant amounts of unrecognized tax benefits within the next twelve months.

The Company's primary jurisdictions in which it operates are the United States, New York State, New York City, California and the United Kingdom. In the normal course of business, the Company is subject to examination by federal and certain state, local and foreign tax authorities. With a few exceptions, as of December 31, 2015, the Company's U.S. federal, state, local and foreign income tax returns for the years 2012 through 2015 are open under the general statute of limitations provisions and therefore subject to examination. Currently, the Internal Revenue Service is examining the tax return of a subsidiary for the 2012 tax year. The State and City of New York are examining certain subsidiaries' tax returns for tax years 2011 and 2013, and the City of Los Angeles is examining certain subsidiaries' tax returns for the years 2011 to 2013. Additionally, the Company completed the Internal Revenue Service examination of the tax return for 2011 for Apollo Global Management, LLC with no change.

The Company has recorded a deferred tax asset for the future amortization of tax basis intangibles as a result of the 2007 Reorganization. The Company recorded additional deferred tax assets as a result of the step-up in tax basis of intangibles from subsequent exchanges of AOG Units for Class A shares. A related tax receivable agreement liability was recorded in due to affiliates in the consolidated statements of financial condition for the expected payments under the tax receivable agreement entered into by and among APO Corp., the Managing Partners, the Contributing Partners, and other parties thereto (as amended, the "tax receivable agreement") (see note 15). The increases in the deferred tax asset less the related liability resulted in increases to additional paid-in capital which were recorded in the consolidated statements of changes in shareholders' equity for the years ended December 31, 2015 and 2014. The amortization period for these tax basis intangibles is 15 years and the deferred tax assets will reverse over the same period.

The tables below present the transactions related to the exchange of AOG Units for Class A shares during the years ended December 31, 2015 , 2014 and 2013 and the resulting impact to the deferred tax asset, tax receivable agreement liability and additional paid-in capital.

Exchange of AOG Units for Class A shares	Increase in Deferred Tax Asset	Increase in Tax Receivable Agreement Liability	Increase to Additional Paid In Capital
For the Year Ended December 31, 2015	$ 61,720	$ 45,432	$ 16,288
For the Year Ended December 31, 2014	58,696	47,878	10,818
For the Year Ended December 31, 2013	149,327	126,928	22,399

During the years ended December 31, 2014 and 2013, the Company adjusted the estimated rate of tax it expects to pay in the future and thereby reduced its net deferred tax assets, and increased its income tax provision, by $36.2 million and $16.9 million, respectively (see note 15 for details regarding the impact on the tax receivable agreement liability).

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12. DEBT

Debt consisted of the following:

	As of December 31, 2015		As of December 31, 2014	
	Outstanding Balance	Annualized Weighted Average Interest Rate	Outstanding Balance	Annualized Weighted Average Interest Rate
2013 AMH Credit Facilities - Term Facility[(1)]	$ 499,327	1.44%	$ 499,107	1.36%
2024 Senior Notes[(2)]	494,555	4.00	493,902	4.00
2014 AMI Term Facility I[(3)]	14,543	2.15	16,204	2.34
2014 AMI Term Facility II[(4)]	16,830	1.85	18,752	1.93
Total Debt	$ 1,025,255		$ 1,027,965	

(1) Outstanding balance is presented net of unamortized debt issuance costs of $0.7 million and $0.9 million as of December 31, 2015 and 2014, respectively.
(2) Includes impact of any amortization of note discount. Outstanding balance is presented net of unamortized debt issuance costs of $4.6 million and $5.2 million as of December 31, 2015 and 2014, respectively.
(3) On July 3, 2014, Apollo Management International LLP ("AMI"), a subsidiary of the Company, entered into a €13.4 million five year credit agreement (the "2014 AMI Term Facility I"). Proceeds from the borrowing were used to fund the Company's investment in a European CLO it manages.
(4) On December 9, 2014, AMI entered into a €15.5 million five year credit agreement (the "2014 AMI Term Facility II"). Proceeds from the borrowing were used to fund the Company's investment in a European CLO it manages.

2007 AMH Credit Agreement—On April 20, 2007, Apollo Management Holdings, L.P. ("AMH"), a subsidiary of the Company which is a Delaware limited partnership, entered into a $1.0 billion seven year credit agreement (the "2007 AMH Credit Agreement"). Interest payable under the 2007 AMH Credit Agreement was based on Eurodollar LIBOR or Alternate Base Rate ("ABR") as determined by the borrower. On December 20, 2010, Apollo amended the 2007 AMH Credit Agreement to extend the maturity date of $995.0 million (including the $90.9 million of fair value debt repurchased by the Company) of the term loan from April 20, 2014 to January 3, 2017 and modified certain other terms of the 2007 AMH Credit Agreement. On December 20, 2010, an affiliate of AMH that was a guarantor under the 2007 AMH Credit Agreement repurchased approximately $180.8 million of the term loan in connection with the extension of the maturity date of such loan and thus the 2007 AMH Credit Agreement (excluding the portions held by AMH affiliates) had a remaining balance of $728.3 million. Interest expense incurred by the Company related to the 2007 AMH Credit Agreement was $28.3 million for the year ended December 31, 2013. Amortization expense related to the 2007 AMH Credit Agreement was $0.7 million for the year ended December 31, 2013.

The outstanding loans under the 2007 AMH Credit Agreement were refinanced on December 18, 2013 with the net proceeds from the 2013 AMH Credit Facilities (as defined below). Additionally, the net proceeds were used to pay fees and expenses associated with the 2013 AMH Credit Facilities. The 2007 AMH Credit Agreement and all related loan documents and security with respect thereto were terminated in connection with the refinancing.

2013 AMH Credit Facilities—On December 18, 2013, AMH and its subsidiaries and certain other subsidiaries of the Company (collectively, the "Borrowers") entered into new credit facilities (the "2013 AMH Credit Facilities") with JPMorgan Chase Bank, N.A. The 2013 AMH Credit Facilities provide for (i) a term loan facility to AMH (the "Term Facility") that includes $750 million of the term loan from third-party lenders and $271.7 million of the term loan held by a subsidiary of the Company and (ii) a $500 million revolving credit facility (the "Revolver Facility"), in each case, with a final maturity date of January 18, 2019.

Interest on the borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus an applicable margin, and undrawn revolving commitments bear a commitment fee. Under the terms of the 2013 AMH Credit Facilities, the applicable margin ranges from 1.125% to 1.75% for LIBOR loans and 0.125% to 0.75% for alternate base rate loans, and the undrawn revolving commitment fee ranges from 0.125% to 0.25%, in each case depending on the Company's corporate rating assigned by Standard & Poor's Ratings Group, Inc. The 2013 AMH Credit Facilities do not require any scheduled amortization payments or other mandatory prepayments (except with respect to overadvances on the Revolver Facility) prior to the final maturity date, and the Borrowers may prepay the loans and/or terminate or reduce the revolving commitments under the 2013 AMH Credit Facilities at any time without penalty. In connection with the issuance of the 2024 Senior Notes (as defined below), $250 million

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of the proceeds were used to repay a portion of the Term Facility outstanding with third party lenders at par. The interest rate on the $500 million Term Facility as of December 31, 2015 was 1.65% and the commitment fee as of December 31, 2015 on the $500 million undrawn Revolver Facility was 0.125%. Interest expense incurred by the Company related to the 2013 AMH Credit Facilities was $7.8 million, $9.0 million and $0.4 million for the years ended December 31, 2015, 2014 and 2013, respectively. Debt issuance cost amortization expense related to the 2013 AMH Credit Facilities was $0.8 million and $1.0 million for the years ended December 31, 2015 and 2014, respectively.

The estimated fair value of the Company's long-term debt obligation related to the 2013 AMH Credit Facilities is approximately $501.3 million based on obtained broker quotes as of December 31, 2015. The $500.0 million carrying value of debt that is recorded on the consolidated statements of financial condition at December 31, 2015 is the amount for which the Company expects to settle the 2013 AMH Credit Facilities. The Company has determined that the long-term debt obligation related to the 2013 AMH Credit Facilities would be categorized as a Level III liability in the fair value hierarchy based on the number and quality of broker quotes obtained, the standard deviations of the observed broker quotes and the percentage deviation from independent pricing services.

As of December 31, 2015, the 2013 AMH Credit Facilities were guaranteed and collateralized by AMH and its subsidiaries, Apollo Management, L.P., Apollo Capital Management, L.P., Apollo International Management, L.P., AAA Holdings, L.P., Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P., Apollo Principal Holdings X, L.P., ST Holdings GP, LLC and ST Management Holdings, LLC. The 2013 AMH Credit Facilities contain affirmative and negative covenants which limit the ability of the Borrowers, the guarantors and certain of their subsidiaries to, among other things, incur indebtedness and create liens. Additionally, the 2013 AMH Credit Facilities contain financial covenants which require the Borrowers and their subsidiaries to maintain (1) at least $40 billion of Fee-Generating Assets Under Management and (2) a maximum total net leverage ratio of not more than 4.00 to 1.00 (subject to customary equity cure rights). The 2013 AMH Credit Facilities also contain customary events of default, including events of default arising from non-payment, material misrepresentations, breaches of covenants, cross default to material indebtedness, bankruptcy and changes in control of the Company.

Borrowings under the Revolver Facility may be used for working capital and general corporate purposes, including, without limitation, permitted acquisitions. In addition, the Borrowers may incur incremental facilities in respect of the Revolver Facility and the Term Facility in an aggregate amount not to exceed $500 million plus additional amounts so long as the Borrowers are in compliance with a net leverage ratio not to exceed 3.75 to 1.00. As of December 31, 2015 and 2014, the Revolver Facility was undrawn.

2024 Senior Notes—On May 30, 2014, AMH issued $500 million in aggregate principal amount of its 4.000% Senior Notes due 2024 (the "2024 Senior Notes"), at an issue price of 99.722% of par. Interest on the 2024 Senior Notes is payable semi-annually in arrears on May 30 and November 30 of each year. The 2024 Senior Notes will mature on May 30, 2024. The discount will be amortized into interest expense on the consolidated statements of operations over the term of the 2024 Senior Notes. Interest expense incurred by the Company related to the 2024 Senior Notes was $20.0 million and $11.7 million for the years ended December 31, 2015 and 2014, respectively.

Prior to the adoption of the updated debt issuance cost guidance as described in note 2, the Company capitalized debt issuance costs of $5.5 million incurred in connection with the issuance of the 2024 Senior Notes, which was recorded in other assets in the consolidated statements of financial condition as of December 31, 2015, to be amortized over the term of the notes. As a result of the Company's adoption of the new accounting guidance, the Company has retrospectively adjusted the debt issuance costs that were initially capitalized and reported in other assets to debt as a direct deduction of the carrying amount of the related debt arrangement. The debt issuance costs will continue to be amortized as an increase to interest expense over the term of the debt arrangement. As such, the debt issuance cost amortization expense related to the issuance of the 2024 Senior Notes was $0.6 million and $0.3 million for the years ended December 31, 2015 and 2014, respectively.

As of December 31, 2015, the 2024 Senior Notes were guaranteed by Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P., Apollo Principal Holdings X, L.P., AMH Holdings (Cayman), L.P. and any other entity that is required to become a guarantor of the notes under the terms of the indenture governing the 2024 Senior Notes (the "2024 Senior Notes Indenture"). The 2024 Senior Notes Indenture includes covenants that restrict the ability of AMH and, as applicable, the guarantors to incur

indebtedness secured by liens on voting stock or profit participating equity interests of their respective subsidiaries or merge, consolidate or sell, transfer or lease assets. The 2024 Senior Notes Indenture also provides for customary events of default.

The estimated fair value of the Company's long-term debt obligation related to the 2024 Senior Notes is approximately $495.3 million based on obtained broker quotes as of December 31, 2015. The face amount of $500.0 million related to the 2024 Senior Notes is the amount for which the Company is obligated to settle the 2024 Senior Notes. The Company has determined that the long-term debt obligation related to the 2024 Senior Notes would be categorized as a Level II liability in the fair value hierarchy based on the number and quality of broker quotes obtained, the standard deviations of the observed broker quotes and the percentage deviation from independent pricing services.

As of December 31, 2015, the table below presents the contractual maturities for the Company's debt arrangements:

	2016	2017	2018	2019	2020	Thereafter	Total
2013 AMH Credit Facilities - Term Facility	$ —	$ —	$ —	$ 500,000	$ —	$ —	$ 500,000
2024 Senior Notes	—	—	—	—	—	500,000	$ 500,000
2014 AMI Term Facility I	—	—	—	14,543	—	—	$ 14,543
2014 AMI Term Facility II	—	—	—	16,830	—	—	$ 16,830
Total Obligations as of December 31, 2015	$ —	$ —	$ —	$ 531,373	$ —	$ 500,000	$ 1,031,373

13. NET INCOME (LOSS) PER CLASS A SHARE

The table below presents basic and diluted net income per Class A share using the two-class method for the years ended December 31, 2015, 2014 and 2013:

	Basic and Diluted		
	For the Year Ended December 31,		
	2015	2014	2013
Numerator:			
Net income attributable to Apollo Global Management, LLC	$ 134,497	$ 168,229	$ 659,391
Distributions declared on Class A shares	(339,397) (1)	(483,458) (1)	(556,954) (1)
Distributions on participating securities(4)	(28,497)	(72,074)	(93,235)
Earnings allocable to participating securities	— (2)	— (2)	(1,394)
Undistributed income (loss) attributable to Class A shareholders: Basic and Diluted	(233,397)	(387,303)	7,808
Dilution effect on undistributed income attributable to Class A shareholders	—	—	9,106
Dilution effect on distributable income attributable to participating securities	—	—	(1,329)
Undistributed income (loss) attributable to Class A shareholders: Diluted	$ (233,397)	$ (387,303)	$ 15,585
Denominator:			
Weighted average number of Class A shares outstanding: Basic	173,271,666	155,349,017	139,173,386
Dilution effect of share options and unvested RSUs	—	—	3,040,964
Weighted average number of Class A shares outstanding: Diluted	173,271,666	155,349,017	142,214,350
Net Income per Class A share: Basic			
Distributed Income	$ 1.96	$ 3.11	$ 4.00
Undistributed Income (Loss)	(1.35)	(2.49)	0.06
Net Income per Class A Share: Basic	$ 0.61	$ 0.62	$ 4.06
Net Income per Class A share: Diluted(3)			
Distributed Income	$ 1.96	$ 3.11	$ 3.92
Undistributed Income (Loss)	(1.35)	(2.49)	0.11
Net Income per Class A Share: Diluted	$ 0.61	$ 0.62	$ 4.03

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(1) See note 15 for information regarding the quarterly distributions declared and paid during 2015, 2014 and 2013.
(2) No allocation of undistributed losses was made to the participating securities as the holders do not have a contractual obligation to share in the losses of the Company with Class A shareholders.
(3) For the years ended December 31, 2015 and 2014, the Company had an undistributed loss attributable to Class A shareholders and none of the classes of securities resulted in dilution. For the years ended December 31, 2015 and 2014, all of the classes of securities were anti-dilutive. For the year ended December 31, 2013 share options and unvested RSUs were determined to be dilutive, and were accordingly included in the diluted earnings per share calculation. For the year ended December 31, 2013, the AOG Units and participating securities were determined to be anti-dilutive and were accordingly excluded from the diluted earnings per share calculation.
(4) Participating securities consist of vested and unvested RSUs that have rights to distributions and unvested restricted shares.

The Company has granted RSUs that provide the right to receive, subject to vesting, Class A shares of Apollo Global Management, LLC, pursuant to the Company's 2007 Omnibus Equity Incentive Plan. Certain RSU grants to employees provide the right to receive distribution equivalents on vested RSUs on an equal basis any time a distribution is declared. The Company refers to these RSU grants as "Plan Grants." For certain Plan Grants, distribution equivalents are paid in January of the calendar year next following the calendar year in which a distribution on Class A shares was declared. In addition, certain RSU grants to employees provide that both vested and unvested RSUs participate in distribution equivalents on an equal basis with the Class A shareholders any time a distribution is declared. The Company refers to these as "Bonus Grants."

Any distribution equivalent paid to an employee will not be returned to the Company upon forfeiture of the award by the employee. Vested and unvested RSUs that are entitled to non-forfeitable distribution equivalents qualify as participating securities and are included in the Company's basic and diluted earnings per share computations using the two-class method. The holder of an RSU participating security would have a contractual obligation to share in the losses of the entity if the holder is obligated to fund the losses of the issuing entity or if the contractual principal or mandatory redemption amount of the participating security is reduced as a result of losses incurred by the issuing entity. Because the RSU participating securities do not have a mandatory redemption amount and the holders of the participating securities are not obligated to fund losses, neither the vested RSUs nor the unvested RSUs are subject to any contractual obligation to share in losses of the Company.

Holders of AOG Units are subject to the vesting requirements and transfer restrictions set forth in the agreements with the respective holders, and may a limited number of times each year, upon notice (subject to the terms of the Exchange Agreement), exchange their AOG Units for Class A shares on a one-for-one basis. A limited partner must exchange one partnership unit in each of the Apollo Operating Group partnerships to effectuate an exchange for one Class A share.

Apollo Global Management, LLC has one Class B share outstanding, which is held by BRH Holdings GP, Ltd. ("BRH"). The voting power of the Class B share is reduced on a one vote per one AOG Unit basis in the event of an exchange of AOG Units for Class A shares, as discussed above. The Class B share has no net income (loss) per share as it does not participate in Apollo's earnings (losses) or distributions. The Class B share has no distribution or liquidation rights. The Class B share has voting rights on a pari passu basis with the Class A shares. The Class B share represented 61.4%, 65.4% and 69.3% of the total voting power of the Company's shares entitled to vote as of December 31, 2015, 2014 and 2013, respectively.

The following table summarizes the anti-dilutive securities for the years ended December 31, 2015, 2014 and 2013, respectively.

	For the Year Ended December 31,		
	2015	2014	2013
Weighted average vested RSUs	9,984,862	19,541,458	20,664,694
Weighted average unvested RSUs	4,858,935	9,556,131	—
Weighted average unexercised options	227,086	548,441	—
Weighted average AOG Units outstanding	219,575,738	225,005,386	234,132,052
Weighted average unvested restricted shares	90,985	—	—

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The table below presents transactions in Class A shares each quarter during the years ended December 31, 2015, 2014 and 2013, and the resulting impact on the Company's and Holdings' ownership interests in the Apollo Operating Group:

Date	Type of Class A Shares Transaction	Number of Shares Issued in Class A Shares Transaction (in thousands)		Apollo Global Management, LLC ownership% in Apollo Operating Group before Class A Shares Transaction	Apollo Global Management, LLC ownership% in Apollo Operating Group after Class A Shares Transaction	Holdings ownership% in Apollo Operating Group before Class A Shares Transaction	Holdings ownership% in Apollo Operating Group after Class A Shares Transaction
Quarter Ended March 31, 2013	Issuance	2,091		35.1%	35.5%	64.9%	64.5%
Quarter Ended June 30, 2013	Issuance/Offering	9,577	(1)	35.5	38.0	64.5	62.0
Quarter Ended September 30, 2013	Issuance	1,977		38.0	38.3	62.0	61.7
Quarter Ended December 31, 2013	Issuance/Exchange	2,581	(1)	38.3	39.0	61.7	61.0
Quarter Ended March 31, 2014	Issuance	2,672		39.0	39.4	61.0	60.6
Quarter Ended June 30, 2014	Issuance/Exchange	7,344	(1)	39.4	41.2	60.6	58.8
Quarter Ended September 30, 2014	Issuance	3,660		41.2	41.8	58.8	58.2
Quarter Ended December 31, 2014	Issuance/Exchange	3,090	(1)	41.8	42.3	58.2	57.7
Quarter Ended March 31, 2015	Issuance/Exchange	4,866	(1)	42.3	43.0	57.7	57.0
Quarter Ended June 30, 2015	Issuance/Exchange	4,275	(1)	43.0	43.8	57.0	56.2
Quarter Ended September 30, 2015	Issuance/Exchange	6,819	(1)	43.8	45.3	56.2	54.7
Quarter Ended December 31, 2015	Issuance/Exchange	2,067		45.3	45.6	54.7	54.4

(1) In May 2013, November 2013, May 2014, October 2014, February 2015, May 2015, August 2015 and November 2015, certain holders of AOG Units exchanged their AOG Units for Class A shares and approximately 8.8 million, 2.3 million, 6.2 million, 0.1 million, 0.2 million, 1.8 million, 4.4 million and 27.5 thousand Class A shares, respectively, were issued by the Company in the exchanges.

14. EQUITY-BASED COMPENSATION

AOG Units

The fair value of the AOG Units of approximately $5.6 billion was charged to compensation expense on a straight-line basis over the five or six year service period, as applicable. For the year ended December 31, 2013, compensation expense of $30.0 million was recognized. The AOG Units were fully vested and amortized as of June 30, 2013.

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The following table summarizes the activity of the AOG Units for the year ended December 31, 2013:

	AOG Units	Weighted Average Grant Date Fair Value
Balance at January 1, 2013	1,500,366	$ 20.00
Vested	(1,500,366)	20.00
Balance at December 31, 2013	—	$ —

RSUs

The Company grants RSUs under the Company's 2007 Omnibus Equity Incentive Plan. These grants are accounted for as a grant of equity awards in accordance with U.S. GAAP. The fair value of all grants after March 29, 2011 is based on the grant date fair value, which considers the public share price of the Company. For Plan Grants, the grant date fair value is based on the grant date public share price of the Company's Class A shares discounted primarily for transfer restrictions and lack of distributions until vested. For Bonus Grants, the grant date fair value is based on the grant date public share price of the Company's Class A shares discounted primarily for transfer restrictions and in certain cases timing of distributions. The following table summarizes the weighted average discounts for Plan Grants and Bonus Grants for the years ended December 31, 2015, 2014 and 2013.

	For the Year Ended December 31,		
	2015	2014	2013
Plan Grants:			
Discount for the lack of distributions until vested[1]	26.0%	32.5%	30.5%
Marketability discount for transfer restrictions[2]	4.2%	5.1%	6.0%
Bonus Grants:			
Marketability discount for transfer restrictions[2]	2.2%	3.2%	3.2%

(1) Based on the present value of a growing annuity calculation.
(2) Based on the Finnerty Model calculation.

The estimated total fair value is charged to compensation expense on a straight-line basis over the vesting period, which for Plan Grants is generally up to six years, with the first installment vesting one year after grant and quarterly vesting thereafter, and for Bonus Grants is annual vesting over three years. The fair value of grants made during the years ended December 31, 2015, 2014 and 2013 was $70.6 million, $149.1 million, and $56.6 million, respectively. The actual forfeiture rate was 1.2%, 6.7% and 5.3% for the years ended December 31, 2015, 2014 and 2013, respectively. Compensation expense recognized for the years ended December 31, 2015, 2014 and 2013 was $65.7 million, $80.7 million, and $87.7 million, respectively.

In addition, during 2014, the Company entered into an agreement with an executive officer providing for the grant of RSUs when certain metrics have been achieved. In accordance with U.S. GAAP, equity-based compensation expense is recognized only when certain metrics are met or deemed probable. Accordingly, for the years ended December 31, 2015, and 2014, no equity-based compensation expense was recognized relating to these RSUs.

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The following table summarizes RSU activity for the years ended December 31, 2015, 2014 and 2013:

	Unvested	Weighted Average Grant Date Fair Value	Vested	Total Number of RSUs Outstanding
Balance at January 1, 2013	14,724,474	$ 11.62	22,512,930	37,237,404 (1)
Granted	2,101,277	26.95	—	2,101,277
Forfeited	(888,594)	13.30	—	(888,594)
Delivered	—	12.30	(6,879,050)	(6,879,050)
Vested	(7,159,871)	12.60	7,159,871	—
Balance at December 31, 2013	8,777,286	14.32	22,793,751	31,571,037 (1)
Granted	7,046,490	21.16	—	7,046,490
Forfeited(2)	(1,055,639)	12.19	—	(1,055,639)
Delivered	—	12.96	(9,490,011)	(9,490,011)
Vested(2)	(4,050,502)	16.75	4,050,502	—
Balance at December 31, 2014	10,717,635	18.11	17,354,242	28,071,877 (1)
Granted	4,634,950	15.24	—	4,634,950
Forfeited	(186,741)	20.70	—	(186,741)
Delivered	—	13.16	(15,185,890)	(15,185,890)
Vested	(4,125,701)	19.35	4,125,701	—
Balance at December 31, 2015	11,040,143	$ 16.40	6,294,053	17,334,196 (1)

(1) Amount excludes RSUs which have vested and have been issued in the form of Class A shares.
(2) In connection with the departure of an employee from the Company, such employee vested in 625,000 RSUs that were previously granted to him and forfeited 625,000 RSUs that were previously granted to him. As a result of the additional vesting, the Company recorded an incremental compensation expense of $17.5 million related to the relevant RSU award for the year ended December 31, 2014.

Units Expected to Vest—As of December 31, 2015, approximately 10,400,000 RSUs were expected to vest over the next 3.3 years.

Restricted Share Awards

In connection with the Venator Acquisition and a performance-based incentive plan, the Company issued $5.0 million of restricted Class A shares. Based on the terms of the awards of the Company's Class A shares, equity-based compensation will be expensed over two years. For the year ended December 31, 2015, 359,367 restricted shares were granted. Compensation expense recognized for the year ended December 31, 2015 related to these restricted shares was $2.7 million. There were no forfeitures of restricted shares during the year ended December 31, 2015.

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Share Options

The Company has granted options under the 2007 Omnibus Equity Incentive Plan. For the years ended December 31, 2015, 2014 and 2013, compensation expense of $0.1 million, $28.2 million and $4.7 million was recognized as a result of these grants, respectively. In connection with the departure of an employee from the Company, such employee vested in 1,250,000 share options that were previously granted to him and forfeited 1,250,000 share options that were previously granted to him. As a result of the additional vesting, the Company recorded an incremental compensation expense of $28.1 million related to the relevant option award agreement for the year ended December 31, 2014.

There were no share options granted during the years ended December 31, 2015, 2014 and 2013. Apollo measures the fair value of each option award on the date of grant using the Black-Scholes option-pricing model.

The following table summarizes the share option activity for the years ended December 31, 2015, 2014 and 2013:

	Options Outstanding	Weighted Average Exercise Price	Aggregate Fair Value	Weighted Average Remaining Contractual Term
Balance at January 1, 2013	5,275,000	$ 8.44	$ 29,020	8.01
Exercised	(2,324,997)	8.12	(12,896)	—
Balance at December 31, 2013	2,950,003	8.69	16,124	7.08
Exercised	(1,468,750)	8.03	(8,217)	—
Forfeited	(1,250,000)	8.00	(7,025)	—
Balance at December 31, 2014	231,253	16.60	882	7.93
Exercised	(8,333)	12.38	(17)	—
Balance at December 31, 2015	222,920	17.69	$ 865	6.95
Exercisable at December 31, 2015	118,751	$ 17.14	$ 384	6.99

Options Expected to Vest—As of December 31, 2015, approximately 100,000 options were expected to vest.

The expected life of the options granted represents the period of time that options are expected to be outstanding and is based on the contractual term of the option. Unamortized compensation cost related to unvested share options at December 31, 2015 was $0.3 million and is expected to be recognized over a weighted average period of 2.5 years. The intrinsic value of options exercised was $0.1 million, $26.6 million and $42.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Delivery of Class A Shares - RSUs and Share Options

During the years ended December 31, 2015, 2014 and 2013, the Company delivered Class A shares in settlement of vested RSUs and exercised share options. The Company has generally allowed holders of vested RSUs and exercised share options to settle their tax liabilities by reducing the number of Class A shares delivered to them, which the Company refers to as "net share settlement." Additionally, the Company has generally allowed holders of share options to settle their exercise price by reducing the number of Class A shares delivered to them at the time of exercise by an amount sufficient to cover the exercise price. The net share settlement results in a liability for the Company and a corresponding accumulated deficit adjustment. This adjustment for the years ended December 31, 2015, 2014 and 2013 was $78.9 million, $0.4 million and $85.9 million, respectively.

The delivery of Class A shares in settlement of vested RSUs and exercised share options does not cause a transfer of amounts in the consolidated statements of changes in shareholders' equity to the Class A shareholders. The delivery of Class A shares in settlement of vested RSUs and exercised share options causes the income allocated to the Non-Controlling Interests to shift to the Class A shareholders from the date of delivery forward. The table below summarizes the delivery of Class A shares in settlement of vested RSUs and exercised share options for the years ended December 31, 2015, 2014 and 2013:

	For the Year Ended December 31,		
	2015	2014	2013
Class A shares delivered or issued	11,296,388	10,491,649	5,181,389
Gross value of shares[1]	$ 325,747	$ 289,000	$ 212,900

(1) Based on the closing price of a Class A share at the time of delivery.

AAA RDUs

Incentive units that provide the right to receive AAA restricted depositary units ("RDUs") following vesting are granted periodically to employees of Apollo. These grants are accounted for as equity awards in accordance with U.S. GAAP. The incentive units granted to employees generally vest over three years. The fair value at the date of the grants is recognized on a straight-line basis over the vesting period (or upon grant in the case of fully vested AAA RDUs). The grant date fair value is based on the public share price of AAA. Vested AAA RDUs can be converted into ordinary common units of AAA subject to applicable securities law restrictions. During the years ended December 31, 2015, 2014 and 2013, the actual forfeiture rate was 0.0%, 1.1% and 0.0%, respectively. For the years ended December 31, 2015, 2014 and 2013, compensation expense of $0.7 million, $0.4 million and $1.2 million was recognized, respectively. The following table summarizes RDU activity for the years ended year ended December 31, 2015, 2014 and 2013, respectively:

	Unvested	Weighted Average Grant Date Fair Value	Vested	Total Number of RDUs Outstanding
Balance at January 1, 2013	338,430	$ 8.85	114,896	453,326
Granted	27,286	26.90	—	27,286
Delivered	—	9.02	(114,896)	(114,896)
Vested	(120,354)	9.83	120,354	—
Balance at December 31, 2013	245,362	10.38	120,354	365,716
Granted	18,426	33.05	—	18,426
Forfeited	(2,861)	8.36	—	(2,861)
Delivered	—	9.02	(120,354)	(120,354)
Vested	(96,267)	11.17	96,267	—
Balance at December 31, 2014	164,660	12.49	96,267	260,927
Delivered	—	11.17	(96,267)	(96,267)
Vested	(96,268)	11.17	96,268	—
Balance at December 31, 2015	68,392	$ 14.35	96,268	164,660

Units Expected to Vest—As of December 31, 2015, approximately 64,288 RDUs were expected to vest over the next 1.2 years.

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The following table summarizes the activity of RDUs available for future grants:

	RDUs Available For Future Grants
Balance at January 1, 2013	1,685,345
Purchases	6,236
Granted/Issued	(39,272)
Forfeited	—
Balance at December 31, 2013	1,652,309
Purchases	9,719
Granted/Issued	(18,426)
Forfeited	2,861
Balance at December 31, 2014 and 2015	1,646,463

Restricted Stock and Restricted Stock Unit Awards—ARI and AMTG

ARI restricted stock awards, ARI restricted stock unit awards ("ARI RSUs") and AMTG restricted stock unit awards ("AMTG RSUs") granted to the Company and certain of the Company's employees generally vest over three years, either quarterly or annually. The awards granted to the Company are accounted for as investments and deferred revenue in the consolidated statements of financial condition. As these awards vest, the deferred revenue is recognized as management fees. The investment is accounted for using the equity method of accounting for awards granted to the Company and as a deferred compensation asset for the awards granted to employees. Compensation expense is recognized on a straight line-basis over the vesting period for the awards granted to the employees. The Company recorded an asset and a liability upon receiving the awards on behalf of the Company's employees. The fair value of the awards to employees is based on the grant date fair value, which utilizes the public share price of ARI and AMTG, less discounts for transfer restrictions as well as timing of distributions for the AMTG RSUs. The awards granted to the Company's employees are remeasured each period to reflect the fair value of the asset and other liabilities and any changes in these values are recorded in the consolidated statements of operations.

The following table summarizes the management fees, compensation expense, and forfeiture rates for the ARI restricted stock awards and ARI RSUs for the years ended December 31, 2015, 2014, and 2013:

	For the Year Ended December 31,		
	2015	2014	2013
Management fees	$ 3,334	$ 1,326	$ 2,837
Compensation expense	3,081	1,329	2,047
Forfeiture rate	1.3%	—%	1.6%

The following table summarizes the management fees, compensation expense, and forfeiture rates for the AMTG RSUs for the years ended December 31, 2015, 2014, and 2013:

	For the Year Ended December 31,		
	2015	2014	2013
Management fees	$ 1,171	$ 915	$ 849
Compensation expense	1,171	828	804
Forfeiture rate	2.5%	2.5%	1.3%

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The following tables summarize activity for the ARI restricted stock awards, ARI RSUs and AMTG RSUs that were granted to both the Company and certain of its employees for the years ended December 31, 2015, 2014 and 2013:

	ARI RSUs Unvested	Weighted Average Grant Date Fair Value	ARI RSUs Vested	Total Number of ARI RSUs Outstanding
Balance at January 1, 2013	237,542	$ 14.62	113,148	350,690
Granted to employees of the Company	205,000	16.58	—	205,000
Granted to the Company	40,000	17.59	—	40,000
Forfeited by employees of the Company	(5,000)	16.66	—	(5,000)
Delivered	—	13.32	(18,978)	(18,978)
Vested awards of employees of the Company	(137,807)	15.48	137,807	—
Vested awards of the Company	(65,333)	15.41	65,333	—
Balance at December 31, 2013	274,402	15.86	297,310	571,712
Granted to employees of the Company	400,254	16.59	—	400,254
Delivered	—	14.76	(307,731)	(307,731)
Vested awards of employees of the Company	(129,148)	15.55	129,148	—
Vested awards of the Company	(65,333)	15.41	65,333	—
Balance at December 31, 2014	480,175	16.61	184,060	664,235
Granted to employees of the Company	642,056	17.15	—	642,056
Forfeited by employees of the Company	(13,500)	17.17	—	(13,500)
Delivered	—	14.99	(33,981)	(33,981)
Vested awards of employees of the Company	(201,586)	17.02	201,586	—
Vested awards of the Company	(13,335)	17.59	13,335	—
Balance at December 31, 2015	893,810	$ 16.88	365,000	1,258,810

Units Expected to Vest—As of December 31, 2015, approximately 840,181 ARI RSUs were expected to vest over the next 2.7 years.

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	AMTG RSUs Unvested	Weighted Average Grant Date Fair Value	AMTG RSUs Vested	Total Number of AMTG RSUs Outstanding
Balance at January 1, 2013	161,257	$ 20.28	12,862	174,119
Granted to employees of the Company	25,848	14.73	—	25,848
Forfeited by employees of the Company	(2,359)	18.74	—	(2,359)
Vested awards of employees of the Company	(51,259)	20.30	51,259	—
Vested awards of the Company	(6,250)	18.20	6,250	—
Balance at December 31, 2013	127,237	19.28	70,371	197,608
Granted to employees of the Company	130,124	16.01	—	130,124
Forfeited by employees of the Company	(4,855)	21.22	—	(4,855)
Delivered	—	17.56	(31,167)	(31,167)
Vested awards of employees of the Company	(57,982)	19.56	57,982	—
Vested awards of the Company	(4,688)	18.20	4,688	—
Balance at December 31, 2014	189,836	16.93	101,874	291,710
Forfeited by employees of the Company	(4,676)	15.75	—	(4,676)
Delivered	—	20.60	(138,862)	(138,862)
Vested awards of employees of the Company	(94,569)	18.02	94,569	—
Balance at December 31, 2015	90,591	$ 15.85	57,581	148,172

Units Expected to Vest—As of December 31, 2015, approximately 85,156 AMTG RSUs were expected to vest over the next 1.9 years.

Restricted Share Awards—Athene Holding

Athene Holding has granted restricted share awards ("AHL Awards") to certain employees of Apollo which function similarly to options in that they are exchangeable for Class A shares of Athene Holdings upon payment of a conversion price and other conditions being met. Certain of the awards granted are subject to time-based vesting conditions that generally vest over five years and certain of the awards vest once certain metrics have been achieved, such as attainment of certain rates of return and realized cash received by certain investors in Athene Holding upon sale of their shares. The AHL Awards are not convertible into Class A shares of Athene Holding until the completion of an initial public offering of Athene Holding. During 2014, the vesting terms of some of the AHL Awards were modified such that the portion of AHL Awards related to services provided from the date of grant were deemed vested.

The AHL Awards, are accounted for as a prepaid compensation asset within other assets and deferred revenue in the consolidated statements of financial condition. From the date of grant, the deferred revenue is recognized as management fees and the prepaid compensation asset is recognized as compensation expense over the vesting period. The fair value of the awards to employees is based on the grant date fair value, which utilizes the share price of Athene Holding, less discounts for transfer restrictions. Shares granted as part of the AHL Awards were valued using a multiple-scenario model, which considers the price volatility of the underlying stock price of Athene Holding, time to expiration and the risk-free rate. The awards granted are recognized as liability awards and are remeasured each period to reflect the fair value of the prepaid compensation asset and deferred revenue. Any changes in fair value are recorded in management fees and equity-based compensation expense in the consolidated statements of operations.

For the years ended December 31, 2015 and 2014, $24.2 million and $16.7 million of equity-based compensation expense was recognized in the consolidated statements of operations, respectively, related to AHL Awards granted to employees of Athene Asset Management.

The following table summarizes activity for the AHL Awards that were granted to certain employees of the company for the years ended December 31, 2015 and 2014:

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	AHL Awards Unvested	Weighted Average Grant Date Fair Value	AHL Awards Vested	Total Number of AHL Awards Outstanding
Balance at January 1, 2014	1,717,568	$ 1.23	—	1,717,568
Granted to employees of the Company	850,000	9.31	—	850,000
Vested awards of the employees of the Company	(849,495)	3.69	849,495	—
Balance at December 31, 2014	1,718,073	4.00	849,495	2,567,568
Granted to employees of the Company	583,268	2.17	—	583,268
Vested awards of employees of the Company	(195,374)	6.04	195,374	—
Transfers[1]	(590,089)	2.72	—	(590,089)
Balance at December 31, 2015	1,515,878	$ 3.54	1,044,869	2,560,747

(1) On January 1, 2015, certain employees of Athene Asset Management who had been granted AHL Awards became employees of Athene Holding, an unconsolidated affiliate of the Company.

There were no AHL Awards converted into Class A shares of Athene Holding during the years ended December 31, 2015 and 2014.

Units Expected to Vest—As of December 31, 2015, approximately 463,052 AHL Awards were expected to vest over the next 2.4 years and 1,052,826 AHL Awards may vest if certain metrics are achieved.

Equity-Based Compensation Allocation

Equity-based compensation is allocated based on ownership interests. Therefore, the amortization of the AOG Units is allocated to shareholders' equity attributable to Apollo Global Management, LLC and the Non-Controlling Interests, which results in a difference in the amounts charged to equity-based compensation expense and the amounts credited to shareholders' equity attributable to Apollo Global Management, LLC in the Company's consolidated financial statements.

Below is a reconciliation of the equity-based compensation allocated to Apollo Global Management, LLC for the year ended December 31, 2015:

	Total Amount	Non-Controlling Interest % in Apollo Operating Group	Allocated to Non-Controlling Interest in Apollo Operating Group[1]	Allocated to Apollo Global Management, LLC
RSUs and Share Options	$ 68,535	—%	$ —	$ 68,535
AHL Awards	24,180	54.4	13,158	11,022
Other equity-based compensation awards	4,961	54.4	2,699	2,262
Total Equity-Based Compensation	$ 97,676		15,857	81,819
Less other equity-based compensation awards [2]			(15,857)	(13,860)
Capital Increase Related to Equity-Based Compensation			$ —	$ 67,959

(1) Calculated based on average ownership percentage for the period considering Class A share issuances during the period.
(2) Includes equity-based compensation reimbursable by certain funds.

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Below is a reconciliation of the equity-based compensation allocated to Apollo Global Management, LLC for the year ended December 31, 2014:

	Total Amount	Non-Controlling Interest % in Apollo Operating Group	Allocated to Non-Controlling Interest in Apollo Operating Group[1]	Allocated to Apollo Global Management, LLC
RSUs and Share Options	$ 107,017	—%	$ —	$ 107,017
AHL Awards	16,738	57.7	9,938	6,800
Other equity-based compensation awards	2,565	57.7	1,517	1,048
Total Equity-Based Compensation	$ 126,320		11,455	114,865
Less other equity-based compensation awards[2]			(11,455)	(5,994)
Capital Increase Related to Equity-Based Compensation			$ —	$ 108,871

(1) Calculated based on average ownership percentage for the period considering Class A share issuances during the period.
(2) Includes equity-based compensation reimbursable by certain funds.

Below is a reconciliation of the equity-based compensation allocated to Apollo Global Management, LLC for the year ended December 31, 2013:

	Total Amount	Non-Controlling Interest % in Apollo Operating Group	Allocated to Non-Controlling Interest in Apollo Operating Group[1]	Allocated to Apollo Global Management, LLC
AOG Units	$ 30,007	61.0%	$ 19,163	$ 10,844
RSUs and Share Options	92,185	—	—	92,185
Other equity-based compensation awards	4,035	61.0	2,494	1,541
Total Equity-Based Compensation	$ 126,227		21,657	104,570
Less other equity-based compensation awards[2]			(2,494)	365
Capital Increase Related to Equity-Based Compensation			$ 19,163	$ 104,935

(1) Calculated based on average ownership percentage for the period considering Class A share issuances during the period.
(2) Includes equity-based compensation reimbursable by certain funds.

15. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED ENTITIES

The Company typically facilitates the initial payment of certain operating costs incurred by the funds that it manages as well as their affiliates. These costs are normally reimbursed by such funds and are included in due from affiliates.

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Due from affiliates and due to affiliates are comprised of the following:

	As of December 31,	
	2015	2014
Due from Affiliates:		
Due from private equity funds	$ 21,532	$ 30,091
Due from portfolio companies	36,424	41,844
Due from credit funds[1]	124,660	174,197
Due from Contributing Partners, employees and former employees	42,491	1,721
Due from real estate funds	22,728	20,162
Total Due from Affiliates	$ 247,835	$ 268,015
Due to Affiliates:		
Due to Managing Partners and Contributing Partners in connection with the tax receivable agreement	$ 506,162	$ 509,149
Due to private equity funds	16,293	1,158
Due to credit funds	57,981	5,343
Due to real estate funds	580	—
Distributions payable to employees	13,520	49,503
Total Due to Affiliates	$ 594,536	$ 565,153

(1) As of December 31, 2014, includes unsettled monitoring fee receivable and management fee receivable from AAA and Athene as discussed in “Athene” below.

Tax Receivable Agreement and Other

Subject to certain restrictions, each of the Managing Partners and Contributing Partners has the right to exchange their vested AOG Units for the Company’s Class A shares. Certain Apollo Operating Group entities have made an election under Section 754 of the U.S. Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), which will result in an adjustment to the tax basis of the assets owned by the Apollo Operating Group at the time of the exchange. These exchanges will result in increases in tax deductions that will reduce the amount of tax that APO Corp. will otherwise be required to pay in the future.

The tax receivable agreement provides for the payment to the Managing Partners and Contributing Partners of 85% of the amount of cash savings, if any, in U.S. federal, state, local and foreign income taxes that APO Corp. would realize as a result of the increases in tax basis of assets that resulted from the 2007 Reorganization and exchanges of AOG Units for Class A shares. If the Company does not make the required annual payment on a timely basis as outlined in the tax receivable agreement, interest is accrued on the balance until the payment date. These payments are expected to occur approximately over the next 15 years.

As a result of exchanges of AOG Units for Class A shares during the years ended December 31, 2015, 2014 and 2013, a $45.4 million, $47.9 million and $126.9 million liability was recorded, respectively (see note 11), to estimate the amount of these future expected payments to be made by APO Corp. to the Managing Partners and Contributing Partners pursuant to the tax receivable agreement.

In April 2015, 2014 and 2013, Apollo made cash payments pursuant to the tax receivable agreement resulting from the realized tax benefit for each respective tax year. Included in the payments was interest paid to the Managing Partners and Contributing Partners. The table below presents the cash payments made during April, 2015, 2014 and 2013.

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Date	Cash Payment	Interest Paid to Managing Partners	Interest Paid to Contributing Partners
April, 2015	$ 48,420	$ 13,090	$ 555
April, 2014	32,032	8,272	469
April, 2013	30,403	7,645	333

During the years ended December 31, 2014 and 2013, the Company reduced the tax receivable agreement liability and recorded $32.2 million and $13.0 million, respectively, in other income, net in the consolidated statement of operations due to changes in estimated tax rates.

Due from Contributing Partners, Employees and Former Employees

As of December 31, 2015 and 2014, due from Contributing Partners, Employees and Former Employee balances include various amounts due to the Company including director fee receivables. In addition, as of December 31, 2015, the balance included interest-bearing employee loans receivable of $25.0 million. The outstanding principal amount of the loans as well as all accrued and unpaid interest is required to be repaid at the earlier of the eighth anniversary of the date of the relevant loan or at the date of the relevant employee's resignation from the Company.

The Company has recorded a receivable from the Contributing Partners and certain employees and former employees for the potential return of profit sharing distributions that would be due if certain funds were liquidated as of December 31, 2015 with respect to ACLF, Fund V, ANRP I and a performance-based incentive plan of $6.9 million, $4.9 million, $1.3 million and $1.6 million, respectively, as of December 31, 2015.

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Distributions

In addition to other distributions such as payments pursuant to the tax receivable agreement, the table below presents information regarding the quarterly distributions which were made at the sole discretion of the manager of the Company during 2015, 2014 and 2013 (in millions, except per share data):

Distribution Declaration Date	Distribution per Class A Share	Distribution Payment Date	Distribution to Class A Shareholders	Distribution to Non-Controlling Interest Holders in the Apollo Operating Group	Total Distributions from Apollo Operating Group	Distribution Equivalents on Participating Securities
February 8, 2013	$ 1.05	February 28, 2013	$ 138.7	$ 252.0	$ 390.7	$ 25.0
April 12, 2013	—	April 12, 2013	—	55.2 (1)	55.2	—
May 6, 2013	0.57	May 30, 2013	80.8	131.8	212.6	14.3
August 8, 2013	1.32	August 30, 2013	189.7	305.2	494.9	30.8
November 7, 2013	1.01	November 29, 2013	147.7	231.2	378.9	24.1
For the year ended December 31, 2013	$ 3.95		$ 556.9	$ 975.4	$ 1,532.3	$ 94.2
February 7, 2014	$ 1.08	February 26, 2014	$ 160.9	$ 247.3	$ 408.2	$ 25.5
April 3, 2014	—	April 3, 2014	—	49.5 (1)	49.5	—
May 8, 2014	0.84	May 30, 2014	130.0	188.4	318.4	20.9
June 16, 2014	—	June 16, 2014	—	28.5 (1)	28.5	—
August 6, 2014	0.46	August 29, 2014	73.6	102.5	176.1	10.2
September 11, 2014	—	September 11, 2014	—	12.4 (1)	12.4	—
October 30, 2014	0.73	November 21, 2014	119.0	162.6	281.6	15.5
December 15, 2014	—	December 15, 2014	—	25.2 (1)	25.2	—
For the year ended December 31, 2014	$ 3.11		$ 483.5	$ 816.4	$ 1,299.9	$ 72.1
February 5, 2015	$ 0.86	February 27, 2015	$ 144.4	$ 191.3	$ 335.7	$ 15.3
April 11, 2015	—	April 11, 2015	—	22.4 (1)	22.4	—
May 7, 2015	0.33	May 29, 2015	56.8	72.8	129.6	4.9
July 29, 2015	0.42	August 31, 2015	74.8	91.2	166.0	5.1
October 28, 2015	0.35	November 30, 2015	$ 63.4	$ 75.7	$ 139.1	$ 3.1
For the year ended December 31, 2015	$ 1.96		$ 339.4	$ 453.4	$ 792.8	$ 28.4

(1) On April 12, 2013, April 3, 2014, June 16, 2014, September 11, 2014, December 15, 2014, and April 11, 2015, the Company made a $0.23, $0.22, $0.13, $0.06, $0.11, and $0.10 distribution per AOG Unit, respectively, to the Non-Controlling Interest holders in the Apollo Operating Group.

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Indemnity

Carried interest income from certain funds that the Company manages can be distributed to the Company on a current basis, but is subject to repayment by the subsidiary of the Apollo Operating Group that acts as general partner of the fund in the event that certain specified return thresholds are not ultimately achieved. The Managing Partners, Contributing Partners and certain other investment professionals have personally guaranteed, subject to certain limitations, the obligation of these subsidiaries in respect of this general partner obligation. Such guarantees are several and not joint and are limited to a particular Managing Partner's or Contributing Partner's distributions. An existing shareholders agreement includes clauses that indemnify each of the Company's Managing Partners and certain Contributing Partners against all amounts that they pay pursuant to any of these personal guarantees in favor of certain funds that the Company manages (including costs and expenses related to investigating the basis for or objecting to any claims made in respect of the guarantees) for all interests that the Company's Managing Partners and Contributing Partners have contributed or sold to the Apollo Operating Group.

Accordingly, in the event that the Company's Managing Partners, Contributing Partners and certain investment professionals are required to pay amounts in connection with a general partner obligation for the return of previously made distributions, the Company will be obligated to reimburse the Company's Managing Partners and certain Contributing Partners for the indemnifiable percentage of amounts that they are required to pay even though the Company did not receive the certain distribution to which that general partner obligation related. The Company recorded an indemnification liability of $4.6 million as of December 31, 2015. There was no indemnification liability recorded as of December 31, 2014.

Due to Private Equity Funds

Based upon a hypothetical liquidation of Fund V, APC and ANRP I as of December 31, 2015, the Company has recorded a general partner obligation to return previously distributed carried interest income, which represents amounts due to these funds. As such, there was a general partner obligation to return previously distributed carried interest income with respect to Fund V, APC and ANRP I of $10.8 million, $2.1 million and $3.4 million accrued as of December 31, 2015, respectively. As of December 31, 2014, there was no general partner obligation to return previously distributed carried interest income. The actual determination and any required payment of a general partner obligation would not take place until the final disposition of the fund's investments based on contractual termination of the fund or as otherwise set forth in the respective limited partnership agreement of the fund.

Due to Credit Funds

Based upon a hypothetical liquidation of certain of our credit funds, as of December 31, 2015, 2014 and 2013, the Company has recorded a general partner obligation to return previously distributed carried interest income, which represents amounts due to these funds. As such, there was a general partner obligation to return previously distributed carried interest income with respect to ACLF, COF II and certain SIAs within the credit segment of $25.6 million, $0.4 million and $29.7 million accrued as of December 31, 2015, respectively. As of December 31, 2014, there was a general partner obligation to return previously distributed carried interest income with respect to ACLF and an SIA of $2.5 million and $0.9 million, respectively. As of December 31, 2013, there was a general partner obligation to return previously distributed carried interest income with respect to an SIA and APC of $19.3 million and $0.3 million, respectively. The actual determination and any required payment of a general partner obligation would not take place until the final disposition of the fund's investments based on contractual termination of the fund or as otherwise set forth in the respective limited partnership agreement or other governing document of the fund.

Athene

Athene Holding is the ultimate parent of various insurance company operating subsidiaries. Through its subsidiaries, Athene Holding provides insurance products focused primarily on the retirement market and its business centers primarily on issuing or reinsuring fixed indexed annuities.

Athene Asset Management receives a management fee equal to 0.40% per annum on all assets under management in accounts owned by or related to Athene (the "Athene Accounts"), with certain limited exceptions. In addition, the Company receives sub-advisory management fees and carried interest income with respect to a portion of the assets in the Athene Accounts. With respect to capital invested in an Apollo fund, Apollo receives management fees directly from the relevant funds under the investment management agreements with such funds. Athene Asset Management and other Apollo subsidiaries incur all expenses associated with their provision of services to Athene, including but not limited to, asset allocation services, direct asset management services, risk management, asset and liability matching management, mergers and acquisitions asset diligence, hedging and other services.

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Under a transaction advisory services agreement with Athene (the "Athene Services Agreement"), effective February 5, 2013 through December 31, 2014, Apollo earned a quarterly monitoring fee of 0.50% of Athene's capital and surplus as of the end of the applicable quarter multiplied by 2.5, excluding the shares of Athene Holding that were newly acquired (and not in satisfaction of prior commitments to buy such shares) by AAA Investments in the contribution of certain assets by AAA to Athene in October 2012 (the "Excluded Athene Shares"). The Athene Services Agreement was amended in connection with the Athene Private Placement described below (the "Amended Athene Services Agreement"). The Amended Athene Services Agreement adjusted the calculation of Athene Holding's capital and surplus downward by an amount equal to (x) the equity capital raised in the Athene Private Placement and (y) certain disproportionate increases to the statutory capital and surplus of Athene, as compared to the stockholders' equity of Athene calculated on a U.S. GAAP basis, as a result of certain future acquisitions by Athene. Prior to the consummation of the Athene Private Placement, all such monitoring fees were paid pursuant to the Athene Services Derivative. In connection with the Athene Private Placement, the Athene Services Derivative was settled on April 29, 2014 by delivery to Apollo of common shares of Athene Holding, and as a result, such derivative was terminated. Following settlement of the Athene Services Derivative, future monitoring fees paid to Apollo pursuant to the Amended Athene Services Agreement, were paid on a quarterly basis in arrears by delivery to Apollo of common shares of Athene Holding. Unsettled monitoring fees pursuant to the Amended Athene Services Agreement are recorded as due from affiliates in the consolidated statements of financial condition. For the years ended December 31, 2014 and 2013, Apollo earned $226.4 million and $107.9 million, respectively related to this monitoring fee. The monitoring fee is recorded in advisory and transaction fees from affiliates, net, in the consolidated statements of operations. As of December 31, 2014, Apollo had a $58.2 million receivable recorded in due from affiliates on the consolidated statements of financial condition.

In accordance with the services agreement among AAA, AAA Investments and the other service recipients party thereto and Apollo (the "AAA Services Agreement"), Apollo receives a management fee for managing the assets of AAA Investments. In connection with each of the contribution of certain assets by AAA to Athene in October 2012, and the initial closing of the Athene Private Placement on April 4, 2014, the AAA Services Agreement was amended (the "Amended AAA Services Agreement"). Pursuant to the Amended AAA Services Agreement, the parties agreed that there will be no management fees payable by AAA Investments with respect to the Excluded Athene Shares. AAA Investments agreed to continue to pay Apollo the same management fee on its investment in Athene Holding (other than with respect to the Excluded Athene Shares), except that Apollo agreed that the obligation to pay the existing management fee terminated on December 31, 2014 (although services will continue through December 31, 2020). Prior to the consummation of the Athene Private Placement, all such management fees were accrued pursuant to the AAA Services Derivative. In connection with the Athene Private Placement, the AAA Services Derivative was settled on April 29, 2014 by delivery to Apollo of common shares of Athene Holding, and as a result, such derivative was terminated. Following settlement of the AAA Services Derivative, future management fees paid to Apollo pursuant to the Amended AAA Services Agreement were paid on a quarterly basis in arrears by delivery to Apollo of common shares of Athene Holding. Unsettled management fees pursuant to the Amended AAA Services Agreement are recorded as due from affiliates in the consolidated statements of financial condition. There were no management fees receivable as of December 31, 2015 as AAA Investments' obligation to pay the existing management fee terminated on December 31, 2014. As of December 31, 2014, Apollo had a $3.1 million receivable recorded in due from affiliates related to this management fee on the consolidated statements of financial condition. The total management fees earned by Apollo related to the Amended AAA Services Agreement were $3.4 million, $1.9 million and $2.2 million for the years ended December 31, 2015, 2014 and 2013, respectively. These management fees are recorded in management fees from affiliates in the consolidated statements of operations.

Prior to the settlement of the Athene Services Derivative and the AAA Services Derivative, the Amended Athene Services Agreement and the Amended AAA Services Agreement together with the Athene Services Derivative and the AAA Services Derivative, met the definition of derivatives under U.S. GAAP. The Company had classified these derivatives as Level III assets in the fair value hierarchy, as the pricing inputs into the determination of fair value require significant judgment and estimation. After the settlement of the Athene Services Derivative and the AAA Services Derivatives the unsettled shares receivable recorded in due from affiliates related to the Amended Athene Services Agreement and the Amended AAA Services Agreement are valued at fair value based on the price of a common share of Athene Holding. The Company had classified the derivative and the shares receivable as Level III assets in the fair value hierarchy, as the pricing inputs into the determination of fair value require significant judgment and estimation. See note 6 for further discussion regarding fair value measurements.

Prior to the settlement of the Athene Services Derivative and the AAA Services Derivative, the change in unrealized market value of the derivatives was reflected in other income, net in the consolidated statements of operations. For the year ended December 31, 2013, there was a $10.2 million change in market value recognized related to these derivatives.

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In addition, Apollo, as general partner of AAA Investments, is generally entitled to a carried interest that allocates to it 20% of the realized returns (net of related expenses, including borrowing costs) on the investments of AAA Investments, except that Apollo will not be entitled to receive any carried interest in respect of the Excluded Athene Shares. Carried interest receivable from AAA Investments will be paid in common shares of Athene Holding (valued at the then fair market value) if there is a distribution in kind of shares of Athene Holding (unless such payment in shares would violate Section 16(b) of the Exchange Act) or paid in cash if AAA sells the shares of Athene Holding. For the years ended December 31, 2015, 2014, and 2013, the Company recorded carried interest income less the related profit sharing expense of $36.1 million, $14.6 million and $27.6 million from AAA Investments, respectively, which is recorded in the consolidated statements of operations. As of December 31, 2015 and 2014, the Company had a $185.5 million and a $121.5 million carried interest receivable, respectively, related to AAA Investments. As of December 31, 2015 and 2014, the Company had a related profit sharing payable of $62.8 million and $34.9 million, respectively, recorded in profit sharing payable in the consolidated statements of financial condition.

For the years ended December 31, 2015, 2014 and 2013, Apollo earned gross revenues in the aggregate totaling $526.5 million, $546.5 million and $435.1 million, respectively, consisting of management fees, sub-advisory and monitoring fees and carried interest income from Athene after considering the related profit sharing expense and changes in the market value of the Athene Holding shares owned directly by Apollo, which is recorded in the consolidated statements of operations. These amounts exclude the deferred revenue recognized as management fees associated with the vesting of AHL Awards granted to employees of Athene Asset Management as further described in note 14.

On April 4, 2014, Athene Holding completed an initial closing of a private placement offering of common equity in which it raised $1.048 billion of primary commitments from third-party institutional and certain existing investors in Athene Holding (the "Athene Private Placement"). Shares in the Athene Private Placement were offered at a price per common share of Athene Holding of $26.00. In connection with the Athene Private Placement, Athene raised an additional $80 million of third party capital at $26.00 per share, all of which was used to buy back a portion of the shares of one of its existing investors at a price of $26.00 per share in a transaction that was consummated on April 29, 2014. As announced by AAA on June 24, 2014, a second closing of the Athene Private Placement occurred in which Athene Holding raised $170.0 million of commitments primarily from employees of Athene and its affiliates at a price per common share of Athene Holding of $26.00. The Athene Private Placement offering was concluded in the first quarter of 2015 with a final closing of $60.0 million of additional capital commitments from affiliates of Athene. The Investment Partnership did not purchase any additional common shares of Athene Holding as part of the Athene Private Placement.

The Company had an approximate 9.2% economic ownership interest in Athene Holding as of December 31, 2015, which comprises Apollo's direct ownership of 8.0% of the economic equity of Athene Holding plus an additional 1.2% economic ownership interest, which is calculated as the sum of the Company's approximate 2.4% economic ownership interest in AAA and the Company's approximate 0.06% economic ownership interest in AAA Investments, multiplied by AAA Investments' approximate 46.3% economic ownership interest in Athene, calculated without giving effect to restricted common shares issued under Athene's management equity plan as of December 31, 2015. As disclosed in note 2, as a result of the adoption of new accounting guidance, AAA was deconsolidated as of January 1, 2015.

As of December 31, 2014, the Company, through its consolidation of AAA, had an approximate 47.7% economic ownership interest in Athene through its investment in AAA Investments, (calculated as if the commitments on the Athene Private Placement closed through December 31, 2014 were fully drawn down but without giving effect to (i) restricted common shares issued under Athene's management equity plan, (ii) common shares to be issued under the Amended Athene Services Agreement subsequent to December 31, 2014 or (iii) the common shares to be issued under the Amended AAA Services Agreement subsequent to December 31, 2014). The Company effectively held 45% of the voting power of Athene as of December 31, 2014.

The Company had an approximate 8.1% economic ownership interest in Athene Holding as of December 31, 2014, which comprises Apollo's direct ownership of 6.9% of the economic equity of Athene Holding plus an additional 1.2% economic ownership interest, which is calculated as the sum of the Company's approximate 2.5% economic ownership interest in AAA and the Company's approximate 0.06% economic ownership interest in AAA Investments, multiplied by AAA Investments' approximate 47.7% economic ownership interest in Athene as of December 31, 2014. During 2014, the remaining ownership interest in AAA was recognized in the Company's consolidated statements of operations as Non-Controlling Interest in consolidated entities.

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MidCap

During the year ended December 31, 2015, Apollo, through its subsidiary Apollo MidCap Holdings (Cayman), L.P., entered into a subscription agreement providing for an aggregate commitment of $50.0 million to subscribe for (i) Class A Variable Funding Subordinated Notes due 2114 ("Class A Notes") of MidCap FinCo Limited ("MidCap"), a private limited company domiciled in Ireland focused on direct lending opportunities in the senior secured credit market across a diverse range of industries and asset classes that includes the former operations and assets of MidCap Financial Holdings, LLC, a leading specialty finance firm focused on senior secured direct origination in the healthcare sector, and (ii) ordinary shares of nominal value in MidCap's holding company, MidCap FinCo Holdings Limited ("Ordinary Shares"). The subscription agreement has a commitment period of three years (subject to extension under certain circumstances). The commitment was fully funded as of December 31, 2015. Pursuant to an investment management agreement, Apollo, through its subsidiary Apollo Capital Management, L.P., is acting as the investment manager of MidCap's credit business. Certain third parties have also entered into subscription agreements for direct or indirect ownership of Class A Notes and Ordinary Shares.

Additionally, during the year ended December 31, 2015, AAA Investments (Co-Invest VII), L.P. ("Co-Invest VII") contributed all of its ownership interest in MidCap Financial Holdings, LLC to MidCap in exchange for Class A Notes pursuant to a transfer agreement dated January 21, 2015. As a result of this contribution, Apollo, through its subsidiary AAA Associates (Co-Invest VII), L.P., the general partner of Co-Invest VII, realized $29.9 million of carried interest from Co-Invest VII, which Co-Invest VII settled with a payment of Class A Notes to AAA Associates (Co-Invest VII), L.P.

Apollo has recorded a $79.3 million equity method investment in MidCap as of December 31, 2015, which is reflected in Investments in the consolidated statement of financial condition.

Regulated Entities

Apollo Global Securities, LLC ("AGS") is a registered broker dealer with the SEC and is a member of the Financial Industry Regulatory Authority, subject to the minimum net capital requirements of the SEC. AGS was in compliance with these requirements at December 31, 2015. From time to time, this entity is involved in transactions with affiliates of Apollo, including portfolio companies of the funds Apollo manages, whereby AGS earns underwriting and transaction fees for its services.

Apollo Management International LLP, is authorized and regulated by the U.K. Financial Conduct Authority and as such is subject to the capital requirements of the U.K. Financial Conduct Authority. This entity has continuously operated in excess of these regulatory capital requirements.

Certain other of the Company's U.S. and non-U.S. subsidiaries are subject to various regulations, including a number of U.S. entities that are registered as investment advisors with the SEC. To the extent applicable, these entities have continuously operated in excess of any minimum regulatory capital requirements.

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Interests in Consolidated Entities

The table below presents equity interests in Apollo's consolidated, but not wholly-owned, subsidiaries and funds. Net income and comprehensive income attributable to Non-Controlling Interests consisted of the following:

	For the Year Ended December 31,		
	2015	2014	2013
AAA[1]	$ —	$ (196,964)	$ (331,504)
Interest in management companies and a co-investment vehicle[2]	(10,543)	(13,186)	(18,872)
Other consolidated entities	(10,821)	(17,590)	43,357
Net (income) loss attributable to Non-Controlling Interests in consolidated entities	(21,364)	(227,740)	(307,019)
Net (income) loss attributable to Appropriated Partners' Capital[3]	—	70,729	(149,934)
Net (income) loss attributable to Non-Controlling Interests in the Apollo Operating Group	(194,634)	(404,682)	(1,257,650)
Net Income attributable to Non-Controlling Interests	$ (215,998)	$ (561,693)	$ (1,714,603)
Net income (loss) attributable to Appropriated Partners' Capital[4]	—	(70,729)	149,934
Other comprehensive (income) loss attributable to Non-Controlling Interests	7,020	591	(41)
Comprehensive Income Attributable to Non-Controlling Interests	$ (208,978)	$ (631,831)	$ (1,564,710)

(1) Reflects the Non-Controlling Interests in the net (income) loss of AAA and is calculated based on the Non-Controlling Interests ownership percentage in AAA as of December 31, 2014 and 2013, which was approximately 97.5% and 97.4%, respectively. As of December 31, 2014 and 2013, Apollo owned approximately 2.5% and 2.6% of AAA, respectively. AAA was deconsolidated effective January 1, 2015 as a result of the Company's adoption of new accounting guidance, as described in note 2.
(2) Reflects the remaining interest held by certain individuals who receive an allocation of income from certain of our credit funds.
(3) Reflects net income of the consolidated CLOs classified as VIEs.
(4) Appropriated Partners' Capital is included in total Apollo Global Management, LLC shareholders' equity and is therefore not a component of comprehensive income attributable to Non-Controlling Interests on the consolidated statements of comprehensive income.

16. COMMITMENTS AND CONTINGENCIES

Investment Commitments—As a limited partner, general partner and manager of the Apollo funds, Apollo has unfunded capital commitments as of December 31, 2015 and 2014 of $566.3 million and $646.6 million, respectively.

Apollo has an ongoing obligation to acquire additional common units of AAA in an amount equal to 25% of the aggregate after-tax cash distributions, if any, that are made by AAA to Apollo's affiliates pursuant to the carried interest distribution rights that are applicable to investments made through AAA Investments. In addition, on April 30, 2015, Apollo entered into a revolving credit agreement with AAA Investments ("AAA Investments Credit Agreement"). Under the terms of the AAA Investments Credit Agreement, the Company shall make available to AAA Investments one or more advances at the discretion of AAA Investments in the aggregate amount not to exceed a balance of $10.0 million at an applicable rate of LIBOR plus 1.5%. The Company receives an annual commitment fee of 0.125% on the unused portion of the loan. As of December 31, 2015 no advance on the AAA Investments Credit Agreement has been made by the Company.

Debt Covenants—Apollo's debt obligations contain various customary loan covenants. As of December 31, 2015, the Company was not aware of any instances of non-compliance with the financial covenants contained in the documents governing the Company's debt obligations.

Litigation and Contingencies—Apollo is, from time to time, party to various legal actions arising in the ordinary course of business including claims and lawsuits, reviews, investigations or proceedings by governmental and self regulatory agencies regarding its business.

In March 2012, plaintiffs filed two putative class actions, captioned Kelm v. Chase Bank (No. 12-cv-332) and Miller v. 1-800-Flowers.com, Inc. (No. 12-cv-396), in the District of Connecticut on behalf of a class of consumers alleging online fraud. The defendants included, among others, Trilegiant Corporation, Inc. ("Trilegiant"), its parent company, Affinion Group, LLC

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("Affinion"), and Apollo Global Management, LLC ("AGM"), which is affiliated with funds that are the beneficial owners of 68% of Affinion's common stock. In both cases, plaintiffs allege that Trilegiant, aided by its business partners, who include e-merchants and credit card companies, developed a set of business practices intended to create consumer confusion and ultimately defraud consumers into unknowingly paying fees to clubs for unwanted services. Plaintiffs allege that AGM is a proper defendant because of its indirect stock ownership and ability to appoint the majority of Affinion's board. The complaints assert claims under the Racketeer Influenced Corrupt Organizations Act; the Electronic Communications Privacy Act; the Connecticut Unfair Trade Practices Act; and the California Business and Professional Code, and seek, among other things, restitution or disgorgement, injunctive relief, compensatory, treble and punitive damages, and attorneys' fees. The allegations in Kelm and Miller are substantially similar to those in Schnabel v. Trilegiant Corp. (No. 3:10-cv-957), a putative class action filed in the District of Connecticut in 2010 that names only Trilegiant and Affinion as defendants. The court has consolidated the Kelm, Miller, and Schnabel cases under the caption In re: Trilegiant Corporation, Inc. and ordered that they proceed on the same schedule. On June 18, 2012, the court appointed lead plaintiffs' counsel, and on September 7, 2012, plaintiffs filed their consolidated amended complaint ("CAC"), which alleges the same causes of action against AGM as did the complaints in the Kelm and Miller cases. Defendants filed motions to dismiss on December 7, 2012, plaintiffs filed opposition papers on February 7, 2013, and defendants filed replies on April 5, 2013. On December 5, 2012, plaintiffs filed another putative class action, captioned Frank v. Trilegiant Corp. (No. 12- cv-1721), in the District of Connecticut, naming the same defendants and containing allegations substantially similar to those in the CAC. On January 23, 2013, plaintiffs moved to transfer and consolidate Frank into In re: Trilegiant. On July 24, 2013 the Frank court transferred the case to Judge Bryant, who is presiding over In re: Trilegiant, and on March 28, 2014, Judge Bryant granted the motion to consolidate. On September 25, 2013, the court held oral argument on defendants' motions to dismiss. On March 28, 2014, the court granted in part and denied in part motions to dismiss filed by Affinion and Trilegiant on behalf of all defendants, and also granted separate motions to dismiss filed by certain defendants, including AGM. On that same day, the court directed the clerk to terminate AGM as a defendant in the consolidated action. The case is proceeding against several defendants, and so plaintiffs' time to file their notice of appeal as to the dismissed defendants has not begun running.

Various state attorneys general and federal and state agencies have initiated industry-wide investigations into the use of placement agents in connection with the solicitation of investments, particularly with respect to investments by public pension funds. Certain affiliates of Apollo have received subpoenas and other requests for information from various government regulatory agencies and investors in Apollo's funds, seeking information regarding the use of placement agents. California Public Employees' Retirement System ("CalPERS"), one of Apollo's Strategic Investors, announced on October 14, 2009, that it had initiated a special review of placement agents and related issues. The report of the CalPERS' Special Review was issued on March 14, 2011. That report does not allege any wrongdoing on the part of Apollo or its affiliates. Apollo is continuing to cooperate with all such investigations and other reviews. In addition, on May 6, 2010, the California Attorney General filed a civil complaint against Alfred Villalobos and his company, Arvco Capital Research, LLC ("Arvco") (a placement agent that Apollo has used) and Federico Buenrostro Jr., the former CEO of CalPERS, alleging conduct in violation of certain California laws in connection with CalPERS's purchase of securities in various funds managed by Apollo and another asset manager. Apollo is not a party to the civil lawsuit and the lawsuit does not allege any misconduct on the part of Apollo. Likewise, on April 23, 2012, the SEC filed a lawsuit alleging securities fraud on the part of Arvco, as well as Messrs. Buenrostro and Villalobos, in connection with their activities concerning certain CalPERS investments in funds managed by Apollo. This lawsuit also does not allege wrongdoing on the part of Apollo, and alleges that Apollo was defrauded by Arvco, Villalobos, and Buenrostro. On March 14, 2013, the United States Department of Justice unsealed an indictment against Messrs. Villalobos and Buenrostro alleging, among other crimes, fraud in connection with those same activities; again, Apollo is not accused of any wrongdoing and in fact is alleged to have been defrauded by the defendants. The criminal action was set for trial in a San Francisco federal court in July 2014, but was put on hold after Mr. Buenrostro pleaded guilty on July 11, 2014. As part of Mr. Buenrostro's plea agreement, he admitted to taking cash and other bribes from Mr. Villalobos in exchange for several improprieties, including attempting to influence CalPERS' investing decisions and improperly preparing disclosure letters to satisfy Apollo's requirements. There is no suggestion that Apollo was aware that Mr. Buenrostro had signed the letters with a corrupt motive. The government has indicated that they will file new charges against Mr. Villalobos incorporating Mr. Buenrostro's admissions. On August 7, 2014, the government filed a superseding indictment against Mr. Villalobos asserting additional charges. Trial had been scheduled for February 23, 2015, but Mr. Villalobos passed away on January 13, 2015. Additionally, on April 15, 2013, Mr. Villalobos, Arvco and related entities (the "Arvco Debtors") brought a civil action in the United States Bankruptcy Court for the District of Nevada (the "Bankruptcy Court") against Apollo. The action is related to the ongoing bankruptcy proceedings of the Arvco Debtors. This action alleges that Arvco served as a placement agent for Apollo in connection with several funds associated with Apollo, and seeks to recover purported fees the Arvco Debtors claim Apollo has not paid them for a portion of Arvco's placement agent services. In addition, the Arvco Debtors allege that Apollo has interfered with the Arvco Debtors' commercial relationships with third parties, purportedly causing the Arvco Debtors to lose business and to incur fees and expenses in the defense of various investigations and litigations. The Arvco Debtors also seek

compensation from Apollo for these alleged lost profits and fees and expenses. The Arvco Debtors' complaint asserts various theories of recovery under the Bankruptcy Code and common law. Apollo denies the merit of all of the Arvco Debtors' claims and will vigorously contest them. The Bankruptcy Court had stayed this action pending the result in the criminal case against Mr. Villalobos but lifted the stay on May 1, 2015; in light of Mr. Villalobos's death, the criminal case was dismissed. For these reasons, no estimate of possible loss, if any, can be made at this time.

On June 18, 2014, BOKF N.A. (the "First Lien Trustee"), the successor indenture trustee under the indenture governing the First Lien Notes issued by Momentive Performance Materials, Inc. ("Momentive"), commenced a lawsuit in the Supreme Court for the State of New York, New York County against AGM and members of an ad hoc group of Second Lien Noteholders (including, but not limited to, Euro VI (BC) S.a.r.l.). The First Lien Trustee amended its complaint on July 2, 2014 (the "First Lien Intercreditor Action"). In the First Lien Intercreditor Action, the First Lien Trustee seeks, among other things, a declaration that the defendants violated an intercreditor agreement entered into between holders of the First Lien Notes and holders of the second lien notes. On July 16, 2014, the successor indenture trustee under the indenture governing the 1.5 Lien Notes (the "1.5 Lien Trustee," and, together with the First Lien Trustee, the "Indenture Trustees") filed an action in the Supreme Court of the State of New York, New York County that is substantially similar to the First Lien Intercreditor Action (the "1.5 Lien Intercreditor Action," and, together with the First Lien Intercreditor Action, the "Intercreditor Actions"). AGM subsequently removed the Intercreditor Actions to federal district court, and the Intercreditor Actions were automatically referred to the Bankruptcy Court adjudicating the Momentive chapter 11 bankruptcy cases. The Indenture Trustees then filed motions with the Bankruptcy Court to remand the Intercreditor Actions back to the state court (the "Remand Motions"). On September 9, 2014, the Bankruptcy Court denied the Remand Motions. On August 15, 2014, the defendants in the Intercreditor Actions (including AGM) filed a motion to dismiss the 1.5 Lien Intercreditor Action and a motion for judgment on the pleadings in the First Lien Intercreditor Action (the "Dismissal Motions"). On September 30, 2014, the Bankruptcy Court granted the Dismissal Motions. In its order granting the Dismissal Motions, the Bankruptcy Court gave the Indenture Trustees until mid-November 2014 to move to amend some, but not all, of the claims alleged in their respective complaints. On November 14, 2014, the Indenture Trustees moved to amend their respective complaints pursuant to the Bankruptcy Court's order (the "Motions to Amend"). On January 9, 2015, the defendants filed their oppositions to the Motions to Amend. On January 16, 2015, the Bankruptcy Court denied the Motions to Amend (the "Dismissal Order"), but gave the Indenture Trustees until March 2, 2015 to seek to amend their respective complaints. On March 2, 2015, the First Lien Trustee filed a motion seeking to amend its complaint. On April 10, 2015, the defendants, including AGM and Euro VI (BC) S.a.r.l., filed an opposition to the First Lien Trustee's motion to amend. Instead of moving again to amend its complaint, the 1.5 Lien Trustee chose to appeal the Dismissal Order (the "1.5 Lien Appeal"). On March 30, 2015, the 1.5 Lien Trustee filed its Statement of Issues and Designation of Record on Appeal. On March 31, 2015, because the legal issues presented in the 1.5 Lien Appeal are substantially similar to those presented in the First Lien Intercreditor Action, the parties in the 1.5 Lien Appeal submitted a joint stipulation and proposed order to the District Court staying the briefing schedule on the 1.5 Lien Appeal pending the outcome of the First Lien Trustee's most recent motion to amend. On April 13, 2015, the Defendants filed their Counter-Designation of the Record on Appeal in the 1.5 Lien Appeal. On May 8, 2015, the Bankruptcy Court denied the motion to amend filed on March 2, 2015 by the First Lien Trustee. On May 27, 2015, the First Lien Trustee filed a notice of appeal from the orders of the Bankruptcy Court dismissing the First Lien Intercreditor Action and denying the First Lien Trustee's motions to amend (the "First Lien Appeal"). On June 2, 2015, the First Lien Trustee filed its Statement of Issues and Designation of Record on Appeal. On June 24, 2015, the defendants filed their Counter-Designation of the Record on Appeal in the First Lien Appeal. On July 31, 2015, the 1.5 Lien Trustee sent a letter to the federal district court hearing the 1.5 Lien Appeal asking the court to consolidate the 1.5 Lien Appeal with the First Lien Appeal which had been assigned to a different judge (the "Consolidation Request"). On August 4, 2015, the First Lien Trustee asked the federal district court hearing the First Lien Appeal to stay all further proceedings in the First Lien Appeal until the court hearing the 1.5 Lien Appeal decided whether to consolidate the First Lien Appeal with the 1.5 Lien Appeal. On August 5, 2015, the court granted the First Lien Trustee's request to stay the First Lien Appeal pending the other court's decision on whether to consolidate the First Lien Appeal with the 1.5 Lien Appeal. As a result of the Consolidation Request, the 1.5 Lien Trustee has taken the position that the 1.5 Lien Appeal has also been stayed, and therefore no briefs have been filed in either the First Lien Appeal or the 1.5 Lien Appeal. On November 16, 2015, the 1.5 Lien Trustee filed its motion in support of the Consolidation Request. On December 16, 2015, the defendants filed a statement of No Objection to the Consolidation Request. Apollo is unable at this time to assess a potential risk of loss. In addition, Apollo does not believe that AGM is a proper defendant in these actions.

On June 13, 2014, plaintiffs Stark Master Fund Ltd and Stark Global Opportunities Master Fund Ltd filed a lawsuit in the United States District Court for the Eastern District of Wisconsin against AGM and Apollo Management Holdings, (the "Apollo Defendants"), as well as Credit Suisse Securities (USA) LLC and Deutsche Bank Securities (USA) LLC (the "Bank Defendants"). The complaint alleges that the Apollo Defendants and the other defendants entered into an undisclosed and improper

agreement concerning the financing of a potential acquisition of Hexion Specialty Chemicals Inc., and on this basis alleges a variety of common law misrepresentation claims, both intentional and negligent. The Apollo Defendants and Bank Defendants filed motions to dismiss the complaint on October 15, 2014. Rather than respond to the motions, plaintiffs filed an Amended Complaint on November 5, 2014. The Apollo Defendants and Bank Defendants filed motions to dismiss the Amended Complaint on December 23, 2014. Plaintiffs filed a motion for leave to conduct jurisdictional discovery on February 2, 2015. On April 9, 2015, the Court issued an order granting plaintiffs' motion for leave to conduct limited jurisdictional discovery. Pursuant to the parties' stipulation approved by the Court, Plaintiffs must file their opposition to Defendants' motion to dismiss the Amended Complaint on or before 30 days following the close of jurisdictional discovery. Because the claims against the Apollo Defendants are in their early stages, no reasonable estimate of possible loss, if any, can be made at this time.

There are several pending actions concerning transactions related to Caesars Entertainment Operating Company, Inc.'s ("CEOC") restructuring efforts. Apollo is not a defendant in these matters.

- In re: Caesars Entertainment Operating Company, Inc. bankruptcy proceedings, No. 15-10047 (Del. Bankr.) (the "Delaware Bankruptcy Action") and No. 15-01145 (N.D. Ill. Bankr.) (the "Illinois Bankruptcy Action"). On January 12, 2015, three holders of CEOC second lien notes filed an involuntary bankruptcy petition against CEOC in the United States Bankruptcy Court for the District of Delaware. On January 15, 2015, CEOC and certain of its affiliates (collectively the "Debtors") filed for Chapter 11 bankruptcy in the Northern District of Illinois. On February 2, 2015, the court in the Delaware Bankruptcy Action ordered that all bankruptcy proceedings relating to the Debtors should take place in the Illinois Bankruptcy Action. On March 11, 2015, the Debtors filed an adversary complaint in the Illinois Bankruptcy Action to stay, pending resolution of the bankruptcy, the Trustee, Meehancombs, Danner, and BOKF Actions described below. On June 3-4, 2015, the court held an evidentiary hearing on the Debtors' stay request. On July 22, 2015, the court denied the Debtors' stay request (the "Stay Denial"). On October 8, 2015, the United States District Court for the Northern District of Illinois (No. 15-06504 (N.D. Ill.)) affirmed the Stay Denial, and the Debtors filed an appeal to the United States Court of Appeals for the Seventh Circuit (No. 15-3259 (7th Cir.)). On December 23, 2015, the Seventh Circuit vacated the lower court opinions denying the injunction and remanded the dispute to the Bankruptcy Court for further proceedings. On January 11, 2016, the CEOC noteholders submitted a petition for rehearing before the Seventh Circuit en banc. The Seventh Circuit denied the petition, and on February 26, 2016, the Bankruptcy Court granted the stay request as to the BOKF Action until the sooner of 60 days after the Examiner releases his report or May 9, 2016. The Bankruptcy Court continued consideration of the stay request as to the other proceedings, and scheduled a stauts hearing for May 4, 2016. Separately, the Bankruptcy Court held an evidentiary hearing to determine whether the Debtors' petition date was January 12, 2015 or January 15, 2015. The Bankruptcy Court has indicated that it will decide that issue on March 16, 2016. Certain of the Debtors' creditors have indicated in filings with the Illinois bankruptcy court that an investigation into certain acts and transactions that predated the Debtors' bankruptcy filing could lead to claims against a number of parties, including Apollo. To date, no such claims have been brought against Apollo.

- Wilmington Savings Fund Society, FSB v. Caesars Entertainment Corp. et al., No. 10004-CVG (Del. Ch.) (the "Trustee Action"). On August 4, 2014, Wilmington Savings Fund Society, FSB ("WSFS"), as trustee for certain CEOC second-lien notes, sued Caesars Entertainment Corporation ("Caesars Entertainment"), CEOC, other Caesars Entertainment-affiliated entities, and certain of Caesars Entertainment's directors, including Marc Rowan, Eric Press, David Sambur (each an Apollo Partner) and Jeff Benjamin (a consultant to Apollo), in Delaware's Court of Chancery. WSFS (i) asserts claims (against some or all of the defendants) for fraudulent conveyance, breach of fiduciary duty, breach of contract, corporate waste and aiding and abetting related to certain transactions among CEOC and other Caesars Entertainment affiliates, and (ii) requests (among other things) that the court unwind the challenged transactions and award damages. WSFS served a subpoena for documents on Apollo on September 11, 2014, but Apollo's response was stayed during the pendency of motions to dismiss under a September 23, 2014 stipulated order. On March 18, 2015, the Court denied Defendants' motion to dismiss. Apollo served responses and objections to the Trustee's subpoena on March 25, 2015. Caesars Entertainment answered the complaint on April 1, 2015.

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During the pendency of CEOC's bankruptcy proceedings, the Trustee Action has been automatically stayed with respect to CEOC. WSFS additionally advised the bankruptcy court that, during CEOC's bankruptcy proceedings, the Trustee would only pursue claims in the Trustee Action relating to whether Caesars Entertainment remains liable on a guarantee of certain of CEOC's second priority notes. On July 17, 2015, WSFS served supplemental subpoenas to several entities affiliated with Apollo. Apollo has substantially completed its production of non-privileged documents responsive to those subpoenas.

- Meehancombs Global Credit Opportunities Master Fund, L.P., et al. v. Caesars Entertainment Corp., et al., No. 14-cv-7091 (S.D.N.Y.) (the "Meehancombs Action"). On September 3, 2014, institutional investors allegedly holding approximately $137 million in CEOC unsecured senior notes sued CEOC and Caesars Entertainment for breach of contract and the implied covenant of good faith, Trust Indenture Act ("TIA") violations and a declaratory judgment challenging the August 2014 private financing transaction in which a portion of outstanding senior unsecured notes were purchased by Caesars Entertainment, and a majority of the noteholders agreed to amend the indenture to terminate Caesars Entertainment's guarantee of the notes and modify certain restrictions on CEOC's ability to sell assets. Caesars Entertainment and CEOC filed a motion to dismiss on November 12, 2014. On January 15, 2015, the court granted the motion with respect to a TIA claim by Meehancombs but otherwise denied the motion. On January 30, 2015, plaintiffs filed an amended complaint seeking relief against Caesars Entertainment only, and Caesars Entertainment answered on February 12, 2015. On October 2, 2014, a related putative class action complaint was filed on behalf of the holders of these notes captioned Danner v. Caesars Entertainment Corp., et al., No. 14-cv-7973 (S.D.N.Y.) (the "Danner Action"), against Caesars Entertainment alleging claims similar to those in the Meehancombs Action. On February 19, 2015, plaintiffs filed an amended complaint, and Caesars Entertainment answered the amended complaint on February 25, 2015. In March 2015, each of Meehancombs and Danner served subpoenas for documents on Apollo. Apollo produced responsive, non-privileged documents in response to those subpoenas. In July 2015, Meehancombs and Danner served subpoenas for depositions on Apollo and those depositions were completed on September 22, 2015. On October 23, 2015, Meehancombs and Danner filed motions for partial summary judgment, related to TIA and breach of contract claims. On December 29, 2015, the court denied the motions for partial summary judgment. The parties are currently engaged in expert discovery. Trial in the Meehancombs and Danner Actions is scheduled to begin May 9, 2016.

- UMB Bank v. Caesars Entertainment Corporation, et al., No. 10393 (Del. Ch.) (the "UMB Action"). On November 25, 2014, UMB Bank, as trustee for certain CEOC notes, sued Caesars Entertainment, CEOC, other Caesars Entertainment-affiliated entities, and certain of Caesars Entertainment's directors, including Marc Rowan, Eric Press, David Sambur (each an Apollo Partner) and Jeffrey Benjamin (an Apollo consultant), in Delaware Chancery Court. The lawsuit alleges claims for actual and constructive fraudulent conveyance and transfer, insider preferences, illegal dividends, breach of contract, intentional interference with contractual relations, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, usurpation of corporate opportunities, and unjust enrichment. The UMB Action seeks appointment of a receiver for CEOC, a constructive trust, and other relief. The UMB Action has been assigned to the same judge overseeing the Trustee Action. Upon filing the complaint, UMB Bank moved to expedite its claim, seeking a receiver, on which the court held oral argument on December 17, 2014. On January 15, 2015, the court entered a stipulated order staying the UMB Action as to all parties due to CEOC's bankruptcy filing.

- Koskie v. Caesars Acquisition Company, et al., No. A-14-711712-C (Clark Cnty Nev. Dist. Ct.) (the "Koskie Action"). On December 30, 2014, Nicholas Koskie brought a shareholder class action on behalf of shareholders of Caesars Acquisition Company ("CAC") against CAC, Caesars Entertainment, and members of CAC's Board of Directors, including Marc Rowan and David Sambur (each an Apollo partner). The lawsuit challenges CAC and Caesars Entertainment's plan to merge, alleging that the proposed transaction will not give CAC shareholders fair value. Koskie asserts claims for breach of fiduciary duty relating to the director defendants' interrelationships with

the entities involved the proposed transaction. The deadline for CAC to respond to this lawsuit has been adjourned indefinitely by agreement of the parties.

- BOKF, N.A. v. Caesars Entertainment Corporation, No. 15-156 (S.D.N.Y) (the "BOKF Action"). On March 3, 2015, BOKF, N.A., as trustee for certain CEOC notes, sued Caesars Entertainment in the Southern District of New York. The lawsuit alleges claims for breach of contract, intentional interference with contractual relations and a declaratory judgment, and seeks to enforce Caesars Entertainment's guarantee of certain CEOC notes. The BOKF Action has been assigned to the same judge as the Meehancombs and Danner Actions. On March 25, 2015, Caesars Entertainment filed an answer to the complaint. On May 19, 2015, BOKF sent the court a letter requesting permission to file a partial summary judgment motion on Counts II and V of its complaint, related to the validity and enforceability of Caesars Entertainment's guarantee of certain notes issued by CEOC and alleged violations of the Trust Indenture Act, 15 U.S.C. §§ 76aaa, et seq. The Meehancombs and Danner plaintiffs did not join BOKF's request to file for partial summary judgment. On May 28, 2015, the court granted BOKF permission to move for partial summary judgment. On June 15, 2015, another related complaint captioned UMB Bank, N.A. v. Caesars Entertainment Corp., et al., No. 15-cv-4634 (S.D.N.Y.) (the "UMB SDNY Action") was filed by UMB Bank, N.A., solely in its capacity as Indenture Trustee of certain first lien notes ("UMB"), against Caesars Entertainment alleging claims similar to those alleged in the BOKF, Meehancombs and Danner Actions. On June 16, 2015, UMB sent a letter to the court requesting permission to file a partial summary judgment motion on the same schedule with BOKF. On June 26, 2015, BOKF and UMB filed partial summary judgment motions (the "Partial Summary Judgment Motions"). On July 24, 2015, Caesars Entertainment filed its opposition to the Partial Summary Judgment Motions, and on August 7, 2015, BOKF and UMB filed reply briefs in further support of the Partial Summary Judgment Motions. On August 27, 2015, the Court denied the Partial Summary Judgment Motions and certified its opinion for an interlocutory appeal to the United States Court of Appeals for the Second Circuit. On December 22, 2015, the Second Circuit declined to hear the interlocutory appeal. Separately, on November 20, 2015, BOKF and UMB filed a second set of motions for partial summary judgment, on the issue of the disputed contract interpretation related to indenture release provisions. On January 5, 2016 the District Court denied these motions. At a hearing on February 22, 2015, the Court bifurcated the trial in the BOKF and UMB Actions and scheduled the trial on the breach of contract and TIA claims to begin on March 14, 2016. The Court ordered a separate trial on the claims for breach of the covenant of good faith and fair dealing and tortious interference with contract to begin at a later date to be determined. On February 24, 2016, Caesars Entertainment filed a motion for partial summary judgment to dispose of the claims for (1) breach of the implied covenant of good faith and fair dealing brought by BOKF and UMB, and (2) intentional interference with contractual relations brought by BOKF. The plaintiffs' responses are due on March 23, 2016, and Caesars Entertainment's reply is due on April 1, 2016. Separately, on October 20, 2015, another related complaint captioned Wilmington Trust, National Association v. Caesars Entertainment Corp., No. 15-cv-08280 (S.D.N.Y.) (the "Wilmington Trust Action") was filed by Wilmington Trust, N.A., solely in its capacity as Indenture Trustee for the 10.75% Notes due 2016 ("Wilmington Trust"), against Caesars Entertainment alleging claims similar to those alleged in the BOKF, UMB, Meehancombs, and Danner Actions. The Wilmington Trust Action has been referred to the same judge as the other Southern District of New York litigations.

- Apollo believes that the claims in the Trustee Action, the UMB Action, the Meehancombs Action, the Danner Action, the Koskie Action, the BOKF Action, the UMB SDNY Action, and the Wilmington Trust Action are without merit. For this reason, and because of pending bankruptcy proceedings involving CEOC, no reasonable estimate of possible loss, if any, can be made at this time.

Following the January 16, 2014 announcement that CEC Entertainment, Inc. ("CEC") had entered into a merger agreement with certain entities affiliated with Apollo (the "Merger Agreement"), four putative shareholder class actions were filed in the District Court of Shawnee County, Kansas on behalf of purported stockholders of CEC against, among others, CEC, its directors and Apollo and certain of its affiliates, which include Queso Holdings Inc., Q Merger Sub Inc., Apollo Management VIII, L.P., and AP VIII Queso Holdings, L.P. The first purported class action, which is captioned Hilary Coyne v. Richard M. Frank et

al., Case No. 14C57, was filed on January 21, 2014 (the "Coyne Action"). The second purported class action, which was captioned John Solak v. CEC Entertainment, Inc. et al., Civil Action No. 14C55, was filed on January 22, 2014 (the "Solak Action"). The Solak Action was dismissed for lack of prosecution on October 14, 2014. The third purported class action, which is captioned Irene Dixon v. CEC Entertainment, Inc. et al., Case No. 14C81, was filed on January 24, 2014 and additionally names as defendants Apollo Management VIII, L.P. and AP VIII Queso Holdings, L.P. (the "Dixon Action"). The fourth purported class action, which is captioned Louisiana Municipal Public Employees' Retirement System v. Frank, et al., Case No. 14C97, was filed on January 31, 2014 (the "LMPERS Action") (together with the Coyne and Dixon Actions, the "Shareholder Actions"). A fifth purported class action, which was captioned McCullough v. Frank, et al., Case No. CC-14-00622-B, was filed in the County Court of Dallas County, Texas on February 7, 2014. This action was dismissed for want of prosecution on May 21, 2014. Each of the Shareholder Actions alleges, among other things, that CEC's directors breached their fiduciary duties to CEC's stockholders in connection with their consideration and approval of the Merger Agreement, including by agreeing to an inadequate price, agreeing to impermissible deal protection devices, and filing materially deficient disclosures regarding the transaction. Each of the Shareholder Actions further alleges that Apollo and certain of its affiliates aided and abetted those alleged breaches. As filed, the Shareholder Actions seek, among other things, rescission of the various transactions associated with the merger, damages and attorneys' and experts' fees and costs. On February 7, 2014 and February 11, 2014, the plaintiffs in the Shareholder Actions pursued a consolidated action for damages after the transaction closed. Thereafter, the Shareholder Actions were consolidated under the caption In re CEC Entertainment, Inc. Stockholder Litigation, Case No. 14C57, and the parties engaged in limited discovery. On July 21, 2015, a consolidated class action complaint was brought by Twin City Pipe Trades Pension Trust in the Shareholder Actions that did not name as defendants Apollo, Queso Holdings Inc., Q Merger Sub Inc., Apollo Management VIII, L.P., or AP VIII Queso Holdings, L.P., continued to assert claims against CEC and its former directors, and added The Goldman Sachs Group Inc. ("Goldman Sachs") as a defendant. The consolidated complaint alleges, among other things, that CEC's former directors breached their fiduciary duties to CEC's stockholders by conducting a deficient sales process, agreeing to impermissible deal protection devices, and filing materially deficient disclosures regarding the transaction. It further alleges that two members of the board who also served as the senior managers of the company had material conflicts of interest and that Goldman Sachs aided and abetted the board's breaches as a result of various conflicts of interest facing the bank. The consolidated complaint seeks, among other things, to recover damages, attorneys' fees and costs. On October 22, 2015, the parties to the consolidated action moved to dismiss the complaint. Although Apollo cannot predict the ultimate outcome of the consolidated action, and therefore no reasonable estimate of possible loss, if any, can be made at this time, Apollo believes that such action is without merit.

On June 10, 2014, Magnetar Global Event Driven Fund Ltd., Spectrum Opportunities Master Fund, Ltd., Magnetar Capital Master Fund, Ltd., and Blackwell Partners LLC, as the purported beneficial owners of shares held as of record by the nominal petitioner Cede & Co., (the "Appraisal Petitioners"), filed an action for statutory appraisal under Kansas state law against CEC in the U.S. District Court for the District of Kansas, captioned Magnetar Global Event Driven Master Fund Ltd, et al. v. CEC Entertainment, Inc., 2:14-cv-02279-RDR-KGS. The Appraisal Petitioners seek appraisal of 750,000 shares of common stock. CEC has answered the complaint and filed a verified list of stockholders, as required under Kansas law. On September 3, 2014, the court entered a scheduling order that contemplated that discovery would commence in the fall of 2014 and would be substantially completed by May 2015. On January 13, 2015, the court entered a revised scheduling order that contemplated that fact discovery would be completed by March 13, 2015, expert discovery would be completed by June 15, 2015. On June 25, 2015, the court entered an order requiring the Appraisal Petitioners to produce additional documents to CEC. On June 29, 2015, the court held a pretrial conference. Following this conference, on June 30, 2015, the court entered a pretrial order. On December 11, 2015, the court scheduled a trial to begin on February 16, 2016. After executing a settlement agreement to resolve the Appraisal Petitioners' claims, on February 4, 2016, the court entered an order dismissing the action with prejudice.

On June 12, 2015, a putative class action was commenced in the United States District Court for the Northern District of California by Rachel Silva and Don Hudson, on behalf of themselves and all others similarly situated, against Aviva plc; Athene Annuity and Life Company f/k/a Aviva Life and Annuity Company ("Aviva"); Athene USA Corporation f/k/a Aviva USA Corporation; Athene Holding; Athene Life Re Ltd.; Athene Asset Management; and AGM. The complaint in this action alleges violations of the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. Sections 1962(c) and (d). The plaintiffs allege that commencing in 2007 and continuing thereafter, Aviva and its then management engaged in a scheme to, among other things, falsely represent the financial strength of and hide the true financial condition of Aviva by, among other things, allegedly ceding risky liabilities to Aviva's undercapitalized subsidiaries and affiliates, misvaluing assets, and failing to make required disclosures to purchasers of policies, and that after Athene Holding purchased all of the outstanding stock of Aviva's parent effective October 2, 2013 the scheme was unwound and rewound so as to continue, and that as a result thereof some of the purchasers of annuity products issued by Aviva were charged an excessive price and were damaged as a result thereof. All defendants (except Aviva plc) have (a) moved to transfer this action to the United States District Court for the Southern District of Iowa and (b) moved to dismiss

this action. Aviva plc separately moved to dismiss the action for lack of jurisdiction over it. All of these motions were heard by the Court on December 15, 2015, and the Court reserved decisions. In connection with these motions, the plaintiffs served discovery requests limited to the motion to transfer and Aviva plc's motion to dismiss for lack of jurisdiction. If the action is not dismissed, Athene Asset Management and AGM (and the other defendants) will deny the material allegations of the complaint and will vigorously defend themselves against these claims. Although neither Athene Asset Management nor AGM can predict the ultimate outcome of this action, each believes that it is without merit, and because this action is in its early stages, no reasonable estimate of possible loss, if any, can be made at this time.

Following the June 1, 2015 announcement that OM Group, Inc. ("OM Group") had entered into a merger agreement (the "OM Group Merger Agreement") with certain entities affiliated with AGM and an entity affiliated with Platform Specialty Products Corporation ("PSP"), six putative class actions were filed in the Court of Chancery of the State of Delaware on behalf of purported OM Group stockholders against certain current and former OM Group directors, the merger entities affiliated with AGM, which include Duke Acquisition Holdings, LLC and Duke Acquisition, Inc. (together with AGM, the "Apollo Parties"), and, except in one action, the merger entity affiliated with PSP, MacDermid Americas Acquisitions Inc. (together with PSP, the "PSP Parties"). AGM, PSP, and OM Group were also named as defendants in some of these putative class actions. On July 16, 2015, these six actions were consolidated into a putative class action captioned In re OM Group Inc. Stockholders Litigation, Consol. Case No. 11216-VCN (the "Consolidated Action"). The plaintiffs in the Consolidated Action subsequently designated the complaint previously filed in the action captioned City of Sarasota Firefighters' Pension Fund v. Apollo Global Management, LLC, Case No. 11249-VCN as the Consolidated Action's operative complaint. That complaint challenges, among other things, the OM Group Merger Agreement and the transactions contemplated thereby, alleging, among other things, that OM Group's directors breached their fiduciary duties to OM Group stockholders by engaging in a flawed sales process, agreeing to a price that does not adequately compensate OM Group stockholders, agreeing to certain unfair deal protection terms in the OM Group Merger Agreement and by failing to disclose material information to OM Group stockholders. The complaint also alleges that the Apollo Parties and the PSP Parties aided and abetted these alleged breaches of fiduciary duty. The complaint seeks various remedies, including declaratory relief and preliminary and permanent injunctive relief. While plaintiffs had declared their intent to pursue preliminary injunctive relief, and a hearing had been scheduled for August 6, plaintiffs dropped that request on August 2, 2015. The court has not yet set a schedule for resolving the case on the merits. Because this action is in its early stages, no reasonable estimate of possible loss, if any, can be made. Apollo believes that the allegations in the complaint are without merit and intends to vigorously defend the Consolidated Action.

On January 26, 2016, Verso Corporation and its subsidiaries ("Verso"), a portfolio company of certain of our private equity funds, filed for bankruptcy protection under Chapter 11 in the United States Bankruptcy Court for the District of Delaware. In connection with the bankruptcy filing, Verso entered into a debtor-in-possession financing package totaling $775 million.

As has been reported in the press, the SEC has focused recently on the disclosure to limited partners of the acceleration of certain special fees. The Company provided information about this topic to the staff of the SEC in connection with the SEC's periodic examination of the Company in 2013. The Company recently received an informal request for additional information from the staff of the SEC on this topic and certain ancillary issues. The Company is fully and voluntarily cooperating with the informal requests and is in discussions with the SEC regarding a potential resolution of these matters. As of December 31, 2015, the Company accrued a $45.0 million legal reserve in connection with these matters.

The Company received an informal request for information from the staff of the SEC concerning the use of designated lender counsel with respect to financing buyout transactions, an issue recently covered in the press. The Company is fully cooperating with the SEC's request for information.

Although the ultimate outcome of these matters cannot be ascertained at this time, Apollo is of the opinion, after consultation with counsel, that the resolution of any such matters to which it is a party at this time will not have a material adverse effect on the consolidated financial statements. Legal actions material to Apollo could, however, arise in the future.

Commitments—Apollo leases office space and certain office equipment under various lease and sublease arrangements, which expire on various dates through 2024. As these leases expire, it can be expected that in the normal course of business, they will be renewed or replaced. Certain lease agreements contain renewal options, rent escalation provisions based on certain costs incurred by the landlord or other inducements provided by the landlord. Rent expense is accrued to recognize lease escalation provisions and inducements provided by the landlord, if any, on a straight-line basis over the lease term and renewal periods where applicable. Apollo has entered into various operating lease service agreements in respect of certain assets.

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As of December 31, 2015, the approximate aggregate minimum future payments required for operating leases were as follows:

	2016	2017	2018	2019	2020	Thereafter	Total
Aggregate minimum future payments	$ 37,812	$ 35,871	$ 31,207	$ 30,641	$ 14,159	$ 10,817	$ 160,507

Expenses related to non-cancellable contractual obligations for premises, equipment, auto and other assets were $41.9 million, $42.5 million and $42.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Other Long-term Obligations—These obligations relate to payments with respect to certain consulting agreements entered into by Apollo Investment Consulting LLC, a subsidiary of Apollo, as well as long-term service contracts. A significant portion of these costs are reimbursable by funds or portfolio companies. As of December 31, 2015, fixed and determinable payments due in connection with these obligations were as follows:

	2016	2017	2018	2019	2020	Thereafter	Total
Other long-term obligations	$ 10,594	$ 5,282	$ 4,908	$ 2,329	$ —	$ —	$ 23,113

Contingent Obligations—Carried interest income with respect to private equity funds and certain credit and real estate funds is subject to reversal in the event of future losses to the extent of the cumulative carried interest recognized in income to date. If all of the existing investments became worthless, the amount of cumulative revenues that have been recognized by Apollo through December 31, 2015 and that would be reversed approximates $2.4 billion. Management views the possibility of all of the investments becoming worthless as remote. Carried interest income is affected by changes in the fair values of the underlying investments in the funds that Apollo manages. Valuations, on an unrealized basis, can be significantly affected by a variety of external factors including, but not limited to, bond yields and industry trading multiples. Movements in these items can affect valuations quarter to quarter even if the underlying business fundamentals remain stable.

Additionally, at the end of the life of certain funds that the Company manages, there could be a payment due to a fund by the Company if the Company, as general partner, has received more carried interest income than was ultimately earned. The general partner obligation amount, if any, will depend on final realized values of investments at the end of the life of each fund or as otherwise set forth in the respective limited partnership agreement of the fund. See note 15 to our consolidated financial statements for further detail regarding the general partner obligation.

Certain funds may not generate carried interest income as a result of unrealized and realized losses that are recognized in the current and prior reporting period. In certain cases, carried interest income will not be generated until additional unrealized and realized gains occur. Any appreciation would first cover the deductions for invested capital, unreturned organizational expenses, operating expenses, management fees and priority returns based on the terms of the respective fund agreements.

One of the Company's subsidiaries, AGS, provides underwriting commitments in connection with securities offerings to the portfolio companies of the funds Apollo manages. As of December 31, 2015, there were no underwriting commitments outstanding related to such offerings.

Contingent Consideration

In connection with the acquisition of Stone Tower in April 2012, the Company agreed to pay the former owners of Stone Tower a specified percentage of any future carried interest income earned from certain of the Stone Tower funds, CLOs, and strategic investment accounts. This contingent consideration liability was determined based on the present value of estimated future carried interest payments, and is recorded in profit sharing payable in the consolidated statements of financial condition. The fair value of the remaining contingent obligation was $70.9 million and $84.5 million as of December 31, 2015 and 2014, respectively.

In connection with the Gulf Stream acquisition, the Company agreed to make payments to the former owners of Gulf Stream under a contingent consideration obligation which required the Company to transfer cash to the former owners of Gulf Stream based on a specified percentage of carried interest income. The contingent liability had a fair value of $8.7 million and

$11.6 million as of December 31, 2015 and 2014, respectively, which was recorded in profit sharing payable in the consolidated statements of financial condition.

The contingent consideration obligations will be remeasured to fair value at each reporting period until the obligations are satisfied. The changes in the fair value of the contingent consideration obligations is reflected in profit sharing expense in the consolidated statements of operations.

The contingent consideration obligations are measured at fair value and are characterized as Level III liabilities. See note 6 for further information regarding fair value measurements.

17. MARKET AND CREDIT RISK

In the normal course of business, Apollo encounters market and credit risk concentrations. Market risk reflects changes in the value of investments due to changes in interest rates, credit spreads or other market factors. Credit risk includes the risk of default on Apollo's investments, where the counterparty is unable or unwilling to make required or expected payments.

The Company is subject to a concentration risk related to the investors in its funds. As of December 31, 2015, there were more than 1,000 investors in Apollo's active private equity, credit and real estate funds, and no individual investor accounted for more than 10% of the total committed capital to Apollo's active funds.

Apollo's derivative financial instruments contain credit risk to the extent that its counterparties may be unable to meet the terms of the agreements. Apollo seeks to minimize this risk by limiting its counterparties to highly rated major financial institutions with good credit ratings. Management does not expect any material losses as a result of default by other parties.

Substantially all amounts on deposit with major financial institutions that exceed insured limits are invested in interest-bearing accounts with U.S. money center banks.

Apollo is exposed to economic risk concentrations insofar as Apollo is dependent on the ability of the funds that it manages to compensate it for the services it provides to these funds. Further, the carried interest income component of this compensation is based on the ability of such funds to generate returns above certain specified thresholds.

Additionally, Apollo is exposed to interest rate risk. Apollo has debt obligations that have variable rates. Interest rate changes may therefore affect the amount of interest payments, future earnings and cash flows. At December 31, 2015 and 2014, $530.7 million and $534.1 million of Apollo's debt balance (excluding debt of the consolidated VIEs) had a variable interest rate, respectively.

18. SEGMENT REPORTING

Apollo conducts its business primarily in the United States and substantially all of its revenues are generated domestically. Apollo's business is conducted through three reportable segments namely private equity, credit and real estate.

These business segments are differentiated based on the varying investment strategies. The performance is measured by management on an unconsolidated basis because management makes operating decisions and assesses the performance of each of Apollo's business segments based on financial and operating metrics and data that exclude the effects of consolidation of any of the affiliated funds.

The Company's financial results vary since carried interest, which generally constitutes a large portion of the income from the funds that Apollo manages, as well as the transaction and advisory fees that the Company receives, can vary significantly from quarter to quarter and year to year. As a result, the Company emphasizes long-term financial growth and profitability to manage its business.

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Economic Income (Loss)

Economic Income, or EI, is a key performance measure used by management in evaluating the performance of Apollo's private equity, credit and real estate segments. Management believes the components of EI, such as the amount of management fees, advisory and transaction fees and carried interest income, are indicative of the Company's performance. Management uses EI in making key operating decisions such as the following:

- Decisions related to the allocation of resources such as staffing decisions including hiring and locations for deployment of the new hires;
- Decisions related to capital deployment such as providing capital to facilitate growth for the business and/or to facilitate expansion into new businesses; and
- Decisions relating to expenses, such as determining annual discretionary bonuses and equity-based compensation awards to its employees. With respect to compensation, management seeks to align the interests of certain professionals and selected other individuals with those of the investors in such funds and those of the Company's shareholders by providing such individuals a profit sharing interest in the carried interest income earned in relation to the funds. To achieve that objective, a certain amount of compensation is based on the Company's performance and growth for the year.

EI is a measure of profitability and has certain limitations in that it does not take into account certain items included under U.S. GAAP. EI represents segment income (loss) before income tax provision excluding transaction-related charges arising from the 2007 private placement, and any acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions. In addition, segment data excludes non-cash revenue and expense related to equity awards granted by unconsolidated affiliates to employees of the Company, as well as the assets, liabilities and operating results of the funds and VIEs that are included in the consolidated financial statements.

During the first quarter of 2015 the definition of Economic Income ("EI") was changed to exclude transaction-related charges related to contingent consideration associated with acquisitions, which only impacted the credit segment. The impact of this change on EI has been made to prior period financial data to conform to the current period presentation and resulted in the following impact to the Company's credit segment for the years ended December 31, 2014 and 2013:

	Impact of Revised Definition on Economic Income (Loss)		
	Total EI as Previously Reported	Impact of Revised Definition	Total EI After Revised Definition
For the Year Ended December 31, 2014	$ 755,546	$ (495)	$ 755,051
For the Year Ended December 31, 2013	2,127,651	61,449	2,189,100

These changes have been made to prior period financial data to conform to the current period presentation.

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The following table presents financial data for Apollo's reportable segments as of and for the years ended December 31, 2015, 2014 and 2013:

	As of and for the Year Ended December 31, 2015			
	Private Equity Segment	Credit Segment	Real Estate Segment	Total Reportable Segments
Revenues:				
Advisory and transaction fees from affiliates, net	$ (7,485)	$ 17,246	$ 4,425	$ 14,186
Management fees from affiliates	295,836	565,241	50,816	911,893
Carried interest income from affiliates:				
Unrealized gains (losses)[1]	(314,161)	(80,534)	7,154	(387,541)
Realized gains	339,822	139,152	5,857	484,831
Total Revenues	314,012	641,105	68,252	1,023,369
Expenses:				
Compensation and benefits:				
Salary, bonus and benefits	104,367	213,479	38,076	355,922
Equity-based compensation	31,324	26,683	4,177	62,184
Profit sharing expense	46,572	34,384	5,075	86,031
Total compensation and benefits	182,263	274,546	47,328	504,137
Other expenses	80,109	127,767	22,869	230,745
Total Expenses	262,372	402,313	70,197	734,882
Other Income:				
Net interest expense	(9,878)	(13,740)	(2,915)	(26,533)
Net gains from investment activities	6,933	114,199	—	121,132
Income (loss) from equity method investments	19,125	(6,025)	2,978	16,078
Other income, net	3,148	3,574	1,455	8,177
Total Other Income	19,328	98,008	1,518	118,854
Non-Controlling Interests	—	(11,684)	—	(11,684)
Economic Income (Loss)	$ 70,968	$ 325,116	$ (427)	$ 395,657
Total Assets	$ 1,255,340	$ 2,143,813	$ 192,469	$ 3,591,622

(1) Included in unrealized carried interest losses from affiliates for the year ended December 31, 2015 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 15 for further detail regarding the general partner obligation.

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	As of and for the Year Ended December 31, 2014			
	Private Equity Segment	Credit Segment	Real Estate Segment	Total Reportable Segments
Revenues:				
Advisory and transaction fees from affiliates, net	$ 58,241	$ 255,186	$ 2,655	$ 316,082
Management fees from affiliates	315,069	538,742	47,213	901,024
Carried interest income from affiliates:				
Unrealized gains (losses)[1]	(1,196,093)	(156,644)	4,951	(1,347,786)
Realized gains	1,428,076	322,233	3,998	1,754,307
Total Revenues	605,293	959,517	58,817	1,623,627
Expenses:				
Compensation and benefits:				
Salary, bonus and benefits	96,689	210,546	32,611	339,846
Equity-based compensation	49,526	47,120	8,849	105,495
Profit sharing expense	178,373	83,788	2,747	264,908
Total compensation and benefits	324,588	341,454	44,207	710,249
Other expenses	70,286	151,252	21,669	243,207
Total Expenses	394,874	492,706	65,876	953,456
Other Income:				
Net interest expense	(7,883)	(9,274)	(1,941)	(19,098)
Net gains from investment activities	—	9,062	—	9,062
Income from equity method investments	30,418	18,812	5,675	54,905
Other income, net	14,027	35,263	3,409	52,699
Total Other Income	36,562	53,863	7,143	97,568
Non-Controlling Interests	—	(12,688)	—	(12,688)
Economic Income	$ 246,981	$ 507,986	$ 84	$ 755,051
Total Assets	$ 1,833,254	$ 2,136,173	$ 202,395	$ 4,171,822

(1) Included in unrealized carried interest losses from affiliates for the year ended December 31, 2014 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 15 for further detail regarding the general partner obligation.

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	For the Year Ended December 31, 2013			
	Private Equity Segment	Credit Segment	Real Estate Segment	Total Reportable Segments
Revenues:				
Advisory and transaction fees from affiliates, net	$ 78,371	$ 114,643	$ 3,548	$ 196,562
Management fees from affiliates	284,833	392,433	53,436	730,702
Carried interest income from affiliates:				
Unrealized gains (losses)[1]	454,722	(56,568)	4,681	402,835
Realized gains	2,062,525	430,260	541	2,493,326
Total Revenues	2,880,451	880,768	62,206	3,823,425
Expenses:				
Compensation and benefits:				
Salary, bonus and benefits	109,761	153,056	31,936	294,753
Equity-based compensation	31,967	24,167	10,207	66,341
Profit sharing expense	1,030,404	81,279	123	1,111,806
Total compensation and benefits	1,172,132	258,502	42,266	1,472,900
Other expenses	100,896	147,525	24,528	272,949
Total Expenses	1,273,028	406,027	66,794	1,745,849
Other Income:				
Net interest expense	(10,701)	(9,686)	(2,804)	(23,191)
Net loss from investment activities	—	(12,593)	—	(12,593)
Income from equity method investments	78,811	30,678	3,722	113,211
Other income, net	13,774	32,193	2,115	48,082
Total Other Income	81,884	40,592	3,033	125,509
Non-Controlling Interests	—	(13,985)	—	(13,985)
Economic Income (Loss)	$ 1,689,307	$ 501,348	$ (1,555)	$ 2,189,100

(1) Included in unrealized carried interest losses from affiliates for the year ended December 31, 2013 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 15 for further detail regarding the general partner obligation.

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The following tables reconcile the total reportable segments to Apollo's income before income tax provision and total assets as of and for the years ended December 31, 2015, 2014 and 2013:

	As of and for the Year Ended December 31, 2015		
	Total Reportable Segments	Consolidation Adjustments and Other	Consolidated
Revenues	$ 1,023,369	$ 18,301 (1)	$ 1,041,670
Expenses	734,882	96,093 (2)	830,975
Other income	118,854	47,679 (3)	166,533
Non-Controlling Interests	(11,684)	11,684	—
Economic Income / Income before income tax provision	$ 395,657 (4)	$ (18,429)	$ 377,228
Total Assets	$ 3,591,622	$ 968,186 (5)	$ 4,559,808

	As of and for the Year Ended December 31, 2014		
	Total Reportable Segments	Consolidation Adjustments and Other	Consolidated
Revenues	$ 1,623,627	$ (63,544) (1)	$ 1,560,083
Expenses	953,456	90,107 (2)	1,043,563
Other income	97,568	263,079 (3)	360,647
Non-Controlling Interests	(12,688)	12,688	—
Economic Income / Income before income tax provision	$ 755,051 (4)	$ 122,116	$ 877,167
Total Assets	$ 4,171,822	$ 19,000,966 (5)	$ 23,172,788

	For the Year Ended December 31, 2013		
	Total Reportable Segments	Consolidation Adjustments and Other	Consolidated
Revenues	$ 3,823,425	$ (89,854) (1)	$ 3,733,571
Expenses	1,745,849	195,866 (2)	1,941,715
Other income	125,509	564,198 (3)	689,707
Non-Controlling Interests	(13,985)	13,985	—
Economic Income / Income before income tax provision	$ 2,189,100 (4)	$ 292,463	$ 2,481,563

(1) Represents advisory fees, management fees and carried interest income earned from consolidated VIEs which are eliminated in consolidation. Includes non-cash revenues related to equity awards granted by unconsolidated affiliates to employees of the Company.

(2) Represents the addition of expenses of consolidated funds and VIEs and transaction-related charges. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions.

(3) Results from the following:

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	For the Year Ended December 31,		
	2015	2014	2013
Net gains from investment activities	$ 591	$ 204,181	$ 342,828
Net gains from investment activities of consolidated variable interest entities	19,050	22,564	199,742
Loss from equity method investments	(1,223)	(1,048)	(5,861)
Other income, net	29,261	37,382	27,489
Total consolidation adjustments	$ 47,679	$ 263,079	$ 564,198

(4) The reconciliation of Economic Income to income before income tax provision reported in the consolidated statements of operations consists of the following:

	For the Year Ended December 31,		
	2015	2014	2013
Economic Income	395,657	755,051	2,189,100
Adjustments:			
Net income attributable to Non-Controlling Interests in consolidated entities and appropriated partners' capital	21,364	157,011	456,953
Transaction-related charges[6]	(39,793)	(34,895)	(164,490)
Total consolidation adjustments and other	$ (18,429)	$ 122,116	$ 292,463
Income before income tax provision	$ 377,228	$ 877,167	$ 2,481,563

(5) Represents the addition of assets of consolidated funds and VIEs. Upon adoption of new accounting guidance (see note 2), debt issuance costs previously recorded in other assets in the consolidated statements of financial condition were reclassified as a direct deduction of the carrying amount of the related debt arrangement.

(6) Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions. Equity-based compensation adjustment includes non-cash revenues and expenses related to equity awards granted by unconsolidated affiliates to employees of the Company.

19. SUBSEQUENT EVENTS

On January 14, 2016, the Company issued 529,395 Class A shares in settlement of vested RSUs. This issuance caused the Company's ownership interest in the Apollo Operating Group to increase from 45.6% to 45.7%.

On February 3, 2016, the Company declared a cash distribution of $0.28 per Class A share, which will be paid on February 29, 2016 to holders of record on February 19, 2016.

In February 2016, Apollo adopted a plan to repurchase up to $250 million in the aggregate of its Class A shares, including up to $150 million in the aggregate of its outstanding Class A shares through a share repurchase program and up to $100 million through a reduction of Class A shares to be issued to employees to satisfy associated tax obligations in connection with the settlement of equity-based awards granted under the Company's equity incentive plan. Under the share repurchase program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise, with the size and timing of these repurchases depending on legal requirements, price, market and economic conditions and other factors.

On February 5, 2016, the Company issued 2,745,799 Class A shares in settlement of vested RSUs. This issuance caused the Company's ownership interest in the Apollo Operating Group to increase from 45.7% to 46.0%.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

20. QUARTERLY FINANCIAL DATA (UNAUDITED)

	For the Three Months Ended			
	March 31, 2015[(1)]	June 30, 2015	September 30, 2015	December 31, 2015
Revenues	$ 303,024	$ 351,727	$ 193,268	$ 193,651
Expenses	223,996	244,539	174,911	187,529
Other Income	7,984	49,978	84,793	23,778
Income Before Provision for Taxes	$ 87,012	$ 157,166	$ 103,150	$ 29,900
Net Income	$ 81,498	$ 148,074	$ 96,559	$ 24,364
Net income attributable to Apollo Global Management, LLC	$ 30,927	$ 56,428	$ 41,051	$ 6,091
Net Income per Class A Share - Basic	$ 0.09	$ 0.30	$ 0.20	$ 0.02
Net Income per Class A Share - Diluted	$ 0.09	$ 0.30	$ 0.20	$ 0.02

(1) Apollo adopted new U.S. GAAP consolidation and collateralized financing entity ("CFE") guidance during the three months ended June 30, 2015 which resulted in the deconsolidation of certain funds and VIEs as of January 1, 2015 and a measurement alternative of the financial assets and liabilities of the remaining consolidated CLOs as of January 1, 2015. The adoption did not impact net income attributable to Apollo Global Management, LLC but did impact various line items within the statement of operations and financial condition. See note 2 for details regarding the Company's adoption of the new consolidation and CFE guidance.

	For the Three Months Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Revenues	$ 491,400	$ 572,152	$ 221,135	$ 275,396
Expenses	314,119	354,369	177,388	197,687
Other Income (Loss)	314,912	69,556	(82,135)	58,314
Income Before Provision for Taxes	$ 492,193	$ 287,339	$ (38,388)	$ 136,023
Net Income (Loss)	$ 459,644	$ 252,302	$ (67,764)	$ 85,740
Net income attributable to Apollo Global Management, LLC	$ 72,169	$ 71,668	$ 2,210	$ 22,182
Net Income (Loss) per Class A Share - Basic	$ 0.32	$ 0.33	$ (0.05)	$ 0.04
Net Income (Loss) per Class A Share - Diluted	$ 0.32	$ 0.33	$ (0.05)	$ 0.04

	For the Three Months Ended			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Revenues	$ 1,309,073	$ 497,261	$ 1,132,089	$ 795,148
Expenses	622,602	322,787	600,115	396,211
Other Income (Loss)	132,173	(8,165)	210,820	354,879
Income Before Provision for Taxes	$ 818,644	$ 166,309	$ 742,794	$ 753,816
Net Income	$ 800,065	$ 148,170	$ 695,590	$ 730,169
Net income attributable to Apollo Global Management, LLC	$ 248,978	$ 58,737	$ 192,516	$ 159,160
Net Income per Class A Share-Basic	$ 1.60	$ 0.32	$ 1.13	$ 0.94
Net Income per Class A Share - Diluted	$ 1.59	$ 0.32	$ 1.13	$ 0.93

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ITEM 8A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATING STATEMENTS OF FINANCIAL CONDITION (Unaudited)
(dollars in thousands, except share data)

	December 31, 2015			
	Apollo Global Management, LLC and Consolidated Subsidiaries	Consolidated Funds and VIEs	Eliminations	Consolidated
Assets:				
Cash and cash equivalents	$ 612,505	$ —	$ —	$ 612,505
Cash and cash equivalents held at consolidated funds	—	4,817	—	4,817
Restricted cash	5,700	—	—	5,700
Investments	1,223,407	28,547	(97,205)	1,154,749
Assets of consolidated variable interest entities				
Cash and cash equivalents	—	56,793	—	56,793
Investments, at fair value	—	910,858	(292)	910,566
Other assets	—	63,413	—	63,413
Carried interest receivable	643,907	—	—	643,907
Due from affiliates	248,972	—	(1,137)	247,835
Deferred tax assets	646,207	—	—	646,207
Other assets	93,452	2,636	(244)	95,844
Goodwill	88,852	—	—	88,852
Intangible assets, net	28,620	—	—	28,620
Total Assets	**$ 3,591,622**	**$ 1,067,064**	**$ (98,878)**	**$ 4,559,808**
Liabilities and Shareholders' Equity				
Liabilities:				
Accounts payable and accrued expenses	$ 92,012	$ —	$ —	$ 92,012
Accrued compensation and benefits	54,836	—	—	54,836
Deferred revenue	177,875	—	—	177,875
Due to affiliates	594,536	—	—	594,536
Profit sharing payable	295,674	—	—	295,674
Debt	1,025,255	—	—	1,025,255
Liabilities of consolidated variable interest entities:				
Debt, at fair value	—	843,584	(42,314)	801,270
Other liabilities	—	86,226	(244)	85,982
Due to affiliates	—	1,137	(1,137)	—
Other liabilities	38,750	4,637	—	43,387
Total Liabilities	**2,278,938**	**935,584**	**(43,695)**	**3,170,827**
Shareholders' Equity:				
Apollo Global Management, LLC shareholders' equity:				
Additional paid in capital	2,005,509	—	—	2,005,509
Accumulated deficit	(1,348,386)	34,468	(34,466)	(1,348,384)
Appropriated partners' capital	—	—	—	—
Accumulated other comprehensive income (loss)	(5,171)	(2,496)	47	(7,620)
Total Apollo Global Management, LLC shareholders' equity	651,952	31,972	(34,419)	649,505
Non-Controlling Interests in consolidated entities	7,817	99,508	(20,764)	86,561
Non-Controlling Interests in Apollo Operating Group	652,915	—	—	652,915
Total Shareholders' Equity	**1,312,684**	**131,480**	**(55,183)**	**1,388,981**
Total Liabilities and Shareholders' Equity	**$ 3,591,622**	**$ 1,067,064**	**$ (98,878)**	**$ 4,559,808**

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATING STATEMENTS OF FINANCIAL CONDITION (Unaudited)
(dollars in thousands, except share data)

	December 31, 2014			
	Apollo Global Management, LLC and Consolidated Subsidiaries	Consolidated Funds and VIEs	Eliminations	Consolidated
Assets:				
Cash and cash equivalents	$ 1,204,052	$ —	$ —	$ 1,204,052
Cash and cash equivalents held at consolidated funds	—	1,611	—	1,611
Restricted cash	6,353	—	—	6,353
Investments	857,391	2,173,989	(151,374)	2,880,006
Assets of consolidated variable interest entities				
Cash and cash equivalents	—	1,088,952	—	1,088,952
Investments, at fair value	—	15,658,948	(295)	15,658,653
Other assets	—	323,932	(692)	323,240
Carried interest receivable	958,846	—	(47,180)	911,666
Due from affiliates	278,632	—	(10,617)	268,015
Deferred tax assets	606,717	—	—	606,717
Other assets	110,940	3,578	(277)	114,241
Goodwill	88,852	—	(39,609)	49,243
Intangible assets, net	60,039	—	—	60,039
Total Assets	**$ 4,171,822**	**$ 19,251,010**	**$ (250,044)**	**$ 23,172,788**
Liabilities and Shareholders' Equity				
Liabilities:				
Accounts payable and accrued expenses	$ 43,772	$ 474	$ —	$ 44,246
Accrued compensation and benefits	59,278	—	—	59,278
Deferred revenue	199,614	—	—	199,614
Due to affiliates	564,799	354	—	565,153
Profit sharing payable	434,852	—	—	434,852
Debt	1,027,965	—	—	1,027,965
Liabilities of consolidated variable interest entities:				
Debt, at fair value	—	14,170,474	(47,374)	14,123,100
Other liabilities	—	728,957	(239)	728,718
Due to affiliates	—	58,526	(58,526)	—
Other liabilities	42,183	4,218	—	46,401
Total Liabilities	**2,372,463**	**14,963,003**	**(106,139)**	**17,229,327**
Shareholders' Equity:				
Apollo Global Management, LLC shareholders' equity:				
Additional paid in capital	2,256,054	—	(1,771)	2,254,283
Accumulated deficit	(1,433,759)	2,175,406	(2,142,308)	(1,400,661)
Appropriated partners' capital	—	972,774	(39,608)	933,166
Accumulated other comprehensive income (loss)	33,052	—	(33,358)	(306)
Total Apollo Global Management, LLC shareholders' equity	855,347	3,148,180	(2,217,045)	1,786,482
Non-Controlling Interests in consolidated entities	9,228	1,139,827	2,073,140	3,222,195
Non-Controlling Interests in Apollo Operating Group	934,784	—	—	934,784
Total Shareholders' Equity	**1,799,359**	**4,288,007**	**(143,905)**	**5,943,461**
Total Liabilities and Shareholders' Equity	**$ 4,171,822**	**$ 19,251,010**	**$ (250,044)**	**$ 23,172,788**

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain “disclosure controls and procedures”, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No changes in our internal control over financial reporting (as such term is defined in Rules 13a–15(f) and 15d–15(f) under the Securities Exchange Act) occurred during our most recent quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting

Management of Apollo is responsible for establishing and maintaining adequate internal control over financial reporting. Apollo’s internal control over financial reporting is a process designed under the supervision of its principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Apollo’s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets, provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Apollo’s assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of Apollo’s internal control over financial reporting as of December 31, 2015 based on the framework established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that Apollo’s internal control over financial reporting as of December 31, 2015 was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited Apollo’s financial statements included in this annual report on Form 10-K and issued its report on the effectiveness of Apollo’s internal control over financial reporting as of December 31, 2015, which is included herein.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The following table presents certain information concerning our board of directors and executive officers:

Name	Age	Position(s)
Leon Black	64	Chairman, Chief Executive Officer and Director
Joshua Harris	51	Senior Managing Director and Director
Marc Rowan	53	Senior Managing Director and Director
Martin Kelly	48	Chief Financial Officer
John Suydam	56	Chief Legal Officer
Michael Ducey	67	Director
Paul Fribourg	62	Director
Robert Kraft	74	Director
A.B. Krongard	79	Director
Pauline Richards	67	Director

Leon Black. Mr. Black is the Chairman of the board of directors and Chief Executive Officer of Apollo and a Managing Partner of Apollo Management, L.P. In 1990, Mr. Black founded Apollo Management, L.P. and Lion Advisors, L.P. to manage investment capital on behalf of a group of institutional investors, focusing on corporate restructuring, leveraged buyouts and taking minority positions in growth-oriented companies. From 1977 to 1990, Mr. Black worked at Drexel Burnham Lambert Incorporated, where he served as a Managing Director, head of the Mergers & Acquisitions Group, and co-head of the Corporate Finance Department. Mr. Black also serves on the board of directors of the general partner of AAA and previously served on the board of directors of Sirius XM Radio Inc. Mr. Black is a Co-Chairman of The Museum of Modern Art and a trustee of The Mount Sinai Medical Center and The Asia Society. He is also a member of The Council on Foreign Relations and The Partnership for New York City. He is also a member of the boards of directors of FasterCures and the Port Authority Task Force. Mr. Black graduated summa cum laude from Dartmouth College in 1973 with a major in Philosophy and History and received an MBA from Harvard Business School in 1975. Mr. Black has significant experience making and managing private equity investments on behalf of Apollo and has over 36 years' experience financing, analyzing and investing in public and private companies. In his prior positions with Drexel and in his positions at Apollo, Mr. Black is responsible for leading and overseeing teams of professionals. His extensive experience allows Mr. Black to provide insight into various aspects of Apollo's business and is of significant value to the board of directors.

Joshua Harris. Mr. Harris is a Senior Managing Director and a member of the board of directors of Apollo and a Managing Partner of Apollo Management, L.P., which he co-founded in 1990. Prior to 1990, Mr. Harris was a member of the Mergers and Acquisitions group of Drexel Burnham Lambert Incorporated. Mr. Harris has previously served on the board of directors of Berry Plastics Group Inc., EP Energy Corporation, EPE Acquisition, LLC, CEVA Logistics, Momentive Performance Materials Holdings LLC, Constellium N.V., LyondellBasell Industries B.V., Momentive Specialty Chemicals Inc. and Momentive Specialty Chemicals Holdings LLC. Mr. Harris is a member of the Federal Reserve Bank of New York's Investor Advisory Committee, the Council of Foreign Relations, and is on the Board of Trustees of Mount Sinai Medical Center. He participates on the University of Pennsylvania's Wharton School's Board of Overseers, the Board of Trustees at the Harvard Business School and certain other charitable and educational boards. Mr. Harris is a Managing Member of the Philadelphia 76ers and a Managing Member of the New Jersey Devils. Mr. Harris graduated summa cum laude and Beta Gamma Sigma from the University of Pennsylvania's Wharton School of Business with a B.S. in Economics and received his M.B.A. from the Harvard Business School, where he graduated as a Baker and Loeb

Scholar. Mr. Harris has significant experience in making and managing private equity investments on behalf of Apollo and has over 26 years' experience in financing, analyzing and investing in public and private companies. Mr. Harris's extensive knowledge of Apollo's business and experience in a variety of senior leadership roles enhance the breadth of experience of the board of directors.

Marc Rowan. Mr. Rowan is a Senior Managing Director and member of the board of directors of Apollo and a Managing Partner of Apollo Management, L.P., which he co-founded in 1990. Prior to 1990, Mr. Rowan was a member of the Mergers & Acquisitions Group of Drexel Burnham Lambert Incorporated, with responsibilities in high yield financing, transaction idea generation and merger structure negotiation. Mr. Rowan currently serves on the boards of directors of, inter alia, Athene Holding Ltd, Caesars Entertainment Corporation, Caesars Acquisition Co. and Caesars Entertainment Operating Co. He has previously served on the boards of directors of, inter alia, the general partner of AAA, AMC Entertainment, Inc., Cablecom GmbH, Culligan Water Technologies, Inc., Countrywide Holdings Limited, Furniture Brands International Inc., Mobile Satellite Ventures, LLC, National Cinemedia, Inc., National Financial Partners, Inc., New World Communications, Inc., Norwegian Cruise Lines, Quality Distribution, Inc., Samsonite Corporation, SkyTerra Communications Inc., Unity Media SCA, Vail Resorts, Inc. and Wyndham International, Inc. Mr. Rowan is also active in charitable activities. He is a founding member and Chairman of the YRF-Darca and is a member of the Board of Overseers of the University of Pennsylvania's Wharton School of Business and serves on the boards of directors of Jerusalem Online and the New York City Police Foundation. Mr. Rowan graduated summa cum laude from the University of Pennsylvania's Wharton School of Business with a B.S. and an M.B.A. in Finance. Mr. Rowan has significant experience making and managing private equity investments on behalf of Apollo and has over 27 years' experience financing, analyzing and investing in public and private companies. Mr. Rowan's extensive financial background and expertise in private equity investments enhance the breadth of experience of the board of directors.

Martin Kelly. Mr. Kelly joined Apollo in 2012 as Chief Financial Officer. Mr. Kelly also oversees the Firm's IT, Risk, Operations and Audit groups. From 2008 to 2012, Mr. Kelly was with Barclays Capital and, from 2000 to 2008, Mr. Kelly was with Lehman Brothers Holdings Inc. Prior to departing Barclays Capital, Mr. Kelly served as Managing Director, CFO of the Americas, and Global Head of Financial Control for their Corporate and Investment Bank. Prior to joining Lehman Brothers in 2000, Mr. Kelly spent 13 years with PricewaterhouseCoopers LLP, including serving in the Financial Services Group in New York from 1994 to 2000. Mr. Kelly was appointed a Partner of the firm in 1999. Mr. Kelly received a degree in Commerce, majoring in Finance and Accounting, from the University of New South Wales in 1989.

John Suydam. Mr. Suydam joined Apollo in 2006 and serves as Apollo's Chief Legal Officer. From 2002 to 2006, Mr. Suydam was a partner at O'Melveny & Myers LLP where he served as head of Mergers and Acquisitions and co-head of the Corporate Department. Prior to that time, Mr. Suydam served as Chairman of the law firm O'Sullivan, LLP which specialized in representing private equity investors. Mr. Suydam serves on the boards of The Legal Action Center, Environmental Solutions Worldwide, Inc. and New York University School of Law, and is a member of the Department of Medicine Advisory Board of the Mount Sinai Medical Center. Mr. Suydam received his J.D. from New York University and graduated magna cum laude with a B.A. in History from the State University of New York at Albany.

Michael Ducey. Mr. Ducey has served as an independent director of Apollo and a member of the audit committee and as Chairman of the conflicts committee of our board of directors since 2011. Mr. Ducey was with Compass Minerals International, Inc., from March 2002 to May 2006, where he served in a variety of roles, including as President, Chief Executive Officer and Director prior to his retirement in May 2006. Prior to joining Compass Minerals International, Inc., Mr. Ducey worked for nearly 30 years at Borden Chemical, Inc., in various management, sales, marketing, planning and commercial development positions, and ultimately as President, Chief Executive Officer and Director. Mr. Ducey is currently a director of and serves as the Chairman of the audit committee of Verso Paper Holdings, Inc. He is also the Chairman of the compliance and governance committee and the nominations committee of the board of directors of HaloSource, Inc. Mr. Ducey joined Ciner Resources Corporation (formerly OCI Resources LP) as an independent member of the board of directors in September 2014, where he serves on the audit committee and the conflicts committee. From September 2009 to December 2012, Mr. Ducey was the non-executive Chairman of TPC Group, Inc. and served on the audit committee and the environmental health and safety committee. From June 2006 to May 2008, Mr. Ducey served on the board of directors of and as a member of the governance and compensation committee of the board of directors of UAP Holdings Corporation. Also, from July 2010 to May 2011, Mr. Ducey was a member of the board of directors and served on the audit committee of Smurfit-Stone Container Corporation. Mr. Ducey graduated from Otterbein University with a degree in Economics and an M.B.A. in finance from the University of Dayton. Mr. Ducey's comprehensive corporate background and his experience serving on various boards and committees add significant value to the board of directors.

Paul Fribourg. Mr. Fribourg has served as an independent director of Apollo and as a member of the conflicts committee of our board of directors since 2011. From 1997 to the present, Mr. Fribourg has served as Chairman and Chief Executive Officer of Continental Grain Company. Prior to 1997, Mr. Fribourg served in a variety of other roles at Continental Grain Company, including Merchandiser, Product Line Manager, Group President and Chief Operating Officer. Mr. Fribourg serves on the boards of directors of Restaurant Brands International Inc., Loews Corporation, Castleton Commodities International LLC and The Estee Lauder Companies, Inc. He also serves as a board member of the Rabobank International North American Agribusiness Advisory Board,

the New York University Mitchell Jacobson Leadership Program in Law and Business Advisory Board and Endeavor Global Inc. Mr. Fribourg is also a member of the Council on Foreign Relations and the International Business Leaders Advisory Council for The Mayor of Shanghai. Mr. Fribourg graduated magna cum laude from Amherst College and completed the Advanced Management Program at Harvard Business School. Mr. Fribourg's extensive corporate experience enhances the breadth of experience and independence of the board of directors.

Robert Kraft. Mr. Kraft has served as an independent director of Apollo and as a member of the conflicts committee of our board of directors since 2014. Mr. Kraft is Chairman and Chief Executive Officer of The Kraft Group, which includes the New England Patriots, New England Revolution, Gillette Stadium, Rand-Whitney Group and International Forest Products Corporation. Mr. Kraft serves on a number of NFL Committees, including the Executive Committee, Finance Committee and Broadcast Committee (Chairman). Since 2006, Mr. Kraft has been a member of the board of directors of Viacom Inc. He also serves as Chairman for both the New England Patriots Charitable Foundation and the Robert and Myra Kraft Family Foundation, and is a director of the Dana Farber Cancer Institute. Mr. Kraft's corporate strategic and operational experience combined with his strong relationships in the business community make him a valuable member of the board of directors.

A.B. Krongard. Mr. Krongard has served as an independent director of Apollo and as a member of the audit committee of our board of directors since 2011. From 2001 to 2004, Mr. Krongard served as Executive Director of the Central Intelligence Agency. From 1998 to 2001, Mr. Krongard served as Counselor to the Director of Central Intelligence. Prior to 1998, Mr. Krongard served in various capacities at Alex Brown, Incorporated, including serving as Chief Executive Officer beginning in 1991 and assuming additional duties as Chairman of the board of directors in 1994. Upon the merger of Alex Brown, Incorporated with Bankers Trust Corporation in 1997, Mr. Krongard served as Vice-Chairman of the Board of Bankers Trust Corporation and served in such capacity until joining the Central Intelligence Agency. Mr. Krongard serves as the Lead Director and audit committee Chairman of Under Armour, Inc. and also serves as a board member of Iridium Communications Inc., Seventy-Seven Energy Inc. and In-Q-Tel, Inc. Mr. Krongard graduated with honors from Princeton University and received a J.D. from the University of Maryland School of Law, where he also graduated with honors. Mr. Krongard also serves as the Vice Chairman of the Johns Hopkins Health System. Mr. Krongard's comprehensive corporate background contributes to the range of experience of the board of directors.

Pauline Richards. Ms. Richards has served as an independent director of Apollo and as Chairman of the audit committee of our board of directors since 2011. Ms. Richards currently serves as Chief Operating Officer of Armour Group Holdings Limited, a position she has held since 2008. Ms. Richards also serves as a member of the Audit and Compensation Committees of the board of directors of Wyndham Worldwide, a position she has held since 2006; is a director of Hamilton Insurance Group, serving on the audit and investment committees, a position she has held since 2013; and is the Treasurer of the board of directors of PRIDE Bermuda, a drug prevention organization of which she has been a member for over 20 years. Prior to 2008, Ms. Richards served as Director of Development of Saltus Grammar School from 2003 to 2008, as Chief Financial Officer of Lombard Odier Darier Hentsch (Bermuda) Limited from 2001 to 2003, and as Treasurer of Gulf Stream Financial Limited from 1999 to 2000. Ms. Richards also served as a member of the Audit Committee and chair of the Corporate Governance Committee of the board of directors of Butterfield Bank from 2006 to 2013. Ms. Richards graduated from Queen's University, Ontario, Canada, with a BA in psychology and has obtained certification as a CPA, CMA. Ms. Richards' extensive finance experience and her service on the boards of other public companies add significant value to the board of directors.

Our Manager

Our operating agreement provides that so long as the Apollo Group beneficially owns at least 10% of the aggregate number of votes that may be cast by holders of outstanding voting shares, our manager, which is owned and controlled by our Managing Partners, will manage all of our operations and activities and will have discretion over significant corporate actions, such as the issuance of securities, payment of distributions, sales of assets, making certain amendments to our operating agreement and other matters, and our board of directors will have no authority other than that which our manager chooses to delegate to it. We refer to the Apollo Group's beneficial ownership of at least 10% of such voting power as the "Apollo control condition." For purposes of our operating agreement, the "Apollo Group" means (i) our manager and its affiliates, including their respective general partners, members and limited partners, (ii) Holdings and its affiliates, including their respective general partners, members and limited partners, (iii) with respect to each Managing Partner, such Managing Partner and such Managing Partner's "group" (as defined in Section 13(d) of the Exchange Act), (iv) any former or current investment professional of or other employee of an "Apollo employer" (as defined below) or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group), (v) any former or current executive officer of an Apollo employer or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group); and (vi) any former or current director of an Apollo employer or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group). With respect to any person, "Apollo employer" means Apollo Global Management, LLC or such other entity controlled by Apollo Global Management, LLC or its successor as may be such person's employer but does not include any portfolio companies.

Decisions by our manager are made by its executive committee, which is composed of our three Managing Partners. Each Managing Partner will remain on the executive committee for so long as he is employed by us, provided that Mr. Black, upon his retirement, may at his option remain on the executive committee until his death or disability or any commission of an act that would constitute cause if Mr. Black had still been employed by us. Other than those actions that require unanimous consent, actions by the executive committee are determined by majority vote of its voting members, except as to the following matters, as to which Mr. Black will have the right of veto: (i) the designations of directors to our board, or (ii) a sale or other disposition of the Apollo Operating Group and/or its subsidiaries or any portion thereof, through a merger, recapitalization, stock sale, asset sale or otherwise, to an unaffiliated third party (other than through an exchange of Apollo Operating Group units, transfers by a Managing Partner or a permitted transferee to another permitted transferee, or the issuance of bona fide equity incentives to any of our non-Managing Partner employees) that constitutes (x) a direct or indirect sale of a ratable interest (or substantially ratable interest) in each entity that constitutes the Apollo Operating Group or (y) a sale of all or substantially all of the assets of Apollo (this clause (ii), an "LB Approval Event"). Exchanges of Apollo Operating Group units for Class A shares that are not pro rata among our Managing Partners or in which each Managing Partner has the option not to participate are not subject to Mr. Black's right of veto.

Subject to limited exceptions described in our operating agreement, our manager may not sell, exchange or otherwise dispose of all or substantially all of our assets and those of our subsidiaries, taken as a whole, in a single transaction or a series of related transactions without the approval of holders of a majority of the aggregate number of voting shares outstanding; provided, however, that this does not preclude or limit our manager's ability, in its sole discretion, to mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets and those of our subsidiaries (including for the benefit of persons other than us or our subsidiaries, including affiliates of our manager) and does not apply to any forced sale of any or all of our assets pursuant to the foreclosure of, or other realization upon, any such encumbrance.

We will reimburse our manager and its affiliates for all costs incurred in managing and operating us, and our operating agreement provides that our manager will determine the expenses that are allocable to us. The agreement does not limit the amount of expenses for which we will reimburse our manager and its affiliates.

Board Composition and Limited Powers of Our Board of Directors

For so long as the Apollo control condition is satisfied, our manager shall (i) nominate and elect all directors to our board of directors, (ii) set the number of directors of our board of directors and (iii) fill any vacancies on our board of directors. After the Apollo control condition is no longer satisfied, each of our directors will be elected by the vote of a plurality of our shares entitled to vote, voting as a single class, to serve until his or her successor is duly elected or appointed and qualified or until his or her earlier death, retirement, disqualification, resignation or removal. Our board currently consists of eight members. For so long as the Apollo control condition is satisfied, our manager may remove any director, with or without cause, at any time. After such condition is no longer satisfied, a director or the entire board of directors may be removed by the affirmative vote of holders of 50% or more of the total voting power of our shares.

As noted, so long as the Apollo control condition is satisfied, our manager will manage all of our operations and activities, and our board of directors will have no authority other than that which our manager chooses to delegate to it. In the event that the Apollo control condition is not satisfied, our board of directors will manage all of our operations and activities.

Pursuant to a delegation of authority from our manager, which may be revoked, our board of directors has established and at all times will maintain audit and conflicts committees of the board of directors that have the responsibilities described below under "—Committees of the Board of Directors—Audit Committee" and "—Committees of the Board of Directors—Conflicts Committee."

Where action is required or permitted to be taken by our board of directors or a committee thereof, a majority of the directors or committee members present at any meeting of our board of directors or any committee thereof at which there is a quorum shall be the act of our board or such committee, as the case may be. Our board of directors or any committee thereof may also act by unanimous written consent.

Under the Agreement Among Managing Partners (as described under "Item 13. Certain Relationships and Related Transactions—Lenders Rights Agreement—Amendments to Managing Partner Transfer Restrictions"), the vote of a majority of the independent members of our board of directors will decide the following: (i) in the event that a vacancy exists on the executive committee of our manager and the remaining members of the executive committee cannot agree on a replacement (other than a replacement for Mr. Black nominated by Mr. Black or his representative, which requires the approval of only one member of the executive committee), the independent members of our board of directors shall select one of the two nominees to the executive committee of our manager presented to them by the remaining members of such executive committee to fill the vacancy on such executive committee and (ii) in the event that Mr. Black wishes to exercise his ability to cause an LB Approval Event, the affirmative vote of the majority of the independent members of our board of directors shall be required to approve such a transaction. We are not a party to the Agreement Among Managing Partners, and neither we nor our shareholders (other than our Strategic Investors, as described under "Item 13. Certain Relationships and Related Transactions—Lenders Rights Agreement—Amendments to Managing Partner Transfer Restrictions") have any right to enforce the provisions described above. Such provisions can be amended or waived upon agreement of our Managing Partners at any time.

Committees of the Board of Directors

We have established an audit committee as well as a conflicts committee. Our audit committee has adopted a charter that complies with current SEC and NYSE rules relating to corporate governance matters. Our board of directors may from time to time establish other committees of our board of directors.

Audit Committee

The primary purpose of our audit committee is to assist our manager in overseeing and monitoring (i) the quality and integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) our independent registered public accounting firm's qualifications and independence and (iv) the performance of our independent registered public accounting firm.

The current members of our audit committee are Messrs. Ducey and Krongard and Ms. Richards. Ms. Richards currently serves as Chairperson of the committee. Each of the members of our audit committee meets the independence standards and financial literacy requirements for service on an audit committee of a board of directors pursuant to the Exchange Act and NYSE rules applicable to audit committees and corporate governance. Furthermore, our manager has determined that Ms. Richards is an "audit committee financial expert" within the meaning of Item 407(d)(5) of Regulation S-K. Our audit committee has a charter which is available on our website at www.agm.com under the "Investor Relations" section.

Conflicts Committee

The current members of our conflicts committee are Messrs. Ducey, Fribourg and Kraft. Mr. Ducey currently serves as Chairman of the committee. The purpose of the conflicts committee is to review specific matters that our manager believes may involve conflicts of interest. The conflicts committee will determine whether the resolution of any conflict of interest submitted to it is fair and reasonable to us. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to us and not a breach by us of any duties that we may owe to our shareholders. In addition, the conflicts committee may review and approve any related person transactions, other than those that are approved pursuant to our related person policy, as described under "Item 13. Certain Relationships and Related Party Transactions—Statement of Policy Regarding Transactions with Related Persons," and may establish guidelines or rules to cover specific categories of transactions.

Code of Business Conduct and Ethics

We have a Code of Business Conduct and Ethics, which applies to, among others, our principal executive officer, principal financial officer and principal accounting officer. A copy of our Code of Business Conduct and Ethics is available on our website at www.agm.com under the "Investor Relations" section. We intend to disclose any amendment to or waiver of the Code of Business Conduct and Ethics on behalf of an executive officer or director either on our website or in an 8-K filing.

Corporate Governance Guidelines

We have Corporate Governance Guidelines that address significant issues of corporate governance and set forth procedures by which our manager and board of directors carry out their respective responsibilities. The guidelines are available for viewing on our website at www.agm.com under the "Investor Relations" section. We will also provide the guidelines, free of charge, to shareholders who request them. Requests should be directed to our Secretary at Apollo Global Management, LLC, 9 West 57th Street, 43rd Floor, New York, New York 10019.

Communications with the Board of Directors

A shareholder or other interested party who wishes to communicate with our directors, a committee of our board of directors, our independent directors as a group or our board of directors generally may do so in writing. Any such communications may be sent to our board of directors by U.S. mail or overnight delivery and should be directed to our Secretary at Apollo Global Management, LLC, 9 West 57th Street, 43rd Floor, New York, New York 10019, who will forward them to the intended recipient(s). Any such communications may be made anonymously. Unsolicited advertisements, invitations to conferences or promotional materials, in the discretion of our Secretary, are not required, however, to be forwarded to the directors.

Executive Sessions of Independent Directors

The independent directors serving on our board of directors meet periodically in executive sessions during the year at regularly scheduled meetings of our board of directors. These executive sessions will be presided over by one of the independent directors serving on our board of directors selected on an ad-hoc basis.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities to file initial reports of ownership and reports of changes in ownership with the SEC and furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on our review of the copies of such reports furnished to us or written representations from such persons that they were not required to file a Form 5 to report previously unreported ownership or changes in ownership, we believe that, with respect to the fiscal year ended December 31, 2015, such persons complied with all such filing requirements.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Philosophy

Alignment of Interests with Investors and Shareholders. Our principal compensation philosophy is to align the interests of our Managing Partners and other senior professionals with those of our Class A shareholders and fund investors. This alignment, which we believe is a key driver of our success, has been achieved principally by our Managing Partners' and other investment professionals' direct beneficial ownership of equity in our business in the form of AOG Units and Class A shares, their ownership of rights to receive a portion of the incentive income earned from our funds, the direct investment by our investment professionals in our funds, and our practice of paying annual incentive compensation partly in the form of equity-based grants that are subject to vesting. As a result of this alignment, the compensation of our professionals is closely tied to the performance of our businesses.

Significant Personal Investment. Our investment professionals generally make significant personal investments in our funds (as more fully described under "Item 13. Certain Relationships and Related Party Transactions"), directly or indirectly, and our professionals who receive carried interests in our funds are generally required to invest their own capital in the funds on which they work in amounts that are generally proportionate to the size of their participation in incentive income. We believe that these investments help to ensure that our professionals have capital at risk and reinforce the linkage between the success of the funds we manage, the success of the Company and the compensation paid to our professionals.

Long-Term Performance and Commitment. Most of our professionals have been issued RSUs, which provide rights to receive Class A shares and, in some instances, distribution equivalents on those shares. The vesting requirements and minimum retained ownership requirements for these awards contribute to our professionals' focus on long-term performance while enhancing retention of these professionals. RSUs are not awarded to our Managing Partners, whose beneficial ownership of equity interests in the company is generally in the form of AOG units, as discussed below under "—Note on Distributions on Apollo Operating Group Units."

Discouragement of Excessive Risk-Taking. Although investments in alternative assets can pose risks, we believe that our compensation program includes significant elements that discourage excessive risk-taking while aligning the compensation of our professionals with our long-term performance. For example, notwithstanding that we accrue compensation for our carried interest programs (described below) as increases in the value of the portfolio investments are recorded in the related funds, we generally make payments in respect of carried interest allocations to our employees only after profitable investments have actually been realized. This helps to ensure that our professionals take a long-term view that is consistent with the interests of the Company, our shareholders and the investors in our funds. Moreover, if a fund fails to achieve specified investment returns due to diminished performance of later investments, our carried interest program relating to that fund generally permits, for the benefit of the limited partner investors in that fund, the return of carried interest payments (generally net of tax) previously made to us or our employees. These provisions discourage excessive risk-taking and promote a long-term view that is consistent with the interests of our fund investors and shareholders. Our general requirement that our professionals invest in the funds we manage further aligns the interests of our professionals, fund investors and Class A shareholders. Finally, the minimum retained ownership requirements of our RSUs and AOG Units, as well as a requirement that certain investment professionals use a portion of their distributions of carried interest income and incentive fees to purchase Class A restricted shares, discourage excessive risk-taking because the value of these interests is tied directly to the long-term performance of our Class A shares.

Note on Distributions on Apollo Operating Group Units

We note that all of our Managing Partners beneficially own AOG Units. In particular, as of December 31, 2015, the Managing Partners beneficially owned, through their interest in Holdings, approximately 48.4% of the total limited partner interests in the Apollo Operating Group. When made, distributions on these units are in the same amount per unit as distributions made to us in respect of the AOG Units we hold. Although distributions on AOG Units are distributions on equity rather than compensation, they play a central role in aligning our Managing Partners' interests with those of our Class A shareholders, which is consistent with our compensation philosophy. In 2015, the Managing Partners were required to retain 77.5% of their AOG Units.

Compensation Elements for Named Executive Officers

Consistent with our emphasis on alignment of interests with our fund investors and Class A shareholders, compensation elements tied to the profitability of our different businesses and that of the funds that we manage are the primary means of compensating our five executive officers listed in the tables below, or the "named executive officers." The key elements of the compensation of our named executive officers during fiscal year 2015 are described below. We distinguish among the compensation components applicable to our named executive officers as appropriate in the below summary. Messrs. Black, Harris and Rowan are the three members of the group referred to elsewhere in this report as the "Managing Partners."

Annual Salary. Each of our named executive officers receives an annual salary. The base salaries of our named executive officers are set forth in the Summary Compensation Table below, and those base salaries were set by our Managing Partners in their judgment after considering the historic compensation levels of the officer, competitive market dynamics, and each officer's level of responsibility and anticipated contributions to our overall success.

RSUs. In 2015, a portion of our named executive officers' compensation (other than for our Managing Partners) was paid in the form of RSUs. We refer to our annual grants of RSUs as Bonus Grants. The RSUs are subject to multi-year vesting and minimum retained ownership requirements. In 2015, all named executive officers who have received RSUs were required to retain at least 77.5% of any Class A shares issued to them pursuant to RSU awards, net of the number of gross shares sold or netted to pay applicable income or employment taxes. The named executive officer Plan Grants and Bonus Grants are described below under "—Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table—Awards of Restricted Share Units Under the Equity Plan."

Carried Interest and Incentive Fees. Carried interests and incentive fee entitlements with respect to our funds confer rights to receive distributions if a distribution is made to investors following the realization of an investment or receipt of operating profit from an investment by the fund. Distributions of carried interest generally are subject to contingent repayment (generally net of tax) if the fund fails to achieve specified investment returns due to diminished performance of later investments, while distributions in respect of incentive fees are generally not subject to contingent repayment. The actual gross amount of carried interest allocations or incentive fees available for distribution are a function of the performance of the applicable fund. For these

reasons, we believe that participation in carried interest and incentive fees generated by our funds aligns the interests of our participating named executive officers with those of our Class A shareholders and fund investors.

We currently have two principal types of carried interest programs, which we refer to as dedicated and incentive pool. Messrs. Kelly and Suydam have been awarded rights to participate in a dedicated percentage of the carried interest or incentive fee income earned by the general partners of certain of our funds. Participation in dedicated carried interest in our private equity funds is typically subject to vesting, which rewards long-term commitment to the firm and thereby enhances the alignment of participants' interests with the Company. As with our distributions in respect of incentive fees, our financial statements characterize the carried interest income allocated to participating professionals in respect of their dedicated carried interests as compensation. Actual distributions in respect of dedicated carried interests and incentive fees are included in the "All Other Compensation" column of the summary compensation table.

Our performance based incentive arrangement referred to as the incentive pool further aligns the overall compensation of certain of our professionals to the realized performance of our business. The incentive pool provides for compensation based on carried interest realizations earned by us during the year and enhances our capacity to offer competitive compensation opportunities to our professionals. "Carried interest realizations earned" means carried interest earned by the general partners of our funds under the applicable fund limited partnership agreements based upon transactions that have closed or other rights to cash that have become fixed in the applicable calendar year period. Under this arrangement, Messrs. Kelly and Suydam, among other of our professionals, were awarded incentive pool compensation based on carried interest realizations earned during 2015. Allocations to participants in the incentive pool contain both a fixed component and a discretionary component, both of which may vary year-to-year, including as a result of our overall realized performance and the contributions and performance of each participant. The Managing Partners determine the amount of the carried interest realizations to place into the incentive pool in their discretion after considering various factors, including Company profitability, management company cash requirements and anticipated future costs, provided that the incentive pool consists of an amount equal to at least one percent (1%) of the carried interest realizations attributable to profits generated after creation of the incentive pool that were taxable in the applicable year and not allocable to dedicated carried interests. Each participant in the incentive pool is entitled to receive, as a fixed component of participation in the incentive pool, his or her pro rata allocation of this 1% amount each year, provided the participant remains employed by us at the time of allocation. Our financial statements characterize the carried interest income allocated to participating professionals in respect of incentive pool interests as compensation. The "All Other Compensation" column of the summary compensation table includes actual distributions paid from the incentive pool.

Restricted Shares. We require that a portion of the carried interest and incentive fee distributions in respect of certain of the investment funds we manage is used by our employees who receive those distributions to purchase Class A restricted shares issued under our 2007 Omnibus Equity Incentive Plan. This practice further promotes alignment with our shareholders and encourages participating professionals to maximize the success of the Company as a whole. Like our RSUs, the restricted shares are subject to multi-year vesting, which fosters retention. In 2015, the funds with respect to which Messrs. Kelly and Suydam have rights subject to this restricted share purchase requirement had not yet commenced making carried interest or incentive fee distributions.

Determination of Compensation of Named Executive Officers

Our Managing Partners make all final determinations regarding named executive officer compensation. Decisions about the variable elements of a named executive officer's compensation, including participation in our carried interest and incentive fee programs, discretionary bonuses (if any) and grants of equity-based awards, are based primarily on our Managing Partners' assessment of such named executive officer's individual performance, operational performance for the department or division in which the officer (other than a Managing Partner) serves, and the officer's impact on our overall operating performance and potential to contribute to long-term shareholder value. In evaluating these factors, our Managing Partners do not utilize quantitative performance targets but rather rely upon their judgment about each named executive officer's performance to determine an appropriate reward for the current year's performance. The determinations by our Managing Partners are ultimately subjective, are not tied to specified annual, qualitative or individual objectives or performance factors, and reflect discussions among the Managing Partners. Factors that our Managing Partners typically consider in making such determinations include the named executive officer's type, scope and level of responsibilities, active participation in managing a team of professionals, corporate citizenship and the named executive officer's overall contributions to our success. Our Managing Partners also consider each named executive officer's prior-year compensation, the appropriate balance between incentives for long-term and short-term performance, competitive market dynamics, compensation provided to the named executive officer by other entities, and the compensation paid to the named executive officer's peers within the Company. The Managing Partners determined that, based on the above factors, including the named executive officers' overall compensation levels, discretionary cash bonuses would not be awarded to any named executive officer for 2015.

Compensation Committee Interlocks and Insider Participation

Our board of directors does not have a compensation committee. Our Managing Partners make all compensation determinations with respect to executive officer compensation. For a description of certain transactions between us and the Managing Partners, see “Item 13. Certain Relationships and Related Party Transactions.”

Compensation Committee Report

As noted above, our board of directors does not have a compensation committee. The executive committee of our manager identified below has reviewed and discussed with management the foregoing Compensation Discussion and Analysis and, based on such review and discussion, has determined that the Compensation Discussion and Analysis should be included in this Annual Report on Form 10-K.

Leon Black
Joshua Harris
Marc Rowan

Summary Compensation Table

The following summary compensation table sets forth information concerning the compensation earned by, awarded to or paid to our principal executive officer, our principal financial officer, and our three other most highly compensated executive officers for the fiscal year ended December 31, 2015. The earnings of our Managing Partners, Messrs. Black, Harris and Rowan, derive predominantly from distributions they receive as a result of their indirect beneficial ownership of AOG Units and their rights under the tax receivable agreement (described elsewhere in this report, including above under “Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Cash Distribution Policy”), rather than from compensation, and accordingly are not included in the tables below. We recently reevaluated our management structure and the group of persons with policy making functions as of January 2015. As a result, certain members of our management are no longer considered to be executive officers. The executive officers named in the table are referred to as the named executive officers.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)[1]	All Other Compensation ($)[2]	Total ($)
Leon Black, Chairman, Chief Executive Officer and Director	2015	100,000	—	—	144,751	244,751
	2014	100,000	—	—	173,980	273,980
	2013	100,000	—	—	173,053	273,053
Martin Kelly, Chief Financial Officer	2015	1,000,000	—	681,643	1,300,000	2,981,643
	2014	1,000,000	—	698,444	1,300,000	2,998,444
	2013	1,000,000	—	541,246	950,000	2,491,246
John Suydam, Chief Legal Officer	2015	2,500,000	—	499,058	1,640,003	4,639,062
	2014	3,000,000	—	511,370	5,420,540	8,931,910
	2013	3,000,000	949,788	504,345	7,148,168	11,602,301
Joshua Harris, Senior Managing Director and Director	2015	100,000	—	—	281,204	381,204
Marc Rowan, Senior Managing Director and Director	2015	100,000	—	—	169,671	269,671

(1) For Messrs. Kelly and Suydam, represents the aggregate grant date fair value of stock awards granted, as applicable, computed in accordance with FASB ASC Topic 718. The amounts shown do not reflect compensation actually received by the named executive officers, but instead represent the aggregate grant date fair value of the awards. See note 14 to our consolidated financial statements for further information concerning the assumptions made in valuing our RSU awards.

(2) Amounts included for 2015 represent, in part, actual cash distributions in respect of dedicated carried interest allocations for Mr. Suydam of $1,111,472. The 2015 amounts also include actual incentive pool cash distributions of $1,300,000 for Mr. Kelly and $500,000 for Mr. Suydam. The “All Other Compensation” column for 2015 also includes costs relating to Company-provided cars and drivers for the business and personal use of Messrs. Black, Harris, Rowan and Suydam. We provide this benefit because we believe that its cost is outweighed by

the convenience, increased efficiency and added security and confidentiality that it offers. The personal use cost was approximately $130,076 for Mr. Black, $172,095 for Mr. Harris, $154,996 for Mr. Rowan and $26,631 for Mr. Suydam. For Messrs. Black, Harris and Rowan, this amount includes both fixed and variable costs, including lease costs, driver compensation, driver meals, fuel, parking, tolls, repairs, maintenance and insurance, and, for Mr. Rowan, car service costs. For Mr. Suydam, this amount includes the costs to the Company associated with his use of a car service. For Mr. Harris, this amount also includes $94,434 in information technology services. Except as discussed in this paragraph, no 2015 perquisites or personal benefits individually exceeded the greater of $25,000 or 10% of the total amount of all perquisites and other personal benefits reported for the named executive officer. The cost of excess liability insurance provided to our named executive officers falls below this threshold. Mr. Kelly did not receive perquisites or personal benefits in 2015, except for incidental benefits having an aggregate value of less than $10,000. Our named executive officers also receive secretarial support with respect to personal matters. We incur no incremental cost for the provision of such additional benefits. Accordingly, no such amount is included in the Summary Compensation Table.

Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table

Employment, Non-Competition and Non-Solicitation Agreements with Chairman and Chief Executive Officer and with each Senior Managing Director

In July 2012, we entered into an employment, non-competition and non-solicitation agreement with Leon Black, our chairman and chief executive officer, and with each of Joshua Harris and Marc Rowan, our senior managing directors, all of whom are members of our manager’s executive committee. These agreements superseded and were substantially similar to agreements with our Managing Partners dated July 13, 2007. The term of the 2012 agreements concluded on July 19, 2015. Since that date, our Managing Partners’ employment has continued on the same terms as provided under the agreements, and each continues to receive an annual salary of $100,000 and to participate in our employee benefit plans, as in effect from time to time.

Employment, Non-Competition and Non-Solicitation Agreement with Chief Financial Officer

On July 2, 2012, we entered into an employment, non-competition and non-solicitation agreement with Martin Kelly, our chief financial officer. His annual base salary is $1,000,000. As provided in his employment agreement, Mr. Kelly received a Plan Grant of 375,000 RSUs in connection with his commencement of employment. He is eligible for an annual bonus in an amount to be determined by the Managing Partners in their discretion. Mr. Kelly participates in the incentive pool and is eligible to receive distributions thereunder.

Employment Terms of Chief Legal Officer

John Suydam, our chief legal officer, does not have an employment agreement with us.

Awards of Restricted Share Units Under the Equity Plan

On October 23, 2007, we adopted our 2007 Omnibus Equity Incentive Plan. Grants of RSUs under the plan have been made to certain of our named executive officers primarily pursuant to two programs, which we call the “Plan Grants” and the “Bonus Grants.” Following the 2007 Reorganization, Plan Grants were made to Mr. Suydam and a broad range of our other employees. Plan Grants have also been made to subsequent employee hires, including Mr. Kelly. The Plan Grants generally vest over six years, with the first installment becoming vested approximately one year after grant and the balance vesting thereafter in equal quarterly installments. Holders of Plan Grant RSUs become entitled to distribution equivalents on their vested RSUs if we pay ordinary distributions on our outstanding Class A shares. The administrator of the 2007 Omnibus Equity Incentive Plan determines when shares issued pursuant to the RSU Awards may be disposed of, except that a participant will generally be permitted to sell shares if necessary to cover taxes. Under our retained ownership requirements, in 2015, all executive officers who received RSU awards were required to retain at least 77.5% of any Class A shares issued to them under those awards (net of the number of gross shares sold or netted to pay applicable income or employment taxes).

The RSUs advance several goals of our compensation program. The Plan Grants align employee interests with those of our shareholders by making our employees, upon delivery of the underlying Class A shares, shareholders themselves. Because they vest over time, the Plan Grants reward employees for sustained contributions to the Company and foster retention. The size of the Plan Grants is determined by the Plan administrator based on the grantee’s level of responsibility and contributions to the Company. The restrictive covenants contained in the RSU agreements reinforce our culture of fiduciary protection of our fund investors and shareholders by requiring RSU holders to abide by the provisions regarding non-competition, confidentiality and other limitations on behavior described in the immediately preceding paragraph.

The Bonus Grants are also grants of RSUs under the 2007 Omnibus Equity Incentive Plan. However, the Bonus Grants constitute payment of a portion of the annual compensation earned by certain of our professionals, including Messrs. Kelly and Suydam, subject to the employee’s continued service through the vesting dates. Our named executive officers’ Bonus Grants

generally differ from their Plan Grants in the following principal ways:

- The RSU Shares underlying Bonus Grants are generally scheduled to vest in three equal annual installments.
- Distribution equivalents are earned on Bonus Grant RSUs (whether or not vested) when ordinary distributions are made on Class A shares after the grant date, but distribution equivalents are earned on Plan Grant RSUs only after they have vested.

Grants of Plan-Based Awards

The following table presents information regarding RSUs granted to Messrs. Kelly and Suydam under our 2007 Omnibus Equity Incentive Plan in 2015. No options were granted to a named executive officer in 2015.

Name	Grant Date	Estimated Future Payouts under Equity Incentive Plan Awards Target (#)	Stock Awards: Number of Shares of Stock or Units (#)(1)	Grant Date Fair Value or Modification Date Incremental Fair Value of Stock and Option Awards ($)(2)
Leon Black	—	—	—	—
Martin Kelly	December 29, 2015	—	45,871	681,643
John Suydam	December 29, 2015	—	33,584	499,058
Joshua Harris	—	—	—	—
Marc Rowan	—	—	—	—

(1) Represents the aggregate number of RSUs covering our Class A shares (none of the Bonus Grants awarded in 2015 vested in 2015). For a discussion of these grants, please see the discussion above under "—Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table—Awards of Restricted Share Units Under the Equity Plan."

(2) Represents the aggregate grant date fair value of the RSUs granted in 2015, computed in accordance with FASB ASC Topic 718. The amounts shown do not reflect compensation actually received, but instead represent the aggregate grant date fair value of the award.

Outstanding Equity Awards at Fiscal Year-End

The following table presents information regarding unvested RSU awards made by us to our named executive officers under our 2007 Omnibus Equity Incentive Plan that were outstanding at December 31, 2015. Our named executive officers did not hold any options at fiscal year-end.

		Stock Awards		
Name		Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)		Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (5)
Leon Black	—	—		—
Martin Kelly	December 29, 2015	45,871	(1)	696,322
	December 29, 2014	20,567	(2)	312,207
	December 26, 2013	6,038	(3)	91,657
	September 30, 2012	171,875	(4)	2,609,063
John Suydam	December 29, 2015	33,584	(1)	509,805
	December 29, 2014	15,059	(2)	228,596
	December 26, 2013	5,627	(3)	85,418
Joshua Harris	—	—		—
Marc Rowan	—	—		—

(1) Bonus Grant RSUs that vest in substantially equal annual installments on December 31 of each of 2016, 2017 and 2018.

(2) Bonus Grant RSUs that vest in substantially equal annual installments on December 31 of each of 2016 and 2017.

(3) Bonus Grant RSUs that vest on December 31, 2016.

(4) Plan Grant RSUs that vest in substantially equal installments over the 11 calendar quarters beginning March 31, 2016.

(5) Amounts calculated by multiplying the number of unvested RSUs held by the named executive officer by the closing price of $15.18 per Class A share on December 31, 2015.

Option Exercises and Stock Vested

The following table presents information regarding the number of outstanding initially unvested RSUs held by our named executive officers that vested during 2015 and the number of options exercised by our named executive officers in 2015. The amounts shown below do not reflect compensation actually received by the named executive officers, but instead are calculations of the number of RSUs that vested during 2015 based on the closing price of our Class A shares on the date of vesting. Shares received by our named executive officers are subject to our retained ownership requirements. No options were exercised by our named executive officers in 2015.

		Stock Awards	
Name	Type of Award	Number of Shares Acquired on Vesting(#)	Value Realized on Vesting($)
Leon Black	—	—	—
Martin Kelly	RSUs	87,832	1,573,759 (1)
John Suydam	RSUs	23,268	353,208 (1)
Joshua Harris	—	—	—
Marc Rowan	—	—	—

(1) Amounts calculated by multiplying the number of RSUs held by the named executive officer that vested on each applicable vesting date in 2015 by the closing price per Class A share on that date. Class A shares underlying these vested RSUs are issued to the named executive officer in accordance with the schedules described above under "—Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table—Awards of Restricted Share Units Under the Equity Plan."

Potential Payments upon Termination or Change in Control

None of the named executive officers is entitled to payment or other benefits in connection with a change in control.

None of Messrs. Black, Harris or Rowan is entitled to severance or other payments or benefits in connection with an employment termination. Messrs. Black, Harris and Rowan are required to protect the confidential information of Apollo both during and after employment. In addition, until one year after employment termination, each is required to refrain from soliciting employees under specified circumstances or interfering with our relationships with investors and to refrain from competing with us in a business that involves primarily (*i.e.*, more than 50%) third-party capital. These post-termination covenants survive any termination or expiration of the Agreement Among Managing Partners (described elsewhere in this report under "Item 13. Certain Relationships and Related Party Transactions—Agreement Among Managing Partners"). If any of Messrs. Black, Harris or Rowan becomes subject to a potential termination for cause or by reason of disability, our manager may appoint an investment professional to perform his functional responsibilities and duties until cause or disability definitively results in his termination or is determined not to have occurred, but the manager may so appoint an investment professional only if such Managing Partner is unable to perform his responsibilities and duties or, as a matter of fiduciary duty, should be prohibited from doing so. During any such period, the Managing Partner shall continue to serve on the executive committee of our manager unless otherwise prohibited from doing so pursuant to the Agreement Among Managing Partners.

If Mr. Kelly's employment is terminated by us without cause or he resigns for good reason, he will be entitled to severance of six months' base pay and reimbursement of health insurance premiums paid in the six months following his employment termination. If Mr. Kelly's employment is terminated by us without cause or he resigns for good reason, he will vest in 50% of any unvested portion of his Plan Grant RSUs. If his employment is terminated by reason of death or disability, he will vest in 50% of any unvested portion of his Plan Grant and Bonus Grant RSUs. We may terminate Mr. Kelly's employment with or without cause, and we will provide 90 days' notice (or payment in lieu of such period of notice) prior to a termination without cause. Mr. Kelly is required to give us 90 days' notice prior to a resignation for any reason. He is required to protect the confidential information of Apollo both during and after employment. In addition, during employment and for 12 months after employment, Mr. Kelly is

also obligated to refrain from soliciting our employees, interfering with our relationships with investors or other business relations, and competing with us in a business that manages or invests in assets substantially similar to those managed or invested in by Apollo or its affiliates.

If Mr. Suydam's employment is terminated by reason of death or disability, he will vest in 50% of his then unvested RSUs. Mr. Suydam is required to protect our confidential information at all times. During his employment and for 12 months thereafter, Mr. Suydam is also obligated to refrain from soliciting our employees, interfering with our relationships with investors or other business relations, and competing with us in a business that manages or invests in assets substantially similar to those invested in or managed by Apollo or its affiliates. Mr. Suydam is required to provide 90 days' notice prior to a resignation for any reason.

The named executive officers' obligations during and after employment were considered by the Managing Partners in determining appropriate post-employment payments and benefits for the named executive officers.

The following table lists the estimated amounts that would have been payable to each of our named executive officers in connection with a termination that occurred on the last day of our last completed fiscal year and the value of any additional equity that would vest upon such termination. When listing the potential payments to named executive officers under the plans and agreements described above, we have assumed that the applicable triggering event occurred on December 31, 2015 and that the price per share of our Class A shares was $15.18, which is equal to the closing price on such date. For purposes of this table, RSU values are based on the $15.18 closing price.

Name	Reason for Employment Termination	Estimated Value of Cash Payments ($)	Estimated Value of Equity Acceleration ($)
Leon Black	Cause	—	—
	Death, disability	—	—
Martin Kelly	Without cause, by executive for good reason	517,673 (1)	1,304,531 (2)
	Death, disability	—	1,854,624 (2)
John Suydam	Without cause; by executive for good reason	—	—
	Death, disability	—	411,909 (2)
Joshua Harris	Cause	—	—
	Death, disability	—	—
Marc Rowan	Cause	—	—
	Death, disability	—	—

(1) This amount would have been payable to the named executive officer had his employment been terminated by the Company without cause (and other than by reason of death or disability) or for good reason on December 31, 2015.

(2) This amount represents the additional equity vesting that the named executive officer would have received had his employment terminated in the circumstances described in the column, "Reason for Employment Termination," on December 31, 2015, based on the closing price of a Class A share on such date. Please see our "Outstanding Equity Awards at Fiscal Year-End" table above for information regarding the named executive officer's unvested equity as of December 31, 2015

Director Compensation

We do not pay additional remuneration to our employees, including Messrs. Black, Harris and Rowan, for their service on our board of directors. The 2015 compensation of Messrs. Black, Harris and Rowan is set forth above on the Summary Compensation Table.

During 2015, each independent director received (1) a base annual director fee of $125,000, (2) an additional annual director fee of $25,000 if he or she a member of the audit committee, (3) an additional annual director fee of $10,000 if he or she was a member of the conflicts committee, (4) an additional annual director fee of $25,000 (incremental to the fee described in (2)) if he or she served as the chairperson of the audit committee, and (5) an additional annual director fee of $15,000 (incremental to the fee described in (3)) if he or she served as the chairperson of the conflicts committee. In addition, independent directors were reimbursed for reasonable expenses incurred in attending board meetings.

Currently, upon initial election to the board of directors, an independent director receives a grant of RSUs with a value of $300,000 that vests in equal annual installments on June 30 of each of the first, second and third years following the year that the grant is made. Mr. Kraft received this type of award on July 14, 2014 in connection with his appointment to the board of directors. Incumbent independent directors who have fully vested in their initial RSU award receive an annual RSU award with a

value of $100,000 that vests on June 30 of the year following the year that the grant is made, and the directors listed on the below table (other than Mr. Kraft) received that award on July 22, 2015.

The following table provides the compensation for our independent directors during the year ended December 31, 2015.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)[1]	Total ($)
Michael Ducey	175,000	81,974	256,974
Paul Fribourg	135,000	81,974	216,974
Robert Kraft	135,000	—	135,000
A. B. Krongard	150,000	81,974	231,974
Pauline Richards	175,000	81,974	256,974

(1) Represents the aggregate grant date fair value of stock awards granted, as applicable, computed in accordance with FASB ASC Topic 718. See note 14 to our consolidated financial statements for further information concerning the assumptions made in valuing our RSU awards. The amounts shown do not reflect compensation actually received by the independent directors, but instead represent the aggregate grant date fair value of the awards. Unvested director RSUs are not entitled to distributions or distribution equivalents. As of December 31, 2015, each of Ms. Richards and Messrs. Ducey, Fribourg and Krongard, held 4,514 RSUs that were unvested and outstanding, and Mr. Kraft held 7,240 RSUs that were unvested and outstanding.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of our Class A shares as of February 22, 2016 by (i) each person known to us to beneficially own more than 5% of the voting Class A shares of Apollo Global Management, LLC, (ii) each of our directors, (iii) each person who is a named executive officer for 2015 and (iv) all directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. To our knowledge, each person named in the table below has sole voting and investment power with respect to all of the Class A shares and interests in our Class B share shown as beneficially owned by such person, except as otherwise set forth in the notes to the table and pursuant to applicable community property laws. Unless otherwise indicated, the address of each person named in the table is c/o Apollo Global Management, LLC, 9 West 57th Street, New York, NY 10019.

In respect of our Class A shares, the table set forth below assumes the exchange by Holdings of all AOG Units for our Class A shares with respect to which the person listed below has the right to direct such exchange pursuant to the exchange agreement described under “Item 13. Certain Relationships and Related Party Transactions—Exchange Agreement,” and the distribution of such shares to such person as a limited partner of Holdings.

	Class A Shares Beneficially Owned			Class B Share Beneficially Owned		
	Number of Shares	Percent(1)	Total Percentage of Voting Power(2)	Number of Shares	Percent	Total Percentage of Voting Power(2)
Directors and Executive Officers:						
Leon Black(3)(4)	92,727,166	33.6%	60.9%	1	100%	60.9%
Joshua Harris(3)(4)	53,932,643	22.7%	60.9%	1	100%	60.9%
Marc Rowan(3)(4)	46,296,921	20.2%	61.1%	1	100%	60.9%
Pauline Richards	26,867	*	*	—	—	—
Alvin Bernard Krongard(5)	274,218	*	*	—	—	—
Michael Ducey(6)	32,232	*	*	—	—	—
Robert Kraft(7)	263,620	*	*	—	—	—
Paul Fribourg	29,063	*	*	—	—	—
Martin Kelly(8)	146,872	*	*	—	—	—
John Suydam(9)	1,019,972	*	*	—	—	—
All directors and executive officers as a group (ten persons)(10)	194,749,574	51.8%	54.9%	1	100%	60.9%
BRH(4)	—	—	—	1	100%	60.9%
AP Professional Holdings, L.P.(11)	216,169,856	54.1%	60.9%	—	—	—
5% Stockholders:						
UBS Group AG(12)	10,226,989	5.6%	2.9%	—	—	—

*Represents less than 1%.

(1) The percentage of beneficial ownership of our Class A shares is based on voting and non-voting Class A shares outstanding.

(2) The total percentage of voting power is based on voting Class A shares and the Class B share.

(3) The number of Class A shares presented are held by estate planning vehicles, for which this individual disclaims beneficial ownership except to the extent of his pecuniary interest therein. The number of Class A shares presented do not include any Class A shares owned by Holdings with respect to which this individual, as one of the three owners of all of the interests in BRH, the general partner of Holdings, or as a party to the Agreement Among Managing Partners described under "Item 13. Certain Relationships and Related Party Transactions—Agreement Among Managing Partners" or the Managing Partner Shareholders Agreement described under "Item 13. Certain Relationships and Related Party Transactions—Managing Partner Shareholders Agreement," may be deemed to have shared voting or dispositive power. Each of these individuals disclaims any beneficial ownership of these shares, except to the extent of his pecuniary interest therein.

(4) BRH, the holder of the Class B share, is one third owned by Mr. Black, one third owned by Mr. Harris and one third owned by Mr. Rowan. Pursuant to the Agreement Among Managing Partners, the Class B share is to be voted and disposed of by BRH based on the determination of at least two of the three Managing Partners; as such, they share voting and dispositive power with respect to the Class B share. As of February 22, 2016, Mr. Rowan beneficially owned an additional 565,519 Class A shares through an estate planning vehicle, for which voting and investment control are exercised by Mr. Rowan.

(5) Includes 250,000 Class A shares held by a trust for the benefit of Mr. Krongard's children, for which Mr. Krongard's children are the trustees. Mr. Krongard disclaims beneficial ownership with respect to such shares, except to the extent of his pecuniary interest therein.

(6) Includes 2,616 Class A shares held by two trusts for the benefit of Mr. Ducey's grandchildren, for which Mr. Ducey and several of Mr. Ducey's immediate family members are trustees and have shared investment power. Mr. Ducey disclaims beneficial ownership of the Class A shares held in the trusts, except to the extent of his pecuniary interest therein.

(7) Includes 260,000 Class A shares held by two entities, which are under the sole control of Mr. Kraft, and may be deemed to be beneficially owned by Mr. Kraft.

(8) Includes 15,625 RSUs covering Class A shares which will vest and with respect to which Mr. Kelly will have the right to acquire beneficial ownership within 60 days of February 22, 2016.

(9) Includes 249,009 Class A shares held by a trust for the benefit of Mr. Suydam's spouse and children, for which Mr. Suydam's spouse is the trustee. Mr. Suydam disclaims beneficial ownership with respect to such shares, except to the extent of his pecuniary interest therein.

(10) Refers to shares beneficially owned by the individuals who were directors and executive officers as of February 22, 2016.

(11) Assumes that no Class A shares are distributed to the limited partners of Holdings. The general partner of Holdings, is BRH, which is one third owned by Mr. Black, one third owned by Mr. Harris and one third owned by Mr. Rowan. BRH is also the general partner of BRH Holdings, L.P., the limited partnership through which Messrs. Black, Harris and Rowan indirectly beneficially own (through estate planning vehicles) their limited partner interests in Holdings. These individuals disclaim any beneficial ownership of these Class A shares, except to the extent of their pecuniary interest therein.

(12) Based on a Schedule 13G filed on February 9, 2016, by UBS Group AG. The address of UBS Group AG is Bahnhofstrasse 45, PO BOX CH-8021, Zurich, Suwitzerland.

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Securities Authorized for Issuance under Equity Incentive Plans

The following table sets forth information concerning the awards that may be issued under the Company's Omnibus Equity Incentive Plan as of December 31, 2015.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights[1]	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)[2]
	(a)	(b)	(c)
Equity Compensation Plans Approved by Security Holders	17,551,579	$17.69	37,324,169
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	17,551,579	$17.69	37,324,169

(1) Reflects the aggregate number of outstanding options and RSUs granted under the Company's 2007 Omnibus Equity Incentive Plan (the "Equity Plan") as of December 31, 2015.

(2) The Class A shares reserved under the Equity Plan are increased on the first day of each fiscal year by (i) the amount (if any) by which (a) 15% of the number of outstanding Class A shares and AOG Units exchangeable for Class A shares on a fully converted and diluted basis on the last day of the immediately preceding fiscal year exceeds (b) the number of shares then reserved and available for issuance under the Equity Plan, or (ii) such lesser amount by which the administrator may decide to increase the number of Class A shares. The number of shares reserved under the Equity Plan is also subject to adjustment in the event of a share split, share dividend, or other change in our capitalization. Generally, employee shares that are forfeited, canceled, surrendered or exchanged from awards under the Equity Plan will be available for future awards. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register Class A shares under the Equity Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, Class A shares registered under such registration statement will be available for sale in the open market.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Agreement Among Managing Partners

Our Managing Partners have entered into the Agreement Among Managing Partners. The Managing Partners own Holdings in accordance with their respective sharing percentages, or "Sharing Percentages," as set forth in the Agreement Among Managing Partners. For the purposes of the Agreement Among Managing Partners, "Pecuniary Interest" means, with respect to each Managing Partner, the number of AOG Units that would be distributable to him assuming that Holdings was liquidated and its assets distributed in accordance with its governing agreements.

Pursuant to the Agreement Among Managing Partners, each Managing Partner is vested in full in their respective AOG Units. We may not terminate a Managing Partner except for cause or by reason of disability.

The transfer by a Managing Partner of any portion of his Pecuniary Interest to a permitted transferee will in no way affect any of his obligations under the Agreement Among Managing Partners; provided, that all permitted transferees are required to sign a joinder to the Agreement Among Managing Partners.

The Managing Partners' respective Pecuniary Interests in certain funds, or the "Heritage Funds," within the Apollo Operating Group are not held in accordance with the Managing Partners' respective Sharing Percentages. Instead, each Managing Partner's Pecuniary Interest in such Heritage Funds is held in accordance with the historic ownership arrangements among the Managing Partners, and the Managing Partners continue to share the operating income in such Heritage Funds in accordance with their historic ownership arrangement with respect to such Heritage Funds.

The Agreement Among Managing Partners may be amended and the terms and conditions of the Agreement Among Managing Partners may be changed or modified upon the unanimous approval of the Managing Partners. We, our shareholders (other than the Strategic Investors, as set forth under "-Lenders Rights Agreement-Amendments to Managing Partner Transfer Restrictions") and the Apollo Operating Group have no ability to enforce any provision of the Agreement Among Managing Partners or to prevent the Managing Partners from amending it.

Managing Partner Shareholders Agreement

We have entered into the Managing Partner Shareholders Agreement with our Managing Partners. The Managing Partner Shareholders Agreement provides the Managing Partners with certain rights with respect to the approval of certain matters and the designation of nominees to serve on our board of directors, as well as registration rights for our securities that they own.

Board Representation

The Managing Partner Shareholders Agreement requires our board of directors, so long as the Apollo control condition is satisfied, to nominate individuals designated by our manager such that our manager will have a majority of the designees on our board.

Transfer Restrictions

The Managing Partner Shareholders Agreement provides that no Managing Partner may, nor shall any of such Managing his permitted transferees, directly or indirectly, voluntarily effect cumulative transfers of Pecuniary Interests (as defined in the Managing Partner Shareholders Agreement), representing more than: (i) 22.5% of his Pecuniary Interests at any time on or after the fourth anniversary and prior to the fifth anniversary of our IPO; (ii) 30% of his Pecuniary Interests at any time on or after the fifth anniversary and prior to the sixth anniversary of our IPO; and (iii) 100% of his Pecuniary Interests at any time on or after the sixth anniversary of our IPO, other than, in each case, with respect to transfers (a) from one Managing Partner to another Managing Partner, (b) to a permitted transferee of such Managing Partner, or (c) in connection with a sale by one or more of our Managing Partners in one or a related series of transactions resulting in the Managing Partners owning or controlling, directly or indirectly, less than 50.1% of the economic or voting interests in us or the Apollo Operating Group, or any other person exercising control over us or the Apollo Operating Group by contract, which would include a transfer of control of our manager.

The percentages referenced in the preceding paragraph will apply to the aggregate amount of Equity Interests held by each Managing Partner (and his permitted transferees) as of July 13, 2007. Following the sixth anniversary of the IPO, each Managing Partner and his permitted transferees may transfer all of the Pecuniary Interests of such Managing Partner to any person or entity in accordance with Rule 144, in a registered public offering or in a transaction exempt from the registration requirements of the Securities Act. The above transfer restrictions will lapse with respect to a Managing Partner if he dies or becomes disabled.

A "permitted transferee" means, with respect to each Managing Partner and his permitted transferees, (i) such Managing Partner's spouse, (ii) a lineal descendant of such Managing Partner's parents (or any such descendant's spouse), (iii) a charitable

institution controlled by such Managing Partner, (iv) a trustee of a trust (whether inter vivos or testamentary), the current beneficiaries and presumptive remaindermen of which are one or more of such Managing Partner and persons described in clauses (i) through (iii) above, (v) a corporation, limited liability company or partnership, of which all of the outstanding shares of capital stock or interests therein are owned by one or more of such Managing Partner and persons described in clauses (i) through (iv) above, (vi) an individual mandated under a qualified domestic relations order, (vii) a legal or personal representative of such Managing Partner in the event of his death or disability, (viii) any other Managing Partner with respect to transactions contemplated by the Managing Partner Shareholders Agreement, and (ix) any other Managing Partner who is then employed by Apollo or any of its affiliates or any permitted transferee of such Managing Partner in respect of any transaction not contemplated by the Managing Partner Shareholders Agreement, in each case that agrees in writing to be bound by these transfer restrictions.

Any waiver of the above transfer restrictions may only occur with our consent. As our Managing Partners control the management of our company, however, they have discretion to cause us to grant one or more such waivers. Accordingly, the above transfer restrictions might not be effective in preventing our Managing Partners from selling or transferring their Pecuniary Interests.

Indemnity

Carried interest income from our funds can be distributed to us on a current basis, but is subject to repayment by the subsidiaries of the Apollo Operating Group that act as general partners of the funds in the event that certain specified return thresholds are not ultimately achieved. The Managing Partners, Contributing Partners and certain other investment professionals have personally guaranteed, subject to certain limitations, the obligations of these subsidiaries in respect of this general partner obligation. Such guarantees are several and not joint and are limited to a particular Managing Partner's, Contributing Partner's or other investment professional's distributions. Pursuant to the Managing Partner Shareholders Agreement, we agreed to indemnify each of our Managing Partners and certain Contributing Partners against all amounts that they pay pursuant to any of these personal guarantees in favor of Fund IV, Fund V and Fund VI (including costs and expenses related to investigating the basis for or objecting to any claims made in respect of the guarantees) for all interests that our Managing Partners and Contributing Partners have contributed or sold to the Apollo Operating Group.

Accordingly, in the event that our Managing Partners, Contributing Partners and certain other investment professionals are required to pay amounts in connection with a general partner obligation for the return of previously made distributions with respect to Fund IV, Fund V and Fund VI, we will be obligated to reimburse our Managing Partners and certain Contributing Partners for the indemnifiable percentage of amounts that they are required to pay even though we did not receive the distribution to which that general partner obligation related.

Registration Rights

Pursuant to the Managing Partner Shareholders Agreement, we have granted Holdings, an entity through which our Managing Partners and Contributing Partners own their AOG Units, and its permitted transferees the right, under certain circumstances and subject to certain restrictions, to require us to register under the Securities Act our Class A shares held or acquired by them. Under the Managing Partner Shareholders Agreement, the registration rights holders (i) have "demand" registration rights that require us to register under the Securities Act the Class A shares that they hold or acquire, (ii) may require us to make available registration statements permitting sales of Class A shares they hold or acquire in the market from time to time over an extended period and (iii) have the ability to exercise certain piggyback registration rights in connection with registered offerings requested by other registration rights holders or initiated by us. We have agreed to indemnify each registration rights holder and certain related parties against any losses or damages resulting from any untrue statement or omission of material fact in any registration statement or prospectus pursuant to which such holder sells our shares, unless such liability arose from the holder's misstatement or omission, and each registration rights holder has agreed to indemnify us against all losses caused by his misstatements or omissions. We have filed a shelf registration statement in connection with the rights described above.

Roll-Up Agreements

Pursuant to the Roll-Up Agreements, the Contributing Partners received interests in Holdings, which we refer to as AOG Units, in exchange for their contribution of assets to the Apollo Operating Group. The AOG Units received by our Contributing Partners and any units into which they have been exchanged are fully vested. AOG Units were subject to a lock-up until two years after our IPO. Thereafter, 7.5% of the AOG Units became, or will become, tradable on each of the second, third, fourth and fifth anniversaries of our IPO, with the remaining AOG Units becoming tradable on the sixth anniversary of our IPO or upon subsequent vesting. Our Contributing Partners have the ability to direct Holdings to exercise Holdings' registration rights described above under "-Managing Partner Shareholders Agreement-Registration Rights."

Under their Roll-Up Agreements, each of our Contributing Partners is subject to a noncompetition provision until the first anniversary of the date of termination of his service as a partner to us. During that period, our Contributing Partners are prohibited from (i) engaging in any business activity in which we operate, (ii) rendering any services to any alternative asset

management business (other than that of us or our affiliates) that involves primarily (i.e., more than 50%) third-party capital or (iii) acquiring a financial interest in, or becoming actively involved with, any competitive business (other than as a passive holding of a specified percentage of publicly traded companies). In addition, our Contributing Partners are subject to nonsolicitation, nonhire and noninterference covenants during employment and for at least 12 months thereafter. Our Contributing Partners are also bound to a nondisparagement covenant with respect to us and our Contributing Partners and to confidentiality restrictions. Resignation by any of our Contributing Partners shall require ninety days' notice. Any restricted period applicable to a Contributing Partner will commence after the ninety-day notice of termination period.

Amended and Restated Exchange Agreement

We have entered into an exchange agreement with Holdings under which, subject to certain procedures and restrictions (including any applicable transfer restrictions and lock-up agreements described above) upon 60 days' written notice prior to a designated quarterly date, each Managing Partner and Contributing Partner (or certain transferees thereof) has the right to cause Holdings to exchange the AOG Units that he owns through Holdings for our Class A shares and to sell such Class A shares at the prevailing market price (or at a lower price that such Managing Partner or Contributing Partner is willing to accept). To effect the exchange, Holdings distributes the AOG Units to be exchanged to the applicable Managing Partner or Contributing Partner. Under the exchange agreement, the Managing Partner or Contributing Partner must then simultaneously exchange one AOG Unit (being an equal limited partner interest in each Apollo Operating Group entity) for each Class A share received from our intermediate holding companies. As a Managing Partner or Contributing Partner exchanges his AOG Units, our interest in the AOG Units will be correspondingly increased and the voting power of the Class B share will be correspondingly decreased.

The exchange agreement was amended and restated on May 6, 2013 and further amended and restated on March 5, 2014. The amendments to the original exchange agreement (i) permit exchanging holders certain rights to revoke exchanges of their AOG Units in whole, but not in part, in certain circumstances; (ii) permit transfers of a holder's exchanged shares to a qualifying entity that can sell them under a Rule 10b5-1 trading plan; (iii) require the Company to use its commercially reasonable efforts to file and keep effective a shelf registration statement relating to the exchange of Class A shares received upon an exchange of AOG Units; (iv) modify the exchange mechanics to address certain tax considerations of an exchange for exchanging holders; and (v) require exchanging holders to reimburse APO Corp. for any incremental U.S. federal income tax incurred by APO Corp. as a result of the modification of the exchange mechanics.

Amended and Restated Tax Receivable Agreement

As a result of each of AMH Holdings (Cayman), L.P. and the Apollo Operating Group entities controlled by it or Apollo Management Holdings, L.P. having made an election under Section 754 of the Internal Revenue Code, any exchanges by a Managing Partner or Contributing Partner of AOG Units that he owns through Holdings (together with the corresponding interest in our Class B share) for our Class A shares in a taxable transaction may result in an adjustment to the tax basis of a portion of the assets owned by the Apollo Operating Group at the time of the exchange. The taxable exchanges may result in increases in the tax depreciation and amortization deductions from depreciable and amortizable assets, as well as an increase in the tax basis of other assets, of the Apollo Operating Group that otherwise would not have been available. A portion of these increases in tax depreciation and amortization deductions, as well as the increase in the tax basis of such other assets, will reduce the amount of tax that APO Corp. would otherwise be required to pay in the future. Additionally, our acquisition of AOG Units from the Managing Partners or Contributing Partners, such as our acquisition of AOG Units from the Managing Partners in the Strategic Investors Transaction, have resulted, and may continue to result, in increases in tax deductions and tax basis that reduces the amount of tax that APO Corp. would otherwise be required to pay in the future.

APO Corp. has entered into a tax receivable agreement with our Managing Partners and Contributing Partners that provides for the payment by APO Corp. to an exchanging or selling Managing Partner or Contributing Partner of 85% of the amount of actual cash savings, if any, in U.S. Federal, state, local and foreign income tax that APO Corp. realizes (or is deemed to realize in the case of an early termination payment by APO Corp. or a change of control, as discussed below) as a result of these increases in tax deductions and tax basis, and certain other tax benefits, including imputed interest expense, related to payments pursuant to the tax receivable agreement. APO Corp. expects to benefit from the remaining 15% of actual cash savings, if any, in income tax that it realizes. For purposes of the tax receivable agreement, cash savings in income tax will be computed by comparing our actual income tax liability to the amount of such taxes that APO Corp. would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of the applicable Apollo Operating Group entity as a result of the transaction and had APO Corp. not entered into the tax receivable agreement. The tax savings achieved may not ensure that we have sufficient cash available to pay our tax liability or generate additional distributions to our investors. Also, we may need to incur additional debt to repay the tax receivable agreement if our cash flow needs are not met. The term of the tax receivable agreement will continue until all such tax benefits have been utilized or expired, unless APO Corp. exercises the right to terminate the tax receivable agreement by paying an amount based on the present value of payments remaining to be made under the agreement with respect to units that have been exchanged or sold and units which have not yet been exchanged or sold. Such present value

will be determined based on certain assumptions, including that APO Corp. would have sufficient taxable income to fully utilize the deductions that would have arisen from the increased tax deductions and tax basis and other benefits related to the tax receivable agreement. In the event that other of our current or future U.S. subsidiaries become taxable as corporations and acquire AOG Units in the future, or if we become taxable as a corporation for U.S. Federal income tax purposes, each U.S. corporation will become subject to a tax receivable agreement with substantially similar terms. In connection with an amendment of the AMH partnership agreement in April 2010, the tax receivable agreement was revised to reflect the Managing Partners' agreement to defer 25% of required payments pursuant to the tax receivable agreement that were attributable to the 2010 fiscal year until 2015.

The IRS could challenge our claim to any increase in the tax basis of the assets owned by the Apollo Operating Group that results from the exchanges entered into by the Managing Partners or Contributing Partners. The IRS could also challenge any additional tax depreciation and amortization deductions or other tax benefits we claim as a result of such increase in the tax basis of such assets. If the IRS were to successfully challenge a tax basis increase or tax benefits we previously claimed from a tax basis increase, our Managing Partners and Contributing Partners would not be obligated under the tax receivable agreement to reimburse APO Corp. for any payments previously made to it (although future payments would be adjusted to reflect the result of such challenge). As a result, in certain circumstances, payments could be made to our Managing Partners and Contributing Partners under the tax receivable agreement in excess of 85% of APO Corp.'s actual cash tax savings. In general, estimating the amount of payments that may be made to our Managing Partners and Contributing Partners under the tax receivable agreement is by its nature, imprecise, in the absence of an actual transaction, insofar as the calculation of amounts payable depends on a variety of factors. The actual increase in tax basis and the amount and timing of any payments under the tax receivable agreement will vary depending upon a number of factors, including:

- the timing of the transactions-for instance, the increase in any tax deductions will vary depending on the fair market value, which may fluctuate over time, of the depreciable or amortizable assets of the Apollo Operating Group entities at the time of the transaction;
- the price of our Class A shares at the time of the transaction-the increase in any tax deductions, as well as tax basis increase in other assets, of the Apollo Operating Group entities, is directly proportional to the price of the Class A shares at the time of the transaction;
- the taxability of exchanges-to the extent an exchange is not taxable for any reason, increased deductions will not be available; and
- the amount and timing of our income-APO Corp. will be required to pay 85% of the tax savings as and when realized, if any. If APO Corp. does not have taxable income, it is not required to make payments under the tax receivable agreement for that taxable year because no tax savings were actually realized.

In addition, the tax receivable agreement provides that, upon a merger, asset sale or other form of business combination or certain other changes of control, APO Corp.'s (or its successor's) obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such change of control) would be based on certain assumptions, including that APO Corp. would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement. As noted above, no payments will be made if a Managing Partner or Contributing Partner elects to exchange his or her AOG Units in a tax-free transaction.

In connection with the first amendment and restatement of the exchange agreement, the tax receivable agreement was amended and restated on May 6, 2013 to conform the agreement to the amended and restated exchange agreement, particularly to address the modified exchange mechanics, and to make non-substantive updates to recognize certain additional Apollo Operating Group entities that have been formed since the original tax receivable agreement was entered into in 2007.

Strategic Relationship Agreement

On April 20, 2010, we announced a new strategic relationship agreement with CalPERS, whereby we agreed to reduce management fees and other fees charged to CalPERS on funds we manage, or in the future will manage, solely for CalPERS by $125 million over a five-year period or as close a period as required to provide CalPERS with that benefit. The agreement further provides that we will not use a placement agent in connection with securing any future capital commitments from CalPERS. Through December 31, 2015, the Company had reduced fees charged to CalPERS on the funds it manages by approximately $100.7 million.

Strategic Investors Transaction

On July 13, 2007, we sold securities to the Strategic Investors in return for a total investment of $1.2 billion. Through our intermediate holding companies, we used all of the proceeds from the issuance of such securities to the Strategic Investors to

purchase AOG Units from our Managing Partners, and to purchase from our Contributing Partners a portion of their points. The Strategic Investors hold non-voting Class A shares, which represented 24.9% of our issued and outstanding Class A shares and 11.3% of the economic interest in the Apollo Operating Group, in each case as of December 31, 2015.

As all of their holdings in us are non-voting, neither of the Strategic Investors has any means for exerting control over our company.

Lenders Rights Agreement

In connection with the Strategic Investors Transaction, we entered into a shareholders agreement, or the "Lenders Rights Agreement," with the Strategic Investors.

Transfer Restrictions

Each Strategic Investor may transfer (i) up to 75% of its non-voting Class A shares at any time after the fourth anniversary and prior to the fifth anniversary of our IPO and (ii) 100% of its non-voting Class A shares at any time after the fifth anniversary of our IPO.

Notwithstanding the foregoing, at no time following the registration effectiveness date may a Strategic Investor make a transfer representing 2% or more of our total Class A shares to any one person or group of related persons.

Registration Rights

Pursuant to the Lenders Rights Agreement, each Strategic Investor is afforded four demand registrations with respect to its non-voting Class A shares, covering offerings of at least 2.5% of our total equity ownership and customary piggyback registration rights. All cutbacks between the Strategic Investors and Holdings (or its partners) in any such demand registration shall be pro rata based upon the number of shares available for sale at such time (regardless of which party exercises a demand).

Amendments to Managing Partner Transfer Restrictions

Each Strategic Investor has a consent right with respect to any amendment or waiver of any transfer restrictions that apply to our Managing Partners.

Apollo Operating Group Limited Partnership Agreements

Pursuant to the partnership agreements of the Apollo Operating Group partnerships, the indirect wholly-owned subsidiaries of Apollo Global Management, LLC that are the general partners of those partnerships have the right to determine when distributions will be made to the partners of the Apollo Operating Group and the amount of any such distributions. If a distribution is authorized, such distribution will be made to the partners of the Apollo Operating Group pro rata in accordance with their respective partnership interests.

The partnership agreements of the Apollo Operating Group partnerships also provide that substantially all of our expenses, including substantially all expenses solely incurred by or attributable to Apollo Global Management, LLC, will be borne by the Apollo Operating Group; provided that obligations incurred under the tax receivable agreement by Apollo Global Management, LLC and its wholly-owned subsidiaries, income tax expenses of Apollo Global Management, LLC and its wholly-owned subsidiaries and indebtedness incurred by Apollo Global Management, LLC and its wholly-owned subsidiaries shall be borne solely by Apollo Global Management, LLC and its wholly-owned subsidiaries.

Employment Arrangements

Please see the section entitled "Item 11. Executive Compensation-Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table" and "-Potential Payments upon Termination or Change in Control" for a description of the employment agreements of our named executive officers who have employment agreements.

In addition, Joshua Black and Benjamin Black, sons of Leon Black, are each employed by the Company as a Principal and an Associate, respectively, in the Company's private equity business. They are each entitled to receive a base salary, incentive compensation and employee benefits comparable to those offered to similarly situated employees of the Company. Each is also eligible to receive an annual performance-based bonus in an amount determined by the Company in its discretion.

Reimbursements

In the normal course of business, our personnel have made use of aircraft owned as personal assets by Messrs. Black, Rowan and Harris. Messrs. Black, Rowan and Harris paid for their purchases of the aircraft and bear all operating, personnel and

maintenance costs associated with their operation for personal use. Payment by us for the business use of these aircraft by Messrs. Black, Rowan and Harris and other of our personnel totaled $947,963, $1,770,837 and $988,154 for 2015 to Messrs. Black, Rowan and Harris, respectively (which amounts are determined based on the lower of the actual costs of operating the aircraft or a specified hourly market rate).

Investments In Apollo Funds

Our directors and executive officers are generally permitted to invest their own capital (or capital of estate planning vehicles that they control) directly in our funds and affiliated entities. In general, such investments are not subject to management fees, and in certain instances, may not be subject to carried interest. The opportunity to invest in our funds in the same manner is available to all of the senior Apollo professionals and to those of our employees whom we have determined to have a status that reasonably permits us to offer them these types of investments in compliance with applicable laws. From our inception through December 31, 2015, our professionals have committed or invested approximately $1.2 billion of their own capital to our funds.

The amount invested in our investment funds by our directors and executive officers (and their estate planning vehicles) during 2015 was $14,938,433, $15,905,028, $7,807,205, $2,530,157 and $262,832 for Messrs. Black, Harris, Rowan, Suydam, and Kelly, respectively. The amount of distributions, including profits and return of capital to our directors and executive officers (and their estate planning vehicles) during 2015 was $17,850,541, $15,515,746, $7,715,598, $2,516,110 and $7,718 for Messrs. Black, Harris, Rowan, Suydam, and Kelly, respectively.

Sub-Advisory Arrangements and Strategic Investment Accounts

From time to time, we have entered into sub-advisory arrangements with, or established strategic investment accounts for, certain of our directors and executive officers or vehicles they manage. Such arrangements have been approved in advance in accordance with our policy regarding transactions with related persons. In addition, such sub-advisory arrangements or strategic investment accounts have been entered into with, or advised by, an Apollo entity serving as investment advisor registered under the Investment Advisers Act, and any fee arrangements, if applicable, have been on an arms-length basis. The amount of such fees paid by our directors and executive officers or vehicles they manage to the Company during 2015 was $162,291 for Mr. Rowan.

Indemnification of Directors, Officers and Others

Under our operating agreement, in most circumstances we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts: our manager; any departing manager; any person who is or was an affiliate of our manager or any departing manager; any person who is or was a member, partner, tax matters partner, officer, director, employee, agent, fiduciary or trustee of us or our subsidiaries, our manager or any departing manager or any affiliate of us or our subsidiaries, our manager or any departing manager; any person who is or was serving at the request of our manager or any departing manager or any affiliate of our manager or any departing manager as an officer, director, employee, member, partner, agent, fiduciary or trustee of another person; or any person designated by our manager. We have agreed to provide this indemnification unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that these persons acted in bad faith or engaged in fraud or willful misconduct. We have also agreed to provide this indemnification for criminal proceedings. Any indemnification under these provisions will only be out of our assets. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our operating agreement.

We have entered into indemnification agreements with each of our directors, executive officers and certain of our employees which set forth the obligations described above.

We have also agreed to indemnify each of our Managing Partners and certain Contributing Partners against certain amounts that they are required to pay in connection with a general partner obligation for the return of previously made carried interest distributions in respect of Fund IV, Fund V and Fund VI. See the above description of the indemnity provisions of the Managing Partner Shareholders Agreement.

Statement of Policy Regarding Transactions with Related Persons

Our board of directors has adopted a written statement of policy regarding transactions with related persons, which we refer to as our "related person policy." Our related person policy requires that a "related person" (as defined in paragraph (a) of Item 404 of Regulation S-K) must promptly disclose to our Chief Legal Officer any "related person transaction" (defined as any transaction that is reportable by us under Item 404(a) of Regulation S-K in which we were or are to be a participant and the amount involved exceeds $120,000 and in which any related person had or will have a direct or indirect material interest) and all

material facts with respect thereto. Our Chief Legal Officer will then promptly communicate that information to our manager. No related person transaction will be consummated without the approval or ratification of the executive committee of our manager or any committee of our board of directors consisting exclusively of disinterested directors. It is our policy that persons interested in a related person transaction will recuse themselves from any vote of a related person transaction in which they have an interest.

Director Independence

Because more than fifty percent of our voting power is controlled by BRH, we are considered a "controlled company" as defined in the listing standards of the NYSE and we are exempt from the NYSE rules that require that:

- our board of directors be comprised of a majority of independent directors;
- we establish a compensation committee composed solely of independent directors; and
- we establish a nominating and corporate governance committee composed solely of independent directors.

While our board of directors is currently comprised of a majority of independent directors, we plan on availing ourselves of the controlled company exceptions. We have elected not to have a nominating and corporate governance committee comprised entirely of independent directors, nor a compensation committee comprised entirely of independent directors. Our board of directors has determined that five of our eight directors meet the independence standards under the NYSE and the SEC. These directors are Messrs. Ducey, Fribourg, Krongard and Kraft and Ms. Richards.

At such time that we are no longer deemed a controlled company, our board of directors will take all action necessary to comply with all applicable rules within the applicable time period under the NYSE listing standards.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table summarizes the aggregate fees for professional services provided by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, the "Deloitte Entities") for the years ended December 31, 2015 and 2014:

	Year Ended December 31,	
	2015	2014
	(in thousands)	
Audit fees	$ 10,185 (1)	$ 12,810 (1)
Audit fees for Apollo fund entities	20,389 (2)	20,413 (2)
Audit-related fees	6,138 (3)(4)	7,360 (3)(4)
Tax fees	2,188 (5)	3,275 (5)
Tax fees for Apollo fund entities	19,150 (2)	16,857 (2)

(1) Audit fees consisted of fees for (a) the audits of our consolidated financial statements in our Annual Report on Form 10-K and services attendant to, or required by, statute or regulation; (b) reviews of the interim condensed consolidated financial statements included in our quarterly reports on Form 10-Q.
(2) Audit and Tax fees for Apollo fund entities consisted of services to investment funds managed by Apollo in its capacity as the general partner and/or manager of such entities.
(3) Audit-related fees consisted of comfort letters, consents and other services related to SEC and other regulatory filings.
(4) Includes audit-related fees for Apollo fund entities of $0.9 million and $0.3 million for the years ended December 31, 2015 and 2014, respectively.
(5) Tax fees consisted of fees for services rendered for tax compliance and tax planning and advisory services.

Our audit committee charter requires the audit committee of our board of directors to approve in advance all audit and non-audit related services to be provided by our independent registered public accounting firm. All services reported in the Audit, Audit-related, Tax and Other categories above were approved by the committee.

PART IV

ITEM 15. EXHIBITS

Exhibit Number	Exhibit Description
2.1	Transaction Agreement, dated as of August 6, 2015, by and among AMH Holdings (Cayman), L.P., AR Capital, LLC and AR Global, LLC. (incorporated by reference to Exhibit 2.1 to the Registrant's Form 10-Q for the period ended September 30, 2015 (File No. 001-35107)).
2.2	Termination Agreement and Release, dated as of November 8, 2015, by and among AMH Holdings (Cayman), L.P., Apollo Management Holdings, L.P., Apollo Principal Holdings I, L.P., AR Capital, LLC, AR Global Investments, LLC, Nicholas S. Schorsch, Peter M. Budko, William M. Kahane, Edward M. Weil, Jr. and Brian S. Block. (incorporated by reference to Exhibit 2.2 to the Registrant's Form 10-Q for the period ended September 30, 2015 (File No. 001-35107)).
2.3	Membership Interest Purchase Agreement, dated as of August 6, 2015, by and among Apollo Management Holdings, L.P., RCS Capital Corporation and RCS Capital Holdings, LLC. (incorporated by reference to Exhibit 2.3 to the Registrant's Form 10-Q for the period ended September 30, 2015 (File No. 001-35107)).
2.4	First Amendment to the Membership Interest Purchase Agreement, dated as of August 19, 2015, by and among Apollo Management Holdings, L.P., RCS Capital Corporation and RCS Capital Holdings, LLC. (incorporated by reference to Exhibit 2.4 to the Registrant's Form 10-Q for the period ended September 30, 2015 (File No. 001-35107)).
2.5	Amended and Restated Membership Interest Purchase Agreement, dated as of November 8, 2015, by and among RCS Capital Corporation, RCS Capital Holdings, LLC and Apollo Management Holdings, L.P. (incorporated by reference to Exhibit 2.5 to the Registrant's Form 10-Q for the period ended September 30, 2015 (File No. 001-35107)).
3.1	Certificate of Formation of Apollo Global Management, LLC (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
3.2	Amended and Restated Limited Liability Company Agreement of Apollo Global Management, LLC (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
4.1	Specimen Certificate evidencing the Registrant's Class A shares (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
4.2	Indenture dated as of May 30, 2014, among Apollo Management Holdings, L.P., the Guarantors party thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 30, 2014 (File No. 001-35107)).
4.3	First Supplemental Indenture dated as of May 30, 2014, among Apollo Management Holdings, L.P., the Guarantors party thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 30, 2014 (File No. 001-35107)).
4.4	Form of 4.000% Senior Note due 2024 (included in Exhibit 4.2 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 30, 2014 (File No. 001-35107), which is incorporated by reference).

Exhibit Number	Exhibit Description
4.5	Second Supplemental Indenture dated as of January 30, 2015, among Apollo Management Holdings, L.P., the Guarantors party thereto, Apollo Principal Holdings X, L.P. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.5 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
4.6	Registration Rights Agreement, dated as of August 19, 2015, by and among RCS Capital Corporation and Apollo Principal Holdings I, L.P. (incorporated by reference to Exhibit 4.6 to the Registrant's Form 10-Q for the period ended September 30, 2015 (File No. 001-35107)).
10.1	Amended and Restated Limited Liability Company Operating Agreement of AGM Management, LLC dated as of July 10, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.2	Third Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings I, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.3	Third Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings II, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.4	Third Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings III, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.5	Third Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings IV, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.6	Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.7	Agreement Among Principals, dated as of July 13, 2007, by and among Leon D. Black, Marc J. Rowan, Joshua J. Harris, Black Family Partners, L.P., MJR Foundation LLC, AP Professional Holdings, L.P. and BRH Holdings, L.P. (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.8	Shareholders Agreement, dated as of July 13, 2007, by and among Apollo Global Management, LLC, AP Professional Holdings, L.P., BRH Holdings, L.P., Black Family Partners, L.P., MJR Foundation LLC, Leon D. Black, Marc J. Rowan and Joshua J. Harris (incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.9	Second Amended and Restated Exchange Agreement, dated as of March 5, 2014, by and among Apollo Global Management, LLC, Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P., AMH Holdings (Cayman), L.P. and the Apollo Principal Holders (as defined therein) from time to time party thereto (incorporated by reference to Exhibit 10.11 to the Registrant's Form 10-Q for the period ended March 31, 2014 (File No. 001-35107)).

Exhibit Number	Exhibit Description
10.10	Amended and Restated Tax Receivable Agreement, dated as of May 6, 2013, by and among APO Corp., Apollo Principal Holdings II, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings VI, Apollo Principal Holdings VIII, L.P., AMH Holdings (Cayman), L.P. and each Holder defined therein (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 7, 2013 (File No. 001-35107)).
+10.11	Employment Agreement with Leon D. Black (incorporated by reference to Exhibit 10.43 to the Registrant's Form 10-Q for the period ended June 30, 2012 (File No. 001-35107)).
+10.12	Employment Agreement with Marc J. Rowan (incorporated by reference to Exhibit 10.44 to the Registrant's Form 10-Q for the period ended June 30, 2012 (File No. 001-35107)).
+10.13	Employment Agreement with Joshua J. Harris (incorporated by reference to Exhibit 10.45 to the Registrant's Form 10-Q for the period ended June 30, 2012 (File No. 001-35107)).
10.14	Second Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings V, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.20 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.15	Second Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings VI, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.21 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.16	Second Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings VII, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.22 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.17	Second Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings VIII, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.23 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.18	Second Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings IX, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.24 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.19	Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings X, L.P. dated as of April 8, 2015 (incorporated by reference to Exhibit 10.19 to the Registrant's Form 10-Q for the period ended March 31, 2015 (File No. 001-35107)).
10.20	Fourth Amended and Restated Limited Partnership Agreement of Apollo Management Holdings, L.P. dated as of October 30, 2012 (incorporated by reference to Exhibit 10.25 to the Registrant's Form 10-Q for the period ended March 31, 2013 (File No. 001-35107)).
10.21	Settlement Agreement, dated December 14, 2008, by and among Huntsman Corporation, Jon M. Huntsman, Peter R. Huntsman, Hexion Specialty Chemicals, Inc., Hexion LLC, Nimbus Merger Sub, Inc., Craig O. Morrison, Leon Black, Joshua J. Harris and Apollo Global Management, LLC and certain of its affiliates (incorporated by reference to Exhibit 10.26 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).

Exhibit Number	Exhibit Description
10.22	First Amendment and Joinder, dated as of August 18, 2009, to the Shareholders Agreement, dated as of July 13, 2007, by and among Apollo Global Management, LLC, AP Professional Holdings, L.P., BRH Holdings, L.P., Black Family Partners, L.P., MJR Foundation LLC, Leon D. Black, Marc J. Rowan and Joshua J. Harris (incorporated by reference to Exhibit 10.27 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.23	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.28 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.24	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for Plan Grants) (incorporated by reference to Exhibit 10.31 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.25	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for Bonus Grants) (incorporated by reference to Exhibit 10.32 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.26	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for new independent directors) (incorporated by reference to Exhibit 10.31 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.27	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for continuing independent directors) (incorporated by reference to Exhibit 10.32 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.28	Form of Restricted Share Award Grant Notice and Restricted Share Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.33 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.29	Form of Share Award Grant Notice and Share Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for Retired Partners) (incorporated by reference to Exhibit 10.34 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.30	Apollo Management Companies AAA Unit Plan (incorporated by reference to Exhibit 10.34 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.31	Non-Qualified Share Option Agreement pursuant to the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan with Marc Spilker dated December 2, 2010 (incorporated by reference to Exhibit 10.40 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.32	Amended Form of Independent Director Engagement Letter (incorporated by reference to Exhibit 10.38 to the Registrant's Form 10-Q for the period ended March 31, 2014 (File No. 001-35107)).
+10.33	Employment Agreement with Martin Kelly, dated July 2, 2012 (incorporated by reference to Exhibit 10.42 to the Registrant's Form 10-Q for the period ended June 30, 2012 (File No. 001-35107)).

Exhibit Number	Exhibit Description
10.34	Second Amended and Restated Exempted Limited Partnership Agreement of AMH Holdings (Cayman), L.P., dated November 30, 2012 (incorporated by reference to Exhibit 10.38 to the Registrant's Form 10-Q for the period ended June 30, 2015 (File No. 001-35107)).
+10.35	Amended and Restated Limited Partnership Agreement of Apollo Advisors VI, L.P., dated as of April 14, 2005 and amended as of August 26, 2005 (incorporated by reference to Exhibit 10.41 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.36	Third Amended and Restated Limited Partnership Agreement of Apollo Advisors VII, L.P. dated as of July 1, 2008 and effective as of August 30, 2007 (incorporated by reference to Exhibit 10.42 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.37	Third Amended and Restated Limited Partnership Agreement of Apollo Credit Opportunity Advisors I, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.43 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.38	Third Amended and Restated Limited Partnership Agreement of Apollo Credit Opportunity Advisors II, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.44 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.39	Third Amended and Restated Limited Partnership Agreement of Apollo Credit Liquidity Advisors, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.45 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.40	Second Amended and Restated Limited Partnership Agreement of Apollo Credit Liquidity CM Executive Carry, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.46 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.41	Second Amended and Restated Limited Partnership Agreement Apollo Credit Opportunity CM Executive Carry I, L.P. dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.47 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.42	Second Amended and Restated Limited Partnership Agreement of Apollo Credit Opportunity CM Executive Carry II, L.P. dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.48 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.43	Second Amended and Restated Exempted Limited Partnership Agreement of AGM Incentive Pool, L.P., dated June 29, 2012 (incorporated by reference to Exhibit 10.49 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
10.44	Credit Agreement, dated as of December 18, 2013, by and among Apollo Management Holdings, L.P., as the Term Facility Borrower and a Revolving Facility Borrower, the other Revolving Facility Borrowers party thereto, the other guarantors party thereto from time to time, the lenders party thereto from time to time, the issuing banks party thereto from time to time and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.50 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).

Exhibit Number	Exhibit Description
10.45	Guarantor Joinder Agreement, dated as of January 30, 2015, by Apollo Principal Holdings X, L.P. to the Credit Agreement, dated as of December 18, 2013, by and among Apollo Management Holdings, L.P., as the Term Facility Borrower and a Revolving Facility Borrower, the other Revolving Facility Borrowers party thereto, the existing guarantors party thereto, the lenders party thereto from time to time, the issuing banks party thereto from time to time and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.49 to the Registrant's Form 10-Q for the period ended March 31, 2015 (File No. 001-35107)).
+10.46	Form of Letter Agreement under the Amended and Restated Limited Partnership Agreement of Apollo Advisors VIII, L.P. effective as of January 1, 2014 (incorporated by reference to Exhibit 10.56 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.47	Form of Award Letter under the Amended and Restated Limited Partnership Agreement of Apollo Advisors VIII, L.P. effective as of January 1, 2014 (incorporated by reference to Exhibit 10.57 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.48	Amended and Restated Limited Partnership Agreement of Apollo EPF Advisors, L.P., dated as of February 3, 2011 (incorporated by reference to Exhibit 10.52 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.49	First Amended and Restated Exempted Limited Partnership Agreement of Apollo EPF Advisors II, L.P. dated as of April 9, 2012 (incorporated by reference to Exhibit 10.53 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.50	Amended and Restated Agreement of Exempted Limited Partnership of Apollo CIP Partner Pool, L.P., dated as of December 18, 2014 (incorporated by reference to Exhibit 10.54 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.51	Form of Award Letter under the Amended and Restated Agreement of Exempted Limited Partnership Agreement of Apollo CIP Partner Pool, L.P. (incorporated by reference to Exhibit 10.55 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.52	Second Amended and Restated Agreement of Limited Partnership of Apollo Credit Opportunity Advisors III (APO FC), L.P., dated as of December 18, 2014 (incorporated by reference to Exhibit 10.56 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.53	Form of Award Letter under Second Amended and Restated Agreement of Limited Partnership of Apollo Credit Opportunity Advisors III (APO FC), L.P. (incorporated by reference to Exhibit 10.57 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
10.54	Guaranty and Support Agreement, dated as of August 6, 2015, by and among AMH Holdings (Cayman), L.P., Nicholas S. Schorsch, Peter M. Budko, William M. Kahane, Edward M. Weil, Jr. and Brian S. Block. (incorporated by reference to Exhibit 10.59 to the Registrant's Form 10-Q for the period ended September 30, 2015 (File No. 001-35107)).
10.55	Investment Agreement, dated as of August 6, 2015, by and between Apollo Management Holdings, L.P. and RCS Capital Corporation. (incorporated by reference to Exhibit 10.60 to the Registrant's Form 10-Q for the period ended September 30, 2015 (File No. 001-35107)).

Exhibit Number	Exhibit Description
*21.1	Subsidiaries of Apollo Global Management, LLC
*23.1	Consent of Deloitte & Touche LLP.
*31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
*31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
*32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
*32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Scheme Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

\+ Management contract or compensatory plan or arrangement.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Apollo Global Management, LLC
(Registrant)

Date: February 29, 2016

By: /s/ Martin Kelly
Name: Martin Kelly
Title: Chief Financial Officer
(principal financial officer and authorized signatory)

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Name	Title	Date
/s/ Leon Black Leon Black	Chairman and Chief Executive Officer and Director (principal executive officer)	February 29, 2016
/s/ Martin Kelly Martin Kelly	Chief Financial Officer (principal financial officer)	February 29, 2016
/s/ Chris Weidler Chris Weidler	Chief Accounting Officer (principal accounting officer)	February 29, 2016
/s/ Joshua Harris Joshua Harris	Senior Managing Director and Director	February 29, 2016
/s/ Marc Rowan Marc Rowan	Senior Managing Director and Director	February 29, 2016
/s/ Michael Ducey Michael Ducey	Director	February 29, 2016
/s/ Paul Fribourg Paul Fribourg	Director	February 29, 2016
/s/ Robert Kraft Robert Kraft	Director	February 29, 2016
/s/ AB Krongard AB Krongard	Director	February 29, 2016
/s/ Pauline Richards Pauline Richards	Director	February 29, 2016

Exhibit 21.1

LIST OF SUBSIDIARIES

Entity Name	Jurisdiction of Organization
2012 CMBS-I GP LLC	Delaware
2012 CMBS-I Management LLC	Delaware
2012 CMBS-II GP LLC	Delaware
2012 CMBS-II Management LLC	Delaware
2012 CMBS-III GP LLC	Delaware
2012 CMBS-III Management LLC	Delaware
A/A Capital Management, LLC	Delaware
A/A Investor I, LLC	Delaware
A-A Mortgage Opportunities Corp.	Delaware
AAA Associates (Co-Invest VII GP), Ltd.	Cayman Islands
AAA Associates (Co-Invest VII), L.P.	Cayman Islands
AAA Associates, L.P.	Guernsey
AAA Guernsey Limited	Guernsey
AAA Holdings GP Limited	Guernsey
AAA Holdings, L.P.	Guernsey
AAA Life Re Carry, L.P.	Cayman Islands
AAA MIP Limited	Guernsey
AAM GP Ltd.	Cayman Islands
AAME UK CM, LLC	Anguilla
ACC Advisors A/B, LLC	Delaware
ACC Advisors C, LLC	Delaware
ACC Advisors D, LLC	Delaware
ACC Management, LLC	Delaware
ACREFI Management, LLC	Delaware
AEM GP, LLC	Delaware
AES Advisors II GP, LLC	Delaware
AES Advisors II, L.P.	Cayman Islands
AES Co-Investors II, LLC	Delaware
AGM Incentive Pool, L.P.	Cayman Islands
AGM India Advisors Private Limited	India
AGM Marketing Pool, L.P.	Cayman Islands
AGRE - CRE Debt Manager, LLC	Delaware
AGRE - DCB, LLC	Delaware
AGRE - E Legacy Management, LLC	Delaware
AGRE - E2 Legacy Management, LLC	Delaware
AGRE Asia Pacific Legacy Management, LLC	Delaware
AGRE Asia Pacific Management, LLC	Delaware
AGRE Asia Pacific Real Estate Advisors GP, Ltd	Cayman Islands
AGRE Asia Pacific Real Estate Advisors, L.P.	Cayman Islands
AGRE CMBS GP II LLC	Delaware
AGRE CMBS GP LLC	Delaware
AGRE CMBS Management II LLC	Delaware
AGRE CMBS Management LLC	Delaware
AGRE Debt Fund I GP, Ltd.	Cayman Islands
AGRE Europe Co-Invest Advisors GP, LLC	Marshall Islands
AGRE Europe Co-Invest Advisors, L.P.	Marshall Islands
AGRE Europe Co-Invest Management GP, LLC	Marshall Islands
AGRE Europe Co-Invest Management, L.P.	Marshall Islands
AGRE Europe Legacy Management, LLC	Delaware
AGRE Europe Management, LLC	Delaware

AGRE GP Holdings, LLC	Delaware
AGRE Hong Kong Management, LLC	Delaware
AGRE NA Legacy Management, LLC	Delaware
AGRE NA Management, LLC	Delaware
AGRE U.S. Real Estate Advisors Cayman, Ltd.	Cayman Islands
AGRE U.S. Real Estate Advisors GP, LLC	Delaware
AGRE U.S. Real Estate Advisors, L.P.	Delaware
AHL 2014 Investor GP, Ltd.	Cayman Islands
AIF III Management, LLC	Delaware
AIF V Management, LLC	Delaware
AIF VI Management Pool Investors, L.P.	Delaware
AIF VI Management, LLC	Delaware
AIF VII Management, LLC	Delaware
AIF VIII Management, LLC	Delaware
AIM Pool Investors, L.P.	Delaware
AION Co-Investors (D) Ltd	Mauritius
ALM IV, Ltd.	Cayman Islands
ALM Loan Funding 2010-1, LLC	Delaware
ALM Loan Funding 2010-3, LLC	Delaware
ALM V, Ltd.	Cayman Islands
ALM VI, Ltd.	Cayman Islands
ALM VII (R), LLC	Delaware
ALM VII (R)-2, LLC	Delaware
ALM VII(R), Ltd.	Cayman Islands
ALM VII(R)-2, Ltd.	Cayman Islands
ALM VII, Ltd.	Cayman Islands
ALM VIII, Ltd.	Cayman Islands
ALM X, LLC	Delaware
ALM X, Ltd.	Cayman Islands
ALM XI, LLC	Delaware
ALM XI, Ltd.	Cayman Islands
ALM XIV, LLC	Delaware
ALM XIV, Ltd.	Cayman Islands
ALME Loan Funding II Limited	Ireland
ALME Loan Funding III Limited	Ireland
AMH Holdings (Cayman), L.P.	Cayman Islands
AMH Holdings GP, Ltd.	Cayman Islands
AMI (Holdings), LLC	Delaware
AMI (Luxembourg) S.a r.l.	Luxembourg
ANRP EPE GenPar, Ltd.	Cayman Islands
ANRP II GenPar, Ltd.	Cayman Islands
ANRP PG GenPar, Ltd.	Cayman Islands
ANRP Talos GenPar, Ltd.	Cayman Islands
AP Alternative Assets, L.P.	Guernsey
AP AOP VII Transfer Holdco, LLC	Delaware
AP Transport LLC	Delaware
AP TSL Funding, LLC	Delaware
APH HFA Holdings GP, Ltd	Cayman Islands
APH HFA Holdings, L.P.	Cayman Islands
APH Holdings (DC), L.P.	Cayman Islands
APH Holdings (FC), L.P.	Cayman Islands
APH Holdings, L.P.	Cayman Islands
APH I (Sub I), Ltd.	Cayman Islands
APH III (Sub I), Ltd.	Cayman Islands

APO (FC II), LLC	Anguilla
APO (FC), LLC	Anguilla
APO Asset Co., LLC	Delaware
APO Corp.	Delaware
APO UK (FC), LLC	Anguilla
Apollo Achilles Co-Invest GP, LLC	Anguilla
Apollo Administration GP Ltd.	Cayman Islands
Apollo Advisors (Mauritius) Ltd.	Mauritius
Apollo Advisors (MHE), LLC	Delaware
Apollo Advisors IV, L.P.	Delaware
Apollo Advisors V (EH Cayman), L.P.	Cayman Islands
Apollo Advisors V (EH), LLC	Anguilla
Apollo Advisors V, L.P.	Delaware
Apollo Advisors VI (APO DC), L.P.	Delaware
Apollo Advisors VI (APO DC-GP), LLC	Delaware
Apollo Advisors VI (APO FC), L.P.	Cayman Islands
Apollo Advisors VI (APO FC-GP), LLC	Anguilla
Apollo Advisors VI (EH), L.P.	Cayman Islands
Apollo Advisors VI (EH-GP), Ltd.	Cayman Islands
Apollo Advisors VI, L.P.	Delaware
Apollo Advisors VII (APO DC), L.P.	Delaware
Apollo Advisors VII (APO DC-GP), LLC	Delaware
Apollo Advisors VII (APO FC), L.P.	Cayman Islands
Apollo Advisors VII (APO FC-GP), LLC	Anguilla
Apollo Advisors VII (EH), L.P.	Cayman Islands
Apollo Advisors VII (EH-GP), Ltd.	Cayman Islands
Apollo Advisors VII, L.P.	Delaware
Apollo Advisors VIII (APO DC), L.P.	Delaware
Apollo Advisors VIII (APO DC-GP), LLC	Delaware
Apollo Advisors VIII (APO FC), L.P.	Cayman Islands
Apollo Advisors VIII (APO FC-GP), Ltd.	Cayman Islands
Apollo Advisors VIII (EH), L.P.	Cayman Islands
Apollo Advisors VIII (EH-GP), Ltd.	Cayman Islands
Apollo Advisors VIII, L.P.	Delaware
Apollo AGRE APREF Co-Investors (D), L.P.	Cayman Islands
Apollo AGRE Prime Co-Investors (D), LLC	Anguilla
Apollo AGRE USREF Co-Investors (B), LLC	Delaware
Apollo AIE II Co-Investors (B), L.P.	Cayman Islands
Apollo AION Capital Partners GP, LLC	Delaware
Apollo AION Capital Partners, L.P.	Cayman Islands
Apollo ALS Holdings II GP, LLC	Delaware
Apollo ALST GenPar, Ltd.	Cayman Islands
Apollo ALST Voteco, LLC	Delaware
Apollo Alteri Investments Advisors, L.P.	Cayman Islands
Apollo Alteri Investments Management, Ltd.	Cayman Islands
Apollo Alternative Assets GP Limited	Cayman Islands
Apollo Alternative Assets, L.P.	Cayman Islands
Apollo Alternative Credit Absolute Return Advisors LLC	Delaware
Apollo Alternative Credit Absolute Return Management LLC	Delaware
Apollo Alternative Credit Long Short Advisors LLC	Delaware
Apollo Alternative Credit Long Short Management LLC	Delaware
Apollo A-N Credit Advisors (APO FC Delaware), L.P.	Delaware
Apollo A-N Credit Advisors (APO FC-GP), LLC	Delaware
Apollo A-N Credit Co-Investors (FC-D), L.P.	Delaware

Apollo A-N Credit Management, LLC	Delaware
Apollo Anguilla B LLC	Anguilla
Apollo ANRP Advisors (APO DC), L.P.	Delaware
Apollo ANRP Advisors (APO DC-GP), LLC	Delaware
Apollo ANRP Advisors (APO FC), L.P.	Cayman Islands
Apollo ANRP Advisors (APO FC-GP), LLC	Anguilla
Apollo ANRP Advisors (IH), L.P.	Cayman Islands
Apollo ANRP Advisors (IH-GP), LLC	Anguilla
Apollo ANRP Advisors II (APO DC), L.P.	Delaware
Apollo ANRP Advisors II (APO DC-GP), LLC	Delaware
Apollo ANRP Advisors II, L.P.	Delaware
Apollo ANRP Advisors, L.P.	Delaware
Apollo ANRP Capital Management II, LLC	Delaware
Apollo ANRP Capital Management, LLC	Delaware
Apollo ANRP Co-Investors (D), L.P.	Delaware
Apollo ANRP Co-Investors (DC-D), L.P.	Delaware
Apollo ANRP Co-Investors (FC-D), LP	Anguilla
Apollo ANRP Co-Investors (IH-D), LP	Anguilla
Apollo ANRP Co-Investors II (D), L.P.	Delaware
Apollo ANRP Co-Investors II (DC-D), L.P.	Delaware
Apollo ANRP Fund Administration, LLC	Delaware
Apollo APC Advisors, L.P.	Cayman Islands
Apollo APC Capital Management, LLC	Anguilla
Apollo APC Management GP, LLC	Delaware
Apollo APC Management, L.P.	Delaware
Apollo Arrowhead Management, LLC	Delaware
Apollo Asia Administration, LLC	Delaware
Apollo Asia Advisors, L.P.	Delaware
Apollo Asia Capital Management, LLC	Delaware
Apollo Asia Management GP, LLC	Delaware
Apollo Asia Management, L.P.	Delaware
Apollo Asia Real Estate Advisors GP, LLC	Delaware
Apollo Asia Real Estate Management, LLC	Delaware
Apollo Asian Infrastructure Management, LLC	Delaware
Apollo ASPL Management, LLC	Delaware
Apollo Athlon GenPar, Ltd.	Cayman Islands
Apollo BCSSS Management, LLC	Delaware
Apollo BSL Management, LLC	Delaware
Apollo Capital Credit Management, LLC	Delaware
Apollo Capital Management GP, LLC	Delaware
Apollo Capital Management IV, Inc.	Delaware
Apollo Capital Management V, Inc.	Delaware
Apollo Capital Management VI, LLC	Delaware
Apollo Capital Management VII, LLC	Delaware
Apollo Capital Management VIII, LLC	Delaware
Apollo Capital Management, L.P.	Delaware
Apollo Capital Spectrum Advisors, LLC	Delaware
Apollo Capital Spectrum Management, LLC	Delaware
Apollo Centre Street Advisors (APO DC), L.P.	Delaware
Apollo Centre Street Advisors (APO DC-GP), LLC	Delaware
Apollo Centre Street Co-Investors (DC-D), L.P.	Delaware
Apollo Centre Street Management, LLC	Delaware
Apollo CIP European SMAs & CLOs, L.P.	Cayman Islands
Apollo CIP GenPar, Ltd.	Cayman Islands

Apollo CIP Global SMAs (FC), L.P.	Cayman Islands
Apollo CIP Global SMAs, L.P.	Cayman Islands
Apollo CIP Hedge Funds, L.P.	Cayman Islands
Apollo CIP Partner Pool, L.P.	Cayman Islands
Apollo CIP Professionals, L.P.	Delaware
Apollo CIP Structured Credit, L.P.	Cayman Islands
Apollo CIP US SMAs, L.P.	Cayman Islands
Apollo CKE GP, LLC	Delaware
Apollo COF I Capital Management, LLC	Delaware
Apollo COF II Capital Management, LLC	Delaware
Apollo COF Investor, LLC	Delaware
Apollo Co-Investment Capital Management, LLC	Delaware
Apollo Co-Investment Management, LLC	Delaware
Apollo Co-Investors Manager, LLC	Delaware
Apollo Co-Investors VI (D), L.P.	Delaware
Apollo Co-Investors VI (DC-D), L.P.	Delaware
Apollo Co-Investors VI (EH-D), LP	Anguilla
Apollo Co-Investors VI (FC-D), LP	Anguilla
Apollo Co-Investors VII (D), L.P.	Delaware
Apollo Co-Investors VII (DC-D), L.P.	Delaware
Apollo Co-Investors VII (EH-D), LP	Anguilla
Apollo Co-Investors VII (FC-D), L.P.	Anguilla
Apollo Co-Investors VII (NR D), L.P.	Delaware
Apollo Co-Investors VII (NR DC-D), L.P.	Delaware
Apollo Co-Investors VII (NR EH-D), LP	Anguilla
Apollo Co-Investors VII (NR FC-D), LP	Anguilla
Apollo Co-Investors VIII (D), L.P.	Delaware
Apollo Co-Investors VIII (DC-D), L.P.	Delaware
Apollo Co-Investors VIII (EH-D), L.P.	Cayman Islands
Apollo Co-Investors VIII (FC-D), L.P.	Cayman Islands
Apollo Commodities Management GP, LLC	Delaware
Apollo Commodities Management, L.P	Delaware
Apollo Commodities Management, L.P., with respect to Series I	Delaware
Apollo Commodities Partners Fund Administration, LLC	Delaware
Apollo Consumer Credit Advisors, LLC	Delaware
Apollo Consumer Credit Fund, L.P.	Delaware
Apollo Consumer Credit Master Fund, L.P.	Delaware
Apollo Credit Advisors I, LLC	Delaware
Apollo Credit Advisors II, LLC	Delaware
Apollo Credit Advisors III, LLC	Delaware
Apollo Credit Capital Management, LLC	Delaware
Apollo Credit Fund LP	Delaware
Apollo Credit Funding I Ltd.	Cayman Islands
Apollo Credit Funding III Ltd.	Cayman Islands
Apollo Credit Income Advisors LLC	Delaware
Apollo Credit Income Co-Investors (D) LLC	Delaware
Apollo Credit Income Management LLC	Delaware
Apollo Credit Liquidity Advisors, L.P.	Delaware
Apollo Credit Liquidity Capital Management, LLC	Delaware
Apollo Credit Liquidity CM Executive Carry, L.P.	Delaware
Apollo Credit Liquidity Investor, LLC	Delaware
Apollo Credit Liquidity Management GP, LLC	Delaware
Apollo Credit Liquidity Management, L.P.	Delaware
Apollo Credit Management (CLO), LLC	Delaware

Apollo Credit Management (European Senior Debt), LLC	Delaware
Apollo Credit Management (Senior Loans) II, LLC	Delaware
Apollo Credit Management (Senior Loans), LLC	Delaware
Apollo Credit Management, LLC	Delaware
Apollo Credit Opportunity Advisors I, L.P.	Delaware
Apollo Credit Opportunity Advisors II, L.P.	Delaware
Apollo Credit Opportunity Advisors III (APO FC) GP LLC	Delaware
Apollo Credit Opportunity Advisors III (APO FC) LP	Delaware
Apollo Credit Opportunity Advisors III GP LLC	Delaware
Apollo Credit Opportunity Advisors III LP	Delaware
Apollo Credit Opportunity CM Executive Carry I, L.P.	Delaware
Apollo Credit Opportunity CM Executive Carry II, L.P.	Delaware
Apollo Credit Opportunity Co-Investors III (D) LLC	Delaware
Apollo Credit Opportunity Co-Investors III (FC-D) LLC	Delaware
Apollo Credit Opportunity Management III LLC	Delaware
Apollo Credit Opportunity Management, LLC	Delaware
Apollo Credit Senior Loan Fund, L.P.	Delaware
Apollo Credit Short Opportunities Advisors LLC	Delaware
Apollo Credit Short Opportunities Co-Investors (D), LLC	Delaware
Apollo Credit Short Opportunities Management, LLC	Delaware
Apollo Emerging Markets Absolute Return Advisors GP LLC	Delaware
Apollo Emerging Markets Absolute Return Advisors LP	Cayman Islands
Apollo Emerging Markets Absolute Return Co-Investors (D) GP LLC	Delaware
Apollo Emerging Markets Absolute Return Co-Investors (D) LP	Delaware
Apollo Emerging Markets Absolute Return Management LLC	Delaware
Apollo Emerging Markets Fixed Income Strategies Advisors GP, LLC	Delaware
Apollo Emerging Markets Fixed Income Strategies Advisors, L.P.	Cayman Islands
Apollo Emerging Markets Fixed Income Strategies Management, LLC	Delaware
Apollo Emerging Markets, LLC	Delaware
Apollo Energy Opportunity Advisors GP LLC	Delaware
Apollo Energy Opportunity Advisors LP	Delaware
Apollo Energy Opportunity Co-Investors (D) LLC	Delaware
Apollo Energy Opportunity Management LLC	Delaware
Apollo Energy Yield Advisors LLC	Delaware
Apollo Energy Yield Co-Investors (D) LLC	Delaware
Apollo Energy Yield Management LLC	Delaware
Apollo EPF Administration, Limited	Cayman Islands
Apollo EPF Advisors II, L.P.	Cayman Islands
Apollo EPF Advisors, L.P.	Cayman Islands
Apollo EPF Capital Management, Limited	Cayman Islands
Apollo EPF Co-Investors (B), L.P.	Cayman Islands
Apollo EPF Co-Investors II (D), L.P.	Cayman Islands
Apollo EPF Co-Investors II (Euro), L.P.	Cayman Islands
Apollo EPF II Capital Management, LLC	Marshall Islands
Apollo EPF Management GP, LLC	Delaware
Apollo EPF Management II GP, LLC	Delaware
Apollo EPF Management II, L.P.	Delaware
Apollo EPF Management, L.P.	Delaware
Apollo Europe Advisors III, L.P.	Cayman Islands
Apollo Europe Advisors, L.P.	Cayman Islands
Apollo Europe Capital Management III, LLC	Delaware
Apollo Europe Capital Management, Ltd.	Cayman Islands
Apollo Europe Co-Investors III (D), LLC	Delaware
Apollo Europe Management III, LLC	Delaware

Apollo Europe Management, L.P.	Delaware
Apollo European Credit Advisors GP, LLC	Delaware
Apollo European Credit Advisors, L.P.	Cayman Islands
Apollo European Credit Co-Investors, LLC	Delaware
Apollo European Credit Management GP, LLC	Delaware
Apollo European Credit Management, L.P.	Delaware
Apollo European Long Short Advisors GP, LLC	Delaware
Apollo European Long Short Advisors, L.P.	Cayman Islands
Apollo European Long Short Management, LLC	Delaware
Apollo European Senior Debt Advisors II, LLC	Delaware
Apollo European Senior Debt Advisors, LLC	Delaware
Apollo European Senior Debt Management, LLC	Delaware
Apollo European Strategic Advisors GP, LLC	Delaware
Apollo European Strategic Advisors, L.P.	Cayman Islands
Apollo European Strategic Co-Investors, LLC	Delaware
Apollo European Strategic Management GP, LLC	Delaware
Apollo European Strategic Management, L.P.	Delaware
Apollo Executive Carry VII (NR APO DC), L.P.	Delaware
Apollo Executive Carry VII (NR APO FC), L.P.	Cayman Islands
Apollo Executive Carry VII (NR EH), L.P.	Cayman Islands
Apollo Executive Carry VII (NR), L.P.	Delaware
Apollo Franklin Advisors (APO DC), L.P.	Delaware
Apollo Franklin Advisors (APO DC-GP), LLC	Delaware
Apollo Franklin Co-Investors (DC-D), L.P.	Delaware
Apollo Franklin Management, LLC	Delaware
Apollo Fund Administration IV, L.L.C.	Delaware
Apollo Fund Administration V, L.L.C.	Delaware
Apollo Fund Administration VI, LLC	Delaware
Apollo Fund Administration VII, LLC	Delaware
Apollo Fund Administration VIII, LLC	Delaware
Apollo Gaucho GenPar, Ltd	Cayman Islands
Apollo Global Funding, LLC	Delaware
Apollo Global Real Estate Management GP, LLC	Delaware
Apollo Global Real Estate Management, L.P.	Delaware
Apollo Global Securities, LLC	Delaware
Apollo GSS GP Limited	Guernsey
Apollo Hercules Advisors GP, LLC	Delaware
Apollo Hercules Advisors, L.P.	Cayman Islands
Apollo Hercules Co-Investors (D), LLC	Delaware
Apollo Hercules Management, LLC	Delaware
Apollo HK TMS Investment Holdings GP, LLC	Delaware
Apollo HK TMS Investment Holdings Management, LLC	Delaware
Apollo India Credit Opportunity Management, LLC	Delaware
Apollo International Management (Canada) ULC	British Columbia
Apollo International Management GP, LLC	Delaware
Apollo International Management, L.P.	Delaware
Apollo Investment Administration, LLC	Delaware
Apollo Investment Consulting LLC	Delaware
Apollo Investment Management, L.P.	Delaware
Apollo Jupiter Resources Co-Invest GP, LLC	Delaware
Apollo Laminates Agent, LLC	Delaware
Apollo Life Asset Ltd.	Cayman Islands
Apollo Lincoln Fixed Income Advisors (APO DC), L.P.	Delaware
Apollo Lincoln Fixed Income Advisors (APO DC-GP), LLC	Delaware

Apollo Lincoln Fixed Income Management, LLC	Delaware
Apollo Lincoln Private Credit Advisors (APO DC), L.P.	Delaware
Apollo Lincoln Private Credit Advisors (APO DC-GP), LLC	Delaware
Apollo Lincoln Private Credit Co-Investors (DC-D), L.P.	Delaware
Apollo Lincoln Private Credit Management, LLC	Delaware
Apollo Longevity, LLC	Delaware
Apollo Management (AOP) VII, LLC	Delaware
Apollo Management (AOP) VIII, LLC	Delaware
Apollo Management (Germany) VI, LLC	Delaware
Apollo Management (UK) VI, LLC	Delaware
Apollo Management (UK), L.L.C.	Delaware
Apollo Management Advisors Espana, S.L.U.	Spain
Apollo Management Advisors GmbH	Germany
Apollo Management Asia Pacific Limited	Hong Kong
Apollo Management GP, LLC	Delaware
Apollo Management Holdings GP, LLC	Delaware
Apollo Management Holdings, L.P.	Delaware
Apollo Management III, L.P.	Delaware
Apollo Management International LLP	United Kingdom
Apollo Management IV, L.P.	Delaware
Apollo Management Singapore Pte Ltd.	Singapore
Apollo Management V, L.P.	Delaware
Apollo Management VI, L.P.	Delaware
Apollo Management VII, L.P.	Delaware
Apollo Management VIII, L.P.	Delaware
Apollo Management, L.P.	Delaware
Apollo Maritime Management, LLC	Delaware
Apollo Master Fund Administration, LLC	Delaware
Apollo Master Fund Feeder Advisors, L.P.	Delaware
Apollo Master Fund Feeder Management, LLC	Delaware
Apollo MidCap FinCo Feeder GP LLC	Delaware
Apollo MidCap Holdings (Cayman) GP, Ltd.	Cayman Islands
Apollo MidCap Holdings (Cayman) II GP, Ltd.	Cayman Islands
Apollo MidCap Holdings (Cayman) II, L.P.	Cayman Islands
Apollo MidCap Holdings (Cayman), L.P.	Cayman Islands
Apollo Moultrie Capital Management, LLC	Delaware
Apollo Moultrie Credit Fund Advisors, L.P	Delaware
Apollo Moultrie Credit Fund Management, LLC	Delaware
Apollo NA Management II, LLC	Delaware
Apollo Offshore Credit Fund Ltd.	Cayman Islands
Apollo Palmetto Advisors, L.P.	Delaware
Apollo Palmetto Athene Advisors, L.P.	Delaware
Apollo Palmetto Athene Management, LLC	Delaware
Apollo Palmetto HFA Advisors, L.P.	Delaware
Apollo Palmetto Management, LLC	Delaware
Apollo Parallel Partners Administration, LLC	Delaware
Apollo PE VIII Director, LLC	Anguilla
Apollo PG GenPar, Ltd.	Cayman Islands
Apollo Principal Holdings I GP, LLC	Delaware
Apollo Principal Holdings I, L.P.	Delaware
Apollo Principal Holdings II GP, LLC	Delaware
Apollo Principal Holdings II, L.P.	Delaware
Apollo Principal Holdings III GP, Ltd.	Cayman Islands
Apollo Principal Holdings III, L.P.	Cayman Islands

Apollo Principal Holdings IV GP, Ltd.	Cayman Islands
Apollo Principal Holdings IV, L.P.	Cayman Islands
Apollo Principal Holdings IX GP, Ltd.	Cayman Islands
Apollo Principal Holdings IX, L.P.	Cayman Islands
Apollo Principal Holdings V GP, LLC	Delaware
Apollo Principal Holdings V, L.P.	Delaware
Apollo Principal Holdings VI GP, LLC	Delaware
Apollo Principal Holdings VI, L.P.	Delaware
Apollo Principal Holdings VII GP, Ltd.	Cayman Islands
Apollo Principal Holdings VII, L.P.	Cayman Islands
Apollo Principal Holdings VIII GP, Ltd.	Cayman Islands
Apollo Principal Holdings VIII, L.P.	Cayman Islands
Apollo Principal Holdings X GP, Ltd.	Cayman Islands
Apollo Principal Holdings X, L.P.	Cayman Islands
Apollo Principal Holdings XI, LLC	Anguilla
Apollo Resolution Servicing GP, LLC	Delaware
Apollo Resolution Servicing, L.P.	Delaware
Apollo Rose GP, L.P.	Cayman Islands
Apollo Royalties Management, LLC	Delaware
Apollo Senior Loan Fund Co-Investors (D), L.P.	Delaware
Apollo SK Strategic Advisors GP, L.P.	Cayman Islands
Apollo SK Strategic Advisors, LLC	Anguilla
Apollo SK Strategic Co-Investors (DC-D), LLC	Marshall Islands
Apollo SK Strategic Management, LLC	Delaware
Apollo SOMA Advisors, L.P.	Delaware
Apollo SOMA Capital Management, LLC	Delaware
Apollo SOMA II Advisors, L.P.	Cayman Islands
Apollo SPN Advisors (APO DC), L.P.	Cayman Islands
Apollo SPN Advisors (APO FC), L.P.	Cayman Islands
Apollo SPN Advisors, L.P.	Cayman Islands
Apollo SPN Capital Management (APO DC-GP), LLC	Anguilla
Apollo SPN Capital Management (APO FC-GP), LLC	Anguilla
Apollo SPN Capital Management, LLC	Anguilla
Apollo SPN Co-Investors (D), L.P.	Anguilla
Apollo SPN Co-Investors (DC-D), L.P.	Anguilla
Apollo SPN Co-Investors (FC-D), L.P.	Anguilla
Apollo SPN Management, LLC	Delaware
Apollo ST Capital LLC	Delaware
Apollo ST CLO Holdings GP, LLC	Delaware
Apollo ST Credit Partners GP LLC	Delaware
Apollo ST Credit Strategies GP LLC	Delaware
Apollo ST Debt Advisors LLC	Delaware
Apollo ST Fund Management LLC	Delaware
Apollo ST Operating LP	Delaware
Apollo ST Structured Credit Recovery Partners II GP LLC	Delaware
Apollo Strategic Advisors, L.P.	Cayman Islands
Apollo Strategic Capital Management, LLC	Delaware
Apollo Strategic Management GP, LLC	Delaware
Apollo Strategic Management, L.P.	Delaware
Apollo Structured Credit Recovery Advisors III (APO DC) LLC	Delaware
Apollo Structured Credit Recovery Advisors III LLC	Delaware
Apollo Structured Credit Recovery Co-Investors III (D), LLC	Delaware
Apollo Structured Credit Recovery Management III LLC	Delaware
Apollo SVF Administration, LLC	Delaware

Apollo SVF Advisors, L.P.	Delaware
Apollo SVF Capital Management, LLC	Delaware
Apollo SVF Management GP, LLC	Delaware
Apollo SVF Management, L.P.	Delaware
Apollo Tactical Value SPN Advisors (APO DC), L.P.	Cayman Islands
Apollo Tactical Value SPN Capital Management (APO DC-GP), LLC	Anguilla
Apollo Tactical Value SPN Co-Investors (DC-D), L.P.	Anguilla
Apollo Tactical Value SPN Management, LLC	Delaware
Apollo Talos GenPar, Ltd.	Cayman Islands
Apollo Total Return Advisors GP LLC	Delaware
Apollo Total Return Advisors LP	Cayman Islands
Apollo Total Return Co-Investors (D) GP LLC	Delaware
Apollo Total Return Co-Investors (D) LP	Delaware
Apollo Total Return Enhanced Advisors GP LLC	Delaware
Apollo Total Return Enhanced Advisors LP	Cayman Islands
Apollo Total Return Enhanced Management LLC	Delaware
Apollo Total Return ERISA Advisors GP LLC	Delaware
Apollo Total Return ERISA Advisors, L.P.	Delaware
Apollo Total Return Management LLC	Delaware
Apollo U.S. Real Estate Advisors GP II, LLC	Delaware
Apollo U.S. Real Estate Advisors II, L.P	Delaware
Apollo Union Street Advisors, L.P.	Cayman Islands
Apollo Union Street Capital Management, LLC	Delaware
Apollo Union Street Co-Investors (D), L.P.	Delaware
Apollo Union Street Management, LLC	Delaware
Apollo USREF Co-Investors II (D), LLC	Delaware
Apollo Value Administration, LLC	Delaware
Apollo Value Advisors, L.P.	Delaware
Apollo Value Capital Management, LLC	Delaware
Apollo Value Management GP, LLC	Delaware
Apollo Value Management, L.P.	Delaware
Apollo Verwaltungs V GmbH	Germany
Apollo VII TXU Administration, LLC	Delaware
Apollo VIII GenPar, Ltd.	Cayman Islands
Apollo Zeus Strategic Advisors, L.P.	Cayman Islands
Apollo Zeus Strategic Advisors, LLC	Delaware
Apollo Zeus Strategic Co-Investors (DC-D), LLC	Delaware
Apollo Zeus Strategic Management, LLC	Delaware
Apollo Zohar Advisors LLC	Delaware
Apollo/Artus Management, LLC	Delaware
ARM Manager, LLC	Delaware
Athene Asset Management, L.P.	Cayman Islands
Athene Investment Analytics LLC	Delaware
Athene Mortgage Opportunities GP, LLC	Delaware
August Global Management, LLC	Florida
Blue Bird GP, Ltd.	Cayman Islands
Bond3 GP, Ltd.	Cayman Islands
CAI Strategic European Real Estate Advisors GP, LLC	Marshall Islands
CAI Strategic European Real Estate Advisors, L.P.	Marshall Islands
Champ GP, LLC	Delaware
Champ II Luxembourg Holdings S.a r.l.	Luxembourg
Champ L.P.	Cayman Islands
Champ Luxembourg Holdings S.a r.l.	Luxembourg
CMP Apollo LLC	Delaware

Cornerstone CLO, Ltd.	Cayman Islands
CPI Asia G-Fdr General Partner GmbH	Germany
CPI Capital Partners Asia Pacific GP Ltd.	Cayman Islands
CPI Capital Partners Asia Pacific MLP II Ltd.	Cayman Islands
CPI Capital Partners Europe GP Ltd.	Cayman Islands
CPI CCP EU-T Scots GP Ltd.	Scotland
CPI European Carried Interest, L.P.	Delaware
CPI European Fund GP LLC	Delaware
CPI NA Cayman Fund GP L.P.	Cayman Islands
CPI NA Fund GP LP	Delaware
CPI NA GP LLC	Delaware
CPI NA WT Fund GP LP	Delaware
Cyclone Royalties, LLC	Delaware
Delaware Rose GP, L.L.C.	Delaware
EPE Acquisition Holdings, LLC	Delaware
EPF II Team Carry Plan, L.P.	Marshall Islands
Financial Credit I Capital Management, LLC	Delaware
Financial Credit II Capital Management, LLC	Delaware
Financial Credit III Capital Management, LLC	Delaware
Financial Credit Investment Advisors I, L.P.	Cayman Islands
Financial Credit Investment Advisors II, L.P.	Cayman Islands
Financial Credit Investment Advisors III, L.P.	Cayman Islands
Financial Credit Investment I Manager, LLC	Delaware
Financial Credit Investment II Manager, LLC	Delaware
Financial Credit Investment III Manager, LLC	Delaware
Granite Ventures II Ltd.	Cayman Islands
Granite Ventures III Ltd	Cayman Islands
Green Bird GP, Ltd.	Cayman Islands
Greenhouse Holdings, Ltd.	Cayman Islands
GSAM Apollo Holdings, LLC	Delaware
Gulf Stream - Compass CLO 2007, Ltd.	Cayman Islands
Gulf Stream - Rashinban CLO 2006-I, Ltd.	Cayman Islands
Gulf Stream - Sextant CLO 2006-1, Ltd.	Cayman Islands
Gulf Stream - Sextant CLO 2007-1, Ltd.	Cayman Islands
Gulf Stream Asset Management, LLC	North Carolina
Gulf Stream-Compass CLO 2005-II, Ltd.	Cayman Islands
Harvest Holdings, LLC	Marshall Islands
Insight Solutions GP, LLC	Delaware
Karpos Investments, LLC	Marshall Islands
Lapithus EPF II Team Carry Plan, L.P.	Marshall Islands
LeverageSource Management, LLC	Delaware
London Prime Apartments Guernsey Holdings Limited	Guernsey
London Prime Apartments Guernsey Limited	Guernsey
Neptune Finance CCS, Ltd.	Cayman Islands
Ohio Haverly Finance Company GP, LLC	Delaware
Ohio Haverly Finance Company, L.P.	Delaware
Rampart CLO 2006-I Ltd.	Cayman Islands
Rampart CLO 2007 Ltd.	Cayman Islands
Red Bird GP, Ltd.	Cayman Islands
RWNIH-ALL Advisors, LLC	Delaware
Smart & Final Holdco LLC	Delaware
ST Holdings GP, LLC	Delaware
ST Management Holdings, LLC	Delaware
Stanhope Life Advisors, L.P.	Cayman Islands

Stone Tower CLO II Ltd.	Cayman Islands
Stone Tower CLO III Ltd.	Cayman Islands
Stone Tower CLO IV Ltd	Cayman Islands
Stone Tower CLO V Ltd	Cayman Islands
Stone Tower CLO VI Ltd.	Cayman Islands
Stone Tower CLO VII Ltd.	Cayman Islands
Stone Tower Credit Solutions Fund LP	Delaware
Stone Tower Credit Solutions GP LLC	Delaware
Stone Tower Europe Limited	Ireland
Stone Tower Europe LLC	Delaware
Stone Tower Offshore Ltd.	Cayman Islands
Stone Tower Structured Credit Recovery Partners GP, LLC	Delaware
VC GP C, LLC	Delaware
VC GP, LLC	Delaware
Venator Investment Management Consulting (Shanghai) Limited	China
Venator Real Estate Capital Partners (Hong Kong) Limited	Hong Kong
Verso Paper Investments Management LLC	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our report, dated February 29, 2016, relating to the consolidated financial statements of Apollo Global Management, LLC and subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2015:

- Registration Statement No. 333-182844 on Form S-3ASR
- Registration Statement No. 333-188415 on Form S-3ASR
- Registration Statement No. 333-188416 on Form S-3ASR
- Registration Statement No. 333-188417 on Form S-3ASR
- Registration Statement No. 333-173161 on Form S-8

/s/ Deloitte & Touche LLP
New York, New York
February 29, 2016

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Leon Black, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2015 of Apollo Global Management, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 29, 2016

/s/ Leon Black

Leon Black

Chief Executive Officer

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Martin Kelly, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2015 of Apollo Global Management, LLC

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: February 29, 2016

/s/ Martin Kelly

Martin Kelly
Chief Financial Officer

Exhibit 32.1

Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Apollo Global Management, LLC (the "Company") on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leon Black, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 29, 2016

/s/ Leon Black

Leon Black
Chief Executive Officer

* The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Apollo Global Management, LLC (the "Company") on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Martin Kelly, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 29, 2016

/s/ Martin Kelly
Martin Kelly
Chief Financial Officer

* The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016 OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _________ TO _________

Commission File Number: 001-35107

APOLLO GLOBAL MANAGEMENT, LLC
(Exact name of Registrant as specified in its charter)

Delaware	**20-8880053**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

9 West 57th Street, 43rd Floor
New York, New York 10019
(Address of principal executive offices) (Zip Code)
(212) 515-3200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A shares representing limited liability company interests	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	T	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No T

The aggregate market value of the Class A shares of the Registrant held by non-affiliates as of June 30, 2016 was approximately $2,761.8 million, which includes non-voting Class A shares with a value of approximately $681.8 million.

As of February 10, 2017 there were 187,144,092 Class A shares and 1 Class B share outstanding.

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Forward-Looking Statements

This report may contain forward-looking statements that are within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements include, but are not limited to, discussions related to Apollo's expectations regarding the performance of its business, liquidity and capital resources and the other non-historical statements in the discussion and analysis. These forward-looking statements are based on management's beliefs, as well as assumptions made by, and information currently available to, management. When used in this report, the words "believe," "anticipate," "estimate," "expect," "intend" and similar expressions are intended to identify forward-looking statements. Although management believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. These statements are subject to certain risks, uncertainties and assumptions, including risks relating to our dependence on certain key personnel, our ability to raise new private equity, credit or real estate funds, market conditions generally, our ability to manage our growth, fund performance, changes in our regulatory environment and tax status, the variability of our revenues, net income and cash flow, our use of leverage to finance our businesses and investments by our funds and litigation risks, among others. We believe these factors include but are not limited to those described under the section entitled "Risk Factors" in this report; as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (the "SEC"), which are accessible on the SEC's website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other filings. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by applicable law.

Terms Used in This Report

In this report, references to "Apollo," "we," "us," "our" and the "Company" refer collectively to Apollo Global Management, LLC, a Delaware limited liability company, and its subsidiaries, including the Apollo Operating Group and all of its subsidiaries, or as the context may otherwise require;

"AMH" refers to Apollo Management Holdings, L.P., a Delaware limited partnership, that is an indirect subsidiary of Apollo Global Management, LLC;

"Apollo funds", "our funds" and references to the "funds" we manage, refer to the funds (including the parallel funds and alternative investment vehicles of such funds), partnerships, accounts, including strategic investment accounts or "SIAs," alternative asset companies and other entities for which subsidiaries of the Apollo Operating Group provide investment management or advisory services;

"Apollo Operating Group" refers to (i) the limited partnerships through which our Managing Partners currently operate our businesses and (ii) one or more limited partnerships formed for the purpose of, among other activities, holding certain of our gains or losses on our principal investments in the funds, which we refer to as our "principal investments";

"Assets Under Management", or "AUM", refers to the assets we manage or advise for the funds, partnerships and accounts to which we provide investment management or advisory services, including, without limitation, capital that such funds, partnerships and accounts have the right to call from investors pursuant to capital commitments. Our AUM equals the sum of:

(i) the fair value of the investments of the private equity funds, partnerships and accounts we manage or advise plus the capital that such funds, partnerships and accounts are entitled to call from investors pursuant to capital commitments;

(ii) the net asset value, or "NAV," of the credit funds, partnerships and accounts for which we provide investment management or advisory services, other than certain collateralized loan obligations ("CLOs") and collateralized debt obligations ("CDOs"), which have a fee-generating basis other than the mark-to-market value of the underlying assets, plus used or available leverage and/or capital commitments;

(iii) the gross asset value or net asset value of the real estate funds, partnerships and accounts we manage, and the structured portfolio company investments of the funds, partnerships and accounts we manage or advise, which includes the leverage used by such structured portfolio company investments;

(iv) the incremental value associated with the reinsurance investments of the portfolio company assets we manage or advise; and

(v) the fair value of any other assets that we manage or advise for the funds, partnerships and accounts to which we provide investment management or advisory services, plus unused

credit facilities, including capital commitments to such funds, partnerships and accounts for investments that may require pre-qualification before investment plus any other capital commitments to such funds, partnerships and accounts available for investment that are not otherwise included in the clauses above.

Our AUM measure includes Assets Under Management for which we charge either no or nominal fees. In addition our AUM measure includes certain assets for which we do not have investment discretion. Our definition of AUM is not based on any definition of Assets Under Management contained in our operating agreement or in any of our Apollo fund management agreements. We consider multiple factors for determining what should be included in our definition of AUM. Such factors include but are not limited to (1) our ability to influence the investment decisions for existing and available assets; (2) our ability to generate income from the underlying assets in our funds; and (3) the AUM measures that we use internally or believe are used by other investment managers. Given the differences in the investment strategies and structures among other alternative investment managers, our calculation of AUM may differ from the calculations employed by other investment managers and, as a result, this measure may not be directly comparable to similar measures presented by other investment managers. Our calculation also differs from the manner in which our affiliates registered with the SEC report "Regulatory Assets Under Management" on Form ADV and Form PF in various ways;

"Fee-Generating AUM" consists of assets we manage or advise for the funds, partnerships and accounts to which we provide investment management or advisory services and on which we earn management fees, monitoring fees pursuant to management or other fee agreements on a basis that varies among the Apollo funds, partnerships and accounts we manage or advise. Management fees are normally based on "net asset value," "gross assets," "adjusted par asset value," "adjusted cost of all unrealized portfolio investments," "capital commitments," "adjusted assets," "stockholders' equity," "invested capital" or "capital contributions," each as defined in the applicable management agreement. Monitoring fees, also referred to as advisory fees, with respect to the structured portfolio company investments of the funds, partnerships and accounts we manage or advise, are generally based on the total value of such structured portfolio company investments, which normally includes leverage, less any portion of such total value that is already considered in Fee-Generating AUM;

"Non-Fee-Generating AUM" refers to AUM that does not produce management fees or monitoring fees. This measure generally includes the following:

(i) fair value above invested capital for those funds that earn management fees based on invested capital;

(ii) net asset values related to general partner and co-investment interests;

(iii) unused credit facilities;

(iv) available commitments on those funds that generate management fees on invested capital;

(v) structured portfolio company investments that do not generate monitoring fees; and

(vi) the difference between gross asset and net asset value for those funds that earn management fees based on net asset value.

"Carry-Eligible AUM" refers to the AUM that may eventually produce carried interest income. All funds for which we are entitled to receive a carried interest income allocation are included in Carry-Eligible AUM, which consists of the following:

(i) "Carry-Generating AUM", which refers to invested capital of the funds, partnerships and accounts we manage or advise, that is currently above its hurdle rate or preferred return, and profit of such funds, partnerships and accounts is being allocated to the general partner in accordance with the applicable limited partnership agreements or other governing agreements;

(ii) "AUM Not Currently Generating Carry", which refers to invested capital of the funds, partnerships and accounts we manage or advise that is currently below its hurdle rate or preferred return; and

(iii) "Uninvested Carry-Eligible AUM", which refers to capital of the funds, partnerships and accounts we manage or advise that is available for investment or reinvestment subject to the provisions of applicable limited partnership agreements or other governing agreements, which capital is not currently part of the NAV or fair value of investments that may eventually produce carried interest income allocable to the general partner.

"AUM with Future Management Fee Potential" refers to the committed uninvested capital portion of total AUM not

currently earning management fees. The amount depends on the specific terms and conditions of each fund;

We use AUM as a performance measure of our funds' investment activities, as well as to monitor fund size in relation to professional resource and infrastructure needs. Non-Fee-Generating AUM includes assets on which we could earn carried interest income;

"Advisory" refers to certain assets advised by Apollo Asset Management Europe PC LLP, a wholly-owned subsidiary of Apollo Asset Management Europe LLP (collectively, "AAME"). The AAME entities are subsidiaries of Apollo. Until AAME receives full authorization by the UK Financial Conduct Authority ("FCA"), references to AAME in this report mean AAME and Apollo Management International LLP, an existing FCA authorized and regulated subsidiary of Apollo in the United Kingdom;

"capital deployed" or "deployment" is the aggregate amount of capital that has been invested during a given period (which may, in certain cases, include leverage) by (i) our drawdown funds, (ii) SIAs that have a defined maturity date and (iii) funds and SIAs in our real estate debt strategy;

"carried interest", "carried interest income" and "incentive income" refer to interests granted to Apollo by an Apollo fund that entitle Apollo to receive allocations, distributions or fees which are based on the performance of such fund or its underlying investments;

"Contributing Partners" refer to those of our partners and their related parties (other than our Managing Partners) who indirectly beneficially own (through Holdings) Apollo Operating Group units;

"drawdown" refers to commitment-based funds and certain SIAs in which investors make a commitment to provide capital at the formation of such funds and SIAs and deliver capital when called as investment opportunities become available. It includes assets of Athene Holding Ltd. ("Athene Holding") and its subsidiaries (collectively "Athene") managed by Athene Asset Management, L.P. ("Athene Asset Management" or "AAM") that are invested in commitment-based funds;

"gross IRR" of a private equity fund represents the cumulative investment-related cash flows (i) for a given investment for the fund or funds which made such investment, and (ii) for a given fund, in the relevant fund itself (and not any one investor in the fund), in each case, on the basis of the actual timing of investment inflows and outflows (for unrealized investments assuming disposition on December 31, 2016 or other date specified) aggregated on a gross basis quarterly, and the return is annualized and compounded before management fees, carried interest and certain other fund expenses (including interest incurred by the fund itself) and measures the returns on the fund's investments as a whole without regard to whether all of the returns would, if distributed, be payable to the fund's investors. In addition, gross IRRs at the fund level differ from those at the individual investor level as a result of, among other factors, timing of investor-level inflows and outflows. Gross IRR does not represent the return to any fund investor;

"gross IRR" of a credit fund represents the annualized return of a fund based on the actual timing of all cumulative fund cash flows before management fees, carried interest income allocated to the general partner and certain other fund expenses. Calculations may include certain investors that do not pay fees. The terminal value is the net asset value as of the reporting date. Non-U.S. dollar denominated ("USD") fund cash flows and residual values are converted to USD using the spot rate as of the reporting date. In addition, gross IRRs at the fund level differ from those at the individual investor level as a result of, among other factors, timing of investor-level inflows and outflows. Gross IRR does not represent the return to any fund investor;

"gross IRR" of a real estate fund represents the cumulative investment-related cash flows in the fund itself (and not any one investor in the fund), on the basis of the actual timing of cash inflows and outflows (for unrealized investments assuming disposition on December 31, 2016 or other date specified) starting on the date that each investment closes, and the return is annualized and compounded before management fees, carried interest, and certain other fund expenses (including interest incurred by the fund itself) and measures the returns on the fund's investments as a whole without regard to whether all of the returns would, if distributed, be payable to the fund's investors. Non-USD fund cash flows and residual values are converted to USD using the spot rate as of the reporting date. In addition, gross IRRs at the fund level differ from those at the individual investor level as a result of, among other factors, timing of investor-level inflows and outflows. Gross IRR does not represent the return to any fund investor;

"gross return" of a credit or real estate fund is the monthly or quarterly time-weighted return that is equal to the percentage change in the value of a fund's portfolio, adjusted for all contributions and withdrawals (cash flows) before the effects of management fees, incentive fees allocated to the general partner, or other fees and expenses. Returns of Athene sub-advised portfolios and CLOs represent the gross returns on invested assets, which exclude cash. Returns over multiple periods are calculated by geometrically linking each period's return over time;

"Holdings" means AP Professional Holdings, L.P., a Cayman Islands exempted limited partnership through which our Managing Partners and Contributing Partners indirectly beneficially own their interests in the Apollo Operating Group units;

“inflows” represents (i) at the individual segment level, subscriptions, commitments, and other increases in available capital, such as acquisitions or leverage, net of inter-segment transfers, and (ii) on an aggregate basis, the sum of inflows across the private equity, credit and real estate segments;

“IRS” refers to the Internal Revenue Service;

“liquid/performing” includes CLOs and other performing credit vehicles, hedge fund style credit funds, structured credit funds and SIAs, as well as sub-advised managed accounts owned by or related to Athene. Certain commitment-based SIAs are included as the underlying assets are liquid;

“Managing Partners” refer to Messrs. Leon Black, Joshua Harris and Marc Rowan collectively and, when used in reference to holdings of interests in Apollo or Holdings, includes certain related parties of such individuals;

“net IRR” of a private equity fund means the gross IRR applicable to a fund, including returns for related parties which may not pay fees or carried interest, net of management fees, certain fund expenses (including interest incurred or earned by the fund itself) and realized carried interest all offset to the extent of interest income, and measures returns at the fund level on amounts that, if distributed, would be paid to investors of the fund. To the extent that a fund exceeds all requirements detailed within the applicable fund agreement, the estimated unrealized value is adjusted such that a percentage of up to 20.0% of the unrealized gain is allocated to the general partner of such fund, thereby reducing the balance attributable to fund investors. In addition, net IRR at the fund level will differ from that at the individual investor level as a result of, among other factors, timing of investor-level inflows and outflows. Net IRR does not represent the return to any fund investor;

“net IRR” of a credit fund represents the annualized return of a fund after management fees, carried interest income allocated to the general partner and certain other fund expenses, calculated on investors that pay such fees. The terminal value is the net asset value as of the reporting date. Non-USD fund cash flows and residual values are converted to USD using the spot rate as of the reporting date. In addition, net IRR at the fund level will differ from that at the individual investor level as a result of, among other factors, timing of investor-level inflows and outflows. Net IRR does not represent the return to any fund investor;

“net IRR” of a real estate fund represents the cumulative cash flows in the fund (and not any one investor in the fund), on the basis of the actual timing of cash inflows received from and outflows paid to investors of the fund (assuming the ending net asset value as of December 31, 2016 or other date specified is paid to investors), excluding certain non-fee and non-carry bearing parties, and the return is annualized and compounded after management fees, carried interest, and certain other expenses (including interest incurred by the fund itself) and measures the returns to investors of the fund as a whole. Non-USD fund cash flows and residual values are converted to USD using the spot rate as of the reporting date. In addition, net IRR at the fund level will differ from that at the individual investor level as a result of, among other factors, timing of investor-level inflows and outflows. Net IRR does not represent the return to any fund investor;

“net return” of a credit or real estate fund represents the gross return after management fees, incentive fees allocated to the general partner, or other fees and expenses. Returns of Athene sub-advised portfolios and CLOs represent the gross or net returns on invested assets, which exclude cash. Returns over multiple periods are calculated by geometrically linking each period’s return over time;

“our manager” means AGM Management, LLC, a Delaware limited liability company that is controlled by our Managing Partners;

“permanent capital vehicles” refers to (a) assets that are owned by or related to Athene, (b) assets that are owned by or related to MidCap FinCo Limited (“MidCap”) and managed by Apollo Capital Management, L.P., (c) assets of publicly traded vehicles managed by Apollo such as Apollo Investment Corporation (“AINV”), Apollo Commercial Real Estate Finance, Inc. (“ARI”), Apollo Tactical Income Fund Inc. (“AIF”), and Apollo Senior Floating Rate Fund Inc. (“AFT”), in each case that do not have redemption provisions or a requirement to return capital to investors upon exiting the investments made with such capital, except as required by applicable law and (d) a non-traded business development company sub-advised by Apollo. The investment management arrangements of AINV, AIF and AFT have one year terms, are reviewed annually and remain in effect only if approved by the boards of directors of such companies or by the affirmative vote of the holders of a majority of the outstanding voting shares of such companies, including in either case, approval by a majority of the directors who are not “interested persons” as defined in the Investment Company Act of 1940. In addition, the investment management agreements of AINV, AIF and AFT may be terminated in certain circumstances upon 60 days’ written notice. The investment management agreement of ARI has a one year term and is reviewed annually by ARI’s board of directors and may be terminated under certain circumstances by an affirmative vote of at least two-thirds of ARI’s independent directors. The investment management arrangements between MidCap and Apollo Capital Management, L.P. and Athene and Athene Asset Management, may also be terminated under certain circumstances;

“private equity fund appreciation (depreciation)” refers to gain (loss) and income for the traditional private equity funds (as defined below), Apollo Natural Resources Partners, L.P. (“ANRP I”), Apollo Natural Resources Partners II, L.P. (“ANRP II”), Apollo

Special Situations Fund, L.P. and AION Capital Partners Limited ("AION") for the periods presented on a total return basis before giving effect to fees and expenses. The performance percentage is determined by dividing (a) the change in the fair value of investments over the period presented, minus the change in invested capital over the period presented, plus the realized value for the period presented, by (b) the beginning unrealized value for the period presented plus the change in invested capital for the period presented. Returns over multiple periods are calculated by geometrically linking each period's return over time;

"private equity investments" refer to (i) direct or indirect investments in existing and future private equity funds managed or sponsored by Apollo, (ii) direct or indirect co-investments with existing and future private equity funds managed or sponsored by Apollo, (iii) direct or indirect investments in securities which are not immediately capable of resale in a public market that Apollo identifies but does not pursue through its private equity funds, and (iv) investments of the type described in (i) through (iii) above made by Apollo funds;

"Realized Value" refers to all cash investment proceeds received by the relevant Apollo fund, including interest and dividends, but does not give effect to management fees, expenses, incentive compensation or carried interest to be paid by such Apollo fund;

"Remaining Cost" represents the initial investment of the general partner and limited partner investors in a fund, reduced for any return of capital distributed to date, excluding management fees, expenses, and any accrued preferred return;

"Strategic Investors" refers to the California Public Employees' Retirement System, or "CalPERS," and an affiliate of the Abu Dhabi Investment Authority, or "ADIA";

"Total Invested Capital" refers to the aggregate cash invested by the relevant Apollo fund and includes capitalized costs relating to investment activities, if any, but does not give effect to cash pending investment or available for reserves;

"Total Value" represents the sum of the total Realized Value and Unrealized Value of investments;

"traditional private equity funds" refers to Apollo Investment Fund I, L.P. ("Fund I"), AIF II, L.P. ("Fund II"), a mirrored investment account established to mirror Fund I and Fund II for investments in debt securities ("MIA"), Apollo Investment Fund III, L.P. (together with its parallel funds, "Fund III"), Apollo Investment Fund IV, L.P. (together with its parallel fund, "Fund IV"), Apollo Investment Fund V, L.P. (together with its parallel funds and alternative investment vehicles, "Fund V"), Apollo Investment Fund VI, L.P. (together with its parallel funds and alternative investment vehicles, "Fund VI"), Apollo Investment Fund VII, L.P. (together with its parallel funds and alternative investment vehicles, "Fund VII") and Apollo Investment Fund VIII, L.P. (together with its parallel funds and alternative investment vehicles, "Fund VIII");

"Unrealized Value" refers to the fair value consistent with valuations determined in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), for investments not yet realized and may include pay in kind, accrued interest and dividends receivable, if any. In addition, amounts include committed and funded amounts for certain investments; and

"Vintage Year" refers to the year in which a fund's final capital raise occurred.

PART I

ITEM 1. BUSINESS

Overview

Founded in 1990, Apollo is a leading global alternative investment manager. We are a contrarian, value-oriented investment manager in private equity, credit and real estate, with significant distressed investment expertise. We have a flexible mandate in many of the funds we manage which enables our funds to invest opportunistically across a company's capital structure. We raise, invest and manage funds on behalf of some of the world's most prominent pension, endowment and sovereign wealth funds, as well as other institutional and individual investors. As of December 31, 2016, we had total AUM of $192 billion, including approximately $44 billion in private equity, $137 billion in credit and $11 billion in real estate. We have consistently produced attractive long-term investment returns in our traditional private equity funds, generating a 39% gross IRR and a 25% net IRR on a compound annual basis from inception through December 31, 2016.

Apollo is led by our Managing Partners, Leon Black, Joshua Harris and Marc Rowan, who have worked together for 30 years and lead a team of 986 employees, including 376 investment professionals, as of December 31, 2016. This team possesses a broad range of transaction, financial, managerial and investment skills. We have offices in New York, Los Angeles, Houston, Chicago, Ballwin, Bethesda, Toronto, London, Frankfurt, Madrid, Luxembourg, Mumbai, Delhi, Singapore, Hong Kong and Shanghai. We operate our private equity, credit and real estate investment management businesses in a highly integrated manner, which we believe distinguishes us from other alternative investment managers. Our investment professionals frequently collaborate across disciplines. We believe that this collaboration, including market insight, management, banking and consultant contacts, and investment opportunities, enables the funds we manage to more successfully invest across a company's capital structure. This platform and the depth and experience of our investment team have enabled us to deliver strong long-term investment performance for our funds throughout a range of economic cycles.

Our objective is to achieve superior long-term risk-adjusted returns for our fund investors. The majority of the investment funds we manage are designed to invest capital over periods of seven or more years from inception, thereby allowing us to generate attractive long-term returns throughout economic cycles. Our investment approach is value-oriented, focusing on nine core industries in which we have considerable knowledge and experience, and emphasizing downside protection and the preservation of capital. Our core industry sectors include chemicals, manufacturing and industrial, natural resources, consumer and retail, consumer services, business services, financial services, leisure, and media and telecom and technology. Our contrarian investment management approach is reflected in a number of ways, including:

- our willingness to pursue investments in industries that our competitors typically avoid;
- the often complex structures employed in some of the investments of our funds, including our willingness to pursue difficult corporate carve-out transactions;
- our experience investing during periods of uncertainty or distress in the economy or financial markets when many of our competitors simply reduce their investment activity;
- our orientation towards sole sponsored transactions when other firms have opted to partner with others; and
- our willingness to undertake transactions that have substantial business, regulatory or legal complexity.

We have applied this investment philosophy to identify what we believe are attractive investment opportunities, deploy capital across the balance sheet of industry leading, or "franchise," businesses and create value throughout economic cycles.

We rely on our deep industry, credit and financial structuring experience, coupled with our strengths as a value-oriented, distressed investment manager, to deploy significant amounts of new capital within challenging economic environments. Our approach towards investing in distressed situations often requires our funds to purchase particular debt securities as prices are declining, since this allows us both to reduce our funds' average cost and accumulate sizable positions which may enhance our ability to influence any restructuring plans and maximize the value of our funds' distressed investments. As a result, our investment approach may produce negative short-term unrealized returns in certain of the funds we manage. However, we concentrate on generating attractive, long-term, risk-adjusted realized returns for our fund investors, and we therefore do not overly depend on short-term results and quarterly fluctuations in the unrealized fair value of the holdings in our funds.

In addition to deploying capital in new investments, we seek to enhance value in the investment portfolios of the funds we manage. We have relied on our transaction, restructuring and credit experience to work proactively with our private equity funds' portfolio company management teams to identify and execute strategic acquisitions, joint ventures, and other transactions, generate cost and working capital savings, reduce capital expenditures, and optimize capital structures through several means such as debt exchange offers and the purchase of portfolio company debt at discounts to par value.

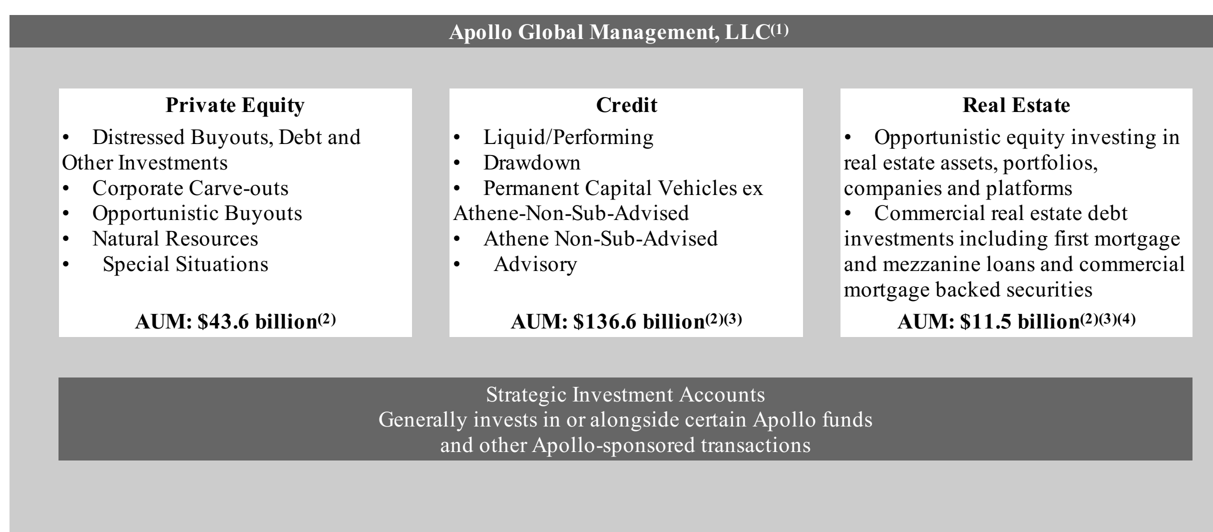
We have grown our total AUM at a 22% compound annual growth rate from December 31, 2005 to December 31, 2016. In addition, we benefit from mandates with long-term capital commitments in our private equity, credit and real estate businesses. Our long-lived capital base allows us to invest our funds' assets with a long-term focus, which is an important component in generating attractive returns for our fund investors. We believe the long-term capital we manage also leaves us well-positioned during economic downturns, when the fundraising environment for alternative assets has historically been more challenging than during periods of economic expansion. As of December 31, 2016, more than 90% of our AUM was in funds with a contractual life at inception of seven years or more, and 45% of our AUM was in permanent capital vehicles.

We expect our growth in AUM to continue over time by seeking to create value in our funds' existing private equity, credit and real estate investments, continuing to deploy our funds' available capital in what we believe are attractive investment opportunities, and raising new funds and investment vehicles as market opportunities present themselves. See "Item 1A. Risk Factors—Risks Related to Our Businesses—We may not be successful in raising new funds or in raising more capital for certain of our existing funds and may face pressure on incentive income and fee arrangements of our future funds."

Our financial results are highly variable, since carried interest (which generally constitutes a large portion of the income that we receive from the funds we manage), and the transaction and advisory fees that we receive, can vary significantly from quarter to quarter and year to year. We manage our business and monitor our performance with a focus on long-term performance, an approach that is generally consistent with the investment horizons of the funds we manage and is driven by the investment returns of our funds.

Our Businesses

We have three business segments: private equity, credit and real estate. The diagram below summarizes our current businesses:



(1) All data is as of December 31, 2016.
(2) See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information.
(3) Includes funds that are denominated in Euros and translated into U.S. dollars at an exchange rate of €1.00 to $1.05 as of December 31, 2016.
(4) Includes funds that are denominated in pound sterling and translated into U.S. dollars at an exchange rate of £1.00 to $1.23 as of December 31, 2016.

Private Equity

As a result of our long history of private equity investing across market cycles, we believe we have developed a unique set of skills on which we rely to make new investments and to maximize the value of our existing investments. As an example, through our experience with traditional private equity buyouts, which we also refer to herein as buyout equity, we apply a highly disciplined approach towards structuring and executing transactions, the key tenets of which include seeking to acquire companies at below industry average purchase price multiples, and establishing flexible capital structures with long-term debt maturities and few, if any, financial maintenance covenants.

We believe we have a demonstrated ability to adapt quickly to changing market environments and capitalize on market dislocations through our traditional, distressed and corporate buyout approach. In prior periods of strained financial liquidity and economic recession, our private equity funds have made attractive investments by buying the debt of quality businesses (which we refer to as “classic” distressed debt), converting that debt to equity, seeking to create value through active participation with management and ultimately monetizing the investment. This combination of traditional and corporate buyout investing with a “distressed option” has been deployed through prior economic cycles and has allowed our funds to achieve attractive long-term rates of return in different economic and market environments. In addition, during prior economic downturns we have relied on our restructuring experience and worked closely with our funds’ portfolio companies to seek to maximize the value of our funds’ investments.

We seek to focus on investment opportunities where competition is limited or non-existent. We believe we are often sought out early in the investment process because of our industry expertise, sizable amounts of available long-term capital, willingness to pursue investments in complicated situations and ability to provide value-added advice to portfolio companies regarding operational improvements, acquisitions and strategic direction. We generally prefer sole sponsored transactions and since inception through December 31, 2016, approximately 70% of the investments made by our private equity funds have been proprietary in nature. We believe that by emphasizing our proprietary sources of deal flow, our private equity funds will be able to acquire businesses at more compelling valuations which will ultimately create a more attractive risk/reward proposition. As of December 31, 2016, our private equity segment had total and Fee-Generating AUM of approximately $43.6 billion and $30.7 billion, respectively.

Distressed Buyouts, Debt and Other Investments

During periods of market dislocation and volatility, we rely on our credit and capital markets expertise to build positions in distressed debt. We target assets with what we believe are high-quality operating businesses but low-quality balance sheets, consistent with our traditional buyout strategies. The distressed securities our funds purchase include bank debt, public high-yield debt and privately held instruments, often with significant downside protection in the form of a senior position in the capital structure, and in certain situations our funds also provide debtor-in-possession financing to companies in bankruptcy. Our investment professionals generate these distressed buyout and debt investment opportunities based on their many years of experience in the debt markets, and as such they are generally proprietary in nature.

We believe distressed buyouts and debt investments represent a highly attractive risk/reward profile. Our funds’ investments in debt securities have generally resulted in two outcomes. The first and preferred potential outcome, which we refer to as a distressed for control investment, is when our funds are successful in taking control of a company through its investment in the distressed debt. By working proactively through the restructuring process, we are often able to equitize the debt position of our funds to create a well-financed buyout which would then typically be held by the fund for a three-to-five year period, similar to other traditional leveraged buyout transactions. The second potential outcome, which we refer to as a non-control distressed investment is when our funds do not gain control of the company. This typically occurs as a result of an increase in the price of the debt investments to levels which are higher than what we consider to be an attractive acquisition valuation. In these instances, we may forgo seeking control, and instead our funds may seek to sell the debt investments over time, typically generating a higher short-term IRR with a lower multiple of invested capital than in the case of a typical distressed for control transaction. We believe that we are a market leader in distressed investing and that this is one of the key areas that differentiates us from our peers.

We also maintain the flexibility to deploy capital of our private equity funds in other types of investments such as the creation of new companies, which allows us to leverage our deep industry and distressed expertise and collaborate with experienced management teams to seek to capitalize on market opportunities that we have identified, particularly in asset-intensive industries that are in distress. In these types of situations, we have the ability to establish new entities that can acquire distressed assets at what we believe are attractive valuations without the burden of managing an existing portfolio of legacy assets. Other investments, such as the creation of new companies, historically have not represented a large portion of our overall investment activities, although our private equity funds do make these types of investments selectively.

Corporate Carve-outs

Corporate carve-outs are less market-dependent than distressed investing, but are equally complicated. In these transactions, our funds seek to extract a business that is highly integrated within a larger corporate parent to create a stand-alone business. These are labor-intensive transactions, which we believe require deep industry knowledge, patience and creativity, to unlock value that has largely been overlooked or undermanaged. Importantly, because of the highly negotiated nature of many of these transactions, Apollo believes it is often difficult for the seller to run a competitive process, which ultimately allows our funds to achieve compelling purchase prices.

Opportunistic Buyouts

We have extensive experience completing leveraged buyouts across various market cycles. We take an opportunistic and disciplined approach to these transactions, generally avoiding highly competitive situations in favor of proprietary transactions where there may be opportunities to purchase a company at a discount to prevailing market averages. Oftentimes, we will focus on complex situations such as out-of-favor industries or “broken” (or discontinued) sales processes where the inherent value may be less obvious to potential acquirers. In the case of more conventional buyouts, we seek investment opportunities where we believe our focus on complexity and sector expertise will provide us with a significant competitive advantage, whereby we can leverage our knowledge and experience from the nine core industries in which our investment professionals have historically invested private equity capital. We believe such knowledge and experience can result in our ability to find attractive opportunities for our funds to acquire portfolio company investments at lower purchase price multiples.

To further alter the risk/reward profile in our funds’ favor, we often focus on certain types of buyouts such as physical asset acquisitions and investments in non-correlated assets where underlying values tend to change in a manner that is independent of broader market movements In the case of physical asset acquisitions, our private equity funds seek to acquire physical assets at discounts to where those assets trade in the financial markets, and to lock in that value arbitrage through comprehensive hedging and structural enhancements.

We believe buyouts of non-correlated assets or businesses also represent attractive investments since they are generally less correlated to the broader economy and provide an element of diversification to our funds' overall portfolio of private equity investments.

Natural Resources

In addition to our traditional private equity funds which pursue opportunities in nine core industries, one of which is natural resources, we have two dedicated private equity natural resources funds. In 2011, we established our first dedicated private equity natural resources fund, Apollo Natural Resources Partners, L.P. (together with its alternative investment vehicles, “ANRP I”) and assembled a team of dedicated investment professionals to capitalize on private equity investment opportunities in the natural resources industry, principally in the metals and mining, energy and select other natural resources sectors. In 2015, we launched our second natural resources fund, Apollo Natural Resources Partners II, L.P. (together with its alternative investment vehicles, “ANRP II”). We believe we can source and execute compelling, value-oriented investment opportunities for our funds irrespective of the commodity price environment.

Special Situations

In 2016, we established our first dedicated special situations fund, Apollo Special Situations Fund, L.P. (together with its alternative investment vehicles, “SSF”) which seeks investment opportunities that do not fit within our existing private equity and credit fund mandates based on a variety of reasons, including risk-return profile, duration and control provisions. The Fund relies on a flexible investment approach to pursue opportunities up and down the capital structure, including opportunities that may result from market dislocation, regulatory change or out of favor industries. We believe these special situations investments represent a sizable and scalable investment opportunity to capture structurally downside-protected opportunities. While SSF is distinct from previous Apollo funds, we believe the Fund is a natural extension of Apollo’s private equity business and will benefit from Apollo’s integrated platform.

AP Alternative Assets, L.P. (“AAA”)

We also manage AAA, a publicly listed permanent capital vehicle. The sole investment held by AAA is its investment in AAA Investments, L.P. (“AAA Investments”). AAA Investments is the largest equity holder of Athene Holding.

AAA is a Guernsey limited partnership whose partners are comprised of (i) AAA Guernsey Limited (“AAA Guernsey”), which holds 100% of the general partner interests in AAA, and (ii) the holders of common units representing limited partner interests in AAA. The common units are non-voting and are listed on Euronext in Amsterdam under the symbol “AAA”. AAA

Guernsey is a Guernsey limited company and is owned 55% by an individual who is not an affiliate of Apollo and 45% by Apollo Principal Holdings III, L.P., an indirect subsidiary of Apollo. AAA Guernsey is responsible for managing the business and affairs of AAA. AAA generally makes all of its investments through AAA Investments, of which AAA is the sole limited partner. Athene Holding is AAA Investments' only investment.

Building Value in Portfolio Companies

We are a "hands-on" investor organized around nine core industries where we believe we have significant knowledge and expertise, and we remain actively engaged with the management teams of the portfolio companies of our private equity funds. We have established relationships with operating executives that assist in the diligence review of new opportunities and provide strategic and operational oversight for portfolio investments. We actively work with the management of each of the portfolio companies of the funds we manage to maximize the underlying value of the business. To achieve this, we take a holistic approach to value-creation, concentrating on both the asset side and liability side of the balance sheet of a company. On the asset side of the balance sheet, Apollo works with management of the portfolio companies to enhance the operations of such companies. Our investment professionals assist portfolio companies in rationalizing non-core and underperforming assets, generating cost and working capital savings, and maximizing liquidity. On the liability side of the balance sheet, Apollo relies on its deep credit structuring experience and works with management of the portfolio companies to help optimize the capital structure of such companies through proactive restructuring of the balance sheet to address near-term debt maturities. The companies in which our private equity funds invest also seek to capture discounts on publicly traded debt securities through exchange offers and potential debt buybacks. In addition, we have established a group purchasing program to help our funds' portfolio companies leverage the combined corporate spending among Apollo and portfolio companies of the funds it manages in order to seek to reduce costs, optimize payment terms and improve service levels for all program participants.

Exiting Investments

The value of the investments that have been made by our funds are typically realized through either an initial public offering of common stock on a nationally recognized exchange or through the private sale of the companies in which our funds have invested. We believe the advantage of having long-lived funds and investment discretion is that we are able to time our funds' exit to maximize value.

Private Equity Fund Holdings

The following table presents a list of certain significant portfolio companies of our private equity funds as of December 31, 2016:

Company	Year of Initial Investment	Fund(s)	Buyout Type	Industry	Region
Constellis	2016	Fund VIII	Opportunistic Buyout	Business Services	North America
Diamond Resorts	2016	Fund VIII	Opportunistic Buyout	Leisure	North America
Maxim Crane Works / AmQuip	2016	Fund VIII	Opportunistic Buyout	Manufacturing & Industrial	North America
Nova KBM	2016	Fund VIII	Opportunistic Buyout	Financial Services	Central Europe
Outerwall	2016	Fund VIII	Opportunistic Buyout	Consumer Services	North America
Rackspace	2016	Fund VIII	Opportunistic Buyout	Media/Telecom/Technology	North America
The Fresh Market	2016	Fund VIII	Opportunistic Buyout	Consumer & Retail	North America
Vistra Energy	2016	Fund VII & ANRP II	Distressed Buyout	Natural Resources	North America
Warrior Met Coal	2016	Fund VIII & ANRP I	Distressed Buyout	Natural Resources	North America
ADT	2015	Fund VIII	Opportunistic Buyout	Consumer Services	North America
Amissima	2015	Fund VIII	Corporate Carve-Out	Financial Services	Western Europe
CH2M Hill	2015	Fund VIII	Opportunistic Buyout	Business Services	North America
Presidio	2015	Fund VIII	Opportunistic Buyout	Business Services	North America
RegionalCare	2015	Fund VIII	Opportunistic Buyout	Consumer Services	North America
Tranquilidade	2015	Fund VIII	Corporate Carve-Out	Financial Services	Western Europe
Vectra	2015	Fund VIII	Corporate Carve-Out	Chemicals	North America
Ventia	2015	Fund VIII	Corporate Carve-Out	Business Services	Australia
Verallia	2015	Fund VIII	Corporate Carve-Out	Manufacturing & Industrial	Western Europe
Caelus Energy Alaska	2014	Fund VIII & ANRP I	Corporate Carve-Out	Natural Resources	North America
CEC Entertainment	2014	Fund VIII	Opportunistic Buyout	Leisure	North America
Double Eagle Energy II	2014	ANRP I & ANRP II	Opportunistic Buyout	Natural Resources	North America
Express Energy	2014	Fund VIII & ANRP I	Opportunistic Buyout	Natural Resources	North America
Jupiter Resources	2014	Fund VIII & ANRP I	Corporate Carve-Out	Natural Resources	North America
American Gaming Systems	2013	Fund VIII	Opportunistic Buyout	Leisure	North America
Apex Energy	2013	ANRP I	Opportunistic Buyout	Natural Resources	North America
Aurum	2013	Fund VII	Opportunistic Buyout	Consumer & Retail	Western Europe
Hostess Snacks	2013	Fund VII	Opportunistic Buyout	Consumer & Retail	North America
McGraw Hill Education	2013	Fund VII	Corporate Carve-Out	Consumer Services	North America
EP Energy	2012	Fund VII & ANRP I	Corporate Carve-Out	Natural Resources	North America

Talos Energy	2012	Fund VII & ANRP I	Opportunistic Buyout	Natural Resources	North America
Endemol Shine Group	2011	Fund VII	Distressed Buyout	Media/Telecom/Technology	Global
Welspun Group	2011	Fund VII & ANRP I	Opportunistic Buyout	Natural Resources	India
Ladbrokes Coral Group	2010	Fund VI & Fund VII	Distressed Buyout	Leisure	Western Europe
Caesars Entertainment[(1)]	2008	Fund VI	Opportunistic Buyout	Leisure	North America
Norwegian Cruise Lines	2008	Fund VI & Fund VII	Opportunistic Buyout	Leisure	North America
Claire's Stores	2007	Fund VI	Opportunistic Buyout	Consumer & Retail	Global
Momentive Performance Materials	2006	Fund VI	Corporate Carve-Out	Chemicals	North America
Debt Investment Vehicles	Various	Various	Debt Investment	Various	Various

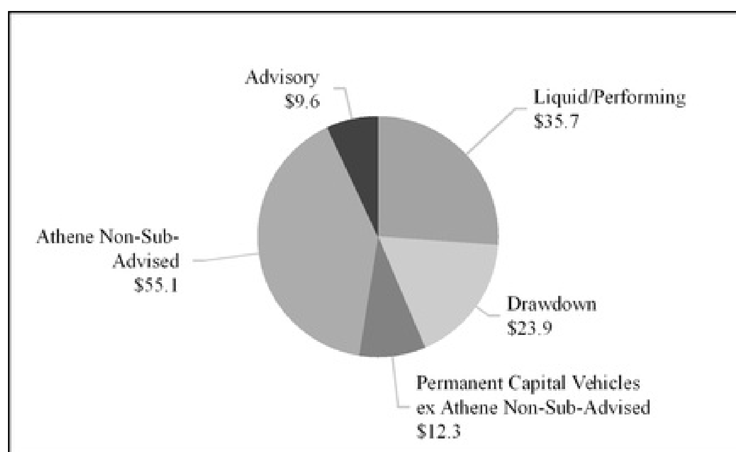
Note: The table above includes portfolio companies of Fund IV, Fund V, Fund VI, Fund VII, Fund VIII, ANRP I, ANRP II and AION with a remaining value greater than $100 million, excluding the value associated with any portion of such private equity funds' portfolio company investments held by co-investment vehicles.

(1) Includes investment in Caesars Entertainment Corp. and Caesars Acquisition Company.

Credit

Since Apollo's founding in 1990, we believe our expertise in credit has served as an integral component of our company's growth and success. Our credit-oriented approach to investing commenced in 1990 with the management of a high-yield bond and leveraged loan portfolio. Since that time, our credit activities have grown significantly, through both organic growth and strategic acquisitions. As of December 31, 2016, Apollo's credit segment had total AUM and Fee-Generating AUM of $136.6 billion and $111.8 billion, respectively, across a diverse range of credit-oriented investments that utilize the same disciplined, value-oriented investment philosophy that we employ with respect to our private equity funds. Apollo's broad credit platform, which we believe is adaptable to evolving market conditions and different risk tolerances, is categorized as follows:

Credit AUM as of December 31, 2016
(in billions)



Liquid/Performing

Our liquid/performing category within the credit segment generally includes funds and accounts where the underlying assets are liquid in nature and/or have some form of periodic redemption right. Liquid/performing includes a variety of hedge funds, CLOs and SIAs that utilize a range of investment strategies including performing credit, structured credit, and liquid opportunistic credit. Performing credit strategies focus on income-oriented, senior loan and bond investment strategies that target issuers primarily domiciled in the U.S. and in Europe. Structured credit strategies target multiple tranches of structured securities

with favorable and protective lending terms, predictable payment schedules, well diversified portfolios and low default rates. Liquid opportunistic strategies primarily focus on credit investments that are generally liquid in nature and that utilize a similar value-oriented investment philosophy as our private equity business. This includes investments by our credit funds in a broad array of primary and secondary opportunities encompassing stressed and distressed public and private securities primarily within corporate credit, including senior loans (secured and unsecured), high yield, mezzanine, derivative securities, debtor in possession financings, rescue or bridge financings, and other debt investments. In aggregate, our AUM and Fee-Generating AUM within the liquid/performing category totaled $35.7 billion and $31.6 billion, respectively, as of December 31, 2016.

Hedge Funds

Hedge Funds primarily includes Apollo Credit Strategies Master Fund Ltd., Apollo Credit Master Fund Ltd. and Apollo Credit Short Opportunities Fund. Collectively, our hedge fund AUM and Fee-Generating AUM totaled $6.0 billion and $2.8 billion, respectively, as of December 31, 2016. Our hedge funds may utilize a mix of the investment strategies outlined above. Investments in these funds may be made on a long or short basis and employ leverage to finance the acquisition of various credit investments. Accordingly, the difference between AUM and Fee-Generating AUM for hedge funds is driven by non-fee paying leverage.

CLOs

CLOs includes more than 20 internally managed CLOs focused within the U.S. and Europe. In aggregate, our AUM and Fee-Generating AUM in CLOs totaled $12.2 billion and $11.8 billion, respectively, as of December 31, 2016. Through their lifecycle, CLOs employ structured credit and performing credit strategies with the goal of providing investors with competitive yields achieved through highly diversified pools of historically low defaulting assets.

SIAs / Other

SIAs / Other includes a diverse group of separately managed accounts and certain commitment-based funds where the underlying assets are liquid and generally employ a mix of performing credit, structured credit, and liquid opportunistic credit investment strategies. In aggregate, our AUM and Fee-Generating in SIAs and other accounts totaled $17.4 billion and $16.9 billion as of December 31, 2016, respectively. The managed accounts comprising the majority of AUM and Fee-Generating AUM within this subcategory are customized according to an investor's specified risk and target return preferences.

Drawdown

Our drawdown category within the credit segment generally includes commitment-based funds and certain SIAs in which investors make a commitment to provide capital at the formation of such funds and deliver capital when called as investment opportunities become available. Drawdown comprises our fund series' including Credit Opportunity Funds, European Principal Finance Funds, and Structured Credit Funds, including Financial Credit Investment Funds and Structured Credit Recovery Funds, as well as other commitment-based funds not included within a series of funds and certain SIAs. Drawdown funds and SIAs utilize a range of investment strategies including illiquid opportunistic, principal finance, and structured credit strategies. In aggregate, our AUM and Fee-Generating AUM within the drawdown category totaled $23.9 billion and $13.6 billion, respectively, as of December 31, 2016.

Credit Opportunity Funds

The Credit Opportunity Fund ("COF") series primarily employs our illiquid opportunistic investment strategy, which focuses on credit investments that are less liquid in nature and that utilize a similar value-oriented investment philosophy as our private equity business. This includes investments in a broad array of primary and secondary opportunities encompassing stressed and distressed public and private securities primarily within corporate credit, including senior loans (secured and unsecured), high yield, mezzanine, debtor in possession financings, rescue or bridge financings, and other debt investments. Additionally, for certain illiquid opportunistic investments our underwriting process may result in selective and at times concentrated investments by the funds in the various industries on which we focus. In certain cases, leverage can be employed in connection with this strategy by having fund subsidiaries or special-purpose vehicles incur debt or by entering into credit facilities or other debt transactions to finance the acquisition of various credit investments. Our AUM and Fee-Generating AUM within the Credit Opportunity Funds totaled $3.6 billion and $2.5 billion, respectively, as of December 31, 2016.

European Principal Finance Funds

The European Principal Finance Fund ("EPF") series primarily employs our principal finance investment strategy, which is utilized to invest in European commercial and residential real estate, performing loans, non-performing loans, and unsecured consumer loans, as well as acquiring assets as a result of distressed market situations. Our EPF series recently expanded as we held a first closing for our third European Principal Finance Fund during the year ended December 31, 2016. Certain of the EPF

investment vehicles we manage own captive pan-European financial institutions, loan servicing and property management platforms. These entities perform banking and lending activities and manage and service consumer credit receivables and loans secured by commercial and residential properties. In aggregate, these financial institutions, loan servicing, and property management platforms operate in five European countries and employed approximately 1,500 individuals as of December 31, 2016. We believe the post-investment loan servicing and real estate asset management requirements, combined with the illiquid nature of these investments, limits participation by traditional long-only investors, hedge funds, and private equity funds, resulting in what we believe to be an opportunity for our credit business. Our AUM and Fee-Generating AUM within the European Principal Finance Funds totaled $7.1 billion and $5.2 billion, respectively, as of December 31, 2016.

Structured Credit Funds - FCI and SCRF

Our Structured Credit Funds include the Financial Credit Investment Fund series (“FCI”) and the Structured Credit Recovery Fund series (“SCRF”). Collectively, the Structured Credit Funds employ our structured credit investing strategy, which targets multiple tranches of less liquid structured securities with favorable and protective lending terms, predictable payment schedules, well-diversified portfolios and low default rates. Our AUM and Fee-Generating AUM within Structured Credit Funds totaled $5.0 billion and $2.8 billion, respectively, as of December 31, 2016.

Permanent Capital Vehicles - Credit

Our permanent capital vehicles category within the credit segment generally includes pools of assets which are not subject to redemption and are generally associated with long term asset management or advisory contracts. This category is comprised of (a) Athene assets managed or advised by Apollo; (b) assets that are owned by or related to Midcap and managed by Apollo; (c) assets of certain publicly traded vehicles managed by Apollo such as AINV, AIF, and AFT and (d) a non-traded business development company sub-advised by Apollo. The permanent capital vehicles within credit utilize a range of investment strategies including performing credit and structured credit as described previously, as well as directly originated credit. Direct origination generally relates to the sourcing of senior credit assets, both secured and unsecured, including asset-backed loans, leveraged loans, mezzanine debt, real estate loans, re-discount loans and venture loans. Directly originated credit is primarily employed by Midcap, AINV, and a non-traded business development company sub-advised by Apollo. In aggregate, our AUM and Fee-Generating AUM within our credit permanent capital vehicles totaled $67.4 billion and $66.6 billion, respectively, as of December 31, 2016.

Permanent Capital Vehicles excluding Athene Non-Sub-Advised Assets

This category includes all permanent capital vehicles within the credit segment described above except for the portion of Athene-related AUM that is not sub-advised by Apollo or invested in Apollo funds as of December 31, 2016. The AUM and Fee-Generating AUM we managed within the permanent capital vehicles excluding Athene Non-Sub-Advised category totaled $12.3 billion and $11.5 billion, respectively, as of December 31, 2016.

Athene Non-Sub-Advised Assets

This category includes the Athene assets which are managed by Apollo but not sub-advised by Apollo nor invested in Apollo funds or investment vehicles. We refer to these assets collectively as “Athene Non-Sub-Advised Assets”. Included in this category is $4.4 billion of Athene AUM for which AAME provides investment advisory services. Our AUM within the Athene Non-Sub-Advised category totaled $55.1 billion as of December 31, 2016, all of which was Fee-Generating AUM, although certain assets are subject to partial fee rebates as described in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources." For additional information, please refer to “—Athene” below.

Athene

As discussed in the preceding section, permanent capital vehicles within the credit segment includes Athene assets that are managed or advised by Apollo. As of December 31, 2016, Apollo, through its subsidiaries, managed or advised $70.8 billion of AUM and $70.8 billion of Fee-Generating AUM in accounts owned by or related to Athene (the “Athene Accounts”). This amount includes $15.7 billion of AUM that was either sub-advised by Apollo or invested in funds and investment vehicles managed by Apollo within the credit, real estate, and private equity business segments.

Athene Holding was founded in 2009 to capitalize on favorable market conditions in the dislocated life insurance sector. Athene Holding, through its subsidiaries, is a leading retirement services company that issues, reinsures and acquires retirement savings products designed for the increasing number of individuals and institutions seeking to fund retirement needs. The products and services offered by Athene include: fixed and fixed indexed annuity products; reinsurance services offered to third-party annuity providers; and institutional products, such as funding agreements. Athene Holding became an effective registrant on December 9, 2016 under the U.S. Securities Exchange Act of 1934, as amended, and trades on the New York Stock Exchange (NYSE) under the symbol “ATH”.

Apollo, through its consolidated subsidiary, Athene Asset Management, provides asset management services to Athene, including asset allocation and portfolio management strategies, and receives fees from Athene Holding for providing such services. As of December 31, 2016, Athene Asset Management managed Athene Holding's entire investment portfolio, except with respect to certain Athene assets which are advised by AAME. Through Athene Asset Management and AAME, Apollo managed or advised $70.8 billion of AUM as of December 31, 2016 in the Athene Accounts, of which approximately $15.7 billion, or approximately 22%, was either sub-advised by Apollo or invested in Apollo funds and investment vehicles. The vast majority of sub-advised assets are in managed accounts that invest in high grade credit asset classes such as CLO debt, commercial mortgage backed securities and insurance-linked securities. We currently expect this percentage to increase over time provided that we continue to perform successfully in providing asset management and advisory services to Athene. Athene Asset Management receives a gross management fee equal to 0.40% per annum on all AUM in the Athene Accounts, with certain limited exceptions for all of the services which Athene Asset Management provides to Athene. AAME receives a gross fee of 0.10% per annum on Athene assets it advises.

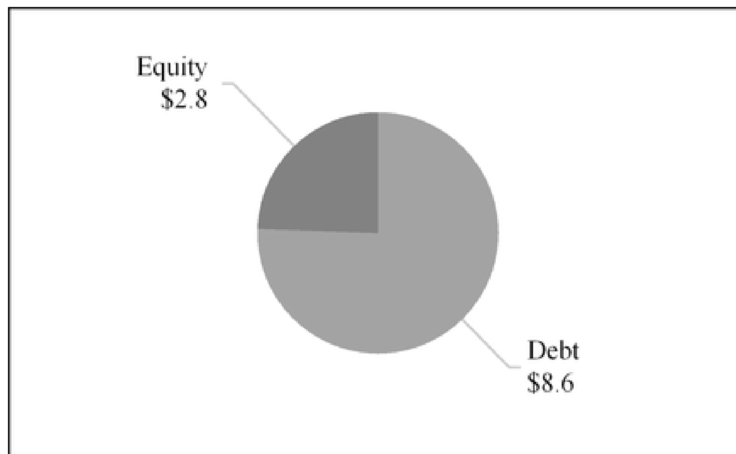
Advisory

Advisory refers to certain assets advised by AAME. AAME is a subsidiary of Apollo which provides asset allocation and risk management advisory services principally to certain of the insurance and bank institutions acquired by Apollo managed funds on either a cost reimbursement basis. Advisory excludes $4.4 billion of Athene AUM for which AAME provides investment advisory services. Our AUM as of December 31, 2016 within the Advisory category totaled $9.6 billion.

Real Estate

Our real estate group has a dedicated team of multi-disciplinary real estate professionals whose investment activities are integrated and coordinated with our private equity and credit business segments. We take a broad view of markets and property types in targeting debt and equity investment opportunities, including the acquisition and recapitalization of real estate portfolios, platforms and operating companies and distressed for control situations. As of December 31, 2016, our real estate business had total and fee generating AUM of approximately $11.5 billion and $8.3 billion, respectively, through a combination of investment funds, SIAs and ARI, a publicly-traded, commercial mortgage real estate investment trust managed by Apollo.

Real Estate AUM as of December 31, 2016
(in billions)



With respect to our real estate funds' equity investments, we take a value-oriented approach and our funds will invest in assets located in primary, secondary and tertiary markets across the United States and Asia. The U.S. real estate equity funds we manage pursue opportunistic investments in various real estate asset classes, which historically have included hospitality, office, industrial, retail, healthcare, residential and non-performing loans. The Asia real estate equity funds we manage have a primary focus on investing in China, India and Southeast Asia, while executing Apollo's strategy of opportunistic value investing in real estate related assets, portfolios, companies, operating platforms, and structured finance. Our real estate equity funds under management currently include (i) AGRE U.S. Real Estate Fund, L.P. ("U.S. RE Fund I") and Apollo U.S. Real Estate Fund II, L.P. ("U.S. RE Fund II"), our U.S. focused opportunistic funds, (ii) Apollo Asia Real Estate Fund, L.P. ("Asia RE Fund"), our Asia-focused opportunistic fund, (iii) Trophy Property Development Fund, L.P., a China-focused investment fund we manage since 2015 through the acquisition of Venator Real Estate Capital Partners ("Venator"), an Asian focused real estate investment manager

and (iv) our legacy Citi Property Investors ("CPI") business, the real estate investment management business we acquired from Citigroup in November 2010.

With respect to our real estate debt activities, our real estate funds and accounts offer financing across a broad spectrum of property types and at various points within a property's capital structure, including first mortgage and mezzanine financing and preferred equity. In addition to ARI, we also manage strategic accounts focused on investing in commercial mortgage-backed securities and other commercial real estate loans.

Strategic Investment Accounts

We manage several SIAs established to facilitate investments by third-party investors directly in Apollo funds and other securities. Institutional investors are expressing increasing levels of interest in SIAs since these accounts can provide investors with greater levels of transparency, liquidity and control over their investments as compared to more traditional investment funds. Based on the trends we are currently witnessing among a select group of large institutional investors, we expect our AUM that is managed through SIAs to continue to grow over time. As of December 31, 2016, approximately $20 billion of our total AUM was managed through SIAs.

Fundraising and Investor Relations

We believe our performance track record across our funds and our focus on client service have resulted in strong relationships with our fund investors. Our fund investors include many of the world's most prominent pension and sovereign wealth funds, university endowments and financial institutions, as well as individuals. We maintain an internal team dedicated to investor relations across our private equity, credit and real estate businesses.

In our private equity business, fundraising activities for new funds begin once the investor capital commitments for the current fund are largely invested or committed to be invested. The investor base of our private equity funds includes both investors from prior funds and new investors. In many instances, investors in our private equity funds have increased their commitments to subsequent funds as our private equity funds have increased in size. During the fundraising effort for Fund VIII, investors representing over 92% of Fund VII's capital committed to Fund VIII. In addition, many of our investment professionals commit their own capital to each private equity fund. The single largest unaffiliated investor in Fund VIII represents 5% of Fund VIII's commitments.

During the management of a private equity fund, we maintain an active dialogue with the fund's investors. We host quarterly webcasts that are led by members of our senior management team and we provide quarterly reports to the investors detailing recent performance by investment. We also organize an annual meeting for our private equity funds' investors that consists of detailed presentations by the senior management teams of many of our funds' current investments. From time to time, we also hold meetings for the advisory board members of our private equity funds.

In our credit business, we have raised private capital from prominent institutional investors and have also raised capital from public market investors, as in the case of AINV, AFT and AIF. AINV is listed on the NASDAQ Global Select Market and complies with the reporting requirements of that exchange. ATH, AFT and AIF are listed on the NYSE and comply with the reporting requirements of that exchange.

In our real estate business, we have raised capital from prominent institutional investors and we have also raised capital from public market investors, as in the case of ARI. ARI is listed on the NYSE and complies with the reporting requirements of that exchange.

Investment Process

We maintain a rigorous investment process and a comprehensive due diligence approach across all of our funds. We have developed policies and procedures, the adequacy of which are reviewed annually, that govern the investment practices of our funds. Moreover, each fund is subject to certain investment criteria set forth in its governing documents that generally contain requirements and limitations for investments, such as limitations relating to the amount that will be invested in any one company and the geographic regions in which the fund will invest. Our investment professionals are familiar with our investment policies and procedures and the investment criteria applicable to the funds that they manage. Our investment professionals interact frequently across our businesses on a formal and informal basis.

We have in place certain procedures to allocate investment opportunities among our funds. These procedures are meant to ensure that each fund is treated fairly and that transactions are allocated in a way that is equitable, fair and in the best interests of each fund, subject to the terms of the governing agreements of such funds.

Private Equity Investment Process

Our private equity investment professionals are responsible for selecting, evaluating, structuring, due diligence, negotiating, executing, monitoring and exiting investments for our traditional private equity funds, as well as pursuing operational improvements in our funds' portfolio companies through management consulting arrangements. These investment professionals perform significant research into each prospective investment, including a review of the company's financial statements, comparisons with other public and private companies and relevant industry data. The due diligence effort will also typically include:

- on-site visits;
- interviews with management, employees, customers and vendors of the potential portfolio company;
- research relating to the company's management, industry, markets, products and services, and competitors; and
- background checks.

After an initial selection, evaluation and diligence process, the relevant team of investment professionals will prepare a detailed analysis of the investment opportunity for our private equity investment committee. Our private equity investment committee generally meets weekly to review the investment activity and performance of our private equity funds.

After discussing the proposed transaction with the deal team, the investment committee will decide whether to give its preliminary approval to the deal team to continue the selection, evaluation, diligence and negotiation process. The investment committee will typically conduct several meetings to consider a particular investment before finally approving that investment and its terms. Both at such meetings and in other discussions with the deal team, our Managing Partners and other investment professionals will provide guidance to the deal team on strategy, process and other pertinent considerations. Every private equity investment of our traditional private equity funds requires the approval of our Managing Partners.

Our private equity investment professionals are responsible for monitoring an investment once it is made and for making recommendations with respect to exiting an investment. Disposition decisions made on behalf of our private equity funds are subject to review and approval by the private equity investment committee, including our Managing Partners.

Credit and Real Estate Investment Process

Our credit and real estate investment professionals are responsible for selecting, evaluating, structuring, due diligence, negotiating, executing, monitoring and exiting investments for our credit funds and real estate funds, respectively. The investment professionals perform significant research into and due diligence of each prospective investment, and prepare analyses of recommended investments for the investment committee of the relevant fund.

Investment decisions are scrutinized by the investment committees where applicable, who review potential transactions, provide input regarding the scope of due diligence and approve recommended investments and dispositions. Close attention is given to how well a proposed investment is aligned with the distinct investment objectives of the fund in question, which in many cases have specific geographic or other focuses. The investment committee of each of our credit funds and real estate funds generally is provided with a summary of the investment activity and performance of the relevant funds on at least a monthly basis.

Overview of Fund Operations

Investors in our private equity funds and certain of our credit and real estate funds make commitments to provide capital at the outset of a fund and deliver capital when called by us as investment opportunities become available. We determine the amount of initial capital commitments for such funds by taking into account current market opportunities and conditions, as well as investor expectations. The general partner's capital commitment is determined through negotiation with the fund's underlying investor base. The commitments are generally available for approximately six years during what we call the investment period. We have typically invested the capital committed to such funds over a three to four year period. Generally, as each investment is realized, these funds first return the capital and expenses related to that investment and any previously realized investments to fund investors and then distribute any profits. These profits are typically shared 80% to the investors in our private equity funds and 20% to us so long as the investors receive at least an 8% compounded annual return on their investment, which we refer to as a "preferred return" or "hurdle." Allocation of profits between fund investors and us, as well as the amount of the preferred return, among other provisions, varies for our real estate equity and many of our credit funds. Our private equity funds typically terminate ten years after the final closing, subject to the potential for two one-year extensions. Dissolution of those funds can be accelerated upon a majority vote of investors not affiliated with us and, in any case, all of our funds also may be terminated upon the occurrence of certain other events. Ownership interests in our private equity funds and certain of our credit and real estate funds are not, however, subject to redemption prior to termination of the funds.

The processes by which our credit and real estate funds receive and invest capital vary by type of fund. As noted above, certain of our credit and real estate funds have drawdown structures where investors made a commitment to provide capital at the formation of such funds and deliver capital when called by us as investment opportunities become available. In addition, we have several permanent capital vehicles with unlimited duration. Each of these publicly traded vehicles raises capital by selling shares in the public markets and these vehicles can also issue debt. We also have several credit funds which continuously offer and sell shares or limited partner interests via private placements through monthly subscriptions, which are payable in full upon a fund's acceptance of an investor's subscription. These hedge fund style credit funds have customary redemption rights (in many cases subject to the expiration of an initial lock-up period), and are generally structured as limited partnerships, the terms of which are determined through negotiation with the funds' underlying investor base. Management fees and incentive fees (whether in the form of carried interest income or incentive allocation) that we earn for management of these credit funds and from their performance as well as the terms governing their operation vary across our credit funds.

We conduct the management of our private equity, credit and real estate funds primarily through a partnership structure, in which partnerships organized by us accept commitments and/or funds for investment from investors. Funds are generally organized as limited partnerships with respect to private equity funds and other U.S. domiciled vehicles and limited partnership and limited liability (and other similar) companies with respect to non-U.S. domiciled vehicles. Typically, each fund has an investment adviser registered under the Investment Advisers Act of 1940, as amended (the "Investment Advisers Act"). Responsibility for the day-to-day operations of the funds is typically delegated to the funds' respective investment managers pursuant to an investment management (or similar) agreement. Generally, the material terms of our investment management agreements relate to the scope of services to be rendered by the investment manager to the applicable funds, certain rights of termination in respect of our investment management agreements and, generally, with respect to certain of our credit and real estate funds (as these matters are covered in the limited partnership agreements of the private equity funds), the calculation of management fees to be borne by investors in such funds, as well as the calculation of the manner and extent to which other fees received by the investment manager from fund portfolio companies serve to offset or reduce the management fees payable by investors in our funds. The funds themselves generally do not register as investment companies under the Investment Company Act of 1940, as amended (the "Investment Company Act"), generally in reliance on Section 3(c)(7) or Section 7(d) thereof or, typically in the case of funds formed prior to 1997, Section 3(c)(1) thereof. Section 3(c)(7) of the Investment Company Act excepts from its registration requirements funds privately placed in the United States whose securities are owned exclusively by persons who, at the time of acquisition of such securities, are "qualified purchasers" or "knowledgeable employees" for purposes of the Investment Company Act. Section 3(c)(1) of the Investment Company Act exempts from its registration requirements privately placed funds whose securities are beneficially owned by not more than 100 persons. In addition, under current interpretations of the SEC, Section 7(d) of the Investment Company Act exempts from registration any non-U.S. fund all of whose outstanding securities are beneficially owned either by non-U.S. residents or by U.S. residents that are qualified purchasers.

In addition to having an investment manager, each fund that is a limited partnership also has a general partner that makes all policy and investment decisions relating to the conduct of the fund's business. The general partner is responsible for all decisions concerning the making, monitoring and disposing of investments, but such responsibilities are typically delegated to the fund's investment manager pursuant to an investment management (or similar) agreement. The limited partners of the funds take no part in the conduct or control of the business of the funds, have no right or authority to act for or bind the funds and have no influence over the voting or disposition of the securities or other assets held by the funds. These decisions are made by the fund's general partner in its sole discretion, subject to the investment limitations set forth in the agreements governing each fund. The limited partners often have the right to remove the general partner or investment manager for cause or cause an early dissolution by a simple majority vote. In connection with the private offering transactions that occurred in 2007 pursuant to which we sold shares of Apollo Global Management, LLC to certain initial purchasers and accredited investors in transactions exempt from the registration requirements of the Securities Act ("Private Offering Transactions") and the reorganization of the Company's predecessor business (the "2007 Reorganization"), we deconsolidated certain of our private equity and credit funds that have historically been consolidated in our financial statements and amended the governing agreements of those funds to provide that a simple majority of a fund's investors have the right to accelerate the dissolution date of the fund. Additionally, Apollo adopted new U.S. GAAP consolidation guidance during the year ended December 31, 2015, which resulted in the deconsolidation of certain funds and variable interest entities ("VIEs") as of January 1, 2015.

In addition, the governing agreements of our private equity funds and certain of our credit and real estate funds enable the limited partners holding a specified percentage of the interests entitled to vote, to elect not to continue the limited partners' capital commitments for new portfolio investments in the event certain of our Managing Partners do not devote the requisite time to managing the fund or in connection with certain triggering events (as defined in the applicable governing agreements). In addition to having a significant, immeasurable negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our funds would likely result in significant reputational damage to us. The loss of the services of any of our Managing Partners would have a material adverse effect on us, including our ability to retain and attract investors and raise new

funds, and the performance of our funds. We do not carry any "key man" insurance that would provide us with proceeds in the event of the death or disability of any of our Managing Partners.

Fees and Carried Interest

Our revenues and other income consist principally of (i) management fees, which may be based upon a percentage of the committed or invested capital, adjusted assets, gross invested capital, fund net asset value, stockholders' equity or the capital accounts of the limited partners of the funds, and may be subject to offset as discussed in note 2 to the consolidated financial statements, (ii) advisory and transaction fees, net relating to certain actual and potential private equity, credit and real estate investments as more fully discussed in note 2 to the consolidated financial statements, (iii) income based on the performance of our funds, which consists of allocations, distributions or fees from our private equity, credit and real estate funds, and (iv) investment income from our investments as general partner and other direct investments primarily in the form of net gains from investment activities as well as interest and dividend income.

The composition of our revenues will vary based on market conditions and the cyclicality of the different businesses in which we operate. Our funds' returns are driven by investment opportunities and general market conditions, including the availability of debt capital on attractive terms and the availability of distressed debt opportunities. Our funds initially record fund investments at cost and then such investments are subsequently recorded at fair value. Fair values are affected by changes in the fundamentals of the underlying portfolio company investments of the funds, the industries in which the portfolio companies operate, the overall economy as well as other market conditions.

General Partner and Professionals Investments and Co-Investments

General Partner Investments

Certain of our management companies, general partners and co-invest vehicles are committed to contribute to our funds and affiliates. As a limited partner, general partner and manager of the Apollo funds, Apollo had unfunded capital commitments as of December 31, 2016 of $607.9 million.

Managing Partners and Other Professionals Investments

To further align our interests with those of investors in our funds, our Managing Partners and other professionals have invested their own capital in our funds. Our Managing Partners and other professionals will either re-invest their carried interest to fund these investments or use cash on hand or funds borrowed from third parties. We generally have not historically charged management fees or carried interest on capital invested by our Managing Partners and other professionals directly in our private equity, credit, and real estate funds.

Co-Investments

Investors in many of our funds, as well as certain other investors, may have the opportunity to make co-investments with the funds. Co-investments are investments in portfolio companies or other fund assets generally on the same terms and conditions as those to which the applicable fund is subject.

Competition

The investment management industry is intensely competitive, and we expect it to remain so. We compete globally and on a regional, industry and niche basis.

We face competition both in the pursuit of outside investors for our funds and in our funds acquiring investments in attractive portfolio companies and making other fund investments. We compete for outside investors for our funds based on a variety of factors, including:

- investment performance;
- investor perception of investment managers' drive, focus and alignment of interest;
- quality of service provided to and duration of relationship with investors;
- business reputation; and
- the level of fees and expenses charged for services.

Competition is also intense for the attraction and retention of qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

For additional information concerning the competitive risks that we face, see "Item 1A. Risk Factors—Risks Related to Our Businesses—The investment management business is intensely competitive, which could have a material adverse impact on us."

Regulatory and Compliance Matters

Our businesses, as well as the financial services industry generally, are subject to extensive regulation in the United States and elsewhere. All of the investment advisers of our funds are registered as investment advisers either directly or as a "relying adviser" with the SEC. A "relying adviser" is an investment adviser that relies on the investment adviser registration of a directly registered investment adviser pursuant to the SEC's Division of Investment Management staff guidance dated January 18, 2012, issued in a no-action letter in response to the American Bar Association's request for interpretative guidance (the "ABA No-Action Letter"). Registered investment advisers are subject to the requirements and regulations of the Investment Advisers Act. Such requirements relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, managing conflicts of interest and general anti-fraud prohibitions. Pursuant to the ABA No-Action letter, each "relying adviser" is an investment adviser registered with the SEC and, as such, is required to comply with all of the provisions of the Investment Advisers Act and the rules thereunder that apply to registered advisers.

Each of AFT and AIF is a registered management investment company under the Investment Company Act. AINV is an investment company that has elected to be treated as a business development company under the Investment Company Act. Each of AFT, AIF and AINV has elected for U.S. Federal tax purposes to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). As such, each of AFT, AIF and AINV is required to distribute during each taxable year at least 90% of its ordinary income and realized, net short-term capital gains in excess of realized net long-term capital losses, if any, to its shareholders. In addition, in order to avoid excise tax, each needs to distribute during each calendar year at least 98% of its ordinary income and 98.2% of its capital gains net income for the one-year period ended on October 31st of such calendar year, plus any shortfalls from any prior year's distribution, which would take into account short-term and long-term capital gains and losses. In addition, as a business development company, AINV must not acquire any assets other than "qualifying assets" specified in the Investment Company Act unless, at the time the acquisition is made, at least 70% of AINV's total assets are qualifying assets (with certain limited exceptions).

ARI has elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code. To maintain its qualification as a REIT, ARI must distribute at least 90% of its taxable income to its shareholders and meet, on a continuing basis, certain other complex requirements under the Internal Revenue Code.

In addition, Apollo Global Securities, LLC ("AGS") is a registered broker dealer with the SEC and is a member of the Financial Industry Regulatory Authority, Inc. From time to time, this entity is involved in transactions with affiliates of Apollo, including portfolio companies of the funds we manage, whereby AGS will earn fees for its services.

Broker-dealers are subject to regulations that cover all aspects of the securities business. In particular, as a registered broker-dealer and member of a self-regulatory organization, we are subject to the SEC's uniform net capital rule, Rule 15c3-1. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer's assets be kept in relatively liquid form. The SEC and various self-regulatory organizations impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the regulatory capital composition of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC's uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

As the ultimate parent of the general partner or manager of certain shareholders of Athene Holding, we are subject to insurance holding company system laws and regulations in Delaware, Iowa and New York, which are the states in which the insurance company subsidiaries of Athene Holding are domiciled. These regulations generally require each insurance company subsidiary to register with the insurance department in its state of domicile and to furnish financial and other information about the operations of companies within its holding company system. These regulations also impose restrictions and limitations on the ability of an insurance company subsidiary to pay dividends and make other distributions to its parent company. In addition, transactions between an insurance company and other companies within its holding company system, including sales, loans, investments, reinsurance agreements, management agreements and service agreements, must be on terms that are fair and reasonable and, if material or within a specified category, require prior notice and approval or non-disapproval by the applicable domiciliary insurance department.

The insurance laws of each of Delaware, Iowa and New York prohibit any person from acquiring direct or indirect control of a domestic insurance company or its parent company unless that person has filed a notification with specified information with that state's Commissioner or Superintendent of Insurance (the "Commissioner") and has obtained the Commissioner's prior

approval. Under applicable Delaware, Iowa and New York statutes, the acquisition of 10% or more of the voting securities of an insurance company or its parent company is presumptively considered an acquisition of control of the insurance company, although such presumption may be rebutted. Accordingly, any person or entity that acquires, directly or indirectly, 10% or more of the voting securities of Apollo without the requisite prior approvals will be in violation of these laws and may be subject to injunctive action requiring the disposition or seizure of those securities or prohibiting the voting of those securities, or to other actions that may be taken by the applicable state insurance regulators.

The New York State Department of Financial Services (the “NYSDFS”) adopted an amendment to its holding company system regulations which requires prospective acquirers of New York domiciled insurers to provide greater disclosure with respect to intended changes to the business operations of the insurer, and which expressly authorizes the NYSDFS to impose additional conditions on such an acquisition and limit changes that the acquirer may make to the insurer’s business operations for a specified period of time following the acquisition without the NYSDFS’ prior approval. In particular, the amendment provides the NYSDFS with the specific authority to require acquirers of New York domiciled life insurers to post assets in a trust account for the benefit of the target company’s policyholders. In making such determination, the NYSDFS may consider whether the acquirer is, or is controlled by or under common control with, an investment manager such as Apollo. The NAIC’s former Private Equity Issues Working Group, which was formed to develop best practice recommendations relating to acquisitions of control of insurance or reinsurance companies by private equity and hedge funds, recently adopted new narrative guidance for state insurance examiners to consider in reviewing applications for an acquisition of an insurer by a private equity firm. Such guidance has been adopted by the NAIC and is included in the 2015 Annual/2016 Quarterly edition of the NAIC’s Financial Analysis Handbook.

In addition, many U.S. state insurance laws require prior notification to state insurance departments of an acquisition of control of a non-domiciliary insurance company doing business in that state if the acquisition would result in specified levels of market concentration. While these pre-notification statutes do not authorize the state insurance departments to disapprove the acquisition of control, they authorize regulatory action in the affected state, including requiring the insurance company to cease and desist from doing certain types of business in the affected state or denying a license to do business in the affected state, if particular conditions exist, such as substantially lessening competition in any line of business in such state. Any transactions that would constitute an acquisition of control of Apollo may require prior notification in those states that have adopted pre-acquisition notification laws. These laws may discourage potential acquisition proposals and may delay, deter or prevent an acquisition of control of Apollo (in particular through an unsolicited transaction), even if Apollo might consider such transaction to be desirable for its shareholders.

Currently, there are proposals to increase the scope of regulation of insurance holding companies in both the United States and internationally. The NAIC has adopted amendments to the Holding Company Model Act that introduced the concept of “enterprise risk” within an insurance holding company system and imposed more extensive informational reporting regarding parents and other affiliates of insurance companies, with the purpose of protecting domestic insurers from enterprise risk, including requiring an annual enterprise risk report by the ultimate controlling person identifying the material risks within the insurance holding company system that could pose enterprise risk to domestic insurers. Changes to existing NAIC model laws or regulations must be adopted by individual states or foreign jurisdictions before they will become effective. To date, each of Delaware, Iowa and New York has enacted laws to adopt such amendments.

Internationally, the International Association of Insurance Supervisors is in the process of adopting a framework for the “group wide” supervision of internationally active insurance groups. In the United States, the NAIC has also promulgated additional amendments to its insurance holding company system model law that address “group wide” supervision of internationally active insurance groups. To date, Delaware has enacted laws to adopt a form of these amendments, and Iowa has adopted similar provisions under a predecessor statute. We cannot predict with any degree of certainty the additional capital requirements, compliance costs or other burdens these requirements may impose on us and our insurance company affiliates.

In addition, state insurance departments also have broad administrative powers over the insurance business of our insurance company affiliates, including insurance company licensing and examination, agent licensing, establishment of reserve requirements and solvency standards, premium rate regulation, admissibility of assets, policy form approval, unfair trade and claims practices and other matters. State regulators regularly review and update these and other requirements.

Although the federal government does not directly regulate the insurance business, federal legislation and administrative policies in several areas, including pension regulation, age and sex discrimination, financial services regulation, securities regulation and federal taxation, can significantly affect the insurance business. The Dodd-Frank Wall Street Reform and Consumer Protection Act established the Federal Insurance Office (the “FIO”) within the U.S. Department of the Treasury headed by a Director appointed by the Treasury Secretary. While currently not having a general supervisory or regulatory authority over the business of insurance, the Director of the FIO performs various functions with respect to insurance, including serving as a non-voting member of the FSOC and making recommendations to the FSOC regarding non-bank financial companies to be designated as SIFIs. The Director of the FIO has also submitted reports to the U.S. Congress on (i) modernization of U.S. insurance regulation (provided in December

2013) and (ii) the U.S. and global reinsurance market (provided in November 2013 and January 2015, respectively). Such reports could ultimately lead to changes in the regulation of insurers and reinsurers in the U.S.

As the ultimate parent of the general partner or manager of certain shareholders of Athene Holding, we are subject to certain insurance laws and regulations in Bermuda, where Athene Holding's direct, wholly owned subsidiary, Athene Life Re Ltd. ("ALRe"), is registered as a Class E insurer. ALRe is subject to regulation and supervision by the Bermuda Monetary Authority ("BMA") and compliance with all applicable Bermuda law and Bermuda insurance statutes and regulations, including but not limited to the Insurance Act of 1978 (Bermuda) and the rules and regulations promulgated thereunder (the "Bermuda Insurance Act").

Under the Bermuda Insurance Act, the BMA maintains supervision over the "controllers" of all registered insurers in Bermuda. For these purposes, a "controller" includes a shareholder controller. The definition of shareholder controller is set out in the Bermuda Insurance Act but generally refers to (a) a person who holds 10% or more of the shares carrying rights to vote at a shareholders' meeting of the registered insurer or its parent company, (b) a person who is entitled to exercise 10% or more of the voting power at any shareholders' meeting of such registered insurer or its parent company or (c) a person who is able to exercise significant influence over the management of the registered insurer or its parent company by virtue of its shareholding or its entitlement to exercise, or control the exercise of, the voting power at any shareholders' meeting.

The Bermuda Insurance Act imposes certain notice requirements upon any person that has become, or as a result of a disposition ceased to be, a shareholder controller, and failure to comply with such requirements is punishable by a fine of $25,000. Athene Holding's shareholder controllers include Apollo and certain investment funds and other collective investment vehicles controlled by or under common control with Apollo. In addition, the BMA may file a notice of objection to any person or entity who has become a controller of any description where it appears that such person or entity is not, or is no longer, fit and proper to be a controller of the registered insurer. Any person or entity who continues to be a controller of any description after having received a notice of objection is guilty of an offense and liable on summary conviction to a fine of $25,000 (and a continuing fine of $500 per day for each day that the offense is continuing) or, if convicted on indictment, to a fine of $100,000 and/or two years in prison.

The BMA may, in accordance with the Bermuda Insurance Act and in respect of an insurance group, determine whether it is appropriate for it to act as its group supervisor. The BMA has not yet designated any long-term life reinsurers, such as ALRe, for group supervision; accordingly, our insurance company affiliates are not currently subject to group supervision by the BMA. The BMA may, however, exercise its authority to act as group supervisor for our insurance company affiliates in the future. We cannot predict with any degree of certainty the additional capital requirements, compliance costs or other burdens that such a determination may impose on us and our insurance company affiliates.

Apollo Management International LLP ("AMI") is authorized and regulated by the U.K. Financial Conduct Authority ("FCA") in the United Kingdom, under the Financial Services and Markets Act 2000 ("FSMA") and the rules promulgated thereunder. AMI has permission to engage in certain specified regulated activities, including dealing as agent and arranging deals in relation to certain types of investments. Most aspects of AMI's investment business are governed by the FSMA and related rules, including sales, research, trading practices, provision of investment advice, corporate finance, regulatory capital, record keeping, approval standards for individuals, anti-money laundering and period reporting and settlement procedures. The U.K. Financial Conduct Authority is responsible for administering these requirements and our compliance with the relevant the FSMA and related rules.

Apollo Asset Management Europe LLP and its subsidiary Apollo Asset Management Europe PC LLP (together, AAME), each registered in England and Wales and authorized by the FCA as appointed representatives of AMI, are subsidiaries of Apollo whose primary purpose is to provide a centralized asset management and risk function to European clients in the financial services and insurance sectors. Currently, AAME provides client services to its clients jointly with AMI. Until AAME receives full authorization by the FCA, references to AAME in this report mean AAME and AMI.

Apollo Investment Management Europe LLP ("AIME") is authorized as an Alternative Investment Fund Manager ("AIFM") by the FCA in the United Kingdom. The AIFM is intended to market and distribute new European funds to institutional clients in Europe. It will also allow for one central registration per European fund rather than multiple registrations as is currently the case under national private placement regimes.

AAA is regulated under the Authorized Closed-ended Investment Scheme Rules 2008 issued by the Guernsey Financial Services Commission ("GFSC") with effect from December 15, 2008 under The Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended (the "New Rules"). AAA is deemed to be an authorized closed-ended investment scheme under the New Rules.

Apollo Advisors (Mauritius) Ltd ("Apollo Mauritius"), one of our subsidiaries, and AION Capital Management Limited ("AION Manager"), one of our joint venture investments, are licensed providers of investment management services in the Republic of Mauritius and are subject to applicable Mauritian securities laws and the oversight of the Financial Services Commission (Mauritius) (the "FSC"). Each of Apollo Mauritius and AION Manager is subject to limited regulatory requirements under the Mauritian Securities Act 2005, Mauritian Financial Services Act 2007 and relevant ancillary regulations, including, ongoing reporting and record keeping requirements, anti-money laundering obligations, obligations to ensure that it and its directors, key officers and representatives are fit and proper and requirements to maintain positive shareholders' equity. The FSC is responsible for administering these requirements and ensuring the compliance of Apollo Mauritius and AION Manager with them. If Apollo Mauritius or AION Manager contravenes any such requirements, such entities and/or their officers or representatives may be subject to a fine, reprimand, prohibition order or other regulatory sanctions.

AGM India Advisors Private Limited is regulated by the Company Law Board (also known as the Ministry of Company Affairs) through the Companies Act of 1956 in India. Additionally since there are foreign investments in the company, AGM India Advisors Private Limited is also subject to the rules and regulations applicable under the Foreign Exchange Management Act of 1999 which falls within the purview of Reserve Bank of India.

Apollo Management Singapore Pte Ltd. was granted a Capital Markets Service License with the Monetary Authority of Singapore in October 2013. In addition, Apollo Capital Management, L.P. is registered with the Securities and Exchange Board of India as a foreign institutional investor.

Certain of our businesses are subject to compliance with laws and regulations of U.S. Federal and state governments, non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges relating to, among other things, the privacy of client information, and any failure to comply with these regulations could expose us to liability and/or reputational damage. Our businesses have operated for many years within a legal framework that requires our being able to monitor and comply with a broad range of legal and regulatory developments that affect our activities.

However, additional legislation, changes in rules promulgated by self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, either in the United States or elsewhere, may directly affect our mode of operation and profitability. For additional information concerning the regulatory environment in which we operate, see "Item 1A. Risk Factors—Risks Related To Our Businesses—Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our businesses. Changes in taxation or law and other legislative or regulatory changes could adversely affect us."

Rigorous legal and compliance analysis of our businesses and investments is important to our culture. We strive to maintain a culture of compliance through the use of policies and procedures, such as our code of ethics, compliance systems, communication of compliance guidance and employee education and training. We have a compliance group that monitors our compliance with the regulatory requirements to which we are subject and manages our compliance policies and procedures. Our Chief Compliance Officer supervises our compliance group, which is responsible for addressing all regulatory and compliance matters that affect our activities. Our compliance policies and procedures address a variety of regulatory and compliance risks such as the handling of material non-public information, personal securities trading, valuation of investments on a fund-specific basis, document retention, potential conflicts of interest and the allocation of investment opportunities.

We generally operate without information barriers between our businesses. In an effort to manage possible risks resulting from our decision not to implement these barriers, our compliance personnel maintain a list of issuers for which we have access to material, non-public information and for whose securities our funds and investment professionals are not permitted to trade. We could in the future decide that it is advisable to establish information barriers, particularly as our business expands and diversifies. In such event our ability to operate as an integrated platform will be restricted. See "Item 1A. Risk Factors—Risks Related to Our Businesses—Our failure to deal appropriately with conflicts of interest could damage our reputation and adversely affect our businesses."

Available Information

Apollo Global Management, LLC is a Delaware limited liability company that was formed on July 3, 2007. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Section 13(a) of the Exchange Act are made available free of charge on or through our website at www.agm.com as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC. The information on our website is not, and shall not be deemed to be, part of this report or incorporated into any other filings we make with the SEC. You may also read and copy any document we file at the SEC's public reference room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition these reports and the other documents we file with the SEC are available on the SEC's website at www.sec.gov.

From time to time, we may use our website as a channel of distribution of material information. Financial and other material information regarding the Company is routinely posted on and accessible at www.agm.com.

ITEM 1A. RISK FACTORS

Risks Related to Our Businesses

Poor performance of our funds would cause a decline in our revenue and results of operations, may obligate us to repay incentive income previously paid to us and would adversely affect our ability to raise capital for future funds.

We derive revenues in part from:

- management fees, which are based generally on the amount of capital committed or invested in our funds;
- transaction and advisory fees relating to the investments our funds make;
- incentive income, based on the performance of our funds; and
- investment income from our investments as general partner.

If a fund performs poorly, we will receive little or no incentive income with regard to the fund and little income or possibly losses from any principal investment in the fund. Furthermore, if, as a result of poor performance of later investments in a fund's life, the fund does not achieve total investment returns that exceed a specified investment return threshold for the life of the fund, we may be obligated to repay the amount by which incentive income that was previously distributed to us exceeds amounts to which we are ultimately entitled. Our fund investors and potential fund investors continually assess our funds' performance and our ability to raise capital. Accordingly, poor fund performance may deter future investment in our funds and thereby decrease the capital committed or invested in our funds and ultimately, our management fee income.

We depend on Leon Black, Joshua Harris and Marc Rowan and other key personnel, and the loss of their services would have a material adverse effect on us.

The success of our businesses depends on the efforts, judgment and personal reputations of our Managing Partners, Leon Black, Joshua Harris and Marc Rowan, and other key personnel. Their reputations, expertise in investing, relationships with our fund investors and relationships with members of the business community on whom our funds depend for investment opportunities and financing are each critical elements in operating and expanding our businesses. We believe our performance is strongly correlated to the performance of these individuals. Accordingly, our retention of our Managing Partners and other key personnel is crucial to our success. Our Managing Partners and other key personnel may resign, join our competitors or form a competing firm. If our Managing Partners or other key personnel were to join or form a competitor, some of our fund investors could choose to invest with that competitor, another competitor or not at all, rather than in our funds. The loss of the services of our Managing Partners and other key personnel would have a material adverse effect on us, including our ability to retain and attract investors and raise new funds, and the performance of our funds. We do not carry any "key man" insurance that would provide us with proceeds in the event of the death or disability of any of our Managing Partners or other key personnel. In addition, the loss of two or more of our Managing Partners or certain other key personnel may result in the termination of our role as general partner of certain of our funds and the termination of the commitment periods of certain of our funds. See "—If two or more of our Managing Partners or certain other investment professionals leave our company, the commitment periods of certain of our funds may be terminated, and we may be in default under the governing documents of certain of our funds and our credit agreement."

Changes in the debt financing markets may negatively impact the ability of our funds and their portfolio companies to obtain attractive financing for their investments and may increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income.

In the event that our funds are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, our funds may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned by us. Any failure by lenders to provide previously committed financing can also expose us to potential claims by sellers of businesses which our funds may have contracted to purchase. Our funds' portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations. To the extent that the current credit markets and/or regulatory changes have rendered financing difficult to obtain or more expensive, this may negatively impact the operating performance of such portfolio companies and funds, and lead to lower-yielding investments with respect to such funds and, therefore, the investment returns on our funds. In addition, to the extent that the current markets make it difficult or impossible to refinance debt that is maturing in the near term, a relevant portfolio company may face substantial doubt as to its status as a going concern (which may result in an event of default under various agreements) or be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection.

Difficult market or economic conditions may adversely affect our businesses in many ways, including by reducing the value or hampering the performance of the investments made by our funds or reducing the ability of our funds to raise or deploy capital, each of which could materially reduce our revenue, net income and cash flow and adversely affect our financial prospects and condition.

Our businesses and the businesses of the companies in which our funds invest are materially affected by conditions in the global financial markets and economic conditions throughout the world, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). Recently, markets have been affected by a weak global economy, increases in interest rates in the U.S., concerns of China's slowing economy, falling oil prices, growing debt loads for certain countries and uncertainty about the consequences of the U.S. and other governments withdrawing monetary stimulus measures. The increase in the foreign exchange value of the U.S. Dollar could also result in financial market dislocations that could negatively impact deal financing conditions. The low price of oil may increase default risk among corporate and sovereign borrowers that have exposure to the energy sector, which increases the cost or availability of financing for certain of our funds' transactions. Global financial markets have experienced considerable volatility in the valuations of equity and debt securities, a contraction in the availability of credit and an increase in the cost of financing. These factors are outside our control and may affect the level and volatility of securities prices and the liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to these conditions. Volatility in the financial markets can materially hinder the initiation of new, large-sized transactions for our private equity segment and, together with volatility in valuations of equity and debt securities, may adversely impact our operating results. If market conditions deteriorate, our businesses could be affected in different ways. In addition, these events and general economic trends are likely to impact the performance of portfolio companies in many industries, particularly industries that are more affected by changes in consumer demand, such as the packaging, manufacturing, chemical and refining industries, as well as travel and leisure, gaming and real estate industries. The performance of our funds and our performance may be adversely affected to the extent our fund portfolio companies in these industries experience adverse performance or additional pressure due to downward trends. Our profitability may also be adversely affected by our fixed costs and the possibility that we would be unable to scale back other costs, within a time frame sufficient to match any further decreases in net income or increases in net losses relating to changes in market and economic conditions.

A financial downturn could adversely affect our operating results in a number of ways, and if the economy was to re-enter a recessionary or inflationary period, it may cause our revenue and results of operations to decline by causing:

- our AUM to decrease, lowering management fees and other income from our funds;
- increases in costs of financial instruments;
- adverse conditions for the portfolio companies of our funds (e.g., decreased revenues, liquidity pressures, increased difficulty in obtaining access to financing and complying with the terms of existing financings as well as increased financing costs);
- lower investment returns, reducing incentive income;
- higher interest rates, which could increase the cost of the debt capital our funds use to acquire companies in our private equity business; and
- material reductions in the value of our fund investments, affecting our ability to realize incentive income from these investments.

Lower investment returns and such material reductions in value may result because, among other reasons, during periods of difficult market conditions or slowdowns (which may be across one or more industries, sectors or geographies), companies in which our funds invest may experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods, these companies may also have difficulty in expanding their businesses and operations and be unable to meet their debt service obligations or other expenses as they become due, including expenses payable to us. In addition, during periods of adverse economic conditions, our funds and their portfolio companies may have difficulty accessing financial markets, which could make it more difficult or impossible to obtain funding for additional investments and harm our AUM and operating results. Furthermore, such conditions would also increase the risk of default with respect to debt investments made by our funds, which could have a negative impact on our funds with significant debt investments, such as our credit funds. Our funds may be affected by reduced opportunities to exit and realize value from their investments, by lower than expected returns on investments made prior to the deterioration of the credit markets, and by the fact that we may not be able to find suitable investments for the funds to effectively deploy capital, which could adversely affect our ability to raise new funds and thus adversely impact our prospects for future growth.

While the adverse effects of the unprecedented turmoil in global financial markets in 2008 and 2009 have abated to a certain degree, markets have continued to experience volatility including during August and September 2015 and then again in January 2016, following the decision of the People's Bank of China to reduce the foreign exchange value of the renminbi. As

China accounts for a significant portion of global manufacturing output and is a key link in global supply chains, a slowdown in China's industrial sector has a direct negative impact on global industrial orders. At the same time, the decline in Chinese demand for industrial inputs has contributed to a reduction in the capital spending of global businesses operating in the energy, metals, and mining industries because low commodity prices generally do not support new capital investment in businesses in these industries. To the extent China's growth continues to slow, the portfolio companies of our funds around the world, especially those in the industrial industries, could be adversely impacted. Low levels of growth and high levels of government debt in major markets including the United States and Europe persist, and Europe continues to experience high unemployment and ongoing austerity. Concerns regarding sovereign defaults and the possibility that additional countries might leave the European Union ("EU") have resurfaced.

Heightened financial market volatility has also been attributed to weakness in commodity prices. The low price of oil has increased default risk among corporate and sovereign borrowers that have exposure to the energy sector. Losses (or anticipated losses) on energy and related credits have been so large that financing sources, particularly in the U.S., are exercising caution in providing additional credit in all sectors. This tightening in the debt financing market could impact our funds' ability to finance transactions, as well as the operations of our funds' portfolio companies, by increasing the cost and/or decreasing the availability of financing.

To the extent the uncertainty in the market prompts sellers to readjust their valuations, attractive investment opportunities may present themselves. On the other hand, the reduction in the availability of credit financing could impact our funds' ability to consummate transactions, particularly larger transactions. In the event that our investment pace slows, it could have an adverse impact on our ability to generate future performance fees and fully invest the capital in our funds. Our funds may also be affected by reduced opportunities to exit and realize value from their investments via a sale or merger upon a general slowdown in corporate mergers and acquisitions activity. Additionally, we may not be able to find suitable investments for the funds to effectively deploy capital and these factors could adversely affect the timing of and our ability to raise new funds.

In addition, while conditions in the U.S. economy have somewhat improved since the credit crisis, many other economies continue to experience weakness, tighter credit conditions and a decreased availability of foreign capital. Further, there is concern that the favorability of conditions in certain markets may be dependent on continued monetary policy accommodation from central banks, especially the Board of Governors of the Federal Reserve System (the "Federal Reserve") and the European Central Bank ("ECB"). Since the most recent recession, the Federal Reserve has taken actions which have resulted in low interest rates prevailing in the marketplace for a historically long period of time. However, in December 2015, the Federal Reserve raised its benchmark interest rate by a quarter of a percentage point, and in December 2016 the Federal Reserve raised interest rates further by one quarter point and indicated it may continue raising interest rates in the coming twelve months. Higher interest rates generally impact the investment management industry by making it harder to obtain financing for new investments, refinance existing investments or liquidate debt investments, which can lead to reduced investment returns and missed investment opportunities. Consequently, such increases in interest rates may have an adverse impact on our business.

Changing political environments, regulatory restrictions and changes in government institutions and policies outside of the United States could adversely affect our businesses. Our businesses may be adversely affected by the planned exit of the U.K. from the EU. The U.K. held a referendum on June 23, 2016 at which the electorate voted to leave the EU. However, the government of the U.K. has not entered into negotiations with the EU Council or invoked article 50 of the Treaty on the European Union (which would have the effect of formally initiating the withdrawal of the U.K. from the EU). The Treaty on the European Union provides for a period of up to two years for negotiation of withdrawal arrangements, at the end of which (whether or not agreement has been reached) EU treaties cease to apply to the withdrawing member state unless the European Council, in agreement with the member state concerned, unanimously decides to extend this period. During, and possibly after, this two-year period there is likely to be considerable uncertainty as to the position of the U.K. and the arrangements which will apply to its relationships with the EU and other countries following its withdrawal. This uncertainty may affect other countries in the EU, or elsewhere, if they are considered to be impacted by these events. Additionally, political parties in several other EU member states have proposed that a similar referendum be held on their country's membership in the EU. It is unclear whether any other EU member states will hold such referendums, but such referendums could result in one or more other countries leaving the EU or in major reforms being made to the EU or to the eurozone. The nature and extent of the impact of such events on our businesses is difficult to predict but they may adversely affect the operations of the portfolio companies of our funds, the availability of credit and liquidity for our businesses and the return on our funds and their investments. There may be detrimental implications for the value of certain of our funds' investments, their ability to enter into transactions or to value or realize such investments or otherwise to implement their investment program. This may be due to, among other things:

- increased uncertainty and volatility in the U.K. and EU financial markets;
- fluctuations in the market value of British Pounds and of U.K. and EU assets;
- fluctuations in exchange rates between British Pounds, the Euro and other currencies;
- increased illiquidity of investments located or listed within the U.K. or the EU;

- changes in the willingness or ability of financial and other counterparties to enter into transactions, or the price at which and terms on which they are prepared to transact; and/or
- changes in legal and regulatory regimes to which we, our funds, and/or certain of our funds' assets and portfolio companies are, or become, subject.

Once the position of the U.K. and the arrangements which will apply to its relationships with the EU and other countries have been established, or if the U.K. ceases to be a member of the EU without having agreed on such arrangements or before such arrangements become effective, it is possible that certain of our funds' investments may need to be restructured to enable their objectives fully to be pursued. This may increase costs or make it more difficult for us to pursue our objectives.

Our operating results will most likely continue to be affected by economic and fiscal conditions in eurozone countries and developments relating to the euro. The deterioration of the sovereign debt of several eurozone countries together with the risk of contagion to other more stable economies exacerbated the global economic crisis. This situation raised a number of uncertainties regarding the stability and overall standing of the EU. Economic, political or other factors could still result in changes to the composition of the EU. The risk that other eurozone countries could be subject to higher borrowing costs and face further deterioration in their economies, together with the risk that some countries could withdraw from the eurozone, could have a negative impact on our funds' investment activities. A reintroduction of national currencies in one or more eurozone countries or, in more extreme circumstances, the possible dissolution of the EU cannot be ruled out. The departure or risk of departure from the EU by one or more eurozone countries and/or the abandonment of the Euro as a currency could have major negative effects on our business. These potential developments, or market perceptions concerning these and related issues, could adversely affect our businesses.

A decline in the pace of investment in our funds, an increase in the pace of sales of investments in our funds, or an increase in the amount of transaction and advisory fees we share with our fund investors would result in our receiving less revenue from fees.

A variety of fees that we earn, such as transaction and advisory fees, are driven in part by the pace at which our funds make investments. Many factors could cause a decline in the pace of investment, including the inability of our investment professionals to identify attractive investment opportunities, competition for such opportunities, decreased availability of capital on attractive terms and our failure to consummate identified investment opportunities because of business, regulatory or legal complexities and adverse developments in the U.S. or global economy or financial markets. Any decline in the pace at which our funds make investments would reduce our transaction and advisory fees and could make it more difficult for us to raise capital. Likewise, during attractive selling environments, our funds may capitalize on increased opportunities to exit investments. Any increase in the pace at which our funds exit investments would reduce transaction and advisory fees. In addition, some of our fund investors have requested, and we expect to continue to receive requests from fund investors, that we share with them a larger portion, or all, of the transaction and advisory fees generated by our funds' investments. To the extent we accommodate such requests, it would result in a decrease in the amount of fee revenue we could earn. For example, in Fund VIII we agreed that 100% of certain transaction and advisory fees will be shared with the management fee paying investors in the fund through a management fee offset mechanism, whereas the percentage was 68% in Fund VII.

The SEC has also recently focused on certain fund fees and expenses, including whether such fees and expenses were appropriately disclosed to fund investors, which may cause fund investor resistance to our receipt of fees and reimbursement of expenses. As publicly disclosed, we reached a settlement with the SEC concerning the acceleration of certain fees and other issues in August 2016.

If two or more of our Managing Partners or certain other investment professionals leave our company, the commitment periods of certain of our funds may be terminated, and we may be in default under the governing documents of certain of our funds and certain of our credit facilities.

The governing agreements of certain of our funds provide that in the event certain "key persons" (such as two or more of Messrs. Black, Harris and Rowan and/or certain other of our investment professionals) fail to devote the requisite time to our businesses, the commitment period will terminate if a certain percentage in interest of the fund investors do not vote to continue the commitment period, or the commitment period may terminate for a variety of other reasons. This is true for example of Fund VI, Fund VII and Fund VIII. Certain of our other funds have similar provisions. Furthermore, the 2013 AMH Credit Facilities described in note 11 to our consolidated financial statements provide that an event of default may occur if such "key persons" no longer own a majority of the voting power represented by our issued and outstanding equity and a majority of our economic interests. In addition to having a significant negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our funds or the 2013 AMH Credit Facilities would likely result in significant reputational damage to us.

Messrs. Black, Harris and Rowan and other key personnel may terminate their employment with us at any time.

We may not be successful in raising new funds or in raising more capital for certain of our existing funds and may face pressure on incentive income and fee arrangements of our future funds.

Our funds may not be successful in consummating their current capital-raising efforts or others that they may undertake, or they may consummate them at investment levels lower than those currently anticipated. Any capital raising that our funds undertake may be on terms that are unfavorable to us or that are otherwise different from the terms that we have been able to obtain in the past. These risks could occur for reasons beyond our control, including general economic or market conditions, regulatory changes or increased competition.

For example, as a result of the global economic downturn during 2008 and 2009, a large number of institutional investors that invest in alternative assets and have historically invested in our funds experienced negative pressure across their investment portfolios, which affected our ability to raise capital from them. These institutional investors experienced, among other things, a significant decline in the value of their public equity and debt holdings and a lack of realizations from their existing private equity portfolios. Consequently, many of these investors were left with disproportionately outsized remaining commitments to a number of private equity funds, and were restricted from making new commitments to third-party managed private equity funds such as those managed by us. To the extent similar economic conditions reoccur, we may be unable to raise sufficient amounts of capital to support the investment activities of our existing and future funds.

In addition, certain institutional investors have publicly criticized certain fund fee and expense structures, including management, transaction and advisory fees. In September 2009, the Institutional Limited Partners Association, or “ILPA,” published a set of Private Equity Principles, or the “Principles,” which were revised in January 2011. The Principles were developed in order to encourage discussion between limited partners and general partners regarding private equity fund partnership terms. Certain of the Principles call for enhanced “alignment of interests” between general partners and limited partners through modifications of some of the terms of fund arrangements, including proposed guidelines for fees and incentive income structures. We provided ILPA our endorsement of the Principles, representing an indication of our general support for the efforts of ILPA. Although we have no obligation to modify any of our fees with respect to our existing funds, we may experience pressure to do so.

In addition, certain institutional investors, including sovereign wealth funds and public pension funds, have demonstrated an increased preference for alternatives to the traditional investment fund structure, such as managed accounts, specialized funds and co-investment vehicles. We also have entered into strategic partnerships with individual investors whereby we manage that investor’s capital across a variety of our products on separately negotiated terms. There can be no assurance that such alternatives will be as profitable to us as traditional investment fund structures, and the impact such a trend could have on our results of operations, if widely implemented, is unclear. Moreover, certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of investment advisors like us. Such institutional investors may become our competitors and could cease to be our clients.

The failure of our funds to raise capital in sufficient amounts and on satisfactory terms could result in a decrease in AUM, incentive income and/or fee revenue or could result in us being unable to achieve an increase in AUM, incentive income and/or fee revenue, and could have a material adverse effect on our financial condition and results of operations. Similarly, any modification of our existing fee arrangements or the fee structures for new funds could adversely affect our results of operations.

Investors in our funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund’s operations and performance.

Investors in all of our private equity and certain of our credit and real estate funds make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on fund investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their obligations when due. Any investor that does not fund a capital call would be subject to several possible penalties, including forfeiting a significant amount of its existing investment in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested, and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

We may not have sufficient cash to satisfy general partner obligations to return incentive income if and when they are triggered under the governing agreements with our fund investors.

Incentive income from our private equity funds and certain of our credit and real estate funds is subject to contingent repayment by the general partner if, upon the final distribution, the relevant fund’s general partner has received cumulative incentive income on individual portfolio investments in excess of the amount of incentive income it would be entitled to from the profits

calculated for all portfolio investments in the aggregate. Adverse economic conditions may increase the likelihood of triggering these general partner obligations. The Managing Partners, Contributing Partners and certain other investment professionals have personally guaranteed, subject to certain limitations, these general partner obligations. We have agreed to indemnify the Managing Partners and certain Contributing Partners against all amounts that they pay pursuant to any of these personal guarantees in favor of certain funds that we manage (including costs and expenses related to investigating the basis for or objecting to any claims made in respect of the guarantees) for all interests that the Managing Partners and Contributing Partners have contributed or sold to the Apollo Operating Group. To the extent one or more such general partner obligations were to be triggered, we might not have available cash to repay the incentive income and satisfy such obligations, or if applicable, to reimburse the Managing Partners and certain Contributing Partners for the indemnifiable percentage of amounts that they are required to pay under their guarantees. If we were unable to repay such incentive income, we would be in breach of the relevant governing agreements with our fund investors and could be subject to liability.

The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our Class A shares.

We have presented in this report the returns relating to the historical performance of our private equity, credit and real estate funds. The returns are relevant to us primarily insofar as they are indicative of incentive income we have earned in the past and may earn in the future, our reputation and our ability to raise new funds. The returns of the funds we manage are not, however, directly linked to returns on our Class A shares. Therefore, you should not conclude that any continued positive performance of the funds we manage will necessarily result in positive returns on an investment in Class A shares. However, poor performance of the funds we manage will cause a decline in our revenue from such funds, and would therefore have a negative effect on our performance and the value of our Class A shares. An investment in our Class A shares is not an investment in any of the Apollo funds.

Moreover, the historical returns of our funds should not be considered indicative of the future returns of such funds or any future funds we may raise, in part because:

- market conditions during previous periods may have been significantly more favorable for generating positive performance, particularly in our private equity business, than the market conditions we may experience in the future;
- our private equity funds' and certain other funds' rates of return, which are calculated on the basis of net asset value of the funds' investments, reflect unrealized gains, which may never be realized;
- our funds' returns have benefited from investment opportunities and general market conditions that may not repeat themselves, including the availability of debt financing on attractive terms and the availability of distressed debt opportunities, and we may not be able to achieve the same returns or secure the same profitable investment opportunities or deploy capital as quickly;
- the historical returns that we present in this report derive largely from the performance of our existing private equity funds, whereas future fund returns will depend increasingly on the performance of our newer funds or funds not yet formed, which may have little or no realized investment track record and may have lower target returns than our existing private equity funds;
- the attractive returns of certain of our funds have been driven by the rapid return of invested capital, which has not occurred with respect to all of our funds and we believe is less likely to occur in the future;
- in recent years, there has been increased competition for private equity investment opportunities resulting from, among other things, the increased amount of capital invested in private equity funds and high liquidity in debt markets;
- our newly established funds may generate lower returns during the period that they take to deploy their capital; and
- we may create new funds in the future that reflect a different asset mix, investment strategy, and/or geographic and industry exposure, as well as target returns and economic terms, compared to our current funds, and any such new funds could have different returns from our existing or previous funds.

Finally, the IRR of our funds has historically varied greatly from fund to fund. Accordingly, you should realize that the IRR going forward for any current or future fund may vary considerably from the historical IRR generated by any particular fund, or for our funds as a whole. Future returns will also be affected by the risks described elsewhere in this report and risks of the industries and businesses in which a particular fund invests. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—The Historical Investment Performance of Our Funds."

Our funds' reported net asset values, rates of return and the incentive income we receive are subject to a number of factors beyond our control and are based in large part upon estimates of the fair value of our funds' investments, which are based on subjective standards that may prove to be incorrect.

A large number of investments held by our funds are illiquid and thus have no readily ascertainable market prices. We value these investments based on our estimate of their fair value as of the date of determination. We estimate the fair value of our funds' investments based on third-party models, or models developed by us, which include discounted cash flow analyses and other techniques and may be based, at least in part, on independently sourced market parameters. The material estimates and assumptions used in these models include the timing and expected amount of cash flows, the appropriateness of discount rates used, and, in some cases, the ability to execute, the timing of and the estimated proceeds from expected financings. The actual results related to any particular investment often vary materially as a result of the inaccuracy of these estimates and assumptions. In addition, because many of the illiquid investments held by our funds are in industries or sectors that are unstable, in distress, or undergoing some uncertainty, such investments are subject to rapid changes in value caused by sudden company-specific or industry-wide developments.

We include the fair value of illiquid assets in the calculations of net asset values, returns of our funds and our AUM. Furthermore, we recognize incentive income based in part on these estimated fair values. Because these valuations are inherently uncertain, they may fluctuate greatly from period to period. Also, they may vary greatly from the prices that would be obtained if the assets were to be liquidated on the date of the valuation and often do vary greatly from the prices our funds eventually realize. See note 2 to our consolidated financial statements for more detail.

In addition, the values of our funds' investments in publicly traded assets are subject to significant volatility, including due to a number of factors beyond our control. These include actual or anticipated fluctuations in the quarterly and annual results of these companies or other companies in their industries, market perceptions concerning the availability of additional securities for sale, general economic, social or political developments, changes in industry conditions or government regulations, changes in management or capital structure and significant acquisitions and dispositions. Because the market prices of these securities can be volatile, the valuation of these assets may change from period to period, and the valuation for any particular period may not be realized at the time of disposition. In addition, because our private equity funds often hold very large amounts of the securities of their portfolio companies, the disposition of these securities often takes place over a long period of time, which can further expose us to volatility risk. Even if our funds hold a quantity of public securities that may be difficult to sell in a single transaction, we do not discount the market price of the security for purposes of our valuations.

If a fund realizes value on an investment that is significantly lower than the value at which it was reflected in a fund's net asset values, the fund would suffer losses. This could in turn lead to a decline in our management fees and a loss equal to the portion of the incentive income reported in prior periods that was not actually realized upon disposition. These effects could become applicable to a large number of our funds' investments if our funds' current valuations differ from future valuations due to market developments or other factors that are beyond our control. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Segment Analysis" for information related to fund activity that is no longer consolidated. If asset values turn out to be materially different than values reflected in fund net asset values, fund investors could lose confidence which could, in turn, result in redemptions from our funds that permit redemptions or difficulties in raising additional capital.

We have experienced rapid growth, which may be difficult to sustain and which may place significant demands on our administrative, operational and financial resources.

Our AUM has grown significantly in the past and we are pursuing further growth in the near future. Our rapid growth has caused, and planned growth, if successful, will continue to cause, significant demands on our legal, regulatory, accounting and operational infrastructure, and increased expenses. The complexity of these demands, and the expense required to address them, is a function not simply of the amount by which our AUM has grown, but also of the growth in the variety, including the differences in strategy among, and complexity of, our different funds. In addition, we are required to continuously develop our systems and infrastructure in response to the increasing complexity of the investment management market and legal, accounting, regulatory and tax developments.

Our future growth will depend in part on our ability to maintain an operating platform and management system sufficient to address our growth and will require us to incur significant additional expenses and to commit additional senior management and operational resources. As a result, we face significant challenges:

- in maintaining adequate financial, regulatory and business controls;
- in implementing new or updated information and financial systems and procedures; and
- in training, managing and appropriately sizing our work force and other components of our businesses in a timely and cost-effective basis.

We may not be able to manage our expanding operations effectively or be able to continue to grow, and any failure to do so could adversely affect our ability to generate revenue and control our expenses.

Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our businesses.

Overview of Our Regulatory Environment. We are subject to extensive regulation, including periodic examinations, by governmental and self-regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators, including U.S. and foreign government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders or the suspension or expulsion of an investment advisor from registration or memberships. Even if an investigation or proceeding does not result in a sanction or the sanction imposed against us or our personnel by a regulator is small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing investors or fail to gain new investors. The requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our funds and may not necessarily be designed to protect our shareholders. Consequently, these regulations often serve to limit our activities. For example, in 2014 federal bank regulatory agencies issued leveraged lending guidance covering transactions characterized by a degree of financial leverage. Such guidance has limited the amount and may increase the cost of financing our funds are able to obtain for transactions, which may lead to a negative impact on the returns on our funds' investments.

Our businesses may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC or other U.S. or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. For example, in 2015, senior officials at the SEC emphasized their intention to implement a "broken windows" policy, meaning that the SEC will pursue even the most minor violations on the theory that publicly pursuing smaller matters will reduce the prevalence of larger matters.

Regulatory changes in the United States could adversely affect our business. The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the "Dodd-Frank Act," continues to impose significant regulations on almost every aspect of the U.S. financial services industry, including aspects of our businesses and the markets in which we operate. Among other things, the Dodd-Frank Act includes the following provisions that could have an adverse impact on our ability to continue to operate our businesses.

- The Dodd-Frank Act established the Financial Stability Oversight Council (the "FSOC"), which is comprised of representatives of all the major U.S. financial regulators, to act as the financial system's systemic risk regulator with the authority to review the activities of non-bank financial companies that are designated as "systemically important." Such designation is applicable to companies where material financial distress could pose risk to the financial stability of the United States. On April 3, 2012, the FSOC issued a final rule and interpretive guidance regarding the process by which it will designate non-bank financial companies as systemically important financial institutions ("SIFIs"). On February 4, 2015, FSOC approved supplemental procedures for this process. The final rule and interpretive guidance detail a three-stage process, with the level of scrutiny increasing at each stage. Initially, the FSOC will apply a broad set of uniform quantitative metrics to screen out financial companies that do not warrant additional review. The FSOC will consider whether a company has at least $50 billion in total consolidated assets and whether it meets other thresholds relating to credit default swaps outstanding, derivative liabilities, total debt outstanding, a minimum leverage ratio of total consolidated assets (excluding separate accounts) to total equity of 15 to 1, and a short-term debt ratio of debt (with maturities of less than 12 months) to total consolidated assets (excluding separate accounts) of 10%. A company that meets or exceeds both the asset threshold and one of the other thresholds will be subject to additional review. The review criteria could, and are expected to, evolve over time. To date, the FSOC has designated a few non-bank financial institutions for Federal Reserve supervision. While we believe it is unlikely that we would be designated as systemically important, if such designation were to occur, we would be subject to significantly increased levels of regulation, including heightened standards relating to capital, leverage, liquidity, risk management, credit exposure reporting and concentration limits, restrictions on acquisitions and being subject to annual stress tests by the Federal Reserve.
- The Dodd-Frank Act requires many private equity and hedge fund advisers to register with the SEC under the Investment Advisers Act, to maintain extensive records and to file reports if deemed necessary for purposes of systemic risk assessment by certain governmental bodies. As described elsewhere in this Form 10-K, all of the investment advisers of our investment funds operated in the U.S. are registered as investment advisers with the

SEC. In connection with the work of the FSOC, on October 31, 2011, the SEC and the Commodity Futures Trading Commission (the "CFTC") issued a joint final rule, which requires large private equity fund advisors, such as Apollo, to submit reports on Form PF focusing primarily on the extent of leverage incurred by their funds' portfolio companies and the use of bridge financing in their funds' investments in financial institutions.

- On December 18, 2014, the FSOC released a notice seeking public comment on the potential risks posed by aspects of the asset management industry, including whether asset management products and activities pose potential risks to the U.S. financial system in the areas of liquidity and redemptions, leverage, operational functions, and resolution, or in other areas.
- The Dodd-Frank Act, under what has become known as the "Volcker Rule," generally prohibits insured banks or thrifts, any bank holding company or savings and loan holding company, any non-U.S. bank with a U.S. branch, agency or commercial lending company and any subsidiaries and affiliates of such entities, regardless of geographic location (collectively, "banking entities"), from investing in, sponsoring or having certain other relationships with "covered funds," which include private equity funds or hedge funds. The final Volcker Rule became effective on April 1, 2014 and was subject to a conformance period, which ended on July 21, 2016. The Volcker Rule adversely affects our ability to raise funds from banking entities. The Dodd-Frank Act authorizes U.S. federal regulatory agencies to review and, in certain cases, prohibit compensation arrangements at financial institutions that give employees incentives to engage in conduct deemed to encourage inappropriate risk taking by covered financial institutions. Such restrictions could limit our ability to recruit and retain investment professionals and senior management executives.
- The Dodd-Frank Act requires public companies to adopt and disclose policies requiring, in the event the company is required to issue an accounting restatement, the recoupment of related incentive compensation from current and former executive officers.
- The Dodd-Frank Act amends the Exchange Act to compensate and protect whistleblowers who voluntarily provide original information to the SEC and establishes a fund to be used to pay whistleblowers who will be entitled to receive a payment equal to between 10% and 30% of certain monetary sanctions imposed in a successful government action resulting from the information provided by the whistleblower. We expect that these provisions will result in a significant increase in whistleblower claims across our industry, and investigating such claims could generate significant expenses and take up significant management time, even for frivolous and non-meritorious claims.

Many of these provisions are subject to further rulemaking and to the discretion of regulatory bodies, such as the FSOC, the Federal Reserve and the SEC.

It is impossible to determine the full extent of the impact on us of the Dodd-Frank Act or any other new laws, regulations or initiatives that may be proposed or whether any of the proposals will become law. Any changes in the regulatory framework applicable to our businesses, including the changes described above, may impose additional costs on us, require the attention of our senior management or result in limitations on the manner in which we conduct our business. Moreover, as calls for additional regulation have increased, there may be a related increase in regulatory investigations of the trading and other investment activities of alternative asset management funds, including our funds. Complying with any new laws or regulations could be more difficult and expensive, affect the manner in which we conduct our businesses and adversely affect our profitability.

Regulatory changes in jurisdictions outside of the United States could adversely affect our business. Apollo provides investment management services through registered investment advisors in various jurisdictions around the world. Investment advisors are subject to extensive regulation not only in the United States, but also in the other countries in which our investment activities occur. In the United Kingdom (the "U.K."), we are subject to regulation by the U.K. Financial Conduct Authority. Our other European operations, and our investment activities around the globe, are subject to a variety of regulatory regimes that vary country by country. A failure to comply with the obligations imposed by the regulatory regimes to which we are subject, could result in investigations, sanctions and reputational damage.

The European Union Alternative Investment Fund Managers Directive ("AIFMD") came into force on July 22, 2013. The AIFMD imposes significant regulatory requirements on fund managers operating within the European Economic Area (the "EEA"), including with respect to conduct of business, regulatory capital, valuations, disclosures and marketing, and rules on the structure of remuneration for certain personnel. Compliance with the AIFMD has also increased the cost and complexity of raising capital for our funds and consequently may also slow the pace of fundraising. Alternative investment funds (i) organized outside of the EEA and (ii) in which interests are marketed under AIFMD within the EEA are also subject to significant operational requirements. For example, currently such funds may only be marketed in EEA jurisdictions in compliance with requirements to register the fund for marketing in each relevant jurisdiction and to undertake periodic investor and regulatory reporting. In some

countries, additional obligations are imposed: for example, in Germany, marketing of a non-EEA fund also requires the appointment of one or more depositaries (with cost implications for the fund). In the longer term non-EEA managers of non-EEA funds may be able to register under the AIFMD, although whether and when this may become possible is unclear. Where Apollo registers under the AIFMD as a non-EEA manager (if that option becomes available) or chooses to establish an EEA fund vehicle managed by its U.K. affiliate which is registered under the AIFMD ("the AIFM"), Apollo will have more freedom to promote relevant funds in the EEA. However, this remains subject to ongoing full compliance with all the requirements of the AIFMD, which include (among other things) satisfying the competent authority of the robustness of internal arrangements with respect to risk management, in particular liquidity risks and additional operational and counterparty risks associated with short selling; the management and disclosure of conflicts of interest; the fair valuation of assets; and the security of depository/custodial arrangements. Additional requirements and restrictions apply where funds invest in an EEA portfolio company, including restrictions that may impose limits on certain investment and realization strategies, such as dividend recapitalizations and reorganizations. Such rules could potentially impose significant additional costs on the operation of our businesses or investments in the EEA and could limit our operating flexibility within the relevant jurisdictions.

The EU is introducing significant changes to the EU Markets in Financial Instruments Directive (Directive 2004/39/EC) ("MiFID"), known as "MiFID II." The original MiFID, which came into force in 2007, is the foundational piece of legislation for financial services firms operating in the EU. While MiFID II was due to come into force with effect from January 2017, MiFID II's implementation date has been delayed to January 3, 2018. Many of the changes in MiFID II will impose significant new organizational, conduct, governance and reporting requirements, including new requirements around the receipt of inducements and the use of soft dollars / dealing commissions, enhanced transaction reporting and post-trade transparency requirements, formal telephone taping requirements, and new best execution rules. Further, new rules in MiFID II may restrict the ability of entities domiciled outside of the EU (known as "third-country firms") to provide services to clients domiciled in the EU. Other changes resulting from MiFID II may have an impact (indirectly) on any entity or client that trades on EU markets or trading venues, or does business with EU-regulated banks or brokers. This may include venue trading requirements for certain categories of shares and derivatives, product banning powers, algorithmic trading restrictions, and enhanced requirements around the provision of direct market access services. Such new compliance requirements on our European operations will increase our costs of compliance. We may be required to invest significant additional management time and resources to address the new requirements.

The European Parliament has adopted the Regulation on OTC Derivatives, Central Counterparties and Trade Repositories, known as "EMIR." EMIR and the implementing rules thereunder come into force in stages and implement requirements similar to, but not the same as, those in Title VII of the Dodd Frank Act, in particular requiring reporting of most derivative transactions, risk mitigation (in particular mandatory initial and variation margin requirements for certain market participants) for OTC derivative transactions and central clearing of certain OTC derivative contracts. EMIR does not have a direct material impact on most of the Apollo funds at present, although (i) its impact on funds managed by the AIFM will be greater and it is likely to apply more fully as additional implementation stages are reached, and (ii) it is beginning to, and will likely continue to, affect Apollo funds indirectly as a result of its impact on many of the Apollo funds' counterparties to OTC derivatives. Compliance with the relevant requirements is likely to increase the burdens and costs of doing business.

Additional laws and regulations will come into force in the EU in coming years. These are expected to have an impact on Apollo including the costs of, risk to and manner of conducting its business; the markets in which Apollo operates; the assets managed or advised by Apollo; Apollo's ability to raise capital from investors; and ultimately there may be an impact on the returns which can be achieved. Examples include the revisions to MiFID; the new regulation relating to Securities Financing Transactions; further changes to or reviews of the extent and interpretation of pay regulation (which may have an impact on the retention and recruitment of key personnel); a proposed new regulation governing securitization arrangements, which may have an impact on the cost or feasibility of certain securitization structures, among other matters; proposals for enhanced regulation of loan origination; and significant focus on entities considered to be "shadow banks." Regulations affecting specific investor types, such as insurance companies, may impact their businesses; their ability to invest and the assets in which they are permitted to invest; and the requirements which their investments place on us, such as extensive disclosure and reporting obligations. The regulation of some institutions has an effect on their ability and willingness to extend credit and the costs of credit. This has, and is likely to continue to have, an impact on the price and availability of credit. Changes to the regulation of benchmarks, such as the London Interbank Offered Rate, may affect the way in which those benchmarks are calculated, with commercial implications, including on the stability of the benchmark and returns.

The U.K.'s decision to leave the EU may bring an extended period of uncertainty and regulatory change in the EEA, in the U.K .and in the way in which Apollo is able to operate from the U.K. into the remainder of the EEA. This may have an impact on Apollo including the cost of, risk to, manner of conducting and location of its European business and its ability to hire and retain key staff in Europe. This may also impact the markets in which Apollo operates; the funds managed or advised by Apollo; Apollo's fund investors and its ability to raise capital from them; and ultimately on the returns which may be achieved.

In Germany, legislative amendments have been adopted which may limit deductibility of interest and other financing expenses in companies in which our funds have invested or may invest in the future. According to the German interest barrier rule, the tax deduction available to a company in respect of a net interest expense (interest expense less interest income) is limited to 30% of its tax earnings before interest, taxes, depreciation and amortization (“EBITDA”). In case annual net interest expense does not exceed the threshold of €3 million, the interest expense can be deducted without any limitations for income tax purposes. Interest expense in excess of the interest deduction limitation may be carried forward indefinitely (subject to change in ownership restrictions) and used in future periods against all profits and gains (again subject to the interest barrier rule in the respective year in the future). In respect of a tax group, net interest paid by the German tax group entities to non-tax group parties (e.g. interest on bank debt, capex facility and working capital facility debt) will be restricted to 30% of the tax group’s tax EBITDA. However, the interest barrier rule may not apply where German company’s gearing under International Financial Reporting Standards (“IFRS”) accounting principles is at maximum of 2% higher than the overall group’s leverage ratio at the level of the very top level entity which would be subject to IFRS consolidation (the “escape clause test”). This test is failed where any worldwide company of the entire group pays more than 10% of its net interest expense on debt to substantial (i.e. greater than 25%) shareholders, related parties of such shareholders (that are not members of the group) or secured third parties (although security granted by group members should not be harmful). If the group does not apply IFRS accounting principles, EU member countries’ generally accepted accounting principles or U.S. GAAP may also be accepted for the purpose of the escape clause test. It should be noted that for trade tax purposes, there is principally a 25% add back on all deductible interest paid or accrued by any German entity after the consideration of a tax exempt amount EUR100,000 which is applied to the sum of all add back amounts. For trade tax purposes interest payments within a German tax group will not be considered. Our businesses are subject to the risk that similar measures might be introduced in other countries in which they currently have investments or plan to invest in the future, or that other legislative or regulatory measures might be promulgated in any of the countries in which we operate that adversely affect our businesses.

The Organization for Economic Co-operation and Development (“OECD”) and other government agencies globally have continued to recommend and implement changes related to the taxation of multinational companies. On October 5, 2015 the OECD published 13 final reports and an explanatory statement outlining consensus actions under the OECD/G20 Base Erosion and Profit Shifting (BEPS) project. This project involves a coordinated multi-jurisdictional approach to increase transparency and exchange of information in tax matters, and to address weaknesses of the international tax system that create opportunities for BEPS by multinational companies. The reports cover measures such as new minimum standards, the revision of existing standards, common approaches which will facilitate the convergence of national practices, and guidance drawing on best practices.

Issues including limiting interest deductibility, changes in transfer pricing, new rules around hybrid instruments or entities, and loss of eligibility for the benefits of double tax treaties could increase tax uncertainty and impact the tax treatment of our foreign earnings and adversely impact the investment returns of our funds or limit future investment opportunities.

Implementation into domestic legislation may not be uniform across the participating states; certain actions give states options for implementation, certain actions are recommendations only and other jurisdictions may elect to only partially implement rules where it is in the state’s interest. On November 24, 2016, the OECD published the text of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS, which is intended to expedite the interaction of the tax treaty changes of the BEPS project and initial signing is expected from summer 2017. Countries including various EU countries have been moving forward on the BEPS agenda independent of agreement and finalization of the BEPS action items and currently are in the process of adapting and introducing the necessary legislation. The EU may implement minimum standards and best practices across 28 member states, which may go further than the OECD plans. As a result, significant uncertainty remains around the impact for the investments of our funds.

In addition, there are additional transfer pricing and standardized country by country (“CbC”) reporting requirements being implemented under the BEPS actions which may place additional administrative burden on our management team or portfolio company management and ultimately could lead to increased cost which could adversely affect profitability. Additional information from these sources and other documentation held by tax authorities is expected to be subject to greater information sharing under Automatic Exchange of Information provisions under BEPS and specific local arrangements such as the EU’s automatic exchange of cross-border rulings directive. Many tax authorities are unfamiliar with asset management businesses and dealing with challenges from tax authorities reviewing such information may also place additional administrative burden on our management team or portfolio company management and ultimately could lead to increased cost which could adversely affect profitability

Recent changes to regulations regarding derivatives and commodity interest transactions could adversely impact various aspects of our business. Rules and regulations required under the Dodd-Frank Act have become effective and comprehensively regulate the “over the counter” (“OTC”) derivatives markets for the first time. The Dodd-Frank Act and the regulations promulgated thereunder require mandatory clearing and exchange or swap execution facility trading of certain swaps and derivative transactions (including formerly unregulated OTC derivatives). The CFTC currently requires that certain interest rate and credit default index swaps be centrally cleared and the requirement to execute those contracts through a swap execution

facility is now effective. Additional standardized swap contracts are expected to be subject to new clearing and execution requirements in the future. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible margin requirements imposed by the clearing brokers. For swaps that are cleared through a clearinghouse, the funds will face the clearinghouse as legal counterparty and will be subject to clearinghouse performance and credit risk. Clearinghouse collateral requirements may differ from and be greater than the collateral terms negotiated with derivatives counterparties in the OTC market. This may increase a fund's cost in entering into these products and impact a fund's ability to pursue certain investment strategies. OTC derivative dealers are also required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations for cleared derivatives, as is currently permitted for uncleared trades. This will increase the OTC derivative dealers' costs and these increased costs are expected to be passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and possible new or increased fees.

OTC trades not cleared through a registered clearinghouse may not be subject to the protections afforded to participants in cleared swaps (for example, centralized counterparty, customer asset segregation and mandatory margin requirements). The CFTC and various prudential regulators have published final rules governing margin requirements for certain uncleared swaps. The final rules generally require banks and dealers, subject to thresholds and certain limited exemptions, to collect and post margin in respect of uncleared swap transactions. These newly adopted rules on margin requirements for uncleared swaps could adversely affect our businesses, including our ability to enter such swaps or our available liquidity. Although the Dodd-Frank Act includes limited exemptions from the clearing and margin requirements for so-called "end-users," our funds and portfolio companies may not be able to rely on such exemptions.

The Dodd-Frank Act also creates new categories of regulated market participants, such as "swap-dealers," "security-based swap dealers," "major swap participants" and "major security-based swap participants" who will be subject to significant new capital, registration, recordkeeping, reporting, disclosure, business conduct and other regulatory requirements, which will give rise to new administrative costs. Even if certain new requirements are not directly applicable to us, they may still increase our costs of entering into transactions with the parties to whom the requirements are directly applicable.

Position limits imposed by various regulators, self-regulatory organizations or trading facilities on derivatives may also limit our ability to effect desired trades. Position limits are the maximum amounts of net long or net short positions that any one person or entity may own or control in a particular financial instrument. For example, the CFTC, on December 5, 2016, voted to re-propose rules that would establish specific limits on positions in 25 physical commodity futures and option contracts as well as swaps that are economically equivalent to such contracts. In addition, the Dodd-Frank Act requires the SEC to set position limits on security-based swaps. If such proposed rules are adopted, we may be required to aggregate the positions of our various investment funds and the positions of our funds' portfolio companies. It is possible that trading decisions may have to be modified and that positions held may have to be liquidated in order to avoid exceeding such limits. Such modification or liquidation, if required, could adversely affect our operations and profitability.

New risk retention rules could adversely affect our CLO business. Effective as of December 24, 2016, "risk retention" rules promulgated by U.S. federal regulators under the Dodd-Frank Act require a "securitizer" or "sponsor" of a collateralized loan obligation, or "CLO", to retain at least 5% of the credit risk of the securitized assets, either directly or through a majority-owned affiliate (the "U.S. Risk Retention Rules"). The EU has in place similar 5% risk retention rules (the "EU Risk Retention Rules", and together with the U.S. Risk Retention Rules, the "Risk Retention Rules") that apply to certain EU investors such as credit institutions (including banks), investment firms, authorized investment fund managers and insurance and reorganization undertakings. In instances in which any such entities subject to the EU Risk Retention Rules invest in a CLO (as a noteholder or otherwise), such investors must ensure that the CLO satisfies the EU Risk Retention Rules.

The U.S. Risk Retention Rules became effective December 24, 2016. Thus, any CLO issued after such date will be required to satisfy the U.S. Risk Retention Rules, and any existing CLO issued prior to December 24, 2016 may be structured to satisfy the U.S. Risk Retention Rules to facilitate the later refinancing, re-pricing or material amendment thereof. The EU Risk Retention rules became effective January 1, 2011.

The Risk Retention Rules have caused, and are expected to continue to cause, significant changes to the CLO business generally, and to our CLO business specifically. In connection with the Risk Retention Rules, we established a new standalone, self-managed asset management business (collectively with its subsidiaries, "Redding Ridge"), which is expected to manage CLOs and retain required risk retention interests. Investors in Redding Ridge include certain of our affiliates as well as accounts and/or funds managed by our affiliates. There can be no assurance that the applicable governmental authorities will agree that Redding Ridge or any CLO it manages will satisfy the requirements of the Risk Retention Rules, which could have an adverse effect on us and/or Redding Ridge.

Redding Ridge has various service arrangements in place with certain of our affiliates pursuant to which such affiliates provide administrative and credit research related services as well as access to certain shared employees. The fees earned by our affiliates under such service arrangements may be less than the fees such affiliates would have otherwise earned as a CLO manager. In addition, to the extent any of our affiliates (and accounts and/or funds managed by our affiliates) invests in Redding Ridge, there is no guarantee that such deployment of capital will generate positive returns or any returns at all. Furthermore, the relationship of our affiliates with Redding Ridge will subject us to various conflicts of interest.

Redding Ridge will be required from time to time in connection with CLOs it manages to execute one or more letter or other agreements, the exact form and nature of which will vary and in the case of the U.S. Risk Retention Rules is not known at this time (the "Risk Retention Undertakings"), under which Redding Ridge will agree to certain undertakings designed to ensure that the CLOs comply with the Risk Retention Rules. If Redding Ridge breaches any such Risk Retention Undertakings, Redding Ridge will be exposed to claims by the other parties thereto, including for any losses incurred as a result of such breach. Such claims may reduce, or entirely diminish any cash or assets that would otherwise be used to make distributions to Redding Ridge equity holders and/or service providers, including Apollo.

The EU Risk Retention Rules are in the process of being modified, and any of the Risk Retention Rules may be amended, supplemented or revoked at any time or from time to time. Moreover, no assurance can be given that the CLOs outstanding prior to the effective date of such U.S. Risk Retention Rules will continue to be grandfathered.

The Risk Retention Rules are also subject to varying interpretations, and one or more agencies or governmental officials could take positions regarding such matters that differ from the approach taken or embodied in the Risk Retention Undertakings, which position could be informed by varying regulatory considerations as well as differing legal analyses. Available interpretive authority to date addressing the Risk Retention Rules applicable to CLOs is limited, and there is no judicial decisional authority or applicable agency interpretation that has directly addressed any of the risk retention approaches taken in the CLOs. Accordingly, no assurance can be made that the currently applicable rules and regulations will not be interpreted differently in the future by any applicable authority, or that there will not be a change in applicable law or rules and regulations in the future that could adversely affect us or the CLOs we manage.

No assurance can be given as to whether the Risk Retention Rules will have a future material adverse effect on our business. The Risk Retention Rules also may have an adverse effect on the leveraged loan market generally, which may adversely affect our CLO management business or the CLO management business of Redding Ridge. As a result of the effectiveness of the U.S. Risk Retention Rules and the launch of Redding Ridge, it is less likely that we will manage new CLOs issued after December 24, 2016.

Exemptions from certain laws. We regularly rely on exemptions from various requirements of law or regulation, including the Securities Act, the Exchange Act, the Investment Company Act, CFTC regulations, the Commodity Exchange Act of 1936, as amended, and the Employment Retirement Income Security Act of 1974, as amended and the laws and regulations of other jurisdictions in conducting our activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. For example, in raising new funds, we typically rely on private placement exemptions from registration under the Securities Act and similar exemptions under the securities laws of other countries.

These exemptions include Regulation D, which was amended in 2013 to prohibit issuers (including our funds) from relying on certain of the exemptions from registration if the fund or any of its "covered persons" (including certain officers and directors, but also including certain third parties including, among others, promoters, placement agents and beneficial owners of 20% of outstanding voting securities of the fund) has been the subject of a "disqualifying event," or constitutes a "bad actor," which can result from a variety of criminal, regulatory and civil matters. If any of the covered persons associated with our funds is subject to a disqualifying event, one or more of our funds could lose the ability to raise capital in a Rule 506 private offering for a significant period of time, which could significantly impair our ability to raise new funds, and, therefore, could materially adversely affect our businesses, financial condition and results of operations. In addition, if certain of our employees or any potential significant fund investor has been the subject of a disqualifying event, we could be required to reassign or terminate such an employee or we could be required to refuse the investment of such an investor, which could impair our relationships with investors, harm our reputation, or make it more difficult to raise new funds. If for any reason any of these exemptions were to become unavailable to us, we could become subject to regulatory action, third-party claims or be required to register under certain regulatory regimes, and our businesses could be materially and adversely affected. See, for example, "—Risks Related to Our Organization and Structure-If we were deemed an investment company under the Investment Company Act, applicable restrictions could make it impractical for us to continue our businesses as contemplated and could have a material adverse effect on our businesses and the price of our Class A shares."

These exemptions also include the so-called "de minimis" exemption from commodity pool operator registration, codified in CFTC Rule 4.13(a)(3). If any of our funds cease to qualify for this (or another applicable) exemption, certain Apollo entities

associated with and/or affiliated with those funds will be required to register with the CFTC as commodity pool operators. Registration as a commodity pool operator entails several potentially costly and time-consuming requirements, including, without limitation, membership with the National Futures Association, a self-regulatory organization for the U.S. derivatives industry, and compliance with the regulatory framework applicable to registered commodity pool operators. In 2015, two of our investment management entities were required to register as a commodity pool operator. The increased costs associated with such registration may affect the manner in which the funds managed by such investment management entity conducts its business and may adversely affect such fund's profitability.

Regulatory environment of our funds and portfolio companies of our funds. The regulatory environment in which our funds and portfolio companies of our funds operate may affect our businesses. Certain laws, such as environmental laws, insurance regulations, gaming laws, takeover laws, anti-bribery and anti-corruption laws, sanctions laws, escheat or abandoned property laws, and antitrust laws, may impose requirements on us, our funds and portfolio companies of our funds. For example, certain of our funds may invest in the natural resources industry where environmental laws, regulations and regulatory initiatives play a significant role and can have a substantial effect on investments in the industry. Additionally, changes in antitrust laws or the enforcement of antitrust laws could affect the level of mergers and acquisitions activity, and changes in state laws may limit investment activities of state pension plans. See for additional examples "-Insurance Regulation" and "Federal, state and foreign anti-corruption and sanctions laws applicable to us and our funds and portfolio companies create the potential for significant liabilities and penalties and reputational harm." See "Item 1. Business-Regulatory and Compliance Matters" for a further discussion of the regulatory environment in which we conduct our businesses.

Certain of the funds and accounts we manage or advise that engage in originating, lending and/or servicing loans may be subject to state and federal regulation, borrower disclosure requirements, limits on fees and interest rates on some loans, state lender licensing requirements and other regulatory requirements in the conduct of their business. These funds and accounts may also be subject to consumer disclosures and substantive requirements on consumer loan terms and other federal regulatory requirements applicable to consumer lending that are administered by the Consumer Financial Protection Bureau. These state and federal regulatory programs are designed to protect borrowers.

State and federal regulators and other governmental entities have authority to bring administrative enforcement actions or litigation to enforce compliance with applicable lending or consumer protection laws, with remedies that can include fines and monetary penalties, restitution of borrowers, injunctions to conform to law, or limitation or revocation of licenses and other remedies and penalties. In addition, lenders and servicers may be subject to litigation brought by or on behalf of borrowers for violations of laws or unfair or deceptive practices. Failure to conform to applicable regulatory and legal requirements could be costly and have a detrimental impact on certain of our funds and ultimately on Apollo.

Our funds along with their affiliates may obtain a controlling interest (e.g., 80% or more voting control) in certain portfolio companies which may impose risks of liability to such fund under the Employee Retirement Income Security Act of 1974 ("ERISA") for a portfolio company's underfunded pension plans, including withdrawal liability under any multiemployer plans in which such portfolio company contributes. Such liabilities might arise if any fund (or its general partner or management company, on behalf of such fund) were deemed to be engaged in a "trade or business" under ERISA. The determination of whether an investment fund is engaged in a trade or business under ERISA is uncertain and could depend upon which U.S. Federal Circuit has jurisdiction over the matter. In July 2013, the United States Federal Court of Appeals for the First Circuit held that the supervisory and portfolio management activities of a private equity fund could cause the fund to be regarded for ERISA controlled group purposes as engaging in a "trade or business." (Sun Capital Partners III, LP v. New England Teamsters & Trucking Industry Pension Fund, No. 12-2312, 2013 WL 3814984 (1st Cir. 2013)). On remand in March 2016, the United States District Court for the District of Massachusetts granted summary judgment to the pension fund, holding three Sun Capital investment funds jointly and severally liable for the pension obligations of their bankrupt portfolio company. Sun Capital's liability was established on a novel theory, which aggregated the ownership and management activities of parallel and otherwise related funds. Although many practitioners question the holdings in Sun Capital, the possibility of trade or business characterization and fund aggregation remains a risk for our funds and private equity funds generally, especially in the First Circuit. Activities that may indicate the possibility of a trade or business rather than a passive investment include, but are not limited to, management of a portfolio company's operations, authority with respect to the hiring, termination and compensation of such portfolio company's employees and agents and receipt of fees or other compensation that offset the management fee for services provided to such portfolio company by the relevant fund or its affiliates. If any of our funds (along with its affiliates) were treated as engaged in a trade or business for purposes of ERISA, then that fund (and certain affiliates of such fund in the same ERISA controlled group (e.g., other controlled portfolio companies)) could be jointly and severally liable to satisfy the liabilities of a specific portfolio company to an ERISA pension plan (i.e., one of our funds might suffer a loss that is greater than its actual investment in a specific portfolio company to the extent that such portfolio company becomes insolvent and is unable to satisfy its own obligations). It should be noted that the test as to whether a fund is engaged in a trade or business for purposes of ERISA may not necessarily be the same as the test that would be used for U.S. federal income tax purposes.

In addition, regulators may scrutinize, investigate or take action against us as a result of actions or inactions by portfolio companies operating in a regulated industry if such a regulator were to deem, or potentially deem, such portfolio company to be under our control. For example, based on positions taken by European governmental authorities, we or certain of our investment funds potentially could be liable for fines if portfolio companies deemed to be under our control are found to have violated European antitrust laws. Such potential, or future, liability may materially affect our business.

In 2016, the U.S. Department of Labor adopted a regulation that would make it more likely that persons who recommend investments to employee benefit plans and individual retirement accounts would be considered fiduciaries with respect to such plans and accounts for purposes of ERISA and certain provisions of the Internal Revenue Code. This rule, which was scheduled to apply beginning January 10, 2017 but has been proposed to be delayed for 180 days, could limit our ability to market interests in our funds to certain of these investors. The new Congress may seek to further delay the implementation of the rule or modify it.

Regulatory environment for control persons. We could become jointly and severally liable for all or part of fines imposed on portfolio companies of our funds or be fined directly for violations committed by portfolio companies, and such fines imposed directly on us could be greater than those imposed on the portfolio company. The fact that we or one of our funds exercises control or exerts influence (or merely has the ability to exercise control or exert influence) over a company may impose risks of liability (including under various theories of parental liability and piercing the corporate veil doctrines) to us and our funds for, among other things, environmental damage, product defects, employee benefits (including pension and other fringe benefits), failure to supervise management, violation of laws and governmental regulations (including securities laws, anti-trust laws, employment laws, anti-bribery (and other anti-corruption) laws) and other types of liability for which the limited liability characteristic of business ownership and the relevant fund itself (and the limited liability structures that may be utilized by such fund in connection with its ownership of our portfolio companies or otherwise) may be ignored or pierced, as if such limited liability characteristics or structures did not exist for purposes of the application of such laws, rules regulations and court decisions. Under certain circumstances, we could also be held liable under federal securities or state common law for statements made by or on behalf of portfolio companies of our funds. These risks of liability may arise pursuant to U.S. and non-U.S. laws, rules, regulations, court decisions or otherwise (including the laws, rules, regulations and court decisions that apply in jurisdictions in which our funds' portfolio companies or their subsidiaries are organized, headquartered or conduct business). Such liabilities may also arise to the extent that any such laws, rules, regulations or court decisions are interpreted or applied in a manner that imposes liability on all persons that stand to economically benefit (directly or indirectly) from ownership of portfolio companies, even if such persons do not exercise control or otherwise exert influence over such portfolio companies (e.g., limited partners). Lawmakers, regulators and plaintiffs have recently made (and may continue to make) claims along the lines of the foregoing, some of which have been successful. If these liabilities were to arise with respect to any of our funds or portfolio companies of our funds, the fund or portfolio company might suffer significant losses and incur significant liabilities and obligations that may, in turn, affect our results of operations. The having or exercise of control or influence over a portfolio company could expose our assets and those of our relevant fund, its partners, general partner, management company and their respective affiliates to claims by such portfolio company, its security holders and its creditors and regulatory authorities or other bodies. While we intend to manage our operations to minimize exposure to these risks, the possibility of successful claims cannot be precluded, nor can there be any assurance to whether such laws, rules, regulations and court decisions will be expanded or otherwise applied in a manner that is adverse to us. Moreover, it is possible that, when evaluating a potential portfolio investment, we, as manager of our funds, funds may choose not to pursue or consummate such portfolio investment, if any of the foregoing risks may create liabilities or other obligations for us, any of our funds or any of their respective affiliates.

Insurance regulation. State insurance departments have broad administrative powers over the insurance business of our insurance company affiliates, including insurance company licensing and examination, agent licensing, establishment of reserve requirements and solvency standards, premium rate regulation, admissibility of assets, policy form approval, unfair trade and claims practices, marketing practices, advertising, maintaining policyholder privacy, payment of dividends and distributions to shareholders, investments, review and/or approval of transactions with affiliates, reinsurance, acquisitions, mergers and other matters. State regulators regularly review and update these and other requirements.

Currently, there are proposals to increase the scope of regulation of insurance holding companies in both the United States and internationally. The National Association of Insurance Commissioners (the "NAIC") adopted amendments to the Holding Company Model Act that introduced the concept of "enterprise risk" within an insurance holding company system and imposed more extensive informational reporting regarding parents and other affiliates of insurance companies, with the purpose of protecting domestic insurers from enterprise risk, including requiring an annual enterprise risk report by the ultimate controlling person identifying the material risks within the insurance holding company system that could pose enterprise risk to domestic insurers. Changes to existing NAIC model laws or regulations must be adopted by individual states or foreign jurisdictions before they will become effective. To date, each of Delaware, Iowa and New York has enacted laws to adopt such amendments. Internationally, the International Association of Insurance Supervisors (the "IAIS") is in the process of adopting a framework for the "group wide"

supervision of internationally active insurance groups. In the United States, the NAIC has promulgated additional amendments to its insurance holding company system model law that address "group wide" supervision of internationally active insurance groups. To date, Delaware has enacted laws to adopt a form of these amendments, and Iowa has adopted similar provisions under a predecessor statute. We cannot predict with any degree of certainty the additional capital requirements, compliance costs or other burdens these requirements may impose on us and our insurance company affiliates.

The Dodd-Frank Act established the Federal Insurance Office (the "FIO") within the U.S. Department of the Treasury headed by a Director appointed by the Treasury Secretary. While currently not having a general supervisory or regulatory authority over the business of insurance, the Director of the FIO performs various functions with respect to insurance, including serving as a non-voting member of the FSOC and making recommendations to the FSOC regarding non-bank financial companies to be designated as SIFIs. The Director of the FIO has also submitted reports to the U.S. Congress on (i) modernization of U.S. insurance regulation (provided in December 2013) and (ii) the U.S. and global reinsurance market (provided in November 2013 and January 2015, respectively). Such reports could ultimately lead to changes in the regulation of insurers and reinsurers in the U.S.

As the ultimate parent of the general partner or manager of certain shareholders of Athene Holding, we are subject to certain insurance laws and regulations in Bermuda, where Athene Holding's direct, wholly owned subsidiary, ALRe, is registered as a Class E insurer. ALRe is subject to regulation and supervision by the BMA and compliance with all applicable Bermuda law and Bermuda insurance statutes and regulations, including but not limited to the Bermuda Insurance Act. Under the Bermuda Insurance Act, the BMA maintains supervision over the "controllers" of all registered insurers in Bermuda. For these purposes, a "controller" includes a shareholder controller (as defined in the Bermuda Insurance Act). The Bermuda Insurance Act imposes certain notice requirements upon any person that has become, or as a result of a disposition ceased to be, a shareholder controller, and failure to comply with such requirements is punishable by a fine of $25,000. In addition, the BMA may file a notice of objection to any person or entity who has become a controller of any description where it appears that such person or entity is not, or is no longer, fit and proper to be a controller of the registered insurer. Any person or entity who continues to be a controller of any description after having received a notice of objection is guilty of an offense and liable on summary conviction to a fine of $25,000 (and a continuing fine of $500 per day for each day that the offense is continuing) or, if convicted on indictment, to a fine of $100,000 and/or two years in prison. Athene Holding's shareholder controllers include Apollo and certain investment funds and other collective investment vehicles controlled by or under common control with Apollo. These laws may discourage potential acquisition proposals and may delay, deter or prevent an acquisition of controllers of Bermuda insurers.

Future regulatory changes could adversely affect our businesses. The regulatory environment in which we operate both in the United States and outside the United States may be subject to changes in regulation. There have been active debates both nationally and internationally over the appropriate extent of regulation and oversight in a number of areas which are or may be relevant to us, including private investment funds and their managers and the so-called "shadow banking" sector.

The regulatory and legal requirements that apply to our activities are subject to change from time to time and may become more restrictive, which may impose additional expenses on us, make compliance with applicable requirements more difficult, require attention of senior management, or otherwise restrict our ability to conduct our business activities in the manner in which they are now conducted. They also may result in fines or other sanctions if we or any of our funds are deemed to have violated any law or regulations. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules. Changes in applicable regulatory and legal requirements, including changes in their enforcement, could materially and adversely affect our businesses and our financial condition and results of operations.

Investment advisors have come under increased scrutiny from regulators, including the SEC and other government and self-regulatory organizations, with a particular focus on fees, allocation of expenses to funds, valuation practices, and related disclosures to fund investors. Public statements by regulators, in particular the SEC, indicate increased enforcement attention will continue to be focused on investment advisors, which has the potential to affect us. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations.

Regulatory investigations and enforcement actions may adversely affect our operations and create the potential for significant liabilities, penalties and reputational harm.

There can be no assurance that we or our affiliates will avoid regulatory examination and possibly enforcement actions. Recent SEC enforcement actions and settlements involving U.S.-based private fund advisors have involved a number of issues, including the undisclosed allocation of the fees, costs and expenses related to unconsummated co-investment transactions (i.e., the allocation of broken deal expenses), undisclosed legal fee arrangements affording the applicable advisor with greater discounts than those afforded to funds advised by such advisor and the undisclosed acceleration of certain special fees. Recent SEC focus areas have also included the use and compensation of, and disclosure regarding, operating partners or consultants, outside business activities of firm principals and employees, group purchasing arrangements and general conflicts of interest disclosures. As

previously disclosed, we reached a settlement with the SEC concerning the acceleration of certain special fees and other issues in August 2016.

If the SEC or any other governmental authority, regulatory agency or similar body takes issue with our past practices, we will be at risk for regulatory sanction. Even if an investigation or proceeding did not result in a sanction or the sanction imposed was small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm us and our reputation which may adversely affect our results of operations.

Federal, state and foreign anti-corruption and sanctions laws applicable to us and our funds and portfolio companies create the potential for significant liabilities and penalties and reputational harm.

We are subject to a number of laws and regulations governing payments and contributions to political persons or other third parties, including restrictions imposed by the U.S. Foreign Corrupt Practices Act ("FCPA"), as well as trade sanctions and export control laws administered by the Office of Foreign Assets Control, or OFAC, the U.S. Department of Commerce and the U.S. Department of State. The FCPA is intended to prohibit bribery of foreign governments and their employees and political parties, and requires public companies in the United States to keep books and records that accurately and fairly reflect their transactions. OFAC, the U.S. Department of Commerce and the U.S. Department of State administer and enforce various export control laws and regulations, including economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, organizations and individuals. These laws and regulations relate to a number of aspects of our businesses, including servicing existing fund investors, finding new fund investors, and sourcing new investments, as well as activities by the portfolio companies of our funds. In recent years, the U.S. Department of Justice and the SEC have devoted greater resources to enforcement of the FCPA. In addition, the U.K. has significantly expanded the reach of its anti-bribery laws. While we have developed and implemented policies and procedures designed to ensure compliance by us and our personnel with the FCPA and other applicable anticorruption and anti-bribery laws, such policies and procedures may not be effective in all instances to prevent violations. Any determination that we have violated the FCPA or other applicable anticorruption laws or anti-bribery laws could subject us to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects and/or financial position.

In June 2010, the SEC adopted a "pay-to-play" rule that restricts politically active investment advisors from managing state pension funds. The rule prohibits, among other things, a covered investment advisor from receiving compensation for advisory services provided to a government entity (such as a state pension fund) for a two-year period after the advisor, certain covered employees of the advisor or any covered political action committee controlled by the advisor or its employees makes a political contribution to certain government officials. In addition, a covered investment advisor is prohibited from engaging in political fundraising activities for certain elected officials or candidates in jurisdictions where such advisor is providing or seeking governmental business. The Financial Industry Regulatory Authority ("FINRA") has proposed its own set of "pay to play" regulations, which are similar to the SEC's regulations. The FINRA rule effectively prohibits the receipt of compensation from state or local government agencies for solicitation and distribution activities within two years of a prohibited contribution by a broker-dealer or one of its covered associates. In December 2015, FINRA submitted revised proposals to the SEC for adoption and we are awaiting the release of the final regulations. There have also been similar laws, rules and regulations and/or policies adopted by a number of states and municipal pension plans, which prohibit, restrict or require disclosure of payments to (and/or certain contracts with) state officials by individuals and entities seeking to do business with state entities, including investment by public retirement funds. Any failure on our part to comply with these rules could expose us to significant penalties and reputational damage.

The Iran Threat Reduction and Syrian Human Rights Act of 2012 ("ITRA") expands the scope of U.S. sanctions against Iran. Notably, ITRA generally prohibits foreign entities that are majority owned or controlled by U.S. persons from engaging in transactions with Iran. However, pursuant to the Joint Comprehensive Plan of Action (the "JCPOA"), which was implemented on January 16, 2016, such foreign entities may now engage in Iran-related transactions authorized by OFAC under General License H. In addition, Section 219 of ITRA amended the Exchange Act to require public reporting companies to disclose in their annual or quarterly reports certain dealings or transactions the company or its affiliates engaged in during the previous reporting period involving Iran or other individuals and entities targeted by certain OFAC sanctions. In some cases, ITRA requires companies to disclose these types of transactions even if they were permissible under U.S. law or were conducted outside of the United States by a non-U.S. entity. Companies that may be considered our affiliates have publicly filed and/or provided to us the disclosures reproduced in each of the Company's Annual Reports on Form 10-K filed on March 3, 2014 and March 1, 2013 and the Company's Quarterly Report on Form 10-Q filed on November 12, 2013. We have not independently verified or participated in the preparation of these disclosures. We are required to separately file, concurrently with this annual report, a notice that such activities have been disclosed in this annual report. The SEC is required to post this notice of disclosure on its website and send the report to the U.S. President and certain U.S. Congressional committees. The U.S. President thereafter is required to initiate an investigation and, within 180 days of initiating such an investigation, to determine whether sanctions should be imposed. Disclosure of such activity,

even if such activity is not subject to sanctions under applicable law, and any sanctions actually imposed on us or our affiliates as a result of these activities, could harm our reputation and have a negative impact on our business.

Similar laws in non-U.S. jurisdictions, such as EU sanctions or the U.K. Bribery Act, as well as other applicable anti-bribery, anti-corruption, anti-money laundering, or sanction or other export control laws in the U.S. and abroad, may also impose stricter or more onerous requirements than the FCPA, OFAC, the U.S. Department of Commerce and the U.S. Department of State, and implementing them may disrupt our businesses or cause us to incur significantly more costs to comply with those laws. Different laws may also contain conflicting provisions, making compliance with all laws more difficult. If we fail to comply with these laws and regulations, we could be exposed to claims for damages, civil or criminal financial penalties, reputational harm, incarceration of our employees, restrictions on our operations and other liabilities, which could negatively affect our businesses, operating results and financial condition. In addition, we may be subject to successor liability for FCPA violations or other acts of bribery, or violations of applicable sanctions or other export control laws committed by companies in which we or our funds invest or which we or our funds acquire.

A portion of our revenues, earnings and cash flow is highly variable, which may make it difficult for us to achieve steady earnings growth on a quarterly basis, and we do not intend to regularly provide comprehensive earnings guidance, which may cause the price of our Class A shares to be volatile.

A portion of our revenues, earnings and cash flow is highly variable, primarily due to the fact that incentive income from our private equity funds and certain of our credit and real estate funds, which constitutes the largest portion of income from our combined businesses, and the transaction and advisory fees that we receive, can vary significantly from quarter to quarter and year to year. In addition, the investment returns of most of our funds are volatile. We may also experience fluctuations in our results from quarter to quarter and year to year due to a number of other factors, including changes in the values of our funds' investments, changes in the amount of distributions, dividends or interest paid in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. Our future results will also be significantly dependent on the success of our larger funds (e.g., Fund VIII), changes in the value of which may result in fluctuations in our results. In addition, incentive income income from our private equity funds and certain of our credit and real estate funds is subject to contingent repayment by the general partner if, upon the final distribution, the relevant fund's general partner has received cumulative carried interest on individual portfolio investments in excess of the amount of incentive income it would be entitled to from the profits calculated for all portfolio investments in the aggregate. See "—Poor performance of our funds would cause a decline in our revenue and results of operations, may obligate us to repay incentive income previously paid to us and would adversely affect our ability to raise capital for future funds." Such variability may lead to volatility in the trading price of our Class A shares and cause our results for a particular period not to be indicative of our performance in a future period. It may be difficult for us to achieve steady growth in earnings and cash flow on a quarterly basis, which could in turn lead to large adverse movements in the price of our Class A shares or increased volatility in our Class A share price in general.

The timing of incentive income generated by our funds is uncertain and will contribute to the volatility of our results. Incentive income depends on our funds' performance. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value or other proceeds of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be several years before any profits can be realized in cash or other proceeds. We cannot predict when, or if, any realization of investments will occur. Generally, with respect to our private equity funds, although we recognize carried interest income on an accrual basis, we receive private equity incentive income payments only upon disposition of an investment by the relevant fund, which contributes to the volatility of our cash flow. If our funds were to have a realization event in a particular quarter or year, it may have a significant impact on our results for that particular quarter or year that may not be replicated in subsequent periods. We recognize revenue on investments in our funds based on our allocable share of realized and unrealized gains (or losses) reported by such funds, and a decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our revenue, which could further increase the volatility of our results. With respect to a number of our credit funds, our incentive income is generally paid annually, semi-annually or quarterly, and the varying frequency of these payments will contribute to the volatility of our revenues and cash flow. Furthermore, we earn this incentive income only if the net asset value of a fund has increased or, in the case of certain funds, increased beyond a particular threshold. The general partners of certain of our credit funds accrue incentive income when the fair value of investments exceeds the cost basis of the individual investor's investments in the fund, including any allocable share of expenses incurred in connection with such investment, which is referred to as a "high water mark." These high water marks are applied on an individual investor basis. If the high water mark for a particular investor is not surpassed, we would not earn incentive income with respect to such investor during a particular period even though such investor had positive returns in such period as a result of losses in prior periods. If such an investor experiences losses, we will not be able to earn incentive income from such investor until it surpasses the previous high water mark. The incentive income we earn is therefore dependent on the net asset value of investors' investments in the fund, which could lead to significant volatility in our results.

Because a portion of our revenue, earnings and cash flow can be highly variable from quarter to quarter and year to year, we do not plan to provide any comprehensive guidance regarding our expected quarterly and annual revenues, earnings and cash flow. The lack of comprehensive guidance on a regular and consistent basis may affect the expectations of public market investors and could cause increased volatility in our Class A share price.

The investment management business is intensely competitive, which could have a material adverse impact on us.

The investment management business is intensely competitive. We face competition both in the pursuit of outside investors for our funds and in acquiring investments in attractive portfolio companies and making other investments. It is possible that it will become increasingly difficult for our funds to raise capital as funds compete for investments from a limited number of qualified investors.

Competition among funds is based on a variety of factors, including:

- investment performance;
- investor liquidity and willingness to invest;
- investor perception of investment managers' drive, focus and alignment of interest;
- quality of service provided to and duration of relationship with investors;
- business reputation; and
- the level of fees and expenses charged for services.

We compete in all aspects of our businesses with a large number of investment management firms, private equity, credit and real estate fund sponsors and other financial institutions. A number of factors serve to increase our competitive risks:

- fund investors may develop concerns that we will allow a business to grow to the detriment of its performance;
- investors may reduce their investments in our funds or not make additional investments in our funds based upon current market conditions, their available capital or their perception of the health of our businesses;
- the attractiveness of our funds relative to investments in other investment products could change depending on economic and market conditions;
- some of our competitors have greater capital, lower targeted returns or greater sector or investment strategy-specific expertise than we do, which creates competitive disadvantages with respect to investment opportunities;
- some of our competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities;
- some of our competitors may perceive risk differently than we do, which could allow them either to outbid us for investments in particular sectors or, generally, to consider a wider variety of investments;
- some of our funds may not perform as well as competitors' funds or other available investment products;
- our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment;
- some fund investors may prefer to invest with an investment manager that is not publicly traded;
- the successful efforts of new entrants into our various businesses, including former "star" portfolio managers at large diversified financial institutions as well as such institutions themselves, may result in increased competition;
- there are relatively few barriers to entry impeding other alternative investment management firms from implementing an integrated platform similar to ours or the strategies that we deploy at our funds, such as distressed investing, which we believe are our competitive strengths; and
- other industry participants continuously seek to recruit our investment professionals away from us.

These and other factors could reduce our earnings and revenues and have a material adverse effect on our businesses. In addition, if we are forced to compete with other alternative investment managers on the basis of price, we may not be able to maintain our current management fee and incentive income structures. We have historically competed primarily on the performance of our funds, and not on the level of our fees or incentive income relative to those of our competitors. However, there is a risk that fees and incentive income in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee or incentive income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.

Our ability to retain our investment professionals is critical to our success and our ability to grow depends on our ability to attract and retain key personnel.

Our success depends on our ability to retain our investment professionals and recruit additional qualified personnel. We anticipate that it will be necessary for us to add investment professionals as we pursue our growth strategy. However, we may not succeed in recruiting additional personnel or retaining current personnel, as the market for qualified investment professionals is extremely competitive. Our investment professionals possess substantial experience and expertise in investing, are responsible for

locating and executing our funds' investments, have significant relationships with the institutions that are the source of many of our funds' investment opportunities, and in certain cases have key relationships with our fund investors. Therefore, if our investment professionals join competitors or form competing companies it could result in the loss of significant investment opportunities and certain existing fund investors. Legislation has been proposed in the U.S. Congress to treat portions of incentive income as ordinary income rather than as capital gain for U.S. Federal income tax purposes. Furthermore, President Trump expressed support for such legislation during his electoral campaign as it relates to certain management activities. It is unclear, however, whether such a modification to the tax treatment of carried interest will ultimately be implemented as part of broader tax reform in the U.S. In addition, the U.K. implemented legislation effective from April 2015 that changed the scope and tax rate for carried interest, particularly for individuals who have immigrated to the U.K., so called "non-domiciled individuals". Further, from 2016, legislation that taxes carried interest as deemed trading income has come into force impacting partners of Apollo Management International LLP who have an interest in funds that have a weighted average holding period of fewer than 40 months. Because we compensate our investment professionals in large part by giving them an equity interest in our businesses or a right to receive incentive income, if such legislation were passed in the U.S., it could adversely affect our ability to recruit, retain and motivate our current and future investment professionals. See "—Risks Related to Taxation—Our structure involves complex provisions of U.S. Federal income tax law for which no clear precedent or authority may be available. Our structure is also subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis." Many of our investment professionals are also entitled to receive incentive income or incentive income, and fluctuations in the distributions generated from such sources could also impair our ability to attract and retain qualified personnel.

Furthermore, the SEC has proposed mandatory clawback rules which would require listed companies to adopt a clawback policy providing for recovery of incentive-based compensation awarded to executive officers if the company is required to prepare an accounting restatement resulting from material noncompliance with financial reporting requirements. However, legal requirements flowing out of these bodies continue to be updated and the specific long-term impact on us is not yet clear. There is the potential that new compensation rules will make it more difficult for us to attract and retain investment professionals by capping the amount of variable compensation compared to fixed pay, requiring the deferral of certain types of compensation over time, implementing "clawback" requirements, or other rules deemed onerous by such investment professionals.

The loss of even a small number of our investment professionals could jeopardize the performance of our funds, which would have a material adverse effect on our results of operations. Efforts to retain or attract investment professionals and other personnel may result in significant additional expenses, which could adversely affect our profitability.

We strive to maintain a work environment that promotes our culture of collaboration, motivation and alignment of interests with our fund investors and shareholders. If we do not continue to develop and implement effective processes and tools to manage growth and reinforce this vision, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our businesses, financial condition and results of operations.

We may not be successful in expanding into new investment strategies, markets and businesses.

We actively consider the opportunistic expansion of our businesses, both geographically and into complementary new investment strategies. We may not be successful in any such attempted expansion. Attempts to expand our businesses involve a number of special risks, including some or all of the following:

- the diversion of management's attention from our core businesses;
- the disruption of our ongoing businesses;
- entry into markets or businesses in which we may have limited or no experience;
- increasing demands on our operational systems;
- potential increase in investor concentration; and
- the broadening of our geographic footprint, increasing the risks associated with conducting operations in foreign jurisdictions.

Additionally, any expansion of our businesses could result in significant increases in our outstanding indebtedness and debt service requirements, which would increase the risks of investing in our Class A shares and may adversely impact our results of operations and financial condition.

We also may not be successful in identifying new investment strategies or geographic markets that increase our profitability, or in identifying and acquiring new businesses that increase our profitability. Because we have not yet identified these potential new investment strategies, geographic markets or businesses, we cannot identify for you all the risks we may face and the potential adverse consequences on us and your investment that may result from our attempted expansion. We also do not know how long it may take for us to expand, if we do so at all. We have also entered into strategic partnerships and separately managed accounts, which lack the scale of our traditional funds and are more costly to administer. The prevalence of these accounts may also present conflicts and introduce complexity in the deployment of capital. We have total discretion, at the direction of our manager, without

needing to seek approval from our board of directors or shareholders, to enter into new investment strategies, geographic markets and businesses, other than expansions involving transactions with affiliates which may require board approval.

Many of our funds invest in relatively high-risk, illiquid assets and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of the principal amount we invest in these activities.

Many of our funds invest in securities that are not publicly traded. In many cases, our funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. The ability of many of our funds, particularly our private equity funds, to dispose of investments is heavily dependent on the public equity markets, inasmuch as the ability to realize value from an investment may depend upon the ability to complete an IPO of the portfolio company in which such investment is held. Furthermore, large holdings even of publicly traded equity securities can often be disposed of only over a substantial period of time, exposing the investment returns to risks of downward movement in market prices during the disposition period. Moreover, because the investment strategy of many of our funds often entails our having representation on public portfolio company boards of our funds, our funds may be restricted in their ability to affect such sales during certain time periods. Accordingly, our funds may be forced, under certain conditions, to sell securities at a loss.

Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.

Because certain of our funds' investments rely heavily on the use of leverage, our ability to achieve attractive rates of return on investments will depend on our continued ability to access sufficient sources of indebtedness at attractive rates. For example, in many of our private equity fund investments, indebtedness may constitute 70% or more of a portfolio company's total debt and equity capitalization, including debt that may be incurred in connection with the investment, and a portfolio company's leverage may increase as a result of recapitalization transactions subsequent to the company's acquisition by a private equity fund. The absence of available sources of senior debt financing for extended periods of time could therefore materially and adversely affect our funds. An increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness would make it more expensive to finance those investments. Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital. In addition, a portion of the indebtedness used to finance certain of our fund investments often includes high-yield debt securities. Availability of capital from the high-yield debt markets is subject to significant volatility, and there may be times when we might not be able to access those markets at attractive rates, or at all. For example, the dislocation in the credit markets which we believe began in July 2007 and the record backlog of supply in the debt markets resulting from such dislocation materially affected the ability and willingness of banks to underwrite new high-yield debt securities for an extended period. While the debt markets have recovered, volatility in these markets has recently increased, and the availability of debt facilities has been limited to some degree as a result of guidance issued to banks in March 2013 by the Federal Reserve, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp. relating to loans to highly leveraged companies, and reported recent statements by the Federal Reserve and Office of the Comptroller of the Currency reaffirming their position on such loans. In November 2015, in connection with the banking agencies' most recent review of large credits under the Shared National Credit review, the agencies noted high credit and weaknesses related to leveraged lending and for loans related to oil and gas exploration, production and energy services. In addition, in December 2015, the U.S. federal banking agencies issued a statement cautioning financial institutions on rising concentrations in commercial real estate and an easing of related underwriting standards. To the extent that such guidance limits the amount or cost of financing our funds are able to obtain, the returns on our funds' investments may suffer.

Investments in highly leveraged entities are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

- give rise to an obligation to make mandatory prepayments of debt using excess cash flow, which might limit the entity's ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities;
- allow even moderate reductions in operating cash flow to render it unable to service its indebtedness, leading to a bankruptcy or other reorganization of the entity and a loss of part or all of the equity investment in it;
- limit the entity's ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt;
- limit the entity's ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth; and

- limit the entity's ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or general corporate purposes.

As a result, the risk of loss associated with a leveraged entity is generally greater than for companies with comparatively less debt. For example, many investments consummated by private equity sponsors during 2005, 2006 and 2007 that utilized significant amounts of leverage subsequently experienced severe economic stress and in certain cases defaulted on their debt obligations due to a decrease in revenues and cash flow precipitated by the economic downturn.

When certain of our funds' existing portfolio investments reach the point when debt incurred to finance those investments matures in significant amounts and must be either repaid or refinanced, those investments may materially suffer if they have generated insufficient cash flow to repay maturing debt and there is insufficient capacity and availability in the financing markets to permit them to refinance maturing debt on satisfactory terms, or at all. If a limited availability of financing for such purposes were to persist for an extended period of time, when significant amounts of the debt incurred to finance these funds' existing portfolio investments came due, these funds could be materially and adversely affected. Additionally, if such limited availability of financing persists, our funds may also not be able to recoup their investments, as issuers of debt become unable to repay their borrowings.

Many of our funds, especially our credit funds may choose to use leverage as part of their respective investment programs and regularly borrow a substantial amount of their capital. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. Our credit funds may borrow money from time to time to purchase or carry securities. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried, and will be lost-and the timing and magnitude of such losses may be accelerated or exacerbated-in the event of a decline in the market value of such securities. Gains realized with borrowed funds may cause the fund's net asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund's net asset value could also decrease faster than if there had been no borrowings.

In addition, as a business development company under the Investment Company Act, AINV is permitted to issue senior securities in amounts such that its asset coverage ratio equals at least 200% after each issuance of senior securities. Further, AFT and AIF, as registered investment companies, are restricted in the (i) issuance of preferred shares to amounts such that their respective asset coverage (as defined in Section 18 of the Investment Company Act) equals at least 200% after issuance and (ii) incurrence of indebtedness, including through the issuance of debt securities, such that, immediately after issuance the fund will have an asset coverage (as defined in Section 18 of the Investment Company Act) of at least 300%. The ability of AFT and AIF to pay dividends on their common stock may be restricted if the asset coverage of their indebtedness falls below 300% and if the asset coverage on their preferred stock falls below 200%. AINV will be restricted if its asset coverage ratio falls below 200% and any amounts that it uses to service its indebtedness are not available for dividends to its common shareholders. An increase in interest rates could also decrease the value of fixed-rate debt investments that our funds make. Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

Certain of our investment funds may invest in high-yield, below investment grade or unrated debt, or securities of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such investments are subject to a greater risk of poor performance or loss.

Certain of our investment funds, especially our credit funds, may invest in below investment grade or unrated debt, including corporate loans and bonds, each of which generally involves a higher degree of risk than investment grade rated debt, and may be less liquid. Issuers of high yield or unrated debt may be highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. As a result, high yield or unrated debt is often less liquid than investment grade rated debt. Also, investments may be made in loans and other forms of debt that are not marketable securities and therefore are not liquid. In the absence of hedging measures, changes in interest rates generally will also cause the value of debt investments to vary inversely to such changes. The obligor of a debt security or instrument may not be able or willing to pay interest or to repay principal when due in accordance with the terms of the associated agreement and collateral may not be available or sufficient to cover such liabilities. Commercial bank lenders and other creditors may be able to contest payments to the holders of other debt obligations of the same obligor in the event of default under their commercial bank loan agreements. Sub-participation interests in syndicated debt may be subject to certain risks as a result of having no direct contractual relationship with underlying borrowers. Debt securities and instruments may be rated below investment grade by recognized rating agencies or unrated and face ongoing uncertainties and exposure to adverse business, financial or economic conditions and the issuer's failure to make timely interest and principal payments.

Certain of our investment funds, especially our credit funds, may invest in business enterprises that are or may become involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions, and may purchase non-performing loans or other high-risk receivables. An investment in such a business enterprise entails the risk that the transaction in

which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the fund of the security or other financial instrument in respect of which such distribution is received. In addition, if an anticipated transaction does not in fact occur, the fund may be required to sell its investment at a loss. Investments in troubled companies may also be adversely affected by U.S. federal and state laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss by a fund of its entire investment in such company. Moreover, a major economic recession could have a materially adverse impact on the value of such securities.

Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of securities rated below investment grade or otherwise adversely affect our reputation. For example, certain of our investment funds, especially our credit funds, may receive equity in exchange for debt securities of troubled companies in which they have invested, and thus become equity owners of business enterprises that have not been subject to the same level or kind of due diligence investigation that our funds would typically conduct in connection with an equity investment. This could result in adverse publicity, reputational harm, and possibly control person liability in certain circumstances depending on the size of the funds' equity stake and other factors.

We rely on technology and information systems to conduct our businesses, and any failures and interruptions of these systems could adversely affect our businesses and results of operations. Additionally, we face operational risks in the execution, confirmation or settlement of transactions and our dependence on our headquarters and third-party providers.

We rely on a host of computer software and hardware systems, all of which are vulnerable to an increasing number of cyber and security threats. We further rely on financial, accounting and other data processing systems to mitigate the risk of errors in the execution, confirmation or settlement of transactions. As we depend on our New York-based headquarters and third-party service providers for hosting solutions and technologies, a disaster or disruption in the related infrastructure could impair our operations and could impact our reputation, adversely affect our businesses and limit our ability to grow. The materialization of one or more of these risks is likely to have a material adverse effect on us.

Reliance on computer hardware and software systems. The efficient operation of our businesses is dependent on computer hardware and software systems. Information systems are vulnerable to security breaches by computer hackers and cyber terrorists. There has been an increase in the frequency and sophistication of the cyber and security threats we face, with attacks ranging from those common to businesses generally to those that are more advanced and persistent, which may target us because, as an alternative investment management firm, we hold confidential and other price sensitive information about, among other things, the portfolio companies of our funds and potential fund investments. As a result, we may face a heightened risk of a security breach or disruption with respect to sensitive information resulting from an attack by computer hackers, foreign governments, or cyber terrorists. We rely on industry accepted security measures and technology to securely maintain confidential and proprietary information maintained on our information systems. However, these measures and technology may not adequately prevent security breaches. In addition, the unavailability of the information systems or the failure of these systems to perform as anticipated for any reason could disrupt our businesses and could result in decreased performance and increased operating costs, causing our businesses and results of operations to suffer. Any significant interruption or failure of our information systems or any significant breach of security could adversely affect our businesses and results of operations. The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. In addition, cyber security has become a top priority for regulators around the world. For example, the SEC announced that one of the 2016 examination priorities for the Office of Compliance Inspections and Examinations' (OCIE) was on investment firms' cyber security procedures and controls. Our funds' portfolio companies also rely on data processing systems and the secure processing, storage and transmission of information, including payment and health information. A disruption or compromise of these systems could have a material adverse effect on the value of these businesses.

Errors made in the execution, confirmation or settlement of transactions. We face operational risk from errors made in the execution, confirmation or settlement of transactions. We also face operational risk from transactions not being properly recorded, evaluated or accounted for in our funds. In particular, our credit business is highly dependent on our ability to process and evaluate, on a daily basis, transactions across markets and geographies in a time-sensitive, efficient and accurate manner. New investment products we may introduce could create a significant risk that our existing systems may not be adequate to identify or control the relevant risks in the investment strategies employed by such new investment products. In addition, our information systems and technology might not be able to accommodate our growth, and the cost of maintaining such systems might increase from its current level. These risks could cause us to suffer financial loss, a disruption of our businesses, liability to our funds, regulatory intervention and reputational damage.

Dependence on our New York based headquarters and third-party vendors. We depend on our headquarters, which is located in New York City, for the operation of many of our businesses. We are also dependent on an increasingly concentrated group of third party vendors that we do not control for hosting solutions and technologies. We also rely on third-party service providers for certain aspects of our businesses, including for certain information systems, technology and administration of our funds and compliance matters. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us, our vendors or third parties with whom we conduct business, or directly affecting our headquarters, may have an adverse impact on our ability to continue to operate our businesses without interruption which could have a material adverse effect on us. Our disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

Failure to maintain the security of our information and technology networks, including personally identifiable and investor information, intellectual property and proprietary business information could have a material adverse effect on us.

We are subject to various risks and costs associated with the collection, handling, storage and transmission of sensitive information, including those related to compliance with U.S. and foreign data collection and privacy laws and other contractual obligations, as well as those associated with the compromise of our systems collecting such information. In the ordinary course of our business, we collect and store sensitive data, including our proprietary business information and intellectual property, and personally identifiable information of our employees and our investors, in our data centers and on our networks. The secure processing, maintenance and transmission of this information are critical to our operations. Although we take various measures and have made, and will continue to make, significant investments to ensure the integrity of our systems and to safeguard against such failures or security breaches, there can be no assurance that these measures and investments will provide protection. A significant actual or potential theft, loss, corruption, exposure, fraudulent use or misuse of investor, employee or other personally identifiable or proprietary business data, whether by third parties or as a result of employee malfeasance or otherwise, non-compliance with our contractual or other legal obligations regarding such data or intellectual property or a violation of our privacy and security policies with respect to such data could result in significant remediation and other costs, fines, litigation or regulatory actions against us by the U.S. federal and state governments, the EU or other jurisdictions or by various regulatory organizations or exchanges. Such an event could additionally disrupt our operations and the services we provide to investors, damage our reputation, result in a loss of a competitive advantage, impact our ability to provide timely and accurate financial data, and cause a loss of confidence in our services and financial reporting, which could adversely affect our businesses, revenues, competitive position and investor confidence.

We derive a substantial portion of our revenues from funds managed pursuant to management agreements that may be terminated or fund partnership agreements that permit fund investors to request liquidation of investments in our funds on short notice.

The terms of our funds generally give either the general partner of the fund, the fund's board of directors or the third-party advisor the right to terminate our investment management agreement with the fund. However, insofar as we control the general partner of our funds that are limited partnerships, the risk of termination of investment management agreement for such funds is limited, subject to our fiduciary or contractual duties as general partner. This risk is more significant for certain of our funds which have independent boards of directors.

With respect to our funds that are subject to the Investment Company Act, following the initial two years of operation each fund's investment management agreement must be approved annually by (i) such fund's board of directors or by the vote of a majority of the funds' shareholders and (ii) in each case, also by the majority of the independent members of such fund's board of directors. Each investment management agreement for such funds can also be terminated on not more than 60 days' notice by the funds' board of directors or by a vote of a majority of the outstanding shares. Currently, AFT and AIF, management investment companies under the Investment Company Act, and AINV, a management investment company that has elected to be treated as a business development company under the Investment Company Act, are subject to these provisions of the Investment Company Act. We have also been engaged as a sub-advisor for funds that are subject to the Investment Company Act, and those sub-advisory agreements contain, among other things, renewal and termination provisions that are substantially similar to the investment management agreements for each of AFT, AIF and AINV. Termination of these agreements would reduce the fees we earn from the relevant funds, which could have a material adverse effect on our results of operations.

The governing documents of certain of our funds provide that a simple majority of a fund's unaffiliated investors have the right to liquidate that fund, which would cause management fees and incentive income to terminate. Our ability to realize incentive income from such funds also would be adversely affected if we are required to liquidate fund investments at a time when market conditions result in our obtaining less for investments than could be obtained at later times. We do not know whether, and under what circumstances, the investors in our funds are likely to exercise such right.

In addition, the management agreements of our funds would terminate if we were to experience a change of control without obtaining fund investor consent. Such a change of control could be deemed to occur in the event our Managing Partners exchange enough of their interests in the Apollo Operating Group into our Class A shares such that our Managing Partners no longer own a controlling interest in us. We cannot be certain that consents required for the assignment of our management agreements will be obtained if such a deemed change of control occurs. Termination of these agreements would affect the fees we earn from the relevant funds and the transaction and advisory fees we earn from the underlying portfolio companies, which could have a material adverse effect on our results of operations.

Our use of leverage to finance our businesses will expose us to substantial risks, which are exacerbated by our funds' use of leverage to finance investments.

We have senior notes outstanding and loans outstanding and an undrawn revolving credit facility described in note 11 to our consolidated financial statements. We may choose to finance our business operations through further borrowings. Our existing and future indebtedness exposes us to the typical risks associated with the use of leverage, including those discussed above under "—Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments." These risks are exacerbated by certain of our funds' use of leverage to finance investments and, if they were to occur, could cause us to suffer a decline in the credit ratings assigned to our debt by rating agencies, if any, which might result in an increase in our borrowing costs or result in other material adverse effects on our businesses.

As these borrowings, notes and other indebtedness mature (or are otherwise repaid prior to their scheduled maturities), we may be required to either refinance them by entering into new facilities or issuing new notes, which could result in higher borrowing costs, or issuing equity, which would dilute existing shareholders. We could also repay them by using cash on hand or cash from the sale of our assets. We could have difficulty entering into new facilities, issuing new notes or issuing equity in the future on attractive terms, or at all.

We are subject to third-party litigation from time to time that could result in significant liabilities and reputational harm, which could have a material adverse effect on our results of operations, financial condition and liquidity.

In general, we will be exposed to risk of litigation by our investors if our management of any fund is alleged to constitute bad faith, gross negligence, willful misconduct, fraud, willful or reckless disregard for our duties to the fund or other forms of misconduct. Fund investors could sue us to recover amounts lost by our funds due to our alleged misconduct, up to the entire amount of loss. Further, we may be subject to litigation arising from investor dissatisfaction with the performance of our funds or from third-party allegations that we (i) improperly exercised control or influence over companies in which our funds have large investments or (ii) are liable for actions or inactions taken by portfolio companies that such third parties argue we control. By way of example, we, our funds and certain of our employees are each exposed to the risks of litigation relating to investment activities in our funds and actions taken by the officers and directors (some of whom may be Apollo employees) of portfolio companies, such as the risk of shareholder litigation by other shareholders of public companies in which our funds have large investments. As an additional example, we are sometimes listed as a co-defendant in actions against portfolio companies on the theory that we control such portfolio companies. We are also exposed to risks of litigation or investigation relating to transactions that presented conflicts of interest that were not properly addressed. See "—Our failure to deal appropriately with conflicts of interest could damage our reputation and adversely affect our businesses." In addition, our rights to indemnification by the funds we manage may not be upheld if challenged, and our indemnification rights generally do not cover bad faith, gross negligence, willful misconduct, fraud, willful or reckless disregard for our duties to the fund or other forms of misconduct. If we are required to incur all or a portion of the costs arising out of litigation or investigations as a result of inadequate insurance proceeds or failure to obtain indemnification from our funds, our results of operations, financial condition and liquidity could be materially adversely affected.

In addition, with a workforce that includes many very highly paid investment professionals, we face the risk of lawsuits relating to claims for compensation, which may individually or in the aggregate be significant in amount. Such claims are more likely to occur in situations where individual employees may experience significant volatility in their year-to-year compensation due to trading performance or other issues and in situations where previously highly compensated employees were terminated for performance or efficiency reasons. The cost of settling such claims could adversely affect our results of operations.

If any civil or criminal litigation brought against us were to result in a finding of substantial legal liability or culpability, the litigation could, in addition to any financial damage, cause significant reputational harm to us, which could seriously harm our business. We depend to a large extent on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and qualified professionals and to pursue investment opportunities for our funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our businesses than to other types of businesses. See "Item 3. Legal Proceedings."

Our failure to deal appropriately with conflicts of interest could damage our reputation and adversely affect our businesses.

As we have expanded and as we continue to expand the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds' investment activities. Certain of our funds have overlapping investment objectives, including funds that have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds. For example, a decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of other funds to take any action. Conflicts of interest may also exist in the valuation of our investments and regarding decisions about the allocation of specific investment opportunities among us and our funds and the allocation of fees and costs among us, our funds and portfolio companies of our funds. In addition, fund investors (or holders of Class A shares) may perceive conflicts of interest regarding investment decisions for funds in which our Managing Partners, who have and may continue to make significant personal investments in a variety of Apollo funds, are personally invested. Similarly, conflicts of interest may exist with our manager, which is allowed under our organizational documents to manage our actions as it desires, without considering the interests of our shareholders.

Allocation of investment opportunities. Certain inherent conflicts of interest arise from the fact that (i) we provide investment management services to more than one fund, and (ii) our funds often have one or more overlapping investment strategies. Also, the investment strategies employed by us for current and future clients could conflict with each other, and may adversely affect the prices and availability of other securities or instruments held by, or potentially considered for, one or more clients. If participation in specific investment opportunities is appropriate for more than one of our funds, participation in such opportunities will be allocated pursuant to our allocation policies and procedures, which include the relevant partnership or investment management agreement as well as the decisions of our allocations committee. While we have established policies and procedures to guide the determination of such allocations, there can be no assurance that we will be successful in avoiding all conflicts of interest in allocating investment opportunities.

Restrictions on transactions due to other Apollo businesses. Our funds engage in a broad range of business activities and invest in portfolio companies whose operations may be substantially similar to and/or competitive with the portfolio companies in which our other funds have invested. The performance and operation of such competing businesses could conflict with and adversely affect the performance and operation of our funds' portfolio companies, and may adversely affect the prices and availability of business opportunities or transactions available to such portfolio companies. In addition, we may give advice, or take action with respect to, the investments of one or more of our funds that may not be given or taken with respect to other of our funds with similar investment programs, objectives or strategies. Accordingly, some of our funds with similar strategies may not hold the same securities or instruments or achieve the same performance. We may also advise funds and clients with conflicting investment objectives or strategies. These activities also may adversely affect the prices and availability of other securities or instruments held by, or potentially considered for, one or more funds. We, our funds or our funds' portfolio companies may also have ongoing relationships with issuers whose securities have been acquired by, or are being considered for investment by us.

Investing throughout the corporate capital structure. Our funds invest in a broad range of asset classes throughout the corporate capital structure. These investments include investments in corporate loans and debt securities, preferred equity securities and common equity securities. In certain cases, we may manage separate funds that invest in different parts of the same company's capital structure. For example, our credit funds may invest in different classes of the same company's debt. In those cases, the interests of our funds may not always be aligned, which could create actual or potential conflicts of interest or the appearance of such conflicts. For example, one of our private equity funds could have an interest in pursuing an acquisition, divestiture or other transaction that, in its judgment, could enhance the value of the private equity investment, even though the proposed transaction would subject one of our credit fund's debt investments to additional or increased risks.

Information barriers. We currently operate without information barriers that some other investment management firms implement to separate business units and/or to separate persons who make investment decisions from others who might possess material non-public information that could influence such decisions. Our Managing Partners, investment professionals or other employees may acquire confidential or material non-public information and, as a result, be restricted from initiating transactions in certain securities. In an effort to manage possible risks arising from our decision not to implement such screens, we maintain a code of ethics and provide training to relevant personnel. In addition, our compliance department maintains a list of restricted securities with respect to which we may have access to material non-public information and in which our funds are not permitted to trade. In the event that any of our employees obtains such material non-public information, we may be restricted in acquiring or disposing of investments on behalf of our funds, which could impact the returns generated for such funds. Notwithstanding the maintenance of restricted securities lists and other internal controls, it is possible that the internal controls relating to the management of material non-public information could fail and result in us, or one of our investment professionals, buying or selling a security while, at least constructively, in possession of material non-public information. Inadvertent trading on material non-public information could have adverse effects on our reputation, result in the imposition of regulatory or financial sanctions and, as a consequence, negatively impact our ability to provide our investment management services to our funds and clients. While we

currently operate without information barriers on an integrated basis, we could be required by certain regulations, or decide that it is advisable, to establish information barriers. In such event, our ability to operate as an integrated platform could also be impaired, which would limit management's access to our personnel and impair its ability to manage our investments. The establishment of such information barriers may also lead to operational disruptions and result in restructuring costs, including costs related to hiring additional personnel as existing investment professionals are allocated to either side of such barriers, which may adversely affect our business.

Broker-dealer. AGS, an affiliate of ours, which is a broker-dealer registered with the SEC and a member of FINRA, is authorized to perform services relating to the placement of debt and securities. AGS also provides advisory services to portfolio companies and our funds in connection with corporate transactions. Additionally, certain of our affiliates and/or their portfolio companies are engaged in the loan origination and/or servicing businesses, and may originate, structure, arrange and/or place loans to our funds and portfolio companies. In connection with their services to our funds and portfolio companies, such affiliates may receive transaction and other fees from our funds and/or portfolio companies. Consequently, our relationship with these affiliates may give rise to conflicts of interest between us and portfolio companies of our funds.

Potential conflicts of interest with our Managing Partners or our directors. Pursuant to the terms of our operating agreement, whenever a potential conflict of interest exists or arises between any of the Managing Partners, one or more directors or their respective affiliates, on the one hand, and us, any of our subsidiaries or any shareholder other than a Managing Partner, on the other, any resolution or course of action by our board of directors shall be permitted and deemed approved by all shareholders if the resolution or course of action (i) has been specifically approved by a majority of the voting power of our outstanding voting shares (excluding voting shares owned by our manager or its affiliates) or by a conflicts committee of the board of directors composed entirely of one or more independent directors, (ii) is on terms no less favorable to us or our shareholders (other than a Managing Partner) than those generally being provided to or available from unrelated third parties or (iii) it is fair and reasonable to us and our shareholders taking into account the totality of the relationships between the parties involved. All conflicts of interest described in this report will be deemed to have been specifically approved by all shareholders. Notwithstanding the foregoing, it is possible that potential or perceived conflicts could give rise to investor dissatisfaction or litigation or regulatory enforcement actions.

Our Managing Partners have established family offices to provide investment advisory, accounting, administrative and other services to their respective family accounts (including certain charitable accounts) in connection with their personal investment activities. The investment activities of the family offices, and the involvement of the Managing Partners in these activities, could give rise to potential conflicts between the personal financial interests of the Managing Partners and the interests of us, any of our subsidiaries or any shareholder other than a Managing Partner.

Appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation which would materially adversely affect our businesses in a number of ways, including as a result of redemptions by our investors from our funds, an inability to raise additional funds and a reluctance of counterparties to do business with us. See "—Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our businesses."

Potential conflicts of interest with our manager. Our operating agreement contains provisions that waive or consent to conduct by our manager and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our operating agreement provides that when our manager is acting in its individual capacity, as opposed to in its capacity as our manager, it may act without any fiduciary obligations to us or our shareholders whatsoever. When our manager, in its capacity as our manager, is permitted to or required to make a decision in its "sole discretion" or "discretion" or that it deems "necessary or appropriate" or "necessary or advisable," then our manager will be entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any of our shareholders and will not be subject to any different standards imposed by our operating agreement, the Delaware Limited Liability Company Act or under any other law, rule or regulation or in equity.

Whenever a potential conflict of interest exists between us and our manager, our manager shall resolve such conflict of interest. If our manager determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our manager, then it will be presumed that in making this determination, our manager acted in good faith. A shareholder seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair. Such modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and our shareholders would have

recourse and be able to seek remedies against our manager only if our manager breaches its obligations pursuant to our operating agreement. Unless our manager breaches its obligations pursuant to our operating agreement, we and our unitholders would not have any recourse against our manager even if our manager were to act in a manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our operating agreement, our operating agreement provides that our manager and its officers and directors would not be liable to us or our shareholders for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the manager or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These provisions are detrimental to the shareholders because they restrict the remedies available to them for actions that without those limitations might constitute breaches of duty, including fiduciary duties.

Also, if our manager obtains the approval of the conflicts committee of the Company's board of directors, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our manager of any duties it may owe to us or our shareholders. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. If you purchase a Class A share, you will be treated as having consented to the provisions set forth in the operating agreement, including provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, shareholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee.

Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.

We intend, to the extent that market conditions warrant, to grow our businesses by increasing AUM in existing businesses and expanding into new investment strategies, geographic markets, businesses and distribution channels, including the retail channel. Our organizational documents, however, do not limit us to the investment management business. Accordingly, we may pursue growth through acquisitions of other investment management companies, acquisitions of critical business partners or other strategic initiatives, which may include entering into new lines of business, such as the insurance, broker-dealer or financial advisory industries. In addition, we expect opportunities will arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, undertake other strategic initiatives or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (i) the required investment of capital and other resources, (ii) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, (iii) the diversion of management's attention from our core businesses, (iv) assumption of liabilities of any acquired business, (v) the disruption of our ongoing businesses, (vi) combining or integrating operational and management systems and controls and (vii) the broadening of our geographic footprint, including the risks associated with conducting operations in foreign jurisdictions. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. For example, our planned business initiatives include offering additional registered investment products and creating investment products open to retail investors. These products may have different economic structures than our traditional investment funds and may require a different marketing approach. In addition, to the extent we distribute products through new channels, including through unaffiliated firms, we may not be able to effectively monitor or control the manner of their distribution. These activities also will impose additional compliance burdens on us, subject us to enhanced regulatory scrutiny and expose us to greater reputation and litigation risk. Further, these activities may give rise to conflicts of interest, related party transaction risks and may lead to litigation or regulatory scrutiny. If a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control.

Employee misconduct could harm us by impairing our ability to attract and retain investors and by subjecting us to significant legal liability, regulatory scrutiny and reputational harm. Fraud and other deceptive practices or other misconduct at our funds' portfolio companies could similarly subject us to liability and reputational damage and also harm our performance.

Our reputation is critical to maintaining and developing relationships with the investors in our funds, potential fund investors and third parties with whom we do business. In recent years, there have been a number of highly publicized cases involving fraud, conflicts of interest or other misconduct by individuals in the financial services industry. There is a risk that our employees could engage in misconduct that adversely affects our businesses. For example, if an employee were to engage in illegal or suspicious activities, we could be subject to regulatory sanctions and suffer serious harm to our reputation, financial position, investor relationships and ability to attract future investors. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases. Misconduct by our employees, or the employees of our

funds' portfolio companies, or even unsubstantiated allegations, could result in a material adverse effect on our reputation and our businesses.

In addition, we could also be adversely affected if there is misconduct by individuals associated with portfolio companies in which our funds invest. For example, failures by personnel, or individuals acting on behalf, of our funds' portfolio companies to comply with anti-bribery, trade sanctions or other legal and regulatory requirements could adversely affect our businesses and reputation. There are a number of grounds upon which such misconduct at a portfolio company could subject us to criminal and/or civil liability, including on the basis of actual knowledge, willful blindness, or control person liability. Such misconduct might also undermine our funds' due diligence efforts with respect to such companies and could negatively affect the valuation of a fund's investments.

Underwriting activities expose us to risks.

AGS may act as an underwriter in securities offerings. We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities or indebtedness we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to potential liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite.

The due diligence process that we undertake in connection with investments by our funds may not reveal all facts that may be relevant in connection with an investment.

Before making fund investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

Certain of our funds utilize special situation and distressed debt investment strategies that involve significant risks.

Our funds often invest in companies with weak financial conditions, poor operating results, substantial financial needs, negative net worth and/or special competitive or regulatory problems. These funds also invest in companies that are or are anticipated to be involved in bankruptcy or reorganization proceedings. In such situations, it may be difficult to obtain full information as to the exact financial and operating conditions of these companies. Additionally, the fair values of such investments are subject to abrupt and erratic market movements and significant price volatility if they are publicly traded securities, and are subject to significant uncertainty in general if they are not publicly traded securities. Furthermore, some of our funds' distressed investments may not be widely traded or may have no recognized market. A fund's exposure to such investments may be substantial in relation to the market for those investments, and the assets are likely to be illiquid and difficult to sell or transfer. As a result, it may take a number of years for the market value of such investments to ultimately reflect their intrinsic value as perceived by us, if at all.

Our distressed investment strategy depends in part on our ability to successfully predict the occurrence of certain corporate events, such as debt and/or equity offerings, restructurings, reorganizations, mergers, takeover offers and other transactions, that we believe will improve the condition of the business. If the corporate event we predict is delayed, changed or never completed, the market price and value of the applicable fund's investment could decline sharply.

In addition, these investments could subject us to certain potential additional liabilities that may exceed the value of our original investment. Under certain circumstances, payments or distributions on certain investments may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, a preferential payment or similar transaction under applicable bankruptcy and insolvency laws. In addition, under certain circumstances, a lender that has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated or disallowed, or may be found liable for damages suffered by parties as a result of such actions. In the case where the investment in securities of troubled companies is made in connection with an attempt to influence a restructuring proposal or plan of reorganization in bankruptcy, our funds may become involved in substantial litigation.

Risk management activities may adversely affect the return on our funds' investments.

When managing our exposure to market risks, we may (on our own behalf or on behalf of our funds) from time to time use forward contracts, options, swaps, caps, collars and floors or pursue other strategies or use other forms of derivative instruments

(OTC and otherwise) to limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates, currency exchange rates and commodity prices. The scope of risk management activities undertaken by us varies based on the level and volatility of interest rates, prevailing foreign currency exchange rates, the types of investments that are made and other changing market conditions. The use of hedging transactions and other derivative instruments to reduce the effects of a decline in the value of a position does not eliminate the possibility of fluctuations in the value of the position or prevent losses if the value of the position declines. Such transactions may also limit the opportunity for gain if the value of a position increases. Moreover, it may not be possible to limit the exposure to a market development that is so generally anticipated that a hedging or other derivative transaction cannot be entered into at an acceptable price. The success of any hedging or other derivative transaction generally will depend on our ability to correctly predict market changes, the degree of correlation between price movements of a derivative instrument and the position being hedged, the creditworthiness of the counterparty and other factors. As a result, while we may enter into such a transaction in order to reduce our exposure to market risks, the transaction may result in poorer overall investment performance than if it had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases.

While such hedging arrangements may reduce certain risks, such arrangements themselves may entail certain other risks. These arrangements may require the posting of cash collateral at a time when a fund has insufficient cash or illiquid assets such that the posting of the cash is either impossible or requires the sale of assets at prices that do not reflect their underlying value. Moreover, these hedging arrangements may generate significant transaction costs, including potential tax costs, that reduce the returns generated by a fund. Finally, the CFTC has made several public statements that it may soon issue a proposal for certain foreign exchange products to be subject to mandatory clearing, which could increase the cost of entering into currency hedges. Similar developments abroad may indirectly affect our funds as a result of their direct impact on our trading counterparties.

We often pursue investment opportunities that involve business, regulatory, legal or other complexities.

As an element of our investment style, we often pursue unusually complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that we believe may deter other investment managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could harm the performance of our funds.

Funds we manage may invest in assets denominated in currencies that differ from the currency in which the fund is denominated.

When our investment funds invest in assets denominated in currencies that differ from the currency that the relevant fund is denominated in, fluctuations in currency rates could impact fund performance. We also have a number of investment funds which are denominated in U.S. Dollars but invest primarily or exclusively in assets denominated in foreign currencies and therefore whose performance can be negatively impacted by strengthening of the U.S. Dollar even if the underlying investments perform well in local currency.

Our funds may employ hedging techniques to minimize these risks, but we can offer no assurance that such strategies will be effective or tax-efficient. If our funds engage in hedging transactions, we may be exposed to additional risks associated with such transactions.

Certain of our funds make investments in companies that we do not control.

Investments by certain of our funds include debt instruments, equity securities, and other financial instruments of companies that our funds do not control. Such investments may be acquired by our funds through trading activities or through purchases of securities or other financial instruments from the issuer. In addition, in the future, our funds may seek to acquire minority equity interests more frequently and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the funds retaining a minority investment. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our funds' interests. If any of the foregoing were to occur, the values of investments by our funds could decrease and our financial condition, results of operations and cash flow could suffer as a result.

Our funds may face risks relating to undiversified investments.

While diversification is generally an objective of many of our funds, we cannot give assurance as to the degree of diversification that will actually be achieved in any fund investments. For example, we manage AAA, and Athene Holding is AAA's only investment. Because a significant portion or all of a fund's capital may be invested in a single investment or portfolio company, a loss with respect to such an investment or portfolio company could have a significant adverse impact on such fund's

capital. Accordingly, a lack of diversification on the part of a fund could adversely affect its performance, which could have a material adverse effect on our business, financial condition and results of operations.

We have a strategic relationship with Athene from which we derive a significant contribution to our revenue and that could give rise to real or apparent conflicts of interest.

We currently derive a significant contribution to our revenue across our business segments from our investment in and strategic relationship with Athene. AAM, an indirect subsidiary of Apollo Global Management, LLC, receives investment management fees from Athene in exchange for a suite of services for Athene's investment portfolio. Through its subsidiaries, Apollo managed or advised $70.8 billion of AUM in accounts owned by or related to Athene as of December 31, 2016. Our investment management agreements with Athene are terminable under certain circumstances. If such investment management agreements were terminated or fees lowered it could have a material adverse effect on our business, results of operations and financial condition. In addition, Apollo had an approximate 8.9% economic ownership interest in Athene Holding as of December 31, 2016, which comprises Apollo's direct 8.0% economic ownership interest in Athene Holding plus its proportionate 0.9% economic ownership interest through certain of its related parties which invest in Athene. Fluctuations in the value of Athene could have an adverse effect on our results and financial condition.

A number of Apollo entities receive incentive fees from Athene, have investments in Athene, and manage funds or accounts with investments in Athene from which incentive income may be earned. Pursuant to the management of Athene's investment portfolio by AAM, Athene also invests in various Apollo-managed funds and entities. The Chairman, Chief Executive Officer and Chief Investment Officer of Athene is also an employee of AAM and five of Athene's 16 directors are employees of, or consultants to, Apollo. These persons have fiduciary duties to Athene in addition to the duties that they have to Apollo. As a result, there may be real or apparent conflicts of interest with respect to matters affecting Apollo, Apollo-managed funds and their portfolio companies and Athene. In addition, conflicts of interest could arise with respect to transactions involving business dealings between Apollo and Athene and their respective affiliates.

While we expect our strategic relationship with Athene to continue for the foreseeable future, there can be no assurance that the benefit we receive from Athene will not decline due to a disruption or decline in Athene's business or a change in our relationship with Athene, including our investment management agreements with Athene. Moreover, Athene is subject to significant regulatory oversight, changes to which may adversely affect its performance. We may be unable to replace a decline in the revenue that we derive from our investment in, and strategic relationship with, Athene on a timely basis or at all if our relationship with Athene were to change or if Athene were to experience a material adverse impact to its business.

Some of our funds invest in foreign countries and securities of issuers located outside of the United States, which may involve foreign exchange, political, social, economic and tax uncertainties and risks.

Some of our funds invest all or a portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States, including the U.K., Germany, China, India, Australia, Russia, Singapore, Spain, Portugal, Italy and France, as well as a number of jurisdictions commonly referred to as emerging markets. In addition to business uncertainties, such investments may be affected by changes in exchange rates as well as political, social and economic uncertainty affecting a country or region. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly with respect to bankruptcy and reorganization. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such companies.

Restrictions imposed or actions taken by foreign governments may adversely impact the value of our funds' investments. Such restrictions or actions could include exchange controls, seizure or nationalization of foreign deposits or other assets and adoption of other governmental restrictions that adversely affect the prices of securities or the ability to repatriate profits on investments or the capital invested itself. Income received by our funds from sources in some countries may be reduced by withholding and other taxes. Any such taxes paid by a fund will reduce the net income or return from such investments. Our fund investments could also expose us to risks associated with trade and economic sanctions prohibitions or other restrictions imposed by the United States or other governments or organizations, including the United Nations, the EU and its member countries, such as the sanctions against certain Russian entities and individuals. While our funds will take these factors into consideration in making investment decisions, including when hedging positions, our funds may not be able to fully avoid these risks or generate targeted risk-adjusted returns.

In addition, as a result of the complexity of, and lack of clear precedent or authority with respect to, the application of various income tax laws to our structures, the application of rules governing how transactions and structures should be reported is also subject to differing interpretations. For example, certain jurisdictions such as Australia, Canada, China, India, Spain, Portugal, Italy, France, Nicaragua and Hong Kong, where our funds have made investments, have sought to tax investment gains (including

those from real estate) derived by nonresident investors, including private equity funds, from the disposition of the equity in companies operating in those jurisdictions. In some cases this development is the result of new legislation or changes in the interpretation of existing legislation and local authority assertions that investors have a local taxable presence or are holding companies for trading purposes rather than for capital purposes, or are not otherwise entitled to treaty benefits. In addition, the tax authorities in certain jurisdictions have sought to deny the benefits of income tax treaties for withholding taxes on interest and dividends of nonresident entities, if the entity is not the beneficial owner of the income but rather a mere conduit company inserted primarily to access treaty benefits.

For example, under the laws of Hong Kong, profits arising in or derived from Hong Kong from a trade, profession or business carried on by a person or an agent acting on the person's behalf in Hong Kong (excluding profits arising from the sale of capital assets) are subject to Hong Kong profits tax in general. The current profits tax rate is generally 16.5% for corporations and 15% for unincorporated businesses. Although Hong Kong provides a profits tax exemption for offshore funds on profits derived from certain transactions, under the current tax law, transactions in securities of a private company do not benefit from this exemption unless they satisfy certain conditions. Therefore, offshore funds that make use of services of a fund manager, investment advisor or any other person acting on their behalf in Hong Kong to derive profits from transactions in securities of private companies may be subject to Hong Kong profits tax, if the prescribed conditions are not satisfied. There is no assurance that any investments under our structures will be exempt from profits tax under Hong Kong's tax law. It should be noted that offshore fund structures have been subject to scrutiny in recent tax audits by Hong Kong's Inland Revenue Department.

With respect to India, in 2012 the Supreme Court of India held in favor of a taxpayer finding that the sale of shares of a foreign company that indirectly held Indian assets was not subject to Indian tax. However, the tax laws were amended in 2012 with retroactive effect to subject such gains to Indian tax if the shares in the foreign company derived their value, substantially, from assets located in India. The amendments are known as indirect transfer provisions. In 2015, the government made amendments to the indirect transfer provisions to clarify that shares or interest in an entity outside India would be deemed to derive its value substantially from assets located in India if, on the specified date, the value of Indian assets exceeds INR 100 million and the Indian assets represent at least 50% of the value of the assets owned by the entity. There is also a carve-out introduced for small shareholders whereby indirect transfer provisions do not apply to an investor (along with its associated enterprises) who neither holds the right of management or control of the foreign entity, nor holds more than 5% voting power or share capital or interest of such entity in the 12 month period preceding the date of transfer of shares or interest. Additionally, the government also issued rules around the valuation methodology and the specified date for the purpose of these thresholds.

Further, India had introduced General Anti-Avoidance Rule (GAAR) provisions in its tax law in 2012 though these have been deferred since then and are now slated to be implemented from April 1, 2017 onwards. The objective of GAAR is to deny tax benefit in an arrangement which has been entered into with the main purpose to obtain tax benefit and which lacks commercial substance or creates rights and obligations which are not at arm's length principle or results in misuse of tax law provisions or is carried out by means or in a manner which are not ordinarily employed for bona fide purposes. Such an arrangement is termed in the GAAR provisions as "impermissible avoidance agreement". As regards foreign investors, GAAR provisions would mainly impact those investors who claim treaty benefits to eliminate or minimize tax outlay in India. Acceding to the representations made by the foreign investors and other stakeholders, the Indian government has clarified that GAAR provisions would not apply in the following cases:

- an arrangement where tax benefit in a fiscal year in aggregate to all the concerned parties does not exceed INR 30 million;
- investments made by Foreign Portfolio Investors (FPIs) in India on which no treaty benefits have been claimed;
- investments made by non-resident investors in the FPIs by way of offshore derivative instruments or any other way; or
- investments made by any investor prior to April 2017.

Accordingly, Indian taxation of the capital gains of a foreign investor, upon a direct or indirect sale of an Indian company, remains uncertain.

The U.K. has also enacted legislation that may affect our funds' investments. The U.K. Diverted Profits Tax ("DPT") regime was introduced with effect from April 1, 2015 as a new tax separate from the U.K.'s existing Corporate Income Tax regime. DPT charges a rate of 25% on profits that, under the terms of the legislation, are considered to have been eroded from the U.K. tax base. The DPT legislation is intended to counteract and deter contrived arrangements used by multinational corporate groups which, it is argued, have resulted in the erosion of the U.K. tax base. DPT operates through two main rules: (i) the first rule aims to prevent U.K. tax resident companies ("U.K. PEs") from creating tax advantages through transacting with entities that lack economic substance; and (ii) the second rule aims to counteract arrangements by which foreign companies sell into the U.K. whilst avoiding the creation of a U.K. PE. The legislation is worded so that where it is "reasonable to assume" a U.K. company is party to an arrangement that lacks economic substance and which results in a tax advantage in the U.K., or where it is "reasonable to

assume" the activity of the involved parties is designed in such a way as to avoid a U.K. PE, DPT could apply. Further, the U.K. enacted hybrid and other mismatch legislation on September 15, 2016. The rules replace the existing U.K. arbitrage rules as from January 1, 2017. The U.K. tax authorities published draft guidance on the application of the rules in December 2016. The U.K. clauses broadly follow the recommendations of the OECD's BEPS Action 2 - Neutralizing the Effects of Hybrid Mismatch Arrangements. However, uncertainty remains around what, if anything, other countries outside the U.K. will do, and it may be necessary to consider various scenarios when applying the imported mismatch rules.

The U.K. has implemented Tax Transparency legislation that requires many large businesses to publish their U.K. tax strategies on their websites before the end of each financial year for accounting periods beginning on or after the date of Royal Assent to the Finance Act 2016. Apollo's U.K. entities must comply prior to December 31, 2017. As part of the requirement, organizations must publish information on risk management and governance, planning, risk appetite and their approach to HMRC. HMRC guidance recommends specific content under the four headings that expand beyond the base legislative requirements. During the course of 2017, the U.K. is expected to implement a new corporate criminal offense for the facilitation of tax evasion. Current draft law and guidance is extremely wide and covers offenses committed both in the U.K. and abroad and so is likely to have a global impact for Apollo's businesses. Criminal liability can be mitigated where a relevant business has appropriate policies and procedures in place to manage the risk.

Third-party investors in our funds have the right under certain circumstances to terminate commitment periods or to dissolve the funds, and investors in some of our credit funds may redeem their investments in such funds at any time after an initial holding period. These events would lead to a decrease in our revenues, which could be substantial.

The governing agreements of certain of our funds allow the investors of those funds to, among other things, (i) terminate the commitment period of the fund in the event that certain "key persons" (for example, one or more of our Managing Partners and/or certain other investment professionals) fail to devote the requisite time to managing the fund, (ii) (depending on the fund) terminate the commitment period, dissolve the fund or remove the general partner if we, as general partner or manager, or certain "key persons" engage in certain forms of misconduct, or (iii) dissolve the fund or terminate the commitment period upon the affirmative vote of a specified percentage of limited partner interests entitled to vote. Each of Fund VI, Fund VII and Fund VIII, on which our near- to medium-term performance will heavily depend, include a number of such provisions. COF III, EPF II, EPF III and certain other credit funds have similar provisions. Also, after undergoing the 2007 Reorganization, subsequent to which we deconsolidated certain funds that had historically been consolidated in our financial statements, we amended the governing documents of our funds at that time to provide that a simple majority of a fund's unaffiliated investors have the right to liquidate that fund. In addition to having a significant negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our funds would likely result in significant reputational damage to us.

Investors in some of our credit funds may also generally redeem their investments on an annual, semiannual or quarterly basis following the expiration of a specified period of time when capital may not be redeemed (typically between one and five years). Fund investors may decide to move their capital away from us to other investments for any number of reasons in addition to poor investment performance. Factors which could result in investors leaving our funds include changes in interest rates that make other investments more attractive, poor investment performance, changes in investor perception regarding our focus or alignment of interest, unhappiness with changes in or broadening of a fund's investment strategy, changes in our reputation and departures or changes in responsibilities of key investment professionals. In a declining market, the pace of redemptions and consequent reduction in our AUM could accelerate. The decrease in revenues that would result from significant redemptions in these funds could have a material adverse effect on our businesses, revenues, net income and cash flows.

In addition, the management agreements of all of our funds would be terminated upon an "assignment," without the requisite consent, of these agreements, which may be deemed to occur in the event the investment advisors of our funds were to experience a change of control. We cannot be certain that consents required to assign our investment management agreements will be obtained if a change of control occurs. In addition, with respect to our publicly traded closed-end funds, each fund's investment management agreement must be approved annually by the independent members of such fund's board of directors and, in certain cases, by its shareholders, as required by law. Termination of these agreements would cause us to lose the fees we earn from such funds.

Our financial projections for portfolio companies and other fund investments could prove inaccurate.

Our funds generally establish the capital structure of portfolio companies and certain other fund investments, including real estate investments, on the basis of financial projections for such investments. These projected operating results will normally be based primarily on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. General economic conditions, which are not predictable, along with other factors may cause actual performance to fall short of the financial projections we used to establish a given investment's capital structure. Because of the leverage we typically employ in our fund investments, this could cause a substantial decrease in

the value of the equity holdings of our funds in such investments. The inaccuracy of financial projections could thus cause our funds' performance to fall short of our expectations.

Our funds' performance, and our performance, may be adversely affected by the financial performance of our funds' portfolio companies and the industries in which our funds invest.

Our performance and the performance of our private equity funds, as well as many of our credit and real estate funds, are significantly affected by the value of the companies in which our funds have invested. Our funds invest in companies in many different industries, each of which is subject to volatility based upon a variety of factors, including economic and market factors. The credit crisis caused significant fluctuations in the value of securities held by our funds, and the global economic recession had a significant impact on the performance of the portfolio companies owned by the funds we manage. Although the U.S. economy has improved, conditions in economies outside the U.S. have generally improved at a less rapid pace (and in some cases have deteriorated), and there remain many obstacles to continued growth in the economy such as global geopolitical events, risks of inflation and high deficit levels for governments in the U.S. and abroad. These factors and other general economic trends may impact the performance of portfolio companies in many industries and in particular, industries that are more impacted by changes in consumer demand, such as the packaging, manufacturing, energy, chemical and refining industries, as well as travel and leisure, gaming, financial services and real estate industries. The performance of our funds, and our performance, may be adversely affected to the extent our fund portfolio companies in these industries experience adverse performance or additional pressure due to downward trends. For example, the performance of certain of the portfolio companies of our funds in the packaging, manufacturing, energy, chemical and refining industries is subject to the cyclical and volatile nature of the supply-demand balance in these industries. These industries historically have experienced alternating periods of capacity shortages leading to tight supply conditions, causing prices and profit margins to increase, followed by periods when substantial capacity is added, resulting in oversupply, declining capacity utilization rates and declining prices and profit margins. In addition to changes in the supply and demand for products, the volatility these industries experience occurs as a result of changes in energy prices, costs of raw materials and changes in various other economic conditions around the world.

The performance of our funds' investments in the commodities markets is also subject to a high degree of business and market risk, as it is substantially dependent upon prevailing prices of oil and natural gas. Certain of our funds have investments in businesses involved in oil and gas exploration and development, which can be a speculative business involving a high degree of risk, including: the volatility of oil and natural gas prices; the use of new technologies; reliance on estimates of oil and gas reserves in the evaluation of available geological, geophysical, engineering and economic data; and encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures and other accidents in completing wells and otherwise, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, fires, spills and other environmental risks. Prices for oil and natural gas have not recovered since their significant decrease in the latter part of 2014 and throughout 2015, and there can be no assurance that prices will recover. If prices remain at their current level for an extended period of time, there could be an adverse impact on the performance of certain of our funds, and this impact may be material. These prices are also subject to wide fluctuation in response to relatively minor changes in the supply and demand for oil and natural gas, market uncertainty and a variety of additional factors that are beyond our control, such as level of consumer product demand, the refining capacity of oil purchasers, weather conditions, government regulations, the price and availability of alternative fuels, political conditions, foreign supply of such commodities and overall economic conditions. It is common in making investments in the commodities markets to deploy hedging strategies to protect against pricing fluctuations but such strategies may or may not be employed by us or our funds' portfolio companies, and even when they are employed they may not protect our funds' investments.

Our funds' investments in companies in the financial services sector are subject to a variety of factors, such as market uncertainty, additional government regulations, disclosure requirements, limits on fees, increasing borrowing costs or limits on the terms or availability of credit to such portfolio companies, and other regulatory requirements each of which may impact the conduct of such portfolio companies. Compliance with changing regulatory requirements will likely impose staffing, legal, compliance and other costs and administrative burdens upon our funds' investments in financial services. Various sectors of the global financial markets have been experiencing an extended period of adverse conditions.

In respect of real estate, even though the U.S. residential real estate market remains stable after recovering from a lengthy and deep downturn, various factors could halt or limit a recovery in the housing market and have an adverse effect on the performance of certain of our funds' investments, including, but not limited to, rising mortgage interest rates and a low level of consumer confidence in the economy and/or the residential real estate market.

In addition, our funds' investments in commercial mortgage loans and other commercial real-estate related loans are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with mortgage loans made on the security of residential properties. If the net operating income of the commercial property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of a commercial property can be affected by various factors, such

as success of tenant businesses, property management decisions, competition from comparable types of properties and declines in regional or local real estate values and rental or occupancy rates.

Our credit funds are subject to numerous additional risks.

Our credit funds are subject to numerous additional risks, including the risks set forth below.

- Generally, there may be few limitations on the execution of these funds' investment strategies, which are in many cases subject to the sole discretion of the management company or the general partner of such funds, or there may be numerous investment limitations or restrictions that require monitoring, compliance and maintenance.
- While we monitor the concentration of the portfolios of our credit funds, concentration in any one borrower or other issuer, product category, industry, region or country may arise from time to time.
- Given the flexibility and overlapping nature of the mandates and investment strategies of our credit funds, situations arise where certain of these funds hold (including outright positions in issuers and exposure to such issuers derived through any synthetic and/or derivative instrument) in multiple tranches of securities of an issuer (or other interests of an issuer) or multiple funds having interests in the same tranche of an issuer.
- Certain of these funds may engage in short-selling, which is subject to a theoretically unlimited risk of loss.
- These funds are exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss.
- Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their respective liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions.
- The efficacy of the investment and trading strategies of certain credit funds may depend largely on the ability to establish and maintain an overall market position in a combination of different financial instruments, which can be difficult to execute.
- These funds may make investments or hold trading positions in markets that are volatile and which are or may become illiquid.
- Certain of these funds may seek to originate loans, including, but not limited to, secured and unsecured notes, senior and second lien loans, mezzanine loans, and other similar investments.
- These funds' investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to a theoretically unlimited risk of loss in certain circumstances.

Fraud and other deceptive practices could harm fund performance and our performance.

Instances of bribery, fraud and other deceptive practices committed by senior management of portfolio companies in which an Apollo fund invests may undermine our due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of a fund's investments. Fraud or other deceptive practices by our own employees or advisors could have a similar effect on fund performance and our performance. In addition, when discovered, financial fraud may contribute to reputational harm and overall market volatility that can negatively impact an Apollo fund's investment program. As a result, instances of bribery, fraud and other deceptive practices could result in performance that is poorer than expected.

Contingent liabilities could harm fund performance.

We may cause our funds to acquire an investment that is subject to contingent liabilities. Such contingent liabilities could be unknown to us at the time of acquisition or, if they are known to us, we may not accurately assess or protect against the risks that they present. Acquired contingent liabilities could thus result in unforeseen losses for our funds. In addition, in connection with the disposition of an investment in a portfolio company, a fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. A fund may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities by a fund, even after the disposition of an investment. Accordingly, the inaccuracy of representations and warranties made by a fund could harm such fund's performance.

Our funds may be forced to dispose of investments at a disadvantageous time.

Our funds may make investments that they do not advantageously dispose of prior to the date the applicable fund is dissolved, either by expiration of such fund's term or otherwise. Although we generally expect that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, and the general partners of the funds generally have a limited ability to extend the term of the fund with the consent of fund investors or the advisory board of the fund, as applicable,

our funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. This would result in a lower than expected return on the investments and, perhaps, on the fund itself.

Regulations governing AINV's operation as a business development company affect its ability to raise, and the way in which it raises, additional capital.

As a business development company under the Investment Company Act, AINV may issue debt securities or preferred stock and borrow money from banks or other financial institutions, which we refer to collectively as "senior securities," up to the maximum amount permitted by the Investment Company Act. Under the provisions of the Investment Company Act, AINV is permitted to issue senior securities only in amounts such that its asset coverage, as defined in the Investment Company Act, equals at least 200% after each issuance of senior securities. Further, if the value of its assets declines, it may be unable to satisfy this test and it may be limited in its ability to make distributions. If that happens, it may be required to sell a portion of its investments and, depending on the nature of its leverage, repay a portion of its indebtedness at a time when such sales may be disadvantageous.

Business development companies may issue and sell common stock at a price below net asset value per share only in limited circumstances, one of which is during the one-year period after shareholder approval. AINV's shareholders have, in the past, approved a plan so that during the subsequent 12-month period, AINV may, in one or more public or private offerings of its common stock, sell or otherwise issue shares of its common stock at a price below the then current net asset value per share, subject to certain conditions including parameters on the number of shares sold on any given date, approval of the sale by a majority of its independent directors and a requirement that the sale price be not less than approximately the market price of the shares of its common stock at specified times, less underwriting commissions and discounts. AINV may ask its shareholders for additional approvals from year to year. There is no assurance such approvals will be obtained.

Regulations governing AFT's and AIF's operation affect their ability to raise, and the way in which they raise, additional capital.

As investment companies registered under the Investment Company Act, AFT and AIF may issue debt securities or preferred stock and borrow money from banks or other lenders, up to the maximum amount permitted by the Investment Company Act. Under the provisions of the Investment Company Act, AFT and AIF is restricted in the (i) issuance of preferred shares to amounts such that their respective asset coverage (as defined in Section 18 of the Investment Company Act) equals at least 200% after issuance and (ii) incurrence of indebtedness, including through the issuance of debt securities, such that immediately after issuance the fund will have an asset coverage (as defined in Section 18 of the Investment Company Act) of at least 300%. Lenders to the funds may demand higher asset coverage ratios. Further, if the value of a funds' assets declines, such fund may be unable to satisfy its asset coverage requirements. If that happens, such fund, in order to pay dividends or repurchase its stock or to satisfy the requirements of its lenders, may be required to sell a portion of its investments and, depending on the nature of its leverage, repay a portion of its indebtedness at a time when such sales may be disadvantageous. Further, AFT and AIF may raise capital by issuing common shares, however, the offering price per common share generally must equal or exceed the net asset value per share, exclusive of any underwriting commissions or discounts, of the funds' shares.

Risks Related to Our Class A Shares

The market price and trading volume of our Class A shares may be volatile, which could result in rapid and substantial losses for our shareholders.

The market price of our Class A shares may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our Class A shares may fluctuate and cause significant price variations to occur. You may be unable to resell your Class A shares at or above your purchase price, if at all. The market price of our Class A shares may fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of our Class A shares or result in fluctuations in the price or trading volume of our Class A shares include:

- variations in our quarterly operating results or distributions, which variations we expect will be substantial;
- our policy of taking a long-term perspective on making investment, operational and strategic decisions, which is expected to result in significant and unpredictable variations in our quarterly returns;
- failure to meet analysts' earnings estimates;
- publication of research reports about us or the investment management industry or the failure of securities analysts to cover our Class A shares;
- additions or departures of our Managing Partners and other key management personnel;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- actions by shareholders;
- changes in market valuations of similar companies;
- speculation in the press or investment community;

- changes or proposed changes in laws or regulations or differing interpretations thereof affecting our businesses or enforcement of these laws and regulations, or announcements relating to these matters;
- a lack of liquidity in the trading of our Class A shares;
- adverse publicity about the investment management industry generally or individual scandals, specifically;
- the fact that we do not provide comprehensive guidance regarding our expected quarterly and annual revenues, earnings and cash flow; and
- general market and economic conditions.

In addition, from time to time, management may also declare special quarterly distributions based on investment realizations. Volatility in the market price of our Class A shares may be heightened at or around times of investment realizations as well as following such realizations, as a result of speculation as to whether such a distribution may be declared.

An investment in Class A shares is not an investment in any of our funds, and the assets and revenues of our funds are not directly available to us.

Class A shares are securities of Apollo Global Management, LLC only. While our historical consolidated and combined financial information includes financial information, including assets and revenues of certain Apollo funds on a consolidated basis, and our future financial information will continue to consolidate certain of these funds, such assets and revenues are available to the fund and not to us except through management fees, incentive income, distributions and other proceeds arising from agreements with funds, as discussed in more detail in this report.

Our Class A share price may decline due to the large number of shares eligible for future sale and for exchange into Class A shares.

The market price of our Class A shares could decline as a result of sales of a large number of our Class A shares or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. As of December 31, 2016, we had 185,460,294 Class A shares outstanding. The Class A shares reserved under our equity incentive plan are increased on the first day of each fiscal year by (i) the amount (if any) by which (a) 15% of the number of outstanding Class A shares and Apollo Operating Group units ("AOG Units") exchangeable for Class A shares on a fully converted and diluted basis on the last day of the immediately preceding fiscal year exceeds (b) the number of shares then reserved and available for issuance under the Equity Plan, or (ii) such lesser amount by which the administrator may decide to increase the number of Class A shares. Taking into account grants of restricted share units ("RSUs") and options made through December 31, 2016, 45,230,529 Class A shares remained available for future grant under our equity incentive plan. In addition, as of December 31, 2016, Holdings could at any time exchange its AOG Units for up to 215,457,239 Class A shares on behalf of our Managing Partners and Contributing Partners subject to the Amended and Restated Exchange Agreement. See "Item 13. Certain Relationships and Related Party Transactions—Amended and Restated Exchange Agreement." We may also elect to sell additional Class A shares in one or more future primary offerings.

Our Managing Partners and Contributing Partners, through their partnership interests in Holdings, owned an aggregate of 53.7% of the AOG Units as of December 31, 2016. Subject to certain procedures and restrictions (including any transfer restrictions and lock-up agreements applicable to our Managing Partners and Contributing Partners), each Managing Partner and Contributing Partner has the right, upon 60 days' notice prior to a designated quarterly date, to exchange the AOG Units for Class A shares. These Class A shares are eligible for resale from time to time, subject to certain contractual restrictions and applicable securities laws.

Our Managing Partners and Contributing Partners (through Holdings) have the ability to cause us to register the Class A shares they acquire upon exchange of their AOG Units, as was done in connection with the Company's Secondary Offering in May 2013. See "Item 13. Certain Relationships and Related Party Transactions—Managing Partner Shareholders Agreement- Registration Rights."

The Strategic Investors have the ability to cause us to register any of their non-voting Class A shares, as was done in connection with the Company's Secondary Offering in May 2013. See "Item 13. Certain Relationships and Related Party Transactions—Lenders Rights Agreement."

We have on file with the SEC a registration statement on Form S-8 covering the shares issuable under our equity incentive plan. Subject to vesting and contractual lock-up arrangements, such shares will be freely tradable.

We cannot assure you that our intended quarterly distributions will be paid each quarter or at all.

Our intention is to distribute to our Class A shareholders on a quarterly basis substantially all of our net after-tax cash flow from operations in excess of amounts determined by our manager to be necessary or appropriate to provide for the conduct

of our businesses, to make appropriate investments in our businesses and our funds, to comply with applicable laws and regulations, to service our indebtedness or to provide for future distributions to our Class A shareholders for any ensuing quarter. The declaration, payment and determination of the amount of our quarterly distribution, if any, will be at the sole discretion of our manager, who may change our distribution policy at any time. We cannot assure you that any distributions, whether quarterly or otherwise, will or can be paid. In making decisions regarding our quarterly distribution, our manager considers general economic and business conditions, our strategic plans and prospects, our businesses and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, legal, tax, regulatory and other restrictions that may have implications on the payment of distributions by us to our Class A shareholders or by our subsidiaries to us, and such other factors as our manager may deem relevant.

Our Managing Partners' beneficial ownership of interests in the Class B share that we have issued to BRH Holdings GP, Ltd. ("BRH"), the control exercised by our manager and anti-takeover provisions in our charter documents and Delaware law could delay or prevent a change in control.

Our Managing Partners, through their ownership of BRH, beneficially own the Class B share that we have issued to BRH. The Managing Partners interests in such Class B share represented 60.5% of the total combined voting power of our shares entitled to vote as of December 31, 2016. As a result, they are able to exercise control over all matters requiring the approval of shareholders and are able to prevent a change in control of our company. In addition, our operating agreement provides that so long as the Apollo control condition (as described in "Item 10. Directors, Executive Officers and Corporate Governance—Our Manager") is satisfied, our manager, which is owned and controlled by our Managing Partners, manages all of our operations and activities. The control of our manager will make it more difficult for a potential acquirer to assume control of our Company. Other provisions in our operating agreement may also make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our shareholders. For example, our operating agreement requires advance notice for proposals by shareholders and nominations, places limitations on convening shareholder meetings, and authorizes the issuance of preferred shares that could be issued by our board of directors to thwart a takeover attempt. In addition, certain provisions of Delaware law give us the ability to delay or prevent a transaction that could cause a change in our control. The market price of our Class A shares could be adversely affected to the extent that our Managing Partners' control over our Company, the control exercised by our manager as well as provisions of our operating agreement discourage potential takeover attempts that our shareholders may favor.

We are a Delaware limited liability company, and there are certain provisions in our operating agreement regarding exculpation and indemnification of our officers and directors that differ from the Delaware General Corporation Law (DGCL) in a manner that may be less protective of the interests of our Class A shareholders.

Our operating agreement provides that to the fullest extent permitted by applicable law our directors or officers will not be liable to us. However, under the DGCL, a director or officer would be liable to us for (i) breach of duty of loyalty to us or our shareholders, (ii) intentional misconduct or knowing violations of the law that are not done in good faith, (iii) improper redemption of shares or declaration of dividend, or (iv) a transaction from which the director derived an improper personal benefit. In addition, our operating agreement provides that we indemnify our directors and officers for acts or omissions to the fullest extent provided by law. However, under the DGCL, a corporation can indemnify directors and officers for acts or omissions only if the director or officer acted in good faith, in a manner he reasonably believed to be in the best interests of the corporation, and, in criminal action, if the officer or director had no reasonable cause to believe his conduct was unlawful. Accordingly, our operating agreement may be less protective of the interests of our Class A shareholders, when compared to the DGCL, insofar as it relates to the exculpation and indemnification of our officers and directors.

Awards of our Class A shares may increase shareholder dilution and reduce profitability.

We grant Class A restricted share units to certain of our investment professionals and other personnel, both when hired and as a portion of the discretionary annual compensation they may receive. We require that a portion of the incentive income distributions payable by the general partners of certain of the funds we manage be used by the recipients of those distributions to purchase restricted Class A shares issued under our equity incentive plan. While this practice promotes alignment with shareholders and encourages investment professionals to maximize the success of the Company as a whole, these equity awards, if fulfilled by issuances of new shares by us rather than by open market purchases (which do not cause any dilution), may increase personnel-related shareholder dilution. In addition, volatility in the price of our Class A shares could adversely affect our ability to attract and retain our investment professionals and other personnel. To recruit and retain existing and future investment professionals, we may need to increase the level of compensation that we pay to them, which may cause a higher percentage of our revenue to be paid out in the form of compensation, which would have an adverse impact on our profit margins.

Purchases of our Class A shares pursuant to our share repurchase program may affect the value of our Class A shares, and there can be no assurance that our share repurchase program will enhance shareholder value.

Pursuant to our publicly announced share repurchase program, we are authorized to repurchase up to $250 million in the aggregate of our Class A shares, including up to $150 million in the aggregate of our outstanding Class A shares through a share repurchase program and up to $100 million through a reduction of Class A shares to be issued to employees to satisfy associated tax obligations in connection with the settlement of equity-based awards granted under the our equity incentive plan. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors. This activity could increase (or reduce the size of any decrease in) the market price of our Class A shares at that time. Additionally, repurchases under our share repurchase program have and will continue to diminish our cash reserves, which could impact our ability to pursue possible strategic opportunities and acquisitions and could result in lower overall returns on our cash balances. There can be no assurance that any share repurchases will enhance shareholder value because the market price of our Class A shares could decline. Although our share repurchase program is intended to enhance long-term shareholder value, short-term share price fluctuations could reduce the program's effectiveness.

Risks Related to Our Organization and Structure

Although not enacted, the U.S. Congress has considered legislation that would have: (i) in some cases after a ten-year transition period, precluded us from qualifying as a partnership or required us to hold incentive income through taxable corporations; and (ii) taxed certain income and gains at increased rates. If similar legislation were to be enacted and apply to us, the value of our Class A shares could be adversely affected.

The U.S. Congress, the IRS and the U.S. Treasury Department have over the past several years examined the U.S. Federal income tax treatment of private equity funds, hedge funds and other kinds of investment partnerships. The present U.S. Federal income tax treatment of a holder of Class A shares and/or our own taxation may be adversely affected by any new legislation, new regulations or revised interpretations of existing tax law that arise as a result of such examinations. In May 2010, the U.S. House of Representatives passed legislation (the "May 2010 House Bill") that would have, in general, treated income and gains, including gain on sale, attributable to an interest in an investment services partnership interest ("ISPI") as income subject to a new blended tax rate that is higher than under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. The interests of Class A shareholders and our interests in the Apollo Operating Group that are entitled to receive incentive income may be classified as ISPIs for purposes of this legislation. The United States Senate considered, but did not pass, similar legislation. On February 14, 2012, Representative Levin (D-MI) introduced similar legislation that would have taxed incentive income at ordinary income rates (which would be higher than the proposed blended rate in the May 2010 House Bill). On June 25, 2015. Representative Levin introduced a slightly modified version of his 2012 bill (together with the 2012 bill, the "Levin Bills"). It is unclear whether or when the U.S. Congress will pass similar legislation or what provisions would be included in any legislation, if enacted.

The May 2010 House Bill and both Levin Bills provide that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is treated as ordinary income under the rules discussed above would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. Federal income tax purposes or be required to hold all such ISPIs through corporations, possibly U.S. corporations. If we were taxed as a U.S. corporation or required to hold all ISPIs through corporations, our effective tax rate would increase significantly. The federal statutory rate for corporations is currently 35%, but it is possible that the 35% statutory rate may be reduced as part of broader tax reform. In addition, we could be subject to increased state and local taxes. Furthermore, holders of Class A shares could be subject to tax on our conversion into a corporation or any restructuring required in order for us to hold our ISPIs through a corporation.

On September 12, 2011, the Obama administration submitted similar legislation to Congress in the American Jobs Act that would have taxed income and gain that was treated as capital gains, including gain on disposition of interests attributable to an ISPI, at rates higher than the capital gains rate applicable to such income under then-current law, with an exception for certain qualified capital interests. The proposed legislation also would have characterized certain income and gain in respect of ISPIs as non-qualifying income under the publicly traded partnership rules after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. This proposed legislation followed several prior statements by the Obama administration in support of changing the taxation of incentive income. In its published revenue proposal for 2016, the Obama administration proposed that the current law regarding treatment of incentive income be changed to subject such income to ordinary income tax. The Obama administration's published revenue proposals for 2010, 2011, 2012, 2013, 2014 and 2015 contained similar proposals. According to publicly released statements, a top legislative priority of the Trump administration and the next Congress may be significant reform of the Internal Revenue Code, including significant changes to taxation of business entities. There is a substantial lack of clarity around the likelihood, timing and details of any such tax reform and the impact of any potential tax reform on us and our funds.

States and other jurisdictions have also considered legislation to increase taxes with respect to incentive income. For example, New York has periodically considered legislation under which non-residents of New York could be subject to New York state income tax on income in respect of our Class A shares as a result of certain activities of our affiliates in New York, although it is unclear when or whether such legislation would be enacted.

On February 26, 2014, Representative Dave Camp, who at the time was chairman of the House Ways and Means Committee, unveiled a detailed comprehensive tax reform proposal that would, among other things significantly limit the ability of publicly traded partnerships (PTPs) to avoid taxation as corporations. Under Representative Camp's proposal, only mining and natural resource PTPs would continue to be taxed on a flow-through basis. Representative Camp's proposal also called for a formulary approach to the taxation of incentive income. Under the formula, a portion of the gain recognized by partners providing services to certain investment partnerships would have been recharacterized as ordinary income. Representative Camp's incentive income proposal was limited in scope. For instance, it would not have applied to partners engaged in a real property trade or business. Although relatively clear in concept, the proposed legislative text contained ambiguities that could have significantly impacted the reach of the chairman's proposal. Representative Camp has since retired from Congress and his proposal was never taken up on the House floor; however, it is nonetheless significant in that it could serve as a model for a future Congress and presidential administration as they attempt to move forward on comprehensive tax reform legislation. For additional discussion about the potential impact of tax reform on our businesses, see "—Federal tax reform efforts will continue, which may involve uncertainties and risks," below.

Our shareholders do not elect our manager or vote and have limited ability to influence decisions regarding our businesses.

So long as the Apollo control condition is satisfied, our manager, AGM Management, LLC, which is owned and controlled by our Managing Partners, will manage all of our operations and activities. AGM Management, LLC is managed by BRH, a Cayman entity owned by our Managing Partners and managed by an executive committee composed of our Managing Partners. Our shareholders do not elect our manager, its manager or its manager's executive committee and, unlike the holders of common stock in a corporation, have only limited voting rights on matters affecting our businesses and therefore limited ability to influence decisions regarding our businesses. Furthermore, if our shareholders are dissatisfied with the performance of our manager, they will have little ability to remove our manager. As discussed below, the Managing Partners collectively had 60.5% of the voting power of Apollo Global Management, LLC as of December 31, 2016. Therefore, they have the ability to control any shareholder vote that occurs, including any vote regarding the removal of our manager.

Our board of directors has no authority over our operations other than that which our manager has chosen to delegate to it.

For so long as the Apollo control condition is satisfied, our manager, which is owned and controlled by our Managing Partners, manages all of our operations and activities, and our board of directors has no authority other than that which our manager chooses to delegate to it. In the event that the Apollo control condition is not satisfied, our board of directors will manage all of our operations and activities.

For so long as the Apollo control condition is satisfied, our manager (i) nominates and elects all directors to our board of directors, (ii) sets the number of directors of our board of directors and (iii) fills any vacancies on our board of directors. After the Apollo control condition is no longer satisfied, each of our directors will be elected by the vote of a plurality of our shares entitled to vote, voting as a single class, to serve until his or her successor is duly elected or appointed and qualified or until his or her earlier death, retirement, disqualification, resignation or removal.

Control by our Managing Partners of the combined voting power of our shares and holding their economic interests through the Apollo Operating Group may give rise to conflicts of interests.

Our Managing Partners controlled 60.5% of the combined voting power of our shares entitled to vote as of December 31, 2016. Accordingly, our Managing Partners have the ability to control our management and affairs to the extent not controlled by our manager. In addition, they are able to determine the outcome of all matters requiring shareholder approval (such as a proposed sale of all or substantially of our assets, the approval of a merger or consolidation involving the company, and an election by our manager to dissolve the company) and are able to cause or prevent a change of control of our company and could preclude any unsolicited acquisition of our company. The control of voting power by our Managing Partners could deprive Class A shareholders of an opportunity to receive a premium for their Class A shares as part of a sale of our company, and might ultimately affect the market price of the Class A shares.

In addition, our Managing Partners and Contributing Partners, through their beneficial ownership of partnership interests in Holdings, were entitled to 53.7% of Apollo Operating Group's economic returns through the AOG Units owned by Holdings as of December 31, 2016. Because they hold their economic interest in our businesses directly through the Apollo Operating Group, rather than through the issuer of the Class A shares, our Managing Partners and Contributing Partners may have conflicting interests with holders of Class A shares. For example, our Managing Partners and Contributing Partners may have different tax positions

from us, which could influence their decisions regarding whether and when to dispose of assets, and whether and when to incur new or refinance existing indebtedness, especially in light of the existence of the tax receivable agreement. For a description of the tax receivable agreement, see “Item 13. Certain Relationships and Related Party Transactions—Amended and Restated Tax Receivable Agreement.” In addition, the structuring of future transactions may take into consideration the Managing Partners’ and Contributing Partners’ tax considerations even where no similar benefit would accrue to us.

We qualify for, and rely on, exceptions from certain corporate governance and other requirements under the rules of the NYSE.

We qualify for exceptions from certain corporate governance and other requirements under the rules of the NYSE. Pursuant to these exceptions, we may elect not to comply with certain corporate governance requirements of the NYSE, including the requirements (i) that a majority of our board of directors consist of independent directors, (ii) that we have a nominating/corporate governance committee that is composed entirely of independent directors and (iii) that we have a compensation committee that is composed entirely of independent directors. In addition, we are not required to hold annual meetings of our shareholders. Pursuant to the exceptions available to a controlled company under the rules of the NYSE, we have elected not to have a nominating and corporate governance committee comprised entirely of independent directors, nor a compensation committee comprised entirely of independent directors. Although we currently have a board of directors comprised of a majority of independent directors, we plan to continue to avail ourselves of these exceptions. Accordingly, you will not have the same protections afforded to equity holders of entities that are subject to all of the corporate governance requirements of the NYSE.

Potential conflicts of interest may arise among our manager, on the one hand, and us and our shareholders on the other hand. Our manager and its affiliates have limited fiduciary duties to us and our shareholders, which may permit them to favor their own interests to the detriment of us and our shareholders.

Conflicts of interest may arise among our manager, on the one hand, and us and our shareholders, on the other hand. As a result of these conflicts, our manager may favor its own interests and the interests of its affiliates over the interests of us and our shareholders. These conflicts include, among others, the conflicts described below.

- Our manager determines the amount and timing of our investments and dispositions, indebtedness, issuances of additional stock and amounts of reserves, each of which can affect the amount of cash that is available for distribution to you.
- Our manager is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its duties (including fiduciary duties) to our shareholders; for example, our affiliates that serve as general partners of our funds have fiduciary and contractual obligations to our fund investors, and such obligations may cause such affiliates to regularly take actions that might adversely affect our near-term results of operations or cash flow; our manager has no obligation to intervene in, or to notify our shareholders of, such actions by such affiliates.
- Because our Managing Partners and Contributing Partners hold their AOG Units through entities that are not subject to corporate income taxation and Apollo Global Management, LLC holds the AOG Units in part through a wholly-owned subsidiary that is subject to corporate income taxation, conflicts may arise between our Managing Partners and Contributing Partners, on the one hand, and Apollo Global Management, LLC, on the other hand, relating to the selection, structuring, and disposition of investments. For example, the earlier taxable disposition of assets following an exchange transaction by a Managing Partner or Contributing Partner may accelerate payments under the tax receivable agreement and increase the present value of such payments, and the taxable disposition of assets before an exchange or transaction by a Managing Partner or Contributing Partner may increase the tax liability of a Managing Partner or Contributing Partner without giving rise to any rights to such Managing Partner or Contributing Partner to receive payments under the tax receivable agreement.
- Other than as provided in the non-competition, non-solicitation and confidentiality obligations to which our Managing Partners and other professionals are subject, which may not be enforceable, affiliates of our manager and existing and former personnel employed by our manager are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us.
- Our manager has limited its liability and reduced or eliminated its duties (including fiduciary duties) under our operating agreement, while also restricting the remedies available to our shareholders for actions that, without these limitations, might constitute breaches of duty (including fiduciary duty). In addition, we have agreed to indemnify our manager and its affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct. By purchasing our Class A shares, you have agreed and consented to the provisions set forth in our operating agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might constitute a breach of fiduciary or other duties under applicable state law.
- Our operating agreement does not restrict our manager from causing us to pay it or its affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so

long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under the operating agreement.

- Our manager determines how much debt we incur and that decision may adversely affect our credit ratings.
- Our manager determines which costs incurred by it and its affiliates are reimbursable by us.
- Our manager controls the enforcement of obligations owed to us by it and its affiliates.
- Our manager decides whether to retain separate counsel, accountants or others to perform services for us.

See “Item 13. Certain Relationships and Related Party Transactions” for a more detailed discussion of these conflicts.

The control of our manager may be transferred to a third party without shareholder consent.

Our manager may transfer its manager interest to a third party in a merger or consolidation or in a transfer of all or substantially all of its assets without the consent of our shareholders. Furthermore, at any time, the members of our manager may sell or transfer all or part of their membership interests in our manager without the approval of the shareholders, subject to certain restrictions as described elsewhere in this report. A new manager may not be willing or able to form new funds and could form funds that have investment objectives and governing terms that differ materially from those of our current funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as Apollo’s track record. If any of the foregoing were to occur, our funds could experience difficulty in making new investments, and the value of our funds’ existing investments, our businesses, our results of operations and our financial condition could materially suffer.

Our ability to pay regular distributions may be limited by our holding company structure. We are dependent on distributions from the Apollo Operating Group to pay distributions, taxes and other expenses.

As a holding company, our ability to pay distributions will be subject to the ability of our subsidiaries to provide cash to us. We intend to make quarterly distributions to our Class A shareholders. Accordingly, we expect to cause the Apollo Operating Group to make distributions to its unitholders (Holdings, which is 100% beneficially owned, directly and indirectly, by our Managing Partners and our Contributing Partners, and the three intermediate holding companies, which are 100% owned by us), pro rata in an amount sufficient to enable us to pay such distributions to our Class A shareholders; however, such distributions may not be made. In addition, our manager can reduce or eliminate our distributions at any time, in its discretion.

There may be circumstances under which we are restricted from paying distributions under applicable law or regulation (for example, due to Delaware limited partnership or limited liability company act limitations on making distributions if liabilities of the entity after the distribution would exceed the value of the entity’s assets).

Tax consequences to our Managing Partners and Contributing Partners may give rise to conflicts of interests.

As a result of unrealized built-in gain attributable to the value of our assets held by the Apollo Operating Group entities at the time of the Private Offering Transactions, upon the sale, refinancing or disposition of such assets, our Managing Partners and Contributing Partners may incur different and greater tax liabilities as a result of the disproportionately greater allocations of items of taxable income and gain to the Managing Partners and Contributing Partners upon a realization event. As the Managing Partners and Contributing Partners will not receive a correspondingly greater distribution of cash proceeds, they may, subject to applicable fiduciary or contractual duties, have different objectives regarding the appropriate pricing, timing and other material terms of any sale, refinancing, or disposition, or whether to sell such assets at all. Decisions made with respect to an acceleration or deferral of income or the sale or disposition of assets with unrealized built-in gains may also influence the timing and amount of payments that are received by an exchanging or selling Managing Partner or Contributing Partner under the tax receivable agreement. All other factors being equal, earlier disposition of assets with unrealized built-in gains following such exchange will tend to accelerate such payments and increase the present value of the tax receivable agreement, and disposition of assets with unrealized built-in gains before an exchange will increase a Managing Partner’s or Contributing Partner’s tax liability without giving rise to any rights to receive payments under the tax receivable agreement (although other offsetting benefits would arise). Decisions made regarding a change of control also could have a material influence on the timing and amount of payments received by our Managing Partners and Contributing Partners pursuant to the tax receivable agreement.

We are required to pay our Managing Partners and Contributing Partners for most of the actual tax benefits we realize as a result of the tax basis step-up we receive in connection with our acquisitions of units from our Managing Partners and Contributing Partners.

Subject to certain restrictions, each Managing Partner and Contributing Partner has the right to exchange the AOG Units that he holds through his partnership interest in Holdings for our Class A shares in a taxable transaction. These exchanges, as well as our acquisitions of units from our Managing Partners or Contributing Partners, may result in increases in the tax basis of the intangible assets of the Apollo Operating Group that otherwise would not have been available. Any such increases may reduce the

amount of tax that APO Corp., a wholly owned subsidiary of Apollo Global Management, LLC, would otherwise be required to pay in the future.

We have entered into a tax receivable agreement with our Managing Partners and Contributing Partners that provides for the payment by APO Corp., to our Managing Partners and Contributing Partners of 85% of the amount of actual tax savings, if any, that APO Corp. realizes (or is deemed to realize in the case of an early termination payment by APO Corp. or a change of control, as discussed below) as a result of these increases in tax deductions and tax basis and certain other tax benefits, including imputed interest expense, related to entering into the tax receivable agreement. Future payments that APO Corp. may make to our Managing Partners and Contributing Partners could be material in amount. In the event that any other of our current or future U.S. subsidiaries become taxable as corporations and acquire AOG Units in the future, or if we become taxable as a corporation for U.S. Federal income tax purposes, we expect, and have agreed that, each U.S corporation will become subject to a tax receivable agreement with substantially similar terms.

The IRS could challenge our claim to any increase in the tax basis of the assets owned by the Apollo Operating Group that results from the exchanges entered into by the Managing Partners or Contributing Partners. The IRS could also challenge any additional tax depreciation and amortization deductions or other tax benefits (including deductions for imputed interest expense associated with payments made under the tax receivable agreement) we claim as a result of, or in connection with, such increases in the tax basis of such assets. If the IRS were to successfully challenge a tax basis increase or tax benefits we previously claimed from a tax basis increase, Holdings would not be obligated under the tax receivable agreement to reimburse APO Corp. for any payments previously made to them (although any future payments would be adjusted to reflect the result of such challenge). As a result, in certain circumstances, payments could be made to our Managing Partners and Contributing Partners under the tax receivable agreement in excess of 85% of the actual aggregate cash tax savings of APO Corp. APO Corp.'s ability to achieve benefits from any tax basis increase and the payments to be made under this agreement will depend upon a number of factors, including the timing and amount of its future income.

In addition, the tax receivable agreement provides that, upon a merger, asset sale or other form of business combination or certain other changes of control, APO Corp.'s (or its successor's) obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such change of control) would be based on certain assumptions, including that APO Corp. would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement. See "Item 13. Certain Relationships and Related Party Transactions—Amended and Restated Tax Receivable Agreement."

If we were deemed an investment company under the Investment Company Act, applicable restrictions could make it impractical for us to continue our businesses as contemplated and could have a material adverse effect on our businesses and the price of our Class A shares.

We do not believe that we are an "investment company" under the Investment Company Act because the nature of our assets and the income derived from those assets allow us to rely on the exception provided by Rule 3a-1 issued under the Investment Company Act. In addition, we believe we are not an investment company under Section 3(b)(1) of the Investment Company Act because we are primarily engaged in non-investment company businesses. We intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, we would be taxed as a corporation and other restrictions imposed by the Investment Company Act, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our businesses as contemplated and would have a material adverse effect on our businesses and the price of our Class A shares.

Risks Related to Taxation

You may be subject to U.S. Federal income tax on your share of our taxable income, regardless of whether you receive any cash distributions from us.

Under current law, so long as we are not required to register as an investment company under the Investment Company Act and 90% of our gross income for each taxable year constitutes "qualifying income" within the meaning of the Internal Revenue Code on a continuing basis, we will be treated, for U.S. Federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. You may be subject to U.S. Federal, state, local and possibly, in some cases, foreign income taxation on your allocable share of our items of income, gain, loss, deduction and credit for each of our taxable years ending with or within your taxable year, regardless of whether or not you receive cash distributions from us. Accordingly, you may be required to make tax payments in connection with your ownership of Class A shares that significantly exceed your cash distributions in any specific year.

If we are treated as a corporation for U.S. Federal income tax purposes, the value of the Class A shares would be adversely affected.

The value of your investment will depend in part on our company being treated as a partnership for U.S. Federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Internal Revenue Code, and that we are not required to register as an investment company under the Investment Company Act and related rules. Although we intend to manage our affairs so that our partnership will meet the 90% test described above in each taxable year, we may not meet these requirements or, as discussed below, current law may change so as to cause, in either event, our partnership to be treated as a corporation for U.S. Federal income tax purposes. If we were treated as a corporation for U.S. Federal income tax purposes, (i) we would become subject to corporate income tax and (ii) distributions to shareholders would be taxable as dividends for U.S. Federal income tax purposes to the extent of our earnings and profits.

Current law may change, causing us to be treated as a corporation for U.S. Federal or state income tax purposes or otherwise subjecting us to entity level taxation. See "—Risks Related to Our Organization and Structure-Although not enacted, the U.S. Congress has considered legislation that would have: (i) in some cases after a ten-year transition period, precluded us from qualifying as a partnership or required us to hold incentive income through taxable corporations and (ii) taxed certain income and gains at increased rates. If similar legislation were to be enacted and apply to us, the value of our Class A shares could be adversely affected." Because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our distributions to you would be reduced.

Our structure involves complex provisions of U.S. Federal income tax law for which no clear precedent or authority may be available. Our structure is also subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

The U.S. Federal income tax treatment of holders of Class A shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. Federal income tax law for which no clear precedent or authority may be available. You should be aware that the U.S. Federal income tax rules are constantly under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships and entities taxed as partnerships. The present U.S. Federal income tax treatment of an investment in our Class A shares may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. Changes to the U.S. Federal income tax laws and interpretations thereof could make it more difficult or impossible to meet the exception for us to be treated as a partnership for U.S. Federal income tax purposes that is not taxable as a corporation, affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us, change the character or treatment of portions of our income (including, for instance, the treatment of incentive income as ordinary income rather than capital gain) and adversely affect an investment in our Class A shares. For example, as discussed above under "—Risks Related to Our Organization and Structure—Although not enacted, the U.S. Congress has considered legislation that would have: (i) in some cases after a ten-year transition period, precluded us from qualifying as a partnership or required us to hold incentive income through taxable corporations; and (ii) taxed certain income and gains at increased rates. If similar legislation were to be enacted and apply to us, the value of our Class A shares could be adversely affected," the U.S. Congress has considered various legislative proposals to treat all or part of the capital gain and dividend income that is recognized by an investment partnership and allocable to a partner affiliated with the sponsor of the partnership (i.e., a portion of the incentive income) as ordinary income to such partner for U.S. Federal income tax purposes.

Our operating agreement permits our manager to modify our operating agreement from time to time, without the consent of the holders of Class A shares, to address certain changes in U.S. Federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all holders of Class A shares. For instance, our manager could elect at some point to treat us as an association taxable as a corporation for U.S. Federal (and applicable state) income tax purposes. If our manager were to do this, the U.S. Federal income tax consequences of owning our Class A shares would be materially different. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to holders of Class A shares in a manner that reflects such beneficial ownership of items by holders of Class A shares, taking into account variation in ownership interests during each taxable year because of trading activity. However, those assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Internal Revenue Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects holders of Class A shares.

Our interests in certain of our businesses are held through entities that are treated as corporations for U.S. Federal income tax purposes; such corporations may be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of your investment.

In light of the publicly traded partnership rules under U.S. Federal income tax law and other requirements, we hold our interests in certain of our businesses through entities that are treated as corporations for U.S. Federal income tax purposes. Each such corporation could be liable for significant U.S. Federal income taxes and applicable state, local and other taxes that would not otherwise be incurred, which could adversely affect the value of your investment. Furthermore, it is possible that the IRS could challenge the manner in which such corporation's taxable income is computed by us.

Changes in U.S. tax law could adversely affect our ability to raise funds from certain foreign investors.

Under the Foreign Account Tax Compliance Act, or FATCA, certain U.S. withholding agents, or USWAs, foreign financial institutions, or FFIs, and non-financial foreign entities, or NFFEs, are required to report information about offshore accounts and investments to the U.S. or their local taxing authorities annually. In response to this legislation, various foreign governments have entered into Intergovernmental Agreements, or IGAs, with the U.S. Government and some have enacted similar legislation.

In order to meet these regulatory obligations, Apollo is required to register FFIs with the IRS, evaluate internal FATCA procedures, expand the review of investor Anti-Money Laundering/Know Your Customer and tax forms, evaluate the FATCA offerings by third party administrators and ensure that Apollo is prepared for the new global tax and information reporting requirements created under the U.S. and Non U.S. FATCA regimes.

Further, FATCA as well as Chapters 3 and 61 of the Internal Revenue Code, require Apollo to collect new IRS Tax Forms (W-9 and W-8 series), UK/Cayman Self-Certifications and other supporting documentation from their investors. Apollo has undertaken efforts to re-paper their existing investors.

Failure to meet these regulatory requirements could expose Apollo and/or its investors to a punitive withholding tax of 30% on certain U.S. payments (and beginning in 2019, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities), and possibly limit their ability to open bank accounts and secure funding the global capital markets. The reporting obligations imposed under FATCA require FFIs to comply with agreements with the IRS to obtain and disclose information about certain investors to the IRS. The administrative and economic costs of compliance with FATCA may discourage some foreign investors from investing in U.S. funds, which could adversely affect our ability to raise funds from these investors. Other countries such as the U.K. and the Cayman Islands have implemented regimes similar to that of FATCA. Compliance with such regimes could result in increased administration and compliance costs and could subject our investment entities to increased non-U.S. withholding taxes.

Federal tax reform efforts will continue which may involve tax uncertainties and risks.

It is anticipated that the Trump administration and the U.S. Congress will continue examining proposals that would provide for a comprehensive overhaul of U.S. Federal income tax laws, which could result in sweeping changes to many longstanding tax rules. Reform efforts could result in lower statutory tax rates, but those rate reductions could be offset by tax changes intended to broaden the tax base, including eliminating or reducing the ability to deduct interest expense. As noted above in the discussion of "Risks Related to Our Organization and Structure," tax reform legislation could require many entities currently operating as partnerships to be taxed as corporations and could cause income from incentive income to be taxed as ordinary income.

In addition, tax reform could include other base-broadening provisions spanning a variety of industry sectors, which also could adversely affect our business. For example, proposals affecting financial institutions and products may include changing the tax treatment of executive compensation, including bonuses, as well as the tax treatment of derivatives and other financial instruments. Other changes could include limiting or eliminating certain tax benefits currently available to cash value life insurance and deferred annuity products. Enactment of these or similar changes could adversely affect new sales, and possibly funding, of existing cash value life insurance and deferred annuity products.

Other proposals likely to emerge in the context of fundamental tax reform include: changes to the accelerated cost recovery system, mandatory amortization of certain advertising expenditures, repeal of the domestic production deduction, reforms to the subpart F rules, repeal of the last-in/first-out accounting rules, repeal of incentives currently available to oil and natural gas exploration and production companies, and limitations on the net operating loss deduction. The tax reform debate also may encompass proposals to move the United States toward a territorial system for taxing foreign-source income of United States multinationals and the possibility of a one-time transition tax on previously untaxed foreign earnings. Many of these proposals were included in the tax reform discussion draft that then-House Ways and Means Committee Chairman Dave Camp released in 2014; others were included in various budget proposals President Obama has released during his presidency.

On June 24, 2016, Representative Kevin Brady, who is chairman of the House Ways and Means Committee, unveiled a "A Better Way for Tax Reform," which Representative Brady described as a bold blueprint for pro-growth, comprehensive tax reform. This blueprint contemplates, among other things, reducing statutory tax rates imposed on corporations and business income of pass-through entities such as partnerships, replacing deductions that favor special industries or sectors with full and immediate deductions for new investments in equipment and technology, eliminating or reducing the ability to deduct net interest expense, moving to a territorial tax system and introducing a destination-basis tax system through border adjustment taxes.

It is not possible to predict when tax reform will be enacted and what impact tax reform, if enacted, would have on our funds and our businesses, but there is the potential for significant changes in U.S. federal laws related to the tax treatment of products and services provided by Apollo and investments made by our funds.

We may hold or acquire certain investments through an entity classified as a PFIC or CFC for U.S. Federal income tax purposes.

Certain of our investments may be in foreign corporations or may be acquired through foreign subsidiaries that would be classified as corporations for U.S. Federal income tax purposes. Such entities may be passive foreign investment companies, or "PFICs," or controlled foreign corporations, or "CFCs," for U.S. Federal income tax purposes. For example, APO (FC), LLC and APO (FC II), LLC are considered to be CFCs for U.S. Federal income tax purposes. Class A shareholders indirectly owning an interest in a PFIC or a CFC may experience adverse U.S. tax consequences, including the recognition of taxable income prior to the receipt of cash relating to such income. In addition, gain on the sale of a PFIC or CFC may be taxable at ordinary income tax rates.

Complying with certain tax-related requirements may cause us to forego otherwise attractive business or investment opportunities or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.

In order for us to be treated as a partnership for U.S. Federal income tax purposes, and not as an association or publicly traded partnership taxable as a corporation, we must meet the qualifying income exception discussed above on a continuing basis and we must not be required to register as an investment company under the Investment Company Act. In order to effect such treatment we (or our subsidiaries) may be required to invest through foreign or domestic corporations, forego attractive business or investment opportunities or enter into borrowings or financings we may not have otherwise entered into. This may cause us to incur additional tax liability and/or adversely affect our ability to operate solely to maximize our cash flow. Our structure also may impede our ability to engage in certain corporate acquisitive transactions because we generally intend to hold all of our assets through the Apollo Operating Group. In addition, we may be unable to participate in certain corporate reorganization transactions that would be tax free to our holders if we were a corporation. To the extent we hold assets other than through the Apollo Operating Group, we will make appropriate adjustments to the Apollo Operating Group agreements so that distributions to Holdings and us would be the same as if such assets were held at that level. Moreover, we are precluded by a contract with one of the Strategic Investors from acquiring assets in a manner that would cause that Strategic Investor to be engaged in a commercial activity within the meaning of Section 892 of the Internal Revenue Code.

Tax gain or loss on disposition of our Class A shares could be more or less than expected.

If you sell your Class A shares, you will recognize a gain or loss equal to the difference between the amount realized and your adjusted tax basis allocated to those Class A shares. Prior distributions to you in excess of the total net taxable income allocated to you will have decreased the tax basis in your Class A shares. Therefore, such excess distributions will increase your taxable gain, or decrease your taxable loss, when the Class A shares are sold and may result in a taxable gain even if the sale price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to you.

We cannot match transferors and transferees of Class A shares, and we have therefore adopted certain income tax accounting conventions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our Class A shares.

Because we cannot match transferors and transferees of Class A shares, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to holders of Class A shares. It also could affect the timing of these tax benefits or the amount of gain on the sale of Class A shares and could have a negative impact on the value of Class A shares or result in audits of and adjustments to the tax returns of holders of Class A shares.

In addition, our taxable income and losses will be determined and apportioned among investors using conventions we regard as consistent with applicable law. As a result, if you transfer your Class A shares, you may be allocated income, gain, loss and deduction realized by us after the date of transfer. Similarly, a transferee may be allocated income, gain, loss and deduction realized by us prior to the date of the transferee's acquisition of our Class A shares. A transferee may also bear the cost of withholding tax imposed with respect to income allocated to a transferor through a reduction in the cash distributed to the transferee.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. Federal income tax purposes. We will be considered to have been terminated for U.S. Federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. Our termination would, among other things, result in the closing of our taxable year for all holders of Class A shares and could result in a deferral of depreciation deductions allowable in computing our taxable income.

Non-U.S. persons face unique U.S. tax issues from owning Class A shares that may result in adverse tax consequences to them.

In light of our investment activities, we may be, or may become, engaged in a U.S. trade or business for U.S. Federal income tax purposes, in which case some portion of our income would be treated as effectively connected income with respect to non-U.S. holders of our Class A shares, or "ECI." Moreover, dividends paid by an investment that we make in a real estate investment trust, or "REIT," that are attributable to gains from the sale of U.S. real property interests and sales of certain investments in interests in U.S. real property, including stock of certain U.S. corporations owning significant U.S. real property, may be treated as ECI with respect to non-U.S. holders of our Class A shares. In addition, certain income of non-U.S. holders from U.S. sources not connected to any U.S. trade or business conducted by us could be treated as ECI. To the extent our income is treated as ECI, each non-U.S. holder generally would be subject to withholding tax on its allocable share of such income, would be required to file a U.S. Federal income tax return for such year reporting its allocable share of income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. Federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. holders that are corporations may also be subject to a 30% branch profits tax on their allocable share of such income. In addition, certain income from U.S. sources that is not ECI allocable to non-U.S. holders may be reduced by withholding taxes imposed at the highest effective applicable tax rate.

An investment in Class A shares will give rise to UBTI to certain tax-exempt holders.

We will not make investments through taxable U.S. corporations solely for the purpose of limiting unrelated business taxable income ("UBTI") from "debt-financed" property and, thus, an investment in Class A shares will give rise to UBTI to tax-exempt holders of Class A shares. For example, APO Asset Co., LLC will hold interests in entities treated as partnerships, or otherwise subject to tax on a flow-through basis, that will incur indebtedness. Moreover, if the IRS successfully asserts that we are engaged in a trade or business, then additional amounts of income could be treated as UBTI.

We do not intend to make, or cause to be made, an election under Section 754 of the Internal Revenue Code to adjust our asset basis or the asset basis of certain of the Apollo Operating Group Partnerships. Thus, a holder of Class A shares could be allocated more taxable income in respect of those Class A shares prior to disposition than if such an election were made.

We did not make and currently do not intend to make, or cause to be made, an election to adjust asset basis under Section 754 of the Internal Revenue Code with respect to Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P., Apollo Principal Holdings X, L.P. and Apollo Principal Holding XI, L.P. If no such election is made, there will generally be no adjustment for a transferee of Class A shares even if the purchase price of those Class A shares is higher than the Class A shares' share of the aggregate tax basis of our assets immediately prior to the transfer. In that case, on a sale of an asset, gain allocable to a transferee could include built-in gain allocable to the transferor at the time of the transfer, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

Class A shareholders may be subject to state and local taxes and return filing requirements as a result of investing in our Class A shares.

In addition to U.S. Federal income taxes, our Class A shareholders may be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if our Class A shareholders do not reside in any of those jurisdictions. Our Class A shareholders may also be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, Class A shareholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each Class A shareholder to file all U.S. Federal, state and local tax returns that may be required of such Class A shareholder.

We may not be able to furnish to each Class A shareholder specific tax information within 90 days after the close of each calendar year, which means that holders of Class A shares who are U.S. taxpayers should anticipate the need to file annually a request for an extension of the due date of their income tax return. In addition, it is possible that Class A shareholders may be required to file amended income tax returns.

As a publicly traded partnership, our operating results, including distributions of income, dividends, gains, losses or deductions and adjustments to carrying basis, will be reported on Schedule K-1 and distributed to each Class A shareholder annually. It may require longer than 90 days after the end of our fiscal year to obtain the requisite information from all lower-tier entities so that K-1s may be prepared for us. For this reason, Class A shareholders who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year.

In addition, it is possible that a Class A shareholder will be required to file amended income tax returns as a result of adjustments to items on the corresponding income tax returns of the partnership. Any obligation for a Class A shareholder to file amended income tax returns for that or any other reason, including any costs incurred in the preparation or filing of such returns, are the responsibility of each Class A shareholder.

You may be subject to an additional U.S. Federal income tax on net investment income allocated to you by us and on gain on the sale of the Class A shares.

Individuals, estates and trusts are currently subject to an additional 3.8% tax on "net investment income" (or undistributed "net investment income," in the case of estates and trusts) for each taxable year, with such tax applying to the lesser of such income or the excess of such person's adjusted gross income (with certain adjustments) over a specified amount. Net investment income includes net income from interest, dividends, annuities, royalties and rents and net gain attributable to the disposition of investment property. It is anticipated that net income and gain attributable to an investment in us will be included in a holder of the Class A share's "net investment income" subject to this additional tax.

We may be liable for adjustments to our tax returns as a result of recently enacted legislation.

Legislation was recently enacted that significantly changes the rules for U.S. Federal income tax audits of partnerships. Such audits will continue to be conducted at the partnership level, but with respect to tax returns for taxable years beginning after December 31, 2017, any adjustments to the amount of tax due (including interest and penalties) will be payable by the partnership rather than the partners of such partnership unless the partnership qualifies for and affirmatively elects an alternative procedure. In general, under the default procedures, taxes imposed on us would be assessed at the highest rate of tax applicable for the reviewed year and determined without regard to the character of the income or gain, the tax status of our shareholders or the benefit of any shareholder-level tax attributes (that could otherwise reduce any tax due).

Under the elective alternative procedure, we would issue information returns to persons who were shareholders in the audited year, who would then be required to take the adjustments into account in calculating their own tax liability, and we would not be liable for the adjustments to the amount of tax due (including interest and penalties). The mechanics of the elective alternative procedure are not clear in a number of respects and are intended to be clarified by future guidance. On January 18, 2017, the IRS and the U.S. Department of the Treasury publicly released the text of proposed regulations (the "Proposed Regulations") regarding the centralized partnership audit legislation, which were scheduled to be formally published in the Federal Register on January 20, 2017. On January 20, 2017, however, the Trump administration released a memorandum that generally delayed all pending regulations from publication in the Federal Register pending review and approval, and the Proposed Regulations have not yet been published, so the impact of the Proposed Regulation on us and our funds remains unclear. Our manager has discretion whether or not to make use of this elective alternative procedure and has not determined whether or to what extent the election will be available or appropriate.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are located in leased office space at 9 West 57th Street, New York, New York 10019. We also lease the space for our offices in New York, Los Angeles, Houston, Chicago, Ballwin, Bethesda, Toronto, London, Frankfurt, Madrid, Luxembourg, Mumbai, Delhi, Singapore, Hong Kong and Shanghai. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operation of our businesses.

ITEM 3. LEGAL PROCEEDINGS

See note 15 to our consolidated financial statements for a summary of the Company's legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A shares are traded on the NYSE under the symbol "APO." Our Class A shares began trading on the NYSE on March 30, 2011.

The number of holders of record of our Class A shares as of February 10, 2017 was 19. This does not include the number of shareholders that hold shares in "street name" through banks or broker-dealers. As of February 10, 2017, there was 1 holder of our Class B share.

The following table sets forth the high and low intra-day sales prices per unit of our Class A shares, for the periods indicated, as reported by the NYSE:

	Sales Price	
2016	**High**	**Low**
First Quarter	$ 17.48	$ 12.35
Second Quarter	17.77	14.26
Third Quarter	19.01	14.25
Fourth Quarter	21.17	17.38

	Sales Price	
2015	**High**	**Low**
First Quarter	$ 25.80	$ 20.96
Second Quarter	23.33	20.78
Third Quarter	22.61	15.35
Fourth Quarter	19.18	14.15

Cash Distribution Policy

The following table sets forth the cash distributions paid to our Class A shareholders for the fiscal years ended December 31, 2016 and 2015.

Distribution Payment Date	Distribution Per Class A Share Amount
February 27, 2015	$ 0.86
May 29, 2015	0.33
August 31, 2015	0.42
November 30, 2015	0.35
Total 2015 distribution	$ 1.96
February 29, 2016	$ 0.28
May 31, 2016	0.25
August 31, 2016	0.37
November 30, 2016	0.35
Total 2016 distribution	$ 1.25

We have declared an additional cash distribution of $0.45 per Class A share in respect of the fourth quarter of 2016 which will be paid on February 28, 2017 to holders of record of Class A shares at the close of business on February 21, 2017.

Distributable Earnings ("DE"), as well as DE After Taxes and Related Payables are derived from our segment reported results, and are supplemental non-U.S. GAAP measures to assess performance and amounts available for distribution to Class A shareholders, holders of RSUs that participate in distributions and holders of AOG Units. DE represents the amount of net realized earnings without the effects of the consolidation of any of the affiliated funds. DE, which is a component of EI, is the sum across

all segments of (i) total management fees and advisory and transaction fees, excluding monitoring fees received from Athene based on its capital and surplus (as defined in Apollo's transaction advisory services agreement with Athene), (ii) other income (loss), excluding the gains (losses) arising from the reversal of a portion of the tax receivable agreement liability (iii) realized carried interest income, and (iv) realized investment income, less (x) compensation expense, excluding the expense related to equity-based awards, (y) realized profit sharing expense, and (z) non-compensation expenses, excluding depreciation and amortization expense. DE After Taxes and Related Payables represents DE less estimated current corporate, local and non-U.S. taxes as well as the payable under Apollo's tax receivable agreement.

Our current intention is to distribute to our Class A shareholders on a quarterly basis substantially all of our Distributable Earnings attributable to Class A shareholders, in excess of amounts determined by our manager to be necessary or appropriate to provide for the conduct of our businesses, to make appropriate investments in our businesses and our funds, to comply with applicable law, any of our debt instruments or other agreements, or to provide for future distributions to our Class A shareholders for any ensuing quarter. Because we will not know what our actual available cash flow from operations will be for any year until sometime after the end of such year, our fourth quarter distribution may be adjusted to take into account actual net after-tax cash flow from operations for that year.

The declaration, payment and determination of the amount of our quarterly distribution will be at the sole discretion of our manager, which may change our cash distribution policy at any time. We cannot assure you that any distributions, whether quarterly or otherwise, will or can be paid. In making decisions regarding our quarterly distribution, our manager will take into account general economic and business conditions, our strategic plans and prospects, our businesses and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, legal, tax and regulatory restrictions, restrictions and other implications on the payment of distributions by us to our common shareholders or by our subsidiaries to us and such other factors as our manager may deem relevant.

Because we are a holding company that owns intermediate holding companies, the funding of each distribution, if declared, will occur in three steps, as follows.

- ***First***, we will cause one or more entities in the Apollo Operating Group to make a distribution to all of its partners, including our wholly-owned subsidiaries APO Corp., APO Asset Co., LLC, APO (FC), LLC, APO (FC II), LLC and APO UK (FC), Limited (as applicable), and Holdings, on a pro rata basis;
- ***Second***, we will cause our intermediate holding companies, APO Corp., APO Asset Co., LLC, APO (FC), LLC, APO (FC II), LLC and APO UK (FC), Limited (as applicable), to distribute to us, from their net after-tax proceeds, amounts equal to the aggregate distribution we have declared; and
- ***Third***, we will distribute the proceeds received by us to our Class A shareholders on a pro rata basis.

Payments that any of our intermediate holding companies make under the tax receivable agreement will reduce amounts that would otherwise be available for distribution by us on our Class A shares. See note 14 to our consolidated financial statements for information regarding the tax receivable agreement.

Under Delaware law we are prohibited from making a distribution to the extent that our liabilities, after such distribution, exceed the fair value of our assets. Our operating agreement does not contain any restrictions on our ability to make distributions, except that we may only distribute Class A shares to holders of Class A shares. The debt arrangements, as described in note 11 to our consolidated financial statements, do not contain restrictions on our or our subsidiaries' ability to pay distributions; however, instruments governing indebtedness that we or our subsidiaries incur in the future may contain restrictions on our or our subsidiaries' ability to pay distributions or make other cash distributions to equity holders.

In addition, the Apollo Operating Group's cash flow from operations may be insufficient to enable it to make tax distributions to its partners, in which case the Apollo Operating Group may have to borrow funds or sell assets, and thus our liquidity and financial condition could be materially adversely affected. Furthermore, by paying cash distributions rather than investing that cash in our businesses, we might risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations, new investments or unanticipated capital expenditures, should the need arise.

Our cash distribution policy has certain risks and limitations, particularly with respect to liquidity. Although we expect to pay distributions according to our cash distribution policy, we may not pay distributions according to our policy, or at all, if, among other things, we do not have the cash necessary to pay the intended distributions.

As of December 31, 2016, approximately 9.1 million RSUs granted to Apollo employees (net of forfeited awards) were entitled to distribution equivalents, which are paid in cash.

Securities Authorized for Issuance Under Equity Compensation Plans

See the table under "Securities Authorized for Issuance Under Equity Compensation Plans" set forth in "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Unregistered Sale of Equity Securities

On November 1, 2016 and November 8, 2016, we issued 376,692 and 1,852 Class A shares, respectively, net of taxes to Apollo Management Holdings, L.P., a subsidiary of Apollo Global Management, LLC, in connection with deliveries of shares to participants in the Company's 2007 Omnibus Equity Incentive Plan (the "2007 Equity Plan") for an aggregate purchase price of $6.9 million and $0.03 million, respectively. The issuance was exempt from registration under the Securities Act in accordance with Section 4(a)(2) and Rule 506(b) thereof, as transactions by the issuer not involving a public offering. We determined that the purchaser of Class A shares in the transactions, Apollo Management Holdings, L.P., was an accredited investor.

Issuer Purchases of Equity Securities

The following table sets forth purchases of our Class A shares made by us or on our behalf during the fiscal quarter ended December 31, 2016.

Period	Total Number of Class A Shares Purchased[(1)]	Average Price Paid per Share
October 1, 2016 through October 31, 2016	—	$ —
November 1, 2016 through November 30, 2016	20,778	17.99
December 1, 2016 through December 31, 2016	—	—
Total	20,778	

(1) During the fiscal quarter ended December 31, 2016, we repurchased a number of our Class A shares equal to the number of Class A restricted shares issued under our equity incentive plan during the quarter. All such repurchases were made in open-market transactions not pursuant to a publicly-announced repurchase plan or program.

In February 2016, the Company announced its adoption of a program to repurchase up to $250 million in the aggregate of its Class A shares, including up to $150 million in the aggregate of its outstanding Class A shares through a share repurchase program and up to $100 million through a reduction of Class A shares to be issued to employees to satisfy associated tax obligations in connection with the settlement of equity-based awards granted under the 2007 Equity Plan, which we refer to as net share settlement. Under the share repurchase program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise, with the size and timing of these repurchases depending on legal requirements, price, market and economic conditions and other factors. The Company expects that the share repurchase program, which has no expiration date, will be in effect until the maximum approved dollar amount has been used to repurchase Class A shares. The share repurchase program does not require the Company to repurchase any specific number of Class A shares, and the share repurchase program may be suspended, extended, modified or discontinued at any time. Reductions of Class A shares issued to employees to satisfy associated tax obligations in connection with the settlement of equity-based awards granted under the 2007 Equity Plan are not included in the table. There were no share repurchases made as part of the share repurchase program during the three months ended December 31, 2016, and as of December 31, 2016, the approximate dollar value of Class A shares that may be purchased under the program is $137.1 million.

ITEM 6. SELECTED FINANCIAL DATA

The following selected historical consolidated and other data of Apollo Global Management, LLC should be read together with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements and related notes included in "Item 8. Financial Statements and Supplementary Data."

The selected historical consolidated statements of operations data of Apollo Global Management, LLC for each of the years ended December 31, 2016, 2015 and 2014 and the selected historical consolidated statements of financial condition data as of December 31, 2016 and 2015 have been derived from our audited consolidated financial statements which are included in "Item 8. Financial Statements and Supplementary Data."

We derived the selected historical consolidated statements of operations data of Apollo Global Management, LLC for the years ended December 31, 2013 and 2012 and the selected consolidated statements of financial condition data as of December 31, 2014, 2013 and 2012 from our audited consolidated financial statements which are not included in this report.

	For the Years Ended December 31,				
	2016	2015[4]	2014	2013	2012
	(in thousands, except per share data)				
Statement of Operations Data					
Revenues:					
Management fees from related parties	$ 1,043,513	$ 930,194	$ 850,441	$ 674,634	$ 580,603
Advisory and transaction fees from related parties, net	146,665	14,186	315,587	196,562	149,544
Carried interest income from related parties	780,206	97,290	394,055	2,862,375	2,129,818
Total Revenues	1,970,384	1,041,670	1,560,083	3,733,571	2,859,965
Expenses:					
Compensation and benefits:					
Salary, bonus and benefits	389,130	354,524	338,049	294,753	274,574
Equity-based compensation	102,983	97,676	126,320	126,227	598,654
Profit sharing expense	357,074	85,229	276,190	1,173,255	872,133
Total Compensation and Benefits	849,187	537,429	740,559	1,594,235	1,745,361
Interest expense	43,482	30,071	22,393	29,260	37,116
General, administrative and other[1]	247,000	255,061	265,189	275,796	243,097
Placement fees	26,249	8,414	15,422	42,424	22,271
Total Expenses	1,165,918	830,975	1,043,563	1,941,715	2,047,845
Other Income:					
Net gains from investment activities	139,721	121,723	213,243	330,235	288,244
Net gains (losses) from investment activities of consolidated variable interest entities	5,015	19,050	22,564	199,742	(71,704)
Income from equity method investments	103,178	14,855	53,856	107,350	110,173
Interest income	4,072	3,232	10,392	12,266	9,693
Other income, net	4,562	7,673	60,592	40,114	1,964,679
Total Other Income	256,548	166,533	360,647	689,707	2,301,085
Income before income tax provision	1,061,014	377,228	877,167	2,481,563	3,113,205
Income tax provision	(90,707)	(26,733)	(147,245)	(107,569)	(65,410)
Net Income	970,307	350,495	729,922	2,373,994	3,047,795
Net income attributable to Non-Controlling Interests[2][3]	(567,457)	(215,998)	(561,693)	(1,714,603)	(2,736,838)
Net Income Attributable to Apollo Global Management, LLC	$ 402,850	$ 134,497	$ 168,229	$ 659,391	$ 310,957
Distributions Declared per Class A Share	$ 1.25	$ 1.96	$ 3.11	$ 3.95	$ 1.35
Net Income Available to Class A Share – Basic	$ 2.11	$ 0.61	$ 0.62	$ 4.06	$ 2.06
Net Income Available to Class A Share –Diluted	$ 2.11	$ 0.61	$ 0.62	$ 4.03	$ 2.06

	As of December 31,				
	2016	2015[4]	2014	2013	2012
	(in thousands)				
Statement of Financial Condition Data					
Total assets	$ 5,629,553	$ 4,559,808	$ 23,172,788	$ 22,474,674	$ 20,634,810
Debt (excluding obligations of consolidated variable interest entities)	1,352,447	1,025,255	1,027,965	746,693	735,771
Debt obligations of consolidated variable interest entities	786,545	801,270	14,123,100	12,423,962	11,834,955
Total shareholders' equity	1,867,528	1,388,981	5,943,461	6,688,722	5,703,383
Total Non-Controlling Interests	1,032,412	739,476	4,156,979	4,051,453	3,036,565

(1) Prior period amounts have been recast to conform to the current presentation. See note 2 to our consolidated financial statements for more detail on the change in presentation relating to general, administrative and other.

(2) Reflects Non-Controlling Interests attributable to AAA (for all periods prior to January 1, 2015), consolidated variable interest entities and the remaining interests held by certain individuals who receive an allocation of income from certain of our credit management companies.

(3) Reflects the Non-Controlling Interests in the net (income) loss of the Apollo Operating Group relating to the AOG Units held by our Managing Partners and Contributing Partners which is calculated by applying the ownership percentage of Holdings in the Apollo Operating Group. Holdings' ownership interest in the Apollo Operating Group was impacted by the Company's initial public offering in April 2011,

issuances of Class A shares in settlement of vested RSUs in each of the periods presented, and exchanges of certain AOG Units. See “Item 8. Financial Statements and Supplementary Data” for details of the ownership percentage in Holdings.

(4) Apollo adopted new U.S. GAAP consolidation and collateralized financing entity (“CFE”) guidance during the year ended December 31, 2015 which resulted in the deconsolidation of certain funds and VIEs as of January 1, 2015 and a measurement alternative of the financial assets and liabilities of the remaining consolidated CLOs. The adoption did not impact net income attributable to Apollo Global Management, LLC, but did impact various line items within the statements of operations and financial condition. See note 2 to the consolidated financial statements for details regarding the Company’s adoption of the new consolidation and CFE guidance.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Apollo Global Management, LLC’s consolidated financial statements and the related notes as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. Actual results and the timing of events may differ significantly from those expressed or implied in such forward-looking statements due to a number of factors, including those included in the section of this report entitled “Item 1A. Risk Factors.” The highlights listed below have had significant effects on many items within our consolidated financial statements and affect the comparison of the current period’s activity with those of prior periods.

General

Our Businesses

Founded in 1990, Apollo is a leading global alternative investment manager. We are a contrarian, value-oriented investment manager in private equity, credit and real estate with significant distressed expertise and a flexible mandate in the majority of our funds which enables our funds to invest opportunistically across a company’s capital structure. We raise, invest and manage funds on behalf of some of the world’s most prominent pension, endowment and sovereign wealth funds as well as other institutional and individual investors. Apollo is led by our Managing Partners, Leon Black, Joshua Harris and Marc Rowan, who have worked together for 30 years and lead a team of 986 employees, including 376 investment professionals, as of December 31, 2016.

Apollo conducts its business primarily in the United States and substantially all of its revenues are generated domestically. These businesses are conducted through the following three reportable segments:

(i) ***Private equity***—primarily invests in control equity and related debt instruments, convertible securities and distressed debt instruments;

(ii) ***Credit***—primarily invests in non-control corporate and structured debt instruments including performing, stressed and distressed instruments across the capital structure; and

(iii) ***Real estate***—primarily invests in real estate equity for the acquisition and recapitalization of real estate assets, portfolios, platforms and operating companies, and real estate debt including first mortgage and mezzanine loans, preferred equity and commercial mortgage backed securities.

These business segments are differentiated based on the varying investment strategies. The performance is measured by management on an unconsolidated basis because management makes operating decisions and assesses the performance of each of Apollo’s business segments based on financial and operating metrics and data that exclude the effects of consolidation of any of the managed funds.

Our financial results vary since carried interest, which generally constitutes a large portion of the income we receive from the funds that we manage, as well as the transaction and advisory fees that we receive, can vary significantly from quarter to quarter and year to year. As a result, we emphasize long-term financial growth and profitability to manage our business.

In addition, the growth in our Fee-Generating AUM during the last year has primarily been in our credit segment. The average management fee rate for these new credit products is at market rates for such products and in certain cases is below our historical rates. Also, due to the complexity of these new product offerings, the Company has incurred and will continue to incur additional costs associated with managing these products. To date, these additional costs have been offset by realized economies of scale and ongoing cost management.

As of December 31, 2016, we had total AUM of $191.7 billion across all of our businesses. More than 90% of our total AUM was in funds with a contractual life at inception of seven years or more, and 45% of such AUM was in permanent

capital vehicles. On December 31, 2013, Fund VIII held a final closing raising a total of $17.5 billion in third-party capital and approximately $880 million of additional capital from Apollo and affiliated investors, and as of December 31, 2016, Fund VIII had $8.3 billion of uncalled commitments remaining. Additionally, Fund VII held a final closing in December 2008, raising a total of $14.7 billion, and as of December 31, 2016, Fund VII had $2.3 billion of uncalled commitments remaining. We have consistently produced attractive long-term investment returns in our traditional private equity funds, generating a 39% gross IRR and a 25% net IRR on a compound annual basis from inception through December 31, 2016. Apollo's private equity fund appreciation was 13.5% for the year ended December 31, 2016.

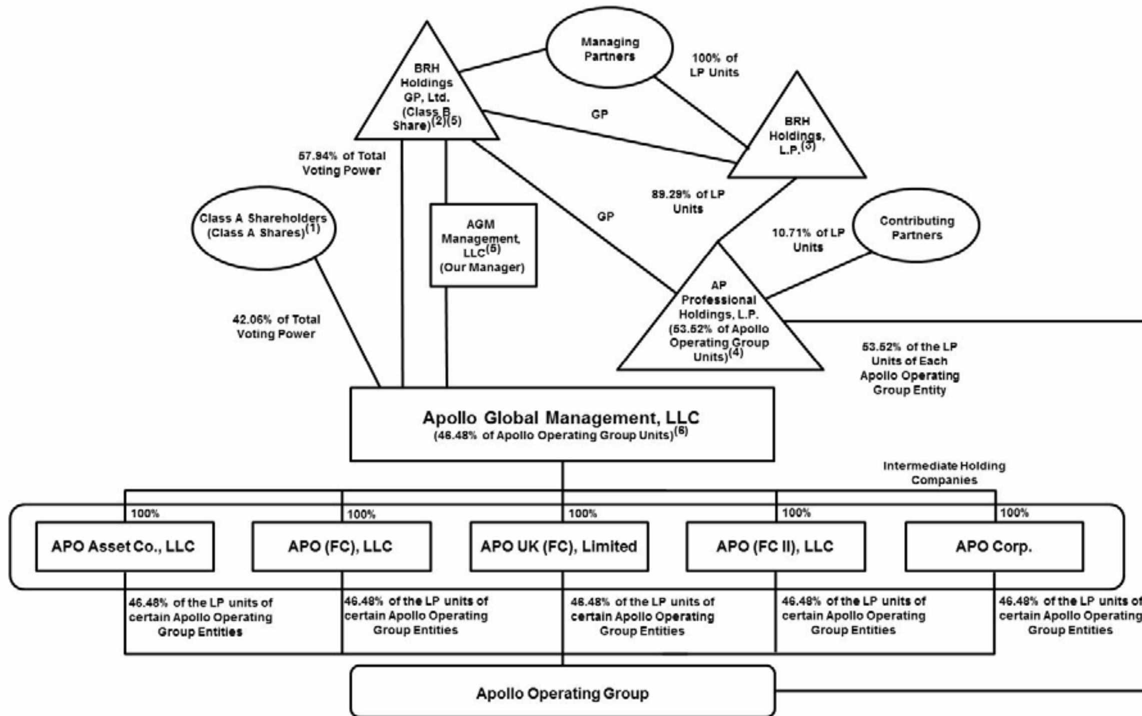
For our credit segment, total gross and net returns, excluding assets managed by Athene Asset Management that are not directly invested in Apollo funds and investment vehicles or sub-advised by Apollo, were 11.2% and 9.9%, respectively, for the year ended December 31, 2016.

For our real estate segment, total combined gross and net returns for U.S. RE Fund I and U.S. RE Fund II including co-investment capital were 16.1% and 12.8%, respectively, for the year ended December 31, 2016.

For further detail related to fund performance metrics across all of our businesses, see "—The Historical Investment Performance of Our Funds."

Holding Company Structure

The diagram below depicts our current organizational structure:



Note: The organizational structure chart above depicts a simplified version of the Apollo structure. It does not include all legal entities in the structure. Ownership percentages are as of February 8, 2017.

(1) The Strategic Investors hold 16.43% of the Class A shares outstanding and 7.63% of the economic interests in the Apollo Operating Group. The Class A shares held by investors other than the Strategic Investors represent 42.06% of the total voting power of our shares entitled to vote and 38.85% of the economic interests in the Apollo Operating Group. Class A shares held by the Strategic Investors do not have voting rights. However, such Class A shares will become entitled to vote upon transfers by a Strategic Investor in accordance with the agreements entered into in connection with the investments made by the Strategic Investors.

(2) Our Managing Partners own BRH Holdings GP, Ltd., which in turn holds our only outstanding Class B share. The Class B share represents 57.94% of the total voting power of our shares entitled to vote but no economic interest in Apollo Global Management,

LLC. Our Managing Partners' economic interests are instead represented by their indirect beneficial ownership, through Holdings, of 47.79% of the limited partner interests in the Apollo Operating Group.

(3) Through BRH Holdings, L.P., our Managing Partners indirectly beneficially own through estate planning vehicles, limited partner interests in Holdings.

(4) Holdings owns 53.52% of the limited partner interests in each Apollo Operating Group entity. The AOG Units held by Holdings are exchangeable for Class A shares. Our Managing Partners, through their interests in BRH and Holdings, beneficially own 47.79% of the AOG Units. Our Contributing Partners, through their ownership interests in Holdings, beneficially own 5.73% of the AOG Units.

(5) BRH Holdings GP, Ltd. is the sole member of AGM Management, LLC, our manager. The management of Apollo Global Management, LLC is vested in our manager as provided in our operating agreement.

(6) Represents 46.48% of the limited partner interests in each Apollo Operating Group entity, held through the intermediate holding companies. Apollo Global Management, LLC, also indirectly owns 100% of the general partner interests in each Apollo Operating Group entity.

Each of the Apollo Operating Group partnerships holds interests in different businesses or entities organized in different jurisdictions.

Our structure is designed to accomplish a number of objectives, the most important of which are as follows:

- We are a holding company that is qualified as a partnership for U.S. federal income tax purposes. Our intermediate holding companies enable us to maintain our partnership status and to meet the qualifying income exception.
- We have historically used multiple management companies to segregate operations for business, financial and other reasons. Going forward, we may increase or decrease the number of our management companies or partnerships within the Apollo Operating Group based on our views regarding the appropriate balance between (a) administrative convenience and (b) continued business, financial, tax and other optimization.

Business Environment

As a global investment manager, we are affected by numerous factors, including the condition of financial markets and the economy. Price fluctuations within equity, credit, commodity, foreign exchange markets, as well as interest rates, which may be volatile and mixed across geographies, can significantly impact the valuation of our funds' portfolio companies and related income we may recognize.

In terms of equity markets, 2016 was a more positive year compared to the mixed backdrop in 2015. In the U.S., the S&P 500 Index increased 9.5% during 2016 following a slight decrease of 0.7% in 2015. Outside the U.S., global equity markets rose for the first time in three years as measured by the MSCI All Country World ex USA Index, which increased 3.6% during 2016 after falling 1.4% in 2015.

Conditions in the credit markets also have a significant impact on our business, and in 2016, many indices posted strong returns. The BofAML HY Master II Index rose 17.5% in 2016 following a decrease of 4.6% in 2015. In addition, the S&P/LSTA Leveraged Loan Index rose 10.2% in 2016 following a slight decrease of 0.7% in 2015. Benchmark interest rates finished the year on a slightly positive note as investors expect The Federal Reserve to raise short-term rates three times in 2017, after raising rates again in December. The U.S. 10-year Treasury yield rallied 85 basis points in the fourth quarter to finish the year up 18 basis points at 2.45%.

Foreign exchange rates can materially impact the valuations of our investments that are denominated in currencies other than the U.S. dollar. Relative to the U.S. dollar, the Euro depreciated 3.2% in 2016 after depreciating 10.2% in 2015, while the British pound depreciated 16.3% in 2016 largely due to the Brexit referendum, after depreciating 5.4% in 2015. Commodities generally saw price increases in both the fourth quarter and full year ended December 31, 2016. The price of crude oil appreciated by 11.4% during the fourth quarter and 45.0% for the full year.

In terms of economic conditions in the U.S., the Bureau of Economic Analysis reported real GDP increased at an annual rate of 1.6% in 2016, lower than the 2.6% growth experienced in 2015, primarily due to a decrease in investments and government spending. As of January 2017, The International Monetary Fund estimated that the U.S. economy will expand by 2.3% in 2017. Additionally, the U.S. unemployment rate continued to decline in 2016, ending the year at 4.7%, a decrease from 5.0% at the end of 2015.

Regardless of the market or economic environment at any given time, Apollo relies on its contrarian, value-oriented approach to consistently invest capital on behalf of its fund investors by focusing on opportunities that management believes are

often overlooked by other investors. As such, Apollo's global integrated investment platform deployed $3.5 billion and $15.9 billion of capital through the funds it manages during the fourth quarter of 2016 and full year ended December 31, 2016, respectively. This represented the highest level of capital deployment activity in a calendar period to date. We believe Apollo's expertise in credit and its focus on nine core industry sectors, combined with 26 years of investment experience, has allowed Apollo to respond quickly to changing environments. Apollo's core industry sectors include chemicals, manufacturing and industrial, natural resources, consumer and retail, consumer services, business services, financial services, leisure, and media and telecom and technology. Apollo believes that these attributes have contributed to the success of its private equity funds investing in buyouts and credit opportunities during both expansionary and recessionary economic periods.

In general, institutional investors continue to allocate capital towards alternative investment managers for more attractive risk-adjusted returns in a low interest rate environment, and we believe the business environment remains generally accommodative to launch new products and pursue attractive strategic growth opportunities. As such, Apollo had $6.6 billion and $34.8 billion of capital inflows during the fourth quarter of 2016 and full year ended December 31, 2016, respectively. While Apollo continues to attract capital inflows, it also continues to generate realizations for fund investors. Apollo returned $1.7 billion and $5.4 billion of capital and realized gains to the investors in the funds it manages during the fourth quarter of 2016 full year ended December 31, 2016, respectively.

Managing Business Performance

We believe that the presentation of Economic Income, or EI, supplements a reader's understanding of the economic operating performance of each of our segments.

Economic Income

EI has certain limitations in that it does not take into account certain items included under U.S. GAAP. EI represents segment income before income tax provision excluding transaction-related charges arising from the 2007 private placement and any acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions. In addition, segment data excludes non-cash revenue and expense related to equity awards granted by unconsolidated related parties to employees of the Company, compensation and administrative related expense reimbursements from unconsolidated related parties, as well as the assets, liabilities and operating results of the funds and VIEs that are included in the consolidated financial statements. We believe the exclusion of the non-cash charges related to the 2007 Reorganization for equity-based compensation provides investors with a meaningful indication of our performance because these charges relate to the equity portion of our capital structure and not our core operating performance.

Economic Net Income represents EI adjusted to reflect income tax provision on EI that has been calculated assuming that all income is allocated to Apollo Global Management, LLC, which would occur following an exchange of all AOG Units for Class A shares of Apollo Global Management, LLC. The economic assumptions and methodologies that impact the implied income tax provision are similar to those methodologies and certain assumptions used in calculating the income tax provision for Apollo's consolidated statements of operations under U.S. GAAP.

We believe that EI is helpful for an understanding of our business and that investors should review the same supplemental financial measure that management uses to analyze our segment performance. This measure supplements and should be considered in addition to and not in lieu of the results of operations discussed below in "—Overview of Results of Operations" that have been prepared in accordance with U.S. GAAP. See note 16 to the consolidated financial statements for more details regarding management's consideration of EI.

EI may not be comparable to similarly titled measures used by other companies and is not a measure of performance calculated in accordance with U.S. GAAP. We use EI as a measure of operating performance, not as a measure of liquidity. EI should not be considered in isolation or as a substitute for net income or other income data prepared in accordance with U.S. GAAP. The use of EI without consideration of related U.S. GAAP measures is not adequate due to the adjustments described above. Management compensates for these limitations by using EI as a supplemental measure to U.S. GAAP results, to provide a more complete understanding of our performance as management measures it. A reconciliation of EI to its most directly comparable U.S. GAAP measure of income before income tax provision can be found in the notes to our consolidated financial statements.

Economic Income for the years ended December 31, 2015 and 2014 includes a recast of salary, bonus and benefits due to management's change in allocation methodology among the segments during the year ended December 31, 2016. All prior periods have been recast to conform to the current presentation. The impact to the combined segments total Economic Income for all periods presented was zero. The impact of this change to EI for each segment for the years ended December 31, 2015 and 2014 is reflected in note 16 to the consolidated financial statements.

Fee Related Earnings

Fee Related Earnings ("FRE") is derived from our segment reported results and refers to a component of EI that is used as a supplemental measure to assess whether revenues that we believe are generally more stable and predictable in nature, primarily consisting of management fees, are sufficient to cover associated operating expenses and generate profits. FRE is the sum across all segments of (i) management fees, (ii) advisory and transaction fees, (iii) carried interest income earned from a publicly traded business development company we manage and (iv) other income, net excluding gains (losses) arising from the reversal of a portion of the tax receivable agreement liability, less (y) salary, bonus and benefits, excluding equity-based compensation and (z) other associated operating expenses.

Distributable Earnings

Distributable Earnings ("DE"), as well as DE After Taxes and Related Payables are derived from our segment reported results, and are supplemental non-U.S. GAAP measures to assess performance and the amount of earnings available for distribution to Class A shareholders, holders of RSUs that participate in distributions and holders of AOG Units. DE represents the amount of net realized earnings without the effects of the consolidation of any of the related funds. DE, which is a component of EI, is the sum across all segments of (i) total management fees and advisory and transaction fees, excluding monitoring fees received from Athene based on its capital and surplus (as defined in Apollo's transaction advisory services agreement with Athene), (ii) other income (loss), excluding the gains (losses) arising from the reversal of a portion of the tax receivable agreement liability (iii) realized carried interest income, and (iv) realized investment income, less (x) compensation expense, excluding the expense related to equity-based awards, (y) realized profit sharing expense, and (z) non-compensation expenses, excluding depreciation and amortization expense. DE After Taxes and Related Payables represents DE less estimated current corporate, local and non-U.S. taxes as well as the payable under Apollo's tax receivable agreement. A reconciliation of DE and EI to their most directly comparable U.S. GAAP measure of income before income tax provision can be found in "—Summary of Non-U.S. GAAP Measures".

Fee Related EBITDA

Fee related EBITDA is a non-U.S. GAAP measure derived from our segment reported results and is used to assess the performance of our operations as well as our ability to service current and future borrowings. Fee related EBITDA represents FRE plus amounts for depreciation and amortization. "Fee related EBITDA +100% of net realized carried interest" represents fee-related EBITDA plus realized carried interest less realized profit sharing.

We use FRE, DE and Fee related EBITDA as measures of operating performance, not as measures of liquidity. These measures should not be considered in isolation or as a substitute for net income or other income data prepared in accordance with U.S. GAAP. The use of these measures without consideration of their related U.S. GAAP measures is not adequate due to the adjustments described above.

Operating Metrics

We monitor certain operating metrics that are common to the alternative investment management industry. These operating metrics include Assets Under Management, capital deployed and uncalled commitments.

Assets Under Management

The tables below present Fee-Generating and Non-Fee-Generating AUM by segment as of December 31, 2016 and 2015:

	As of December 31, 2016				As of December 31, 2015			
	Private Equity	**Credit**	**Real Estate**	**Total**	**Private Equity**	**Credit**	**Real Estate**	**Total**
	(in millions)				(in millions)			
Fee-Generating AUM	$ 30,722	$ 111,781	$ 8,295	$ 150,798	$ 29,258	$ 101,522	$ 7,317	$ 138,097
Non-Fee-Generating AUM	12,906	24,826	3,158	40,890	8,244	19,839	3,943	32,026
Total AUM	$ 43,628	$ 136,607	$ 11,453	$ 191,688	$ 37,502	$ 121,361	$ 11,260	$ 170,123

The table below presents AUM with Future Management Fee Potential, which is a component of Non-Fee-Generating AUM, for each of Apollo's three segments as of December 31, 2016 and 2015.

	As of December 31, 2016	As of December 31, 2015
	(in millions)	
Private Equity	$ 1,977	$ 2,093
Credit	6,533	5,763
Real Estate	639	986
Total AUM with Future Management Fee Potential	$ 9,149	$ 8,842

The following tables present the components of Carry-Eligible AUM for each of Apollo's three segments as of December 31, 2016 and 2015:

	As of December 31, 2016				As of December 31, 2015			
	Private Equity	Credit	Real Estate	Total	Private Equity	Credit	Real Estate	Total
	(in millions)				(in millions)			
Carry-Generating AUM	$ 21,521	$ 33,306	$ 776	$ 55,603	$ 9,461	$ 16,923	$ 516	$ 26,900
AUM Not Currently Generating Carry	487	7,219	365	8,071	6,793	21,583	865	29,241
Uninvested Carry-Eligible AUM	13,136	11,119	976	25,231	16,528	8,701	1,059	26,288
Total Carry-Eligible AUM	$ 35,144	$ 51,644	$ 2,117	$ 88,905	$ 32,782	$ 47,207	$ 2,440	$ 82,429

The following table presents AUM Not Currently Generating Carry for funds that have commenced investing capital for more than 24 months as of December 31, 2016 and the corresponding appreciation required to reach the preferred return or high watermark in order to generate carried interest:

Category / Fund	Invested AUM Not Currently Generating Carry	Investment Period Active > 24 Months	Appreciation Required to Achieve Carry[1]
	(in millions)		
Private Equity:			
Total Private Equity	$ 487	$ 342	32%
Credit:			
Drawdown	3,752	3,738	30%
Liquid/Performing	3,467	1,935	< 250bps
		—	250-500bps
		813	> 500bps
Total Credit	7,219	6,486	20%
Real Estate:			
Total Real Estate	365	294	> 500bps
Total	$ 8,071	$ 7,122	

(1) All investors in a given fund are considered in aggregate when calculating the appreciation required to achieve carry presented above. Appreciation required to achieve carry may vary by individual investor.

The components of Fee-Generating AUM by segment as of December 31, 2016 and 2015 are presented below:

	As of December 31, 2016			
	Private Equity	Credit	Real Estate	Total
	(in millions)			
Fee-Generating AUM based on capital commitments	$ 21,782	$ 8,072	$ 724	$ 30,578
Fee-Generating AUM based on invested capital	8,058	4,212	4,374	16,644
Fee-Generating AUM based on gross/adjusted assets	882	88,196	3,131	92,209
Fee-Generating AUM based on NAV	—	11,301	66	11,367
Total Fee-Generating AUM	$ 30,722 (1)	$ 111,781	$ 8,295	$ 150,798

(1) The weighted average remaining life of the private equity funds excluding permanent capital vehicles at December 31, 2016 was 66 months.

	As of December 31, 2015			
	Private Equity	Credit	Real Estate	Total
	(in millions)			
Fee-Generating AUM based on capital commitments	$ 20,315	$ 5,787	$ 376	$ 26,478
Fee-Generating AUM based on invested capital	8,094	3,860	4,180	16,134
Fee-Generating AUM based on gross/adjusted assets	506	83,728	2,671	86,905
Fee-Generating AUM based on NAV	343	8,147	90	8,580
Total Fee-Generating AUM	$ 29,258 (1)	$ 101,522	$ 7,317	$ 138,097

(1) The weighted average remaining life of the private equity funds excluding permanent capital vehicles at December 31, 2015 was 73 months.

The following table presents total AUM and Fee-Generating AUM amounts for our private equity segment:

	Total AUM		Fee-Generating AUM	
	As of December 31,		As of December 31,	
	2016	2015	2016	2015
	(in millions)			
Traditional Private Equity Funds	$ 30,490	$ 30,665	$ 24,457	$ 24,826
Natural Resources	5,223	2,909	4,181	2,436
Other[1]	7,915	3,928	2,084	1,996
Total	$ 43,628	$ 37,502	$ 30,722	$ 29,258

(1) Includes co-investments contributed to Athene by AAA through its investment in AAA Investments as discussed in note 14 of the consolidated financial statements.

The following table presents total AUM and Fee-Generating AUM amounts for our credit segment by category type:

	Total AUM		Fee-Generating AUM	
	As of December 31,		As of December 31,	
	2016	2015	2016	2015
	(in millions)			
Liquid/Performing	$ 35,684	$ 37,242	$ 31,562	$ 30,603
Drawdown	23,852	19,112	13,645	11,130
Permanent capital vehicles ex Athene Non-Sub-Advised[1]	12,330	15,058	11,460	9,840
Athene Non-Sub-Advised[1]	55,114	49,949	55,114	49,949
Advisory[2]	9,627	—	—	—
Total	$ 136,607	$ 121,361	$ 111,781	$ 101,522

(1) Athene Non-Sub-Advised reflects total Athene-related AUM of $70.8 billion less $15.7 billion of assets that were either sub-advised by Apollo or invested in funds and investment vehicles managed by Apollo. Athene Non-Sub-Advised includes $4.4 billion of Athene AUM for which AAME provides investment advisory services.

(2) Advisory refers to certain assets advised by AAME.

The following table presents the Athene assets that were either sub-advised by Apollo or invested in funds and investment vehicles managed by Apollo:

	Total AUM	
	As of December 31,	
	2016	2015
	(in millions)	
Private Equity	$ 1,099	$ 956
Credit		
Liquid/Performing	9,407	8,998
Drawdown	1,075	863
Total Credit	10,482	9,861
Real Estate		
Debt	3,698	3,426
Equity	439	340
Total Real Estate	4,137	3,766
Total	$ 15,718	$ 14,583

The following table presents total AUM and Fee-Generating AUM amounts for our real estate segment:

	Total AUM		Fee-Generating AUM	
	As of December 31,		As of December 31,	
	2016	2015	2016	2015
	(in millions)			
Debt	$ 8,604	$ 7,737	$ 6,577	$ 5,477
Equity	2,849	3,523	1,718	1,840
Total	$ 11,453	$ 11,260	$ 8,295	$ 7,317

The following tables summarize changes in total AUM for each of Apollo's three segments for the years ended December 31, 2016 and 2015:

	For the Years Ended December 31,							
	2016				2015			
	Private Equity	Credit	Real Estate	Total	Private Equity	Credit	Real Estate	Total
	(in millions)							
Change in Total AUM[(1)]:								
Beginning of Period	$ 37,502	$ 121,361	$ 11,260	$ 170,123	$ 41,299	$ 108,960	$ 9,538	$ 159,797
Inflows	5,727	26,170	2,870	34,767	2,299	18,201	3,188	23,688
Outflows[(2)]	(1,148)	(11,405)	(505)	(13,058)	(812)	(3,769)	(71)	(4,652)
Net Flows	4,579	14,765	2,365	21,709	1,487	14,432	3,117	19,036
Realizations	(1,121)	(1,827)	(2,472)	(5,420)	(4,711)	(2,182)	(1,656)	(8,549)
Market Activity[(3)(4)]	2,668	2,308	300	5,276	(573)	151	261	(161)
End of Period	$ 43,628	$ 136,607	$ 11,453	$ 191,688	$ 37,502	$ 121,361	$ 11,260	$ 170,123

(1) At the individual segment level, inflows include new subscriptions, commitments, capital raised, other increases in available capital, purchases, acquisitions and portfolio company appreciation. Outflows represent redemptions, other decreases in available capital and portfolio company depreciation. Realizations represent fund distributions of realized proceeds. Market activity represents gains (losses), the impact of foreign exchange rate fluctuations and other income.

(2) Outflows for Total AUM include redemptions of $1,832.1 million and $626.8 million during the years ended December 31, 2016 and 2015, respectively.

(3) Includes foreign exchange impacts of $(102.5) million, $(911.0) million and $(160.4) million for private equity, credit and real estate, respectively, during the year ended December 31, 2016.

(4) Includes foreign exchange impacts of $(162.4) million, $(403.7) million and $(136.1) million for private equity, credit and real estate, respectively, during the year ended December 31, 2015.

Assets Under Management

Total AUM was $191.7 billion at December 31, 2016, an increase of $21.6 billion, or 12.7%, compared to $170.1 billion at December 31, 2015. The net increase was primarily due to:

Net flows of $21.7 billion primarily related to:
- a $14.8 billion increase related to funds we manage in the credit segment primarily consisting of advisory mandates related to AAME of $9.3 billion, subscriptions of $8.1 billion, a net increase in AUM relating to Athene of $6.1 billion and originations at MidCap of $1.5 billion, offset by a decrease in leverage of $6.7 billion, redemptions of $1.8 billion and net segment transfers of $1.7 billion;
- a $4.6 billion increase related to funds we manage in the private equity segment consisting of subscriptions attributable to co-investments for Fund VIII transactions of $3.3 billion and ANRP II of $1.5 billion; and
- a $2.4 billion increase related to funds we manage in the real estate segment primarily consisting of subscriptions of $1.0 billion primarily related to AGRE Debt Fund I, L.P. ("AGRE Debt Fund I") and net segment transfers of $1.4 billion.

Market activity of $5.3 billion primarily related to $2.7 billion and $2.3 billion of appreciation in the funds we manage in the private equity and credit segments, respectively.

Offsetting these increases were:

Realizations of $5.4 billion primarily related to:
- $2.5 billion related to funds we manage in the real estate segment primarily consisting of distributions of $1.5 billion from our real estate debt funds and $1.0 billion from our real estate equity funds;
- $1.8 billion related to funds we manage in the credit segment primarily consisting of distributions of $0.9 billion and $0.6 billion in drawdown funds and liquid/performing funds, respectively; and
- $1.1 billion related to funds we manage in the private equity segment primarily consisting of distributions of $1.0 billion and $0.1 billion in our traditional private equity funds and co-investment vehicles, respectively.

Total AUM was $170.1 billion at December 31, 2015, an increase of $10.3 billion, or 6.5%, compared to $159.8 billion at December 31, 2014. The net increase was primarily due to:

Net inflows of $19.0 billion primarily related to:
- a $14.4 billion increase related to funds we manage in the credit segment primarily consisting of subscriptions of $6.0 billion, acquisitions of $7.4 billion primarily attributable to the acquisition of Delta Lloyd Deutschland by Athene Holding of $5.1 billion, and a net change in leverage of $2.0 billion;
- a $1.5 billion increase related to funds we manage in the private equity segment consisting of subscriptions of $1.9 billion, driven by subscriptions attributable to ANRP II of $1.5 billion, offset by net segment transfers of $0.2 billion and a change in leverage of $0.3 billion; and
- a $3.1 billion increase related to funds we manage in the real estate segment primarily consisting of subscriptions of $1.2 billion, net segment transfers of $1.0 billion and a change in leverage of $0.4 billion.

Offsetting these increases were:

Realizations of $8.5 billion primarily related to:
- $4.7 billion related to funds we manage in the private equity segment primarily consisting of distributions of $4.1 billion attributable to certain traditional private equity funds;
- $2.2 billion related to funds we manage in the credit segment primarily consisting of distributions of $1.1 billion and $0.8 billion in liquid/performing and drawdown funds, respectively; and
- $1.7 billion related to funds we manage in the real estate segment primarily consisting of distributions of $0.9 billion from our real estate debt funds and $0.3 billion related to the CPI funds.

Market activity of $0.2 billion related to:
- $0.6 billion of depreciation in the funds we manage in the private equity segment;
- $0.3 billion of appreciation in the funds we manage in the real estate segment; and
- $0.2 billion of appreciation in the funds we manage in the credit segment.

The following tables summarize changes in Fee-Generating AUM for each of Apollo's three segments for the years ended December 31, 2016 and 2015:

	For the Years Ended December 31,							
	2016				2015			
	Private Equity	Credit	Real Estate	Total	Private Equity	Credit	Real Estate	Total
	(in millions)							
Change in Fee-Generating AUM[1]:								
Beginning of Period	$ 29,258	$ 101,522	$ 7,317	$ 138,097	$ 30,285	$ 92,192	$ 6,237	$ 128,714
Inflows	2,298	18,327	2,609	23,234	2,610	14,702	2,639	19,951
Outflows[2]	(416)	(8,013)	(51)	(8,480)	(794)	(4,328)	(249)	(5,371)
Net Flows	1,882	10,314	2,558	14,754	1,816	10,374	2,390	14,580
Realizations	(404)	(1,071)	(1,611)	(3,086)	(2,839)	(1,664)	(1,328)	(5,831)
Market Activity[3]	(14)	1,016	31	1,033	(4)	620	18	634
End of Period	$ 30,722	$ 111,781	$ 8,295	$ 150,798	$ 29,258	$ 101,522	$ 7,317	$ 138,097

(1) At the individual segment level, inflows include new subscriptions, commitments, capital raised, other increases in available capital, purchases, acquisitions and portfolio company appreciation. Outflows represent redemptions, other decreases in available capital and portfolio company depreciation. Realizations represent fund distributions of realized proceeds. Market activity represents gains (losses), the impact of foreign exchange rate fluctuations and other income.

(2) Outflows for Fee-Generating AUM include redemptions of $1,497.6 million and $594.6 million during the years ended December 31, 2016 and 2015, respectively.

(3) Includes foreign exchange impacts of $(407.2) million and $(48.7) million for credit and real estate, respectively, during the year ended December 31, 2016, and foreign exchange impacts of $(324.2) million and $(71.6) million for credit and real estate, respectively, during the year ended December 31, 2015.

Total Fee-Generating AUM was $150.8 billion at December 31, 2016, an increase of $12.7 billion or 9.2%, compared to $138.1 billion at December 31, 2015. The net increase was primarily due to:

Net flows of $14.8 billion primarily related to:

- a $10.3 billion increase related to funds we manage in the credit segment primarily consisting of a net increase in AUM relating to Athene Holding of $6.1 billion, subscriptions of $5.2 billion, an increase in capital deployment of $2.4 billion, and $1.5 billion in originations at MidCap. This was partially offset by a decrease in leverage of $2.1 billion, redemptions of $1.5 billion and net segment transfers of $1.4 billion; and
- a $2.6 billion increase related to funds we manage in the real estate segment primarily consisting of net segment transfers of $1.5 billion and subscriptions of $0.6 billion; and
- a $1.9 billion increase related to funds we manage in the private equity segment primarily consisting of subscriptions attributable to ANRP II of $1.4 billion.

Market activity of $1.0 billion primarily related to appreciation in the funds we manage in the credit segment.

Offsetting these increases were:

Realizations of $3.1 billion primarily related to:

- $1.6 billion related to funds we manage in the real estate segment primarily driven by distributions of $1.2 billion from our real estate debt funds and $0.4 billion from our real estate equity funds; and
- $1.1 billion related to funds we manage in the credit segment primarily driven by certain of our liquid/performing funds, including returns to CLO investors, and distributions of $0.3 billion from permanent capital vehicles.

Total Fee-Generating AUM was $138.1 billion at December 31, 2015, an increase of $9.4 billion or 7.3%, compared to $128.7 billion at December 31, 2014. The net increase was primarily due to:

Net inflows of $14.6 billion primarily related to:

- a $10.4 billion increase related to funds we manage in the credit segment primarily consisting of fee-generating capital deployment of $5.1 billion, an increase of $5.1 billion attributable to the acquisition of Delta Lloyd Deutschland by Athene Holding and subscriptions of $1.7 billion. This was partially offset by $0.6 billion of redemptions and $1.1 billion of net segment transfers;

- a $1.8 billion increase related to funds we manage in the private equity segment consisting of $1.4 billion of subscriptions attributable to ANRP II and $0.5 billion of fee-generating capital deployment. Offsetting these increases was a change in leverage of $0.1 billion; and
- a $2.4 billion increase related to funds we manage in the real estate segment consisting of $1.1 billion of fee-generating capital commitments from the Athene Accounts, $0.6 billion of acquisitions and $0.3 billion of subscriptions.

Market activity of $0.6 billion primarily related to appreciation in the funds we manage in the credit segment.

Offsetting these increases were:

Realizations of $5.8 billion primarily related to:

- $2.8 billion related to funds we manage in the private equity segment primarily driven by distributions of $2.6 billion from certain traditional private equity funds;
- $1.7 billion related to funds we manage in the credit segment primarily driven by certain of our liquid/performing funds, including returns to CLO investors, and distributions of $0.3 billion from permanent capital vehicles; and
- $1.3 billion related to funds we manage in the real estate segment primarily driven by distributions in the CPI funds and Athene Accounts of $0.3 billion and $0.4 billion, respectively.

Capital Deployed and Uncalled Commitments

Capital deployed is the aggregate amount of capital that has been invested during a given period by our drawdown funds, SIAs that have a defined maturity date and funds and SIAs in our real estate debt strategy. Uncalled commitments, by contrast, represents unfunded capital commitments that certain of Apollo's funds and SIAs have received from fund investors to fund future or current fund investments and expenses.

Capital deployed and uncalled commitments are indicative of the pace and magnitude of fund capital that is deployed or will be deployed, and which therefore could result in future revenues that include management fees, transaction fees and incentive income to the extent they are fee-generating. Capital deployed and uncalled commitments can also give rise to future costs that are related to the hiring of additional resources to manage and account for the additional capital that is deployed or will be deployed. Management uses capital deployed and uncalled commitments as key operating metrics since we believe the results measure our fund's investment activities.

Capital Deployed

The following table summarizes by segment the capital deployed for funds and SIAs with a defined maturity date and certain funds and SIAs in Apollo's real estate debt strategy during the specified reporting periods:

	For the Years Ended December 31,		
	2016	2015	2014
	(in millions)		
Private Equity	$ 9,582	$ 5,144	$ 2,163
Credit	3,713	5,531	5,174
Real Estate[1]	2,638	2,458	2,686
Total capital deployed	$ 15,933	$ 13,133	$ 10,023

(1) Included in capital deployed is $2,467 million, $2,140 million, and $2,320 million for the years ended December 31, 2016, 2015 and 2014, respectively, related to funds in Apollo's real estate debt strategy.

Uncalled Commitments

The following table summarizes the uncalled commitments by segment during the specified reporting periods:

	As of December 31,	
	2016	2015
	(in millions)	
Private Equity	$ 16,079	$ 19,487
Credit	11,816	8,557
Real Estate	1,414	984
Total uncalled commitments[1]	$ 29,309	$ 29,028

(1) As of December 31, 2016 and December 31, 2015, $25.9 billion and $26.1 billion, respectively, represented the amount of capital available for investment or reinvestment subject to the provisions of the applicable limited partnership agreements or other governing agreements of our funds.

The Historical Investment Performance of Our Funds

Below we present information relating to the historical performance of our funds, including certain legacy Apollo funds that do not have a meaningful amount of unrealized investments, and in respect of which the general partner interest has not been contributed to us.

When considering the data presented below, you should note that the historical results of our funds are not indicative of the future results that you should expect from such funds, from any future funds we may raise or from your investment in our Class A shares.

An investment in our Class A shares is not an investment in any of the Apollo funds, and the assets and revenues of our funds are not directly available to us. The historical and potential future returns of the funds we manage are not directly linked to returns on our Class A shares. Therefore, you should not conclude that continued positive performance of the funds we manage will necessarily result in positive returns on an investment in our Class A shares. However, poor performance of the funds that we manage would cause a decline in our revenue from such funds, and would therefore have a negative effect on our performance and in all likelihood the value of our Class A shares.

Moreover, the historical returns of our funds should not be considered indicative of the future results you should expect from such funds or from any future funds we may raise. There can be no assurance that any Apollo fund will continue to achieve the same results in the future.

Finally, our private equity IRRs have historically varied greatly from fund to fund. For example, Fund IV generated a 12% gross IRR and a 9% net IRR since its inception through December 31, 2016, while Fund V generated a 61% gross IRR and a 44% net IRR since its inception through December 31, 2016. Accordingly, the IRR going forward for any current or future fund may vary considerably from the historical IRR generated by any particular fund, or for our private equity funds as a whole. Future returns will also be affected by the applicable risks, including risks of the industries and businesses in which a particular fund invests. See “Item 1A. Risk Factors—Risks Related to Our Businesses—The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our Class A shares.”

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Investment Record

The following table summarizes the investment record by segment of Apollo’s significant drawdown funds and SIAs that have a defined maturity date in which investors make a commitment to provide capital at the formation of such funds and deliver capital when called as investment opportunities become available. The funds included in the investment record table below have greater than $500 million of AUM and/or form part of a flagship series of funds. The SIAs included in the investment record table below have greater than $200 million of AUM and did not predominantly invest in other Apollo funds or SIAs.

All amounts are as of December 31, 2016, unless otherwise noted:

									As of December 31, 2016	
($ in millions)	Vintage Year	Total AUM	Committed Capital	Total Invested Capital(1)	Realized Value(1)	Remaining Cost(1)	Unrealized Value(1)	Total Value(1)	Gross IRR(1)	Net IRR(1)
Private Equity:										
Fund VIII	2013	$ 20,336	$ 18,377	$ 10,017	$ 895	$ 9,281	$ 11,628	$ 12,523	25 %	13 %
Fund VII	2008	6,439	14,677	16,033	29,377	3,668	3,945	33,322	35	26
Fund VI	2006	3,349	10,136	12,457	18,001	3,505	2,727	20,728	12	9
Fund V	2001	337	3,742	5,192	12,697	138	80	12,777	61	44
Fund I, II, III, IV and MIA(3)	Various	29	7,320	8,753	17,400	—	14	17,414	39	26
Traditional Private Equity Funds(4)		$ 30,490	$ 54,252	$ 52,452	$ 78,370	$ 16,592	$ 18,394	$ 96,764	39 %	25 %
ANRP II	2016	3,673	3,454	581	144	505	788	932	NM (2)	NM (2)
ANRP I	2012	1,550	1,323	1,018	236	855	1,191	1,427	15	9
AION	2013	706	826	326	127	236	210	337	3 %	(11)%
Total Private Equity(9)		$ 36,419	$ 59,855	$ 54,377	$ 78,877	$ 18,188	$ 20,583	$ 99,460		
Credit:										
Credit Opportunity Funds										
COF III	2014	$ 3,124	$ 3,426	$ 4,182	$ 1,751	$ 2,566	$ 2,127	$ 3,878	(3)%	(4)%
COF I and II	2008	445	3,068	3,787	7,389	127	158	7,547	23	20
European Principal Finance Funds										
EPF II(5)	2012	4,099	3,379	3,443	1,393	2,051	3,206	4,599	20	11
EPF I(5)	2007	269	1,362	1,790	2,960	—	46	3,006	23	17
Structured Credit Funds										
FCI II	2013	2,507	1,555	1,953	559	1,682	2,056	2,615	17	13
FCI I	2012	1,044	559	1,230	852	793	818	1,670	16	12
SCRF III (12)	2015	986	1,238	1,611	671	739	1,165	1,836	18	14
SCRF I and II12)	Various	12	222	707	872	7	12	884	27	21
Other Drawdown Funds & SIAs(6)	Various	6,601	8,792	7,250	7,387	1,941	1,743	9,130	9	6
Total Credit(10)		$ 19,087	$ 23,601	$ 25,953	$ 23,834	$ 9,906	$ 11,331	$ 35,165		
Real Estate:										
U.S. RE Fund II(7)	2016	$ 687	$ 651	$ 409	$ 69	$ 384	$ 425	$ 494	17 %	17 %
U.S. RE Fund I(7)	2012	512	648	623	574	271	339	913	17	13
AGRE Debt Fund I(13)	2011	917	1,913	1,850	1,148	923	849	1,997	7	6
CPI Funds(8)	Various	605	4,768	2,475	2,529	311	102	2,631	15	12
Total Real Estate(11)		$ 2,721	$ 7,980	$ 5,357	$ 4,320	$ 1,889	$ 1,715	$ 6,035		

(1) Refer to the definitions of Vintage Year, Total Invested Capital, Realized Value, Remaining Cost, Unrealized Value, Total Value, Gross IRR and Net IRR described elsewhere in this report.

(2) Returns have not been presented as the fund commenced investing capital less than 24 months prior to the period indicated and therefore such return information was deemed not meaningful.

(3) The general partners and managers of Funds I, II and MIA, as well as the general partner of Fund III, were excluded assets in connection with the 2007 Reorganization. As a result, Apollo did not receive the economics associated with these entities. The investment performance of these funds, combined with Fund IV, is presented to illustrate fund performance associated with Apollo’s Managing Partners and other investment professionals.

(4) Total IRR is calculated based on total cash flows for all funds presented.

(5) Funds are denominated in Euros and historical figures are translated into U.S. dollars at an exchange rate of €1.00 to $1.05 as of December 31, 2016.

(6) Amounts presented have been aggregated for (i) drawdown funds with AUM greater than $500 million that do not form part of a flagship series of funds and (ii) SIAs with AUM greater than $200 million that do not predominantly invest in other Apollo funds or SIAs. Certain SIAs’ historical figures are denominated in Euros and translated into U.S. dollars at an exchange rate of €1.00 to $1.05 as of December 31, 2016. Additionally, certain SIAs totaling $1.8 billion of AUM have been excluded from Total Invested Capital, Realized Value, Remaining Cost, Unrealized Value and Total Value. These SIAs have an open ended life and a significant turnover in their portfolio assets due to the ability to recycle capital. These SIAs had $9.1 billion of Total Invested Capital through December 31, 2016.

(7) U.S. RE Fund I and U.S. RE Fund II had $150 million and $178 million of co-investment commitments as of December 31, 2016, respectively, which are included in the figures in the table. A co-invest entity within U.S. RE Fund I is denominated in GBP and translated into U.S. dollars at an exchange rate of £1.00 to $1.23 as of December 31, 2016.

(8) As part of the acquisition of Citi Property Investors (“CPI”), Apollo acquired general partner interests in fully invested funds. CPI Funds refers to CPI Capital Partners North America, CPI Capital Partners Asia Pacific, CPI Capital Partners Europe and other CPI funds or individual investments of which Apollo is not the general partner or manager and only receives fees pursuant to either a sub-advisory agreement or an investment management and administrative agreement. For CPI Capital Partners North America, CPI Capital Partners Asia Pacific and CPI Capital Partners Europe, the gross and net IRRs are presented in the investment record table since acquisition on November 12, 2010. The aggregate net IRR for these funds from their inception to December 31, 2016 was (1)%. This net IRR was primarily achieved during a period in which Apollo did not make the initial investment decisions and Apollo only became the general partner or manager of these funds upon completing the acquisition on November 12, 2010.

(9) Certain private equity co-investment vehicles and funds with AUM less than $500 million have been excluded. These co-investment vehicles and funds had $7.2 billion of aggregate AUM as of December 31, 2016.

(10) Certain credit funds and SIAs with AUM less than $500 million and $200 million, respectively, have been excluded. These funds and SIAs had $4.8 billion of aggregate AUM as of December 31, 2016.

(11) Certain accounts owned by or related to Athene, certain co-investment vehicles and certain funds with AUM less than $500 million have been excluded. These accounts, co-investment vehicles and funds had $4.8 billion of aggregate AUM as of December 31, 2016.

(12) Remaining cost for certain of our credit funds may include physical cash called, invested or reserved for certain levered investments.

(13) The investor in this U.S. Dollar denominated fund have chosen to make contributions and receive distributions in the local currency of each underlying investment. As a result, Apollo has not entered into foreign currency hedges for this fund and the returns presented include the impact of foreign currency gains or losses. The investor’s gross and net IRR, before the impact of foreign currency gains or losses, from the fund’s inception to December 31, 2016 was 10% and 9%, respectively.

Private Equity

The following table summarizes the investment record for distressed investments made in our traditional private equity fund portfolios, since the Company’s inception. All amounts are as of December 31, 2016:

	Total Invested Capital	Total Value	Gross IRR
	(in millions)		
Distressed for Control	$ 7,795	$ 18,535	29%
Non-Control Distressed	5,490	8,475	71
Total	13,285	27,010	49
Corporate Carve-outs, Opportunistic Buyouts and Other Credit[(1)]	39,167	69,754	22
Total	$ 52,452	$ 96,764	39%

(1) Other Credit is defined as investments in debt securities of issuers other than portfolio companies that are not considered to be distressed.

The following tables provide additional detail on the composition of the Fund VIII, Fund VII, Fund VI and Fund V private equity portfolios based on investment strategy. Amounts for Fund I, II, III and IV are included in the table above but not presented below as their remaining value is less than $100 million or the fund has been liquidated. All amounts are as of December 31, 2016:

Fund VIII[1]

	Total Invested Capital	Total Value
	(in millions)	
Corporate Carve-outs	$ 2,318	$ 3,410
Opportunistic Buyouts	7,200	8,429
Distressed	499	684
Total	$ 10,017	$ 12,523

Fund VII[1]

	Total Invested Capital	Total Value
	(in millions)	
Corporate Carve-outs	$ 2,159	$ 4,530
Opportunistic Buyouts	4,291	10,424
Distressed/Other Credit[2]	9,583	18,368
Total	$ 16,033	$ 33,322

Fund VI

	Total Invested Capital	Total Value
	(in millions)	
Corporate Carve-outs	$ 3,397	$ 5,808
Opportunistic Buyouts	6,374	9,958
Distressed/Other Credit[2]	2,686	4,962
Total	$ 12,457	$ 20,728

Fund V

	Total Invested Capital	Total Value
	(in millions)	
Corporate Carve-outs	$ 1,605	$ 4,947
Opportunistic Buyouts	2,165	5,333
Distressed	1,422	2,497
Total	$ 5,192	$ 12,777

(1) Committed capital less unfunded capital commitments for Fund VIII and Fund VII was $10.0 billion and $13.9 billion, respectively, which represents capital commitments from limited partners to invest in such funds less capital that is available for investment or reinvestment subject to the provisions of the applicable limited partnership agreement or other governing agreements.

(2) The distressed investment strategy includes distressed for control, non-control distressed and other credit.

During the recovery and expansionary periods of 1994 through 2000 and late 2003 through the first half of 2007, our private equity funds invested or committed to invest approximately $13.7 billion primarily in traditional and corporate partner buyouts. During the recessionary periods of 1990 through 1993, 2001 through late 2003 and the recessionary and post recessionary periods (beginning the second half of 2007 through December 31, 2016), our private equity funds have invested $42.4 billion, of which $18.8 billion was in distressed buyouts and debt investments when the debt securities of quality companies traded at deep discounts to par value. Our average entry multiple for Fund VIII, VII, VI and V was 5.5x, 6.1x, 7.7x and 6.6x, respectively, as of December 31, 2016. Our average entry multiple for a private equity fund is the average of the total enterprise value over an applicable adjusted earnings before interest, taxes, depreciation and amortization which may incorporate certain adjustments based

on the investment team's estimate and we believe captures the true economics of our funds' investments in portfolio companies. The average entry multiple of actively investing funds may include committed investments not yet closed.

Credit

The following table presents the AUM and gross and net returns information for Apollo's credit segment by category type:

	As of December 31, 2016				Gross Returns	Net Returns
Category	**AUM**	**Fee-Generating AUM**	**Carry-Eligible AUM**	**Carry-Generating AUM**	**For the Year Ended December 31, 2016[1]**	**For the Year Ended December 31, 2016[1]**
	(in millions)					
Liquid/Performing	$ 35,684	$ 31,562	$ 19,841	$ 15,524	9.6%	9.0%
Drawdown[2]	23,852	13,645	21,819	8,284	16.5	14.1
Permanent capital vehicles ex Athene Non-Sub-Advised[3]	12,330	11,460	9,984	9,498	9.6	5.9
Athene Non-Sub-Advised[3]	55,114	55,114	—	—	N/A	N/A
Advisory[4]	9,627	—	—	—	N/A	N/A
Total Credit	$ 136,607	$ 111,781	$ 51,644	$ 33,306	11.2%	9.9%

(1) The gross and net returns for the year ended December 31, 2016 for total credit excludes assets managed by AAM that are not directly invested in Apollo funds and investment vehicles or sub-advised by Apollo.
(2) As of December 31, 2016, significant drawdown funds and SIAs had inception-to-date gross and net IRRs of 16.3% and 12.6%, respectively. Significant drawdown funds and SIAs include funds and SIAs with AUM greater than $200 million that do not predominantly invest in other Apollo funds or SIAs.
(3) Athene Non-Sub-Advised reflects total Athene-related AUM of $70.8 billion less $15.7 billion of assets that were either sub-advised by Apollo or invested in funds and investment vehicles managed by Apollo. Athene Non-Sub-Advised includes $4.4 billion of Athene AUM for which AAME provides investment advisory services.
(4) Advisory refers to certain assets advised by AAME.

Liquid/Performing

The following table summarizes the investment record for funds in the liquid/performing category within Apollo's credit segment. The significant funds included in the investment record table below have greater than $200 million of AUM and do not predominantly invest in other Apollo funds or SIAs.

		Total AUM	Net Returns	
	Vintage Year	**As of December 31, 2016**	**For the Year Ended December 31, 2016**	**For the Year Ended December 31, 2015**
Credit:		(in millions)		
Hedge Funds[1]	Various	$ 6,035	11%	—%
CLOs[2]	Various	12,208	9	2
SIAs / Other	Various	17,441	9	1
Total		$ 35,684		

(1) Hedge Funds primarily includes Apollo Credit Strategies Master Fund Ltd., Apollo Credit Master Fund Ltd. and Apollo Credit Short Opportunities Fund.
(2) CLO returns are calculated based on gross return on invested assets, which excludes cash.

Permanent Capital

The following table summarizes the investment record for our permanent capital vehicles by segment, excluding Athene-related assets managed or advised by Athene Asset Management and AAME:

		Total AUM	Total Returns [1]	
	IPO Year[2]	As of December 31, 2016	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
Credit:		(in millions)		
MidCap[3]	N/A	$ 7,181	NM [4]	NM [4]
AIF	2013	386	23 %	(4) %
AFT	2011	431	24	(2)
AINV[5]	2004	4,386	26	(20)
Real Estate:				
ARI[6]	2009	3,434	8 %	17 %
Total		$ 15,818		

(1) Total returns are based on the change in closing trading prices during the respective periods presented taking into account dividends and distributions, if any, as if they were reinvested without regard to commission.

(2) An IPO year represents the year in which the vehicle commenced trading on a national securities exchange.

(3) MidCap is not a publicly traded vehicle and therefore IPO year is not applicable.

(4) Returns have not been presented as the permanent capital vehicle commenced investing capital less than 24 months prior to the period indicated and therefore such return information was deemed not meaningful.

(5) All amounts are as of September 30, 2016, except for total returns. Refer to www.apolloic.com for the most recent financial information on AINV. The information contained on AINV's website is not part of this report. Includes $1.5 billion of AUM related to a non-traded business development company sub-advised by Apollo. Total returns exclude performance of the non-traded business development company.

(6) Amounts are as of September 30, 2016. Refer to www.apolloreit.com for the most recent financial information on ARI. The information contained on ARI's website is not part of this presentation.

Athene and SIAs

As of December 31, 2016, Apollo managed or advised $70.8 billion of total AUM in accounts owned by or related to Athene, of which approximately $15.7 billion was either sub-advised by Apollo or invested in Apollo funds and investment vehicles managed by Apollo. Of the approximately $15.7 billion of AUM, the vast majority were in sub-advisory managed accounts that manage high grade credit asset classes, such as CLO debt, commercial mortgage backed securities, and insurance-linked securities.

As of December 31, 2016, Apollo managed approximately $20 billion of total AUM in SIAs, which include certain SIAs in the investment record tables above and capital deployed from certain SIAs across Apollo's private equity, credit and real estate funds.

Overview of Results of Operations

Revenues

Advisory and Transaction Fees from Related Parties, Net. As a result of providing advisory services with respect to actual and potential private equity, credit, and real estate investments, we are entitled to receive fees for transactions related to the acquisition and, in certain instances, disposition of portfolio companies as well as fees for ongoing monitoring of portfolio company operations and directors' fees. We also receive advisory fees for advisory services provided to certain credit funds. In addition, monitoring fees are generated on certain structured portfolio company investments. Under the terms of the limited partnership agreements for certain funds, the management fee payable by the funds may be subject to a reduction based on a certain percentage of such advisory and transaction fees, net of applicable broken deal costs ("Management Fee Offset"). Such amounts are presented as a reduction to advisory and transaction fees from related parties, net, in the consolidated statements of operations. See note 2 to our consolidated financial statements for more detail on advisory and transaction fees from related parties, net.

The Management Fee Offsets are calculated for each fund as follows:

- 65%-100% for private equity funds, gross advisory, transaction and other special fees;
- 65%-100% for certain credit funds, gross advisory, transaction and other special fees; and

- 100% for certain real estate funds, gross advisory, transaction and other special fees.

Management Fees from Related Parties. The significant growth of the assets we manage has had a positive effect on our revenues. Management fees are typically calculated based upon any of "net asset value," "gross assets," "adjusted par asset value," "adjusted costs of all unrealized portfolio investments," "capital commitments," "invested capital," "adjusted assets," "capital contributions," or "stockholders' equity," each as defined in the applicable limited partnership agreement and/or management agreement of the unconsolidated funds.

Carried Interest Income from Related Parties. The general partners of our funds, in general, are entitled to an incentive return that can normally amount to as much as 20% of the total returns on fund capital, depending upon performance of the underlying funds and subject to preferred returns and high water marks, as applicable. The carried interest income from related parties is recognized in accordance with U.S. GAAP guidance applicable to accounting for arrangement fees based on a formula. In applying the U.S. GAAP guidance, the carried interest from related parties for any period is based upon an assumed liquidation of the funds' assets at the reporting date, and distribution of the net proceeds in accordance with the funds' allocation provisions.

As of December 31, 2016, approximately 55% of the value of our funds' investments on a gross basis was determined using market-based valuation methods (i.e., reliance on broker or listed exchange quotes) and the remaining 45% was determined primarily by comparable company and industry multiples or discounted cash flow models. For our private equity, credit and real estate segments, the percentage determined using market-based valuation methods as of December 31, 2016 was 21%, 73% and 45%, respectively. See "Item 1A. Risk Factors—Risks Related to Our Businesses—Our funds' performance, and our performance, may be adversely affected by the financial performance of our funds' portfolio companies and the industries in which our funds invest" for a discussion regarding certain industry-specific risks that could affect the fair value of our private equity funds' portfolio company investments.

Carried interest income fee rates can be as much as 20% for our private equity funds. In our private equity funds, the Company does not earn carried interest income until the investors in the fund have achieved cumulative investment returns on invested capital (including management fees and expenses) in excess of an 8% hurdle rate. Additionally, certain of our credit and real estate funds have various carried interest rates and hurdle rates. Certain of our credit and real estate funds allocate carried interest to the general partner in a similar manner as the private equity funds. In our private equity, certain credit and real estate funds, so long as the investors achieve their priority returns, there is a catch-up formula whereby the Company earns a priority return for a portion of the return until the Company's carried interest income equates to its incentive fee rate for that fund; thereafter, the Company participates in returns from the fund at the carried interest income rate. Carried interest income is subject to reversal to the extent that the carried interest income distributed exceeds the amount due to the general partner based on a fund's cumulative investment returns. The Company recognizes potential repayment of previously received carried interest income as a general partner obligation representing all amounts previously distributed to the general partner that would need to be repaid to the Apollo funds if these funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual general partner obligation, however, would not become payable or realized until the end of a fund's life or as otherwise set forth in the respective limited partnership agreement of the fund.

The table below presents an analysis of Apollo's (i) carried interest receivable on an unconsolidated basis and (ii) realized and unrealized carried interest income (loss) for Apollo's combined segments as of December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014:

	As of December 31,		For the Year Ended December 31, 2016			For the Year Ended December 31, 2015			For the Year Ended December 31, 2014		
	2016	2015									
	Carried Interest Receivable on an Unconsolidated Basis		Unrealized Carried Interest Income (Loss)	Realized Carried Interest Income (Loss)	Total Carried Interest Income (Loss)	Unrealized Carried Interest Income (Loss)	Realized Carried Interest Income (Loss)	Total Carried Interest Income (Loss)	Unrealized Carried Interest Income (Loss)	Realized Carried Interest Income (Loss)	Total Carried Interest Income (Loss)
	(in thousands)										
Private Equity Funds:											
Fund VIII(1)	$ 333,881	$ —	$ 323,228	$ 10,653	$ 333,881	$ (427)	$ —	$ (427)	$ 427	$ —	$ 427
Fund VII(1)	74,655	68,733	5,922	9,844	15,766	(219,449)	229,679	10,230	(602,615)	902,421	299,806
Fund VI(1)	— (3)	52,561 (3)	(94,798)	—	(94,798)	(130,861)	78,812	(52,049)	(514,122)	401,449	(112,673)
Fund IV and V	2,767 (3)	6,196 (3)	(6,442)	266	(6,176)	(13,387)	640	(12,747)	(41,973)	44,850	2,877
ANRP I and II	80,809	—	80,924	13,326	94,250	(18,914)	—	(18,914)	15,077	6,093	21,170
AAA/Other(2)(5)	306,354 (3)	246,381 (3)	59,973	48,203	108,176	68,877	30,691	99,568	(52,887)	73,263	20,376
Total Private Equity Funds	798,466	373,871	368,807	82,292	451,099	(314,161)	339,822	25,661	(1,196,093)	1,428,076	231,983
Total Private Equity Funds, net of profit share	530,275	254,888	254,163	38,399	292,562	(184,903)	163,992	(20,911)	(693,146)	746,756	53,610
Credit Category:											
Drawdown	295,492 (3)	163,863 (3)	119,925	65,047	184,972	(69,127)	70,970	1,843	(93,140)	216,044	122,904
Liquid/Performing	90,035	48,933	(3,197)	92,041	88,844	(21,808)	27,557	5,749	(63,504)	64,990	1,486
Permanent capital vehicles ex AAM	42,369	28,048	20,546	22,941	43,487	10,401	40,625	51,026	—	—	—
Total Credit Funds	427,896	240,844	137,274	180,029	317,303	(80,534)	139,152	58,618	(156,644)	281,034	124,390
Total Credit Funds, net of profit share	159,061	75,472	74,261	95,315	169,576	(70,171)	94,405	24,234	(141,285)	181,887	40,602
Real Estate Funds:											
CPI Funds	368	1,379	(1,026)	1,388	362	(240)	2,496	2,256	(3,809)	640	(3,169)
U.S. RE Fund I & II	20,263	20,728	1,268	8,160	9,428	7,547	1,981	9,528	5,817	2,663	8,480
Other(5)	11,894	7,085	4,676	3,018	7,694	(153)	1,380	1,227	2,943	696	3,639
Total Real Estate Funds	32,525	29,192	4,918	12,566	17,484	7,154	5,857	13,011	4,951	3,999	8,950
Total Real Estate Funds, net of profit share	19,403	17,873	2,717	4,382	7,099	4,186	3,750	7,936	3,953	2,250	6,203
Total	$ 1,258,887	$ 643,907	$ 510,999	$ 274,887	$ 785,886	$ (387,541)	$ 484,831	$ 97,290	$ (1,347,786)	$ 1,713,109	$ 365,323
Total, net of profit share	$ 708,739 (4)	$ 348,233 (4)	$ 331,141	$ 138,096	$ 469,237	$ (250,888)	$ 262,147	$ 11,259	$ (830,478)	$ 930,893	$ 100,415

(1) As of December 31, 2016, the remaining investments and escrow cash of Fund VII and Fund VI were valued at 103% and 82% of the fund's unreturned capital, respectively, which were below the required escrow ratio of 115%. As a result, these funds are required to place in escrow current and future carried interest income distributions to the general partner until the specified return ratio of 115% is met (at the time of a future distribution) or upon liquidation. As of December 31, 2016, Fund VI had $167.6 million of gross carried interest income, or $110.7 million net of profit sharing, in escrow. As of December 31, 2016, Fund VII had $58.6 million of gross carried interest income, or $32.6 million net of profit sharing, in escrow. With respect to Fund VII and Fund VI, realized carried interest income currently distributed to the general partner is limited to potential tax distributions pursuant to the fund's partnership agreement. As of December 31, 2015, the remaining investments and escrow cash of Fund VII and Fund VI were valued at 106% and 95% of the fund's unreturned capital, respectively, which were below the required escrow ratio of 115%. As a result, these funds are required to place in escrow current and future carried interest income distributions to the general partner until the specified return ratio of 115% is met (at the time of a future distribution) or upon liquidation. As of December 31, 2015, Fund VI had $167.6 million of gross carried interest income, or $110.7 million net of profit sharing, in escrow. With respect to Fund VII and Fund VI, realized carried interest income currently distributed to the general partner is limited to tax distributions pursuant to the fund's partnership agreement.

(2) As of December 31, 2016, AAA includes $229.8 million of carried interest receivable, or $149.2 million net of profit sharing, from AAA Investments, L.P., and as of December 31, 2015, AAA includes $185.5 million of carried interest receivable, or $122.6 million net of profit sharing, from AAA Investments, L.P. which Apollo may elect to receive in cash or in common shares of Athene Holding (valued at the then fair market value); and if Apollo elects to receive payment of such carried interest in cash, then common shares of Athene Holding shall be distributed to Apollo and immediately sold by Apollo to pay for such carried interest in cash.

(3) As of December 31, 2016, certain credit funds and certain private equity funds had $60.6 million and $56.0 million, respectively, in general partner obligations to return previously distributed carried interest income. The fair value gain on investments and income at the fund level needed to reverse the general partner obligations for certain credit funds and certain private equity funds was $332.4 million and $406.6 million, respectively, as of December 31, 2016. As of December 31, 2015, certain credit funds and certain private equity funds had $57.8 million and $14.2 million, respectively, in general partner obligations to return previously distributed carried interest income. The fair value gain on investments and income at the fund level needed to reverse the general partner obligations for certain credit funds and certain private equity funds was $273.4 million and $289.2 million, respectively, as of December 31, 2015.

(4) There was a corresponding profit sharing payable of $550.1 million and $295.7 million as of December 31, 2016 and December 31, 2015, respectively, including profit sharing payable related to amounts in escrow and contingent consideration obligations of $106.3 million and $79.6 million, respectively.

(5) Other includes certain SIAs.

The general partners of the private equity, credit and real estate funds listed in the table above were accruing carried interest income as of December 31, 2016. The investment manager of AINV accrues carried interest in the management company

business as it is earned. The general partners of certain of our credit funds accrue carried interest when the fair value of investments exceeds the cost basis of the individual investors' investments in the fund, including any allocable share of expenses incurred in connection with such investments, which we refer to as "high water marks." These high water marks are applied on an individual investor basis. Certain of our credit funds have investors with various high water marks, the achievement of which is subject to market conditions and investment performance.

Carried interest income from our private equity funds and certain credit and real estate funds is subject to contingent repayment by the general partner in the event of future losses to the extent that the cumulative carried interest distributed from inception to date exceeds the amount computed as due to the general partner at the final distribution. These general partner obligations, if applicable, are included in due to related parties on the consolidated statements of financial condition. As of December 31, 2016 and 2015, there was $116.6 million and $72.0 million, respectively, of such general partner obligations related to our funds. Carried interest receivable is reported on a separate line item within the consolidated statements of financial condition.

The following table summarizes our carried interest income since inception for our combined segments through December 31, 2016:

	Carried Interest Income Since Inception[(1)]				
	Undistributed by Fund and Recognized	Distributed by Fund and Recognized[(2)]	Total Undistributed and Distributed by Fund and Recognized[(3)]	General Partner Obligation as of December 31, 2016[(3)]	Maximum Carried Interest Income Subject to Potential Reversal[(4)]
	(in millions)				
Private Equity Funds:					
Fund VIII	$ 333.9	$ —	$ 333.9	$ —	$ 333.9
Fund VII	74.7	3,101.6	3,176.3	—	538.8
Fund VI	—	1,658.9	1,658.9	42.2	1,070.4
Fund IV and V	2.8	2,053.1	2,055.9	13.8	15.5
ANRP I and II	80.8	16.1	96.9	—	89.1
AAA/Other	306.3	213.0	519.3	—	306.3
Total Private Equity Funds	798.5	7,042.7	7,841.2	56.0	2,354.0
Credit Category[(5)]:					
Drawdown	295.5	962.4	1,257.9	60.6	358.5
Liquid/Performing	90.0	448.3	538.3	—	75.9
Permanent capital vehicles ex AAM	31.0	—	31.0	—	31.0
Total Credit Funds	416.5	1,410.7	1,827.2	60.6	465.4
Real Estate Funds:					
CPI Funds	0.4	9.7	10.1	—	0.4
U.S. RE Fund I & II	20.3	12.8	33.1	—	27.1
Other[(6)]	11.9	4.1	16.0	—	12.3
Total Real Estate Funds	32.6	26.6	59.2	—	39.8
Total	$ 1,247.6	$ 8,480.0	$ 9,727.6	$ 116.6	$ 2,859.2

(1) Certain funds are denominated in Euros and historical figures are translated into U.S. dollars at an exchange rate of €1.00 to $1.05 as of December 31, 2016.

(2) Amounts in "Distributed by Fund and Recognized" for the CPI, Gulf Stream Asset Management, LLC ("Gulf Stream") and Stone Tower funds and SIAs are presented for activity subsequent to the respective acquisition dates.

(3) Amounts were computed based on the fair value of fund investments on December 31, 2016. Carried interest income has been allocated to and recognized by the general partner. Based on the amount of carried interest income allocated, a portion is subject to potential reversal or, to the extent applicable, has been reduced by the general partner obligation to return previously distributed carried interest income or fees at December 31, 2016. The actual determination and any required payment of any such general partner obligation would not take place until the final disposition of the fund's investments based on contractual termination of the fund.

(4) Represents the amount of carried interest income that would be reversed if remaining fund investments became worthless on December 31, 2016. Amounts subject to potential reversal of carried interest income include amounts undistributed by a fund (i.e., the carried interest receivable), as well as a portion of the amounts that have been distributed by a fund, net of taxes not subject to a general partner obligation to return previously distributed carried interest income, except for those funds that are gross of taxes as defined in the respective funds' governing documents.

(5) Amounts exclude AINV, as carried interest income from this entity is not subject to contingent repayment.

(6) Other includes certain SIAs.

Expenses

Compensation and Benefits. Our most significant expense is compensation and benefits expense. This consists of fixed salary, discretionary and non-discretionary bonuses, profit sharing expense associated with the carried interest income earned from private equity, credit and real estate funds and compensation expense associated with the vesting of non-cash equity-based awards.

Our compensation arrangements with certain partners and employees contain a significant performance-based incentive component. Therefore, as our net revenues increase, our compensation costs also rise or can be lower when net revenues decrease. In addition, our compensation costs reflect the increased investment in people as we expand geographically and create new funds.

In addition, certain professionals and selected other individuals have a profit sharing interest in the carried interest income earned in relation to our private equity, certain credit and real estate funds in order to better align their interests with our own and with those of the investors in these funds. Profit sharing expense is part of our compensation and benefits expense and is generally based upon a fixed percentage of private equity, credit and real estate carried interest income on a pre-tax and a pre-consolidated basis. Profit sharing expense can reverse during periods when there is a decline in carried interest income that was previously recognized. Profit sharing amounts are normally distributed to employees after the corresponding investment gains have been realized and generally before preferred returns are achieved for the investors. Therefore, changes in our unrealized gains (losses) for investments have the same effect on our profit sharing expense. Profit sharing expense increases when unrealized gains increase. Realizations only impact profit sharing expense to the extent that the effects on investments have not been recognized previously. If losses on other investments within a fund are subsequently realized, the profit sharing amounts previously distributed are normally subject to a general partner obligation to return carried interest income previously distributed back to the funds. This general partner obligation due to the funds would be realized only when the fund is liquidated, which generally occurs at the end of the fund's term. However, indemnification obligations also exist for pre-reorganization realized gains, which, although our Managing Partners and Contributing Partners would remain personally liable, may indemnify our Managing Partners and Contributing Partners for 17.5% to 100% of the previously distributed profits regardless of the fund's future performance. See note 14 to our consolidated financial statements for further discussion of indemnification.

Each Managing Partner receives $100,000 per year in base salary for services rendered to us. Additionally, our Managing Partners can receive other forms of compensation. In connection with the 2007 Reorganization, the Managing Partners and Contributing Partners received AOG Units, which vested over a period of five to six years and certain employees were granted RSUs, which vested over a period of typically six years. In addition, AHL Awards (as defined in note 13 to our consolidated financial statements) and other equity-based compensation awards have been granted to the Company and certain employees, which amortize over the respective vesting periods. In addition, the Company grants equity awards to certain employees, including RSUs, restricted Class A shares and options, that generally vest and become exercisable in quarterly installments or annual installments depending on the contract terms over a period of three to six years. See note 13 to our consolidated financial statements for further discussion of AOG Units and other equity-based compensation.

Other Expenses. The balance of our other expenses includes interest, placement fees, and general, administrative and other operating expenses. Interest expense consists primarily of interest related to the 2013 AMH Credit Facilities, the 2024 Senior Notes and the 2026 Senior Notes as discussed in note 11 to our consolidated financial statements. Placement fees are incurred in connection with our capital raising activities. General, administrative and other expenses includes occupancy expense, depreciation and amortization, professional fees and costs related to travel, information technology and administration. Occupancy expense represents charges related to office leases and associated expenses, such as utilities and maintenance fees. Depreciation and amortization of fixed assets is normally calculated using the straight-line method over their estimated useful lives, ranging from two to sixteen years, taking into consideration any residual value. Leasehold improvements are amortized over the shorter of the useful life of the asset or the expected term of the lease. Intangible assets are amortized based on the future cash flows over the expected useful lives of the assets.

Other Income (Loss)

Net Gains (Losses) from Investment Activities. The performance of the consolidated Apollo funds has impacted our net gains (losses) from investment activities. Net gains (losses) from investment activities include both realized gains and losses and the change in unrealized gains and losses in our investment portfolio between the opening reporting date and the closing reporting date. Net unrealized gains (losses) are a result of changes in the fair value of unrealized investments and reversal of unrealized gains (losses) due to dispositions of investments during the reporting period. Significant judgment and estimation goes into the assumptions that drive these models and the actual values realized with respect to investments could be materially different

from values obtained based on the use of those models. The valuation methodologies applied impact the reported value of investment company holdings and their underlying portfolios in our consolidated financial statements.

Net Gains (Losses) from Investment Activities of Consolidated Variable Interest Entities. Changes in the fair value of the consolidated VIEs' assets and liabilities and related interest, dividend and other income and expenses subsequent to consolidation are presented within net gains (losses) from investment activities of consolidated variable interest entities and are attributable to Non-Controlling Interests in the consolidated statements of operations.

Other Income (Losses), Net. Other income (losses), net includes gains (losses) arising from the remeasurement of foreign currency denominated assets and liabilities, reversal of a portion of the tax receivable agreement liability (see note 14 to our consolidated financial statements), gains (losses) arising from the remeasurement of derivative instruments associated with fees from certain of the Company's related parties and other miscellaneous non-operating income and expenses.

***Income Taxes*.** The Apollo Operating Group and its subsidiaries generally operate as partnerships for U.S. federal income tax purposes. As a result, except as described below, the Apollo Operating Group has not been subject to U.S. income taxes. However, these entities in some cases are subject to New York City unincorporated business taxes ("NYC UBT"), and non-U.S. entities, in some cases, are subject to non-U.S. corporate income taxes. In addition, certain consolidated entities are, or are treated as, corporations for U.S. and non-U.S. tax purposes and therefore subject to U.S. federal, state and local corporate income tax, and the Company's provision for income taxes is accounted for in accordance with U.S. GAAP.

Significant judgment is required in determining tax expense and in evaluating tax positions, including evaluating uncertainties. We recognize the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained upon examination, including resolutions of any related appeals or litigation, based on the technical merits of the position. The tax benefit is measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. If a tax position is not considered more likely than not to be sustained, then no benefits of the position are recognized. The Company's tax positions are reviewed and evaluated quarterly to determine whether or not we have uncertain tax positions that require financial statement recognition.

Deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amount of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Non-Controlling Interests

For entities that are consolidated, but not 100% owned, a portion of the income or loss and corresponding equity is allocated to owners other than Apollo. The aggregate of the income or loss and corresponding equity that is not owned by the Company is included in Non-Controlling Interests in the consolidated financial statements. The Non-Controlling Interests relating to Apollo Global Management, LLC primarily include the 53.7% and 54.4% ownership interest in the Apollo Operating Group held by the Managing Partners and Contributing Partners through their limited partner interests in Holdings as of December 31, 2016 and 2015, respectively. Non-Controlling Interests also include limited partner interests in certain consolidated funds and VIEs.

The authoritative guidance for Non-Controlling Interests in the consolidated financial statements requires reporting entities to present Non-Controlling Interest as equity and provides guidance on the accounting for transactions between an entity and Non-Controlling Interests. According to the guidance, (1) Non-Controlling Interests are presented as a separate component of shareholders' equity on the Company's consolidated statements of financial condition, (2) net income (loss) includes the net income (loss) attributable to the Non-Controlling Interest holders on the Company's consolidated statements of operations, (3) the primary components of Non-Controlling Interest are separately presented in the Company's consolidated statements of changes in shareholders' equity to clearly distinguish the interests in the Apollo Operating Group and other ownership interests in the consolidated entities and (4) profits and losses are allocated to Non-Controlling Interests in proportion to their ownership interests regardless of their basis.

Results of Operations

Below is a discussion of our consolidated results of operations for the years ended December 31, 2016, 2015 and 2014. For additional analysis of the factors that affected our results at the segment level, see "—Segment Analysis" below:

	For the Years Ended December 31,		Amount Change	Percentage Change	For the Years Ended December 31,		Amount Change	Percentage Change
	2016	2015			2015	2014		
Revenues:	(in thousands)				(in thousands)			
Management fees from related parties	$ 1,043,513	$ 930,194	$ 113,319	12.2 %	$ 930,194	$ 850,441	$ 79,753	9.4 %
Advisory and transaction fees from related parties, net	146,665	14,186	132,479	NM	14,186	315,587	(301,401)	(95.5)
Carried interest income from related parties	780,206	97,290	682,916	NM	97,290	394,055	(296,765)	(75.3)
Total Revenues	1,970,384	1,041,670	928,714	89.2	1,041,670	1,560,083	(518,413)	(33.2)
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	389,130	354,524	34,606	9.8	354,524	338,049	16,475	4.9
Equity-based compensation	102,983	97,676	5,307	5.4	97,676	126,320	(28,644)	(22.7)
Profit sharing expense	357,074	85,229	271,845	319.0	85,229	276,190	(190,961)	(69.1)
Total compensation and benefits	849,187	537,429	311,758	58.0	537,429	740,559	(203,130)	(27.4)
Interest expense	43,482	30,071	13,411	44.6	30,071	22,393	7,678	34.3
General, administrative and other	247,000	255,061	(8,061)	(3.2)	255,061	265,189	(10,128)	(3.8)
Placement fees	26,249	8,414	17,835	212.0	8,414	15,422	(7,008)	(45.4)
Total Expenses	1,165,918	830,975	334,943	40.3	830,975	1,043,563	(212,588)	(20.4)
Other Income:								
Net gains from investment activities	139,721	121,723	17,998	14.8	121,723	213,243	(91,520)	(42.9)
Net gains from investment activities of consolidated variable interest entities	5,015	19,050	(14,035)	(73.7)	19,050	22,564	(3,514)	(15.6)
Income from equity method investments	103,178	14,855	88,323	NM	14,855	53,856	(39,001)	(72.4)
Interest income	4,072	3,232	840	26.0	3,232	10,392	(7,160)	(68.9)
Other income, net	4,562	7,673	(3,111)	(40.5)	7,673	60,592	(52,919)	(87.3)
Total Other Income	256,548	166,533	90,015	54.1	166,533	360,647	(194,114)	(53.8)
Income before income tax provision	1,061,014	377,228	683,786	181.3	377,228	877,167	(499,939)	(57.0)
Income tax provision	(90,707)	(26,733)	(63,974)	239.3	(26,733)	(147,245)	120,512	(81.8)
Net Income	970,307	350,495	619,812	176.8	350,495	729,922	(379,427)	(52.0)
Net income attributable to Non-Controlling Interests	(567,457)	(215,998)	(351,459)	162.7	(215,998)	(561,693)	345,695	(61.5)
Net Income Attributable to Apollo Global Management, LLC	$ 402,850	$ 134,497	$ 268,353	199.5 %	$ 134,497	$ 168,229	$ (33,732)	(20.1)%

Note: "NM" denotes not meaningful. Changes from negative to positive amounts and positive to negative amounts are not considered meaningful. Increases or decreases from zero and changes greater than 500% are also not considered meaningful.

Revenues

Our revenues and other income include fixed components that result from measures of capital and asset valuations and variable components that result from realized and unrealized investment performance, as well as the value of successfully completed transactions.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Management fees from related parties increased by $113.3 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. This change was primarily attributable to increased management fees earned with respect to ANRP II, MidCap, Athene, assets advised by AAME, COF III and ARI of $46.0 million, $12.5 million, $10.8 million, $10.6 million, $8.0 million and $6.6 million, respectively, partially offset by decreases in management fees earned with respect to AINV and Fund VI of $13.6 million and $6.5 million, respectively, during the year ended December 31, 2016 as compared to the same period during 2015. The increase in management fees from related parties was partially driven by an increase in reimbursable expenses during the year ended December 31, 2016 as compared to the same period during 2015.

Advisory and transaction fees from related parties, net, increased by $132.5 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. This change was primarily attributable to an increase in net advisory and transaction fees earned with respect to Fund VIII's portfolio companies of $113.1 million during the year ended December 31,

2016, as compared to the same period during 2015, as well as a legal reserve in connection with an SEC regulatory matter recorded during the year ended December 31, 2015.

Carried interest income from related parties increased by $682.9 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. This change was primarily attributable to increased carried interest income earned from our private equity and credit funds of $425.4 million and $258.7 million, respectively, during the year ended December 31, 2016 as compared to the same period in 2015. For additional details regarding changes in carried interest income in each segment, see "—Segment Analysis" below.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Management fees from related parties increased by $79.8 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to the adoption of new consolidation guidance which led to the deconsolidation of certain funds and CLOs as of January 1, 2015 as described in note 2 to the consolidated financial statements. As a result of the adoption of new consolidation guidance, eliminations of management fees of consolidated CLOs decreased by $59.2 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014. The change in management fees from related parties was also driven by an increase in management fees in relation to the AHL Awards (as defined in note 13 to our consolidated financial statements) of $7.0 million granted to the Company's employees, which are liability awards that are marked-to-market based on the valuation of Athene (see note 13 to the consolidated financial statements).

Advisory and transaction fees from affiliates, net, decreased by $301.4 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to a decrease in monitoring fees from Athene of $224.5 million as a result of the termination of a transaction advisory services agreement with Athene (the "Athene Services Agreement") as of December 31, 2014, a decrease in net advisory and transaction fees earned with respect to Fund VII of $26.6 million and a legal reserve in connection with an SEC regulatory matter recorded during the year ended December 31, 2015.

Carried interest income from related parties decreased by $296.8 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to decreases in carried interest income from the private equity and credit segments of $206.3 million and $107.0 million, respectively, offset by an increase in carried interest income from the real estate segment of $4.1 million during the year ended December 31, 2015 as compared to the same period in 2014. For additional details regarding changes in carried interest income in each segment, see "—Segment Analysis" below.

Expenses

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Compensation and benefits increased by $311.8 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily attributable to an increase in profit sharing expense of $271.8 million due to increased carried interest income during the year ended December 31, 2016, as compared to the same period in 2015. In any period the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period. In addition, this change was attributable to an increase in salary, bonus and benefits of $34.6 million during the year ended December 31, 2016 as compared to the same period in 2015 as a result of an increase in reimbursable expenses during the year ended December 31, 2016 as compared to the same period during 2015 and an increase in headcount during the year ended December 31, 2016.

Included in profit sharing expense is $62.1 million and $62.1 million for the year ended December 31, 2016 and 2015, respectively, related to a performance based incentive arrangement for certain Apollo partners and employees designed to more closely align compensation on an annual basis with the overall realized performance of the Company (referred to herein as the "Incentive Pool"). Allocations to participants in the Incentive Pool contain both a fixed component and a discretionary component, each of which may vary year to year. The fixed component of the Incentive Pool was $0.6 million and $1.6 million for the year ended December 31, 2016 and 2015, respectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular period. See "—Critical Accounting Policies—Profit Sharing Expense" for an overview of the Incentive Pool.

Interest expense increased $13.4 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015 as a result of the issuance of the 2026 Senior Notes in May 2016, as described in note 11 to our consolidated financial statements.

General, administrative and other expense decreased by $8.1 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015 as a result of a decrease in depreciation and amortization related to certain intangibles in connection with the Company's acquisition of Stone Tower Capital LLC and its related management companies ("Stone Tower") being fully amortized at December 31, 2015. This decrease was offset by an increase related to certain expenses where the Company is considered the principal under the relevant agreements and is required to record the expense and related reimbursement on a gross basis.

Placement fees increased by $17.8 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015 as a result of placement fees related to the launch of Apollo European Principal Finance Fund III, L.P. ("EPF III") of $19.4 million during the year ended December 31, 2016. Placement fees are incurred in connection with raising capital for new and existing funds. The fees are normally payable to placement agents, who are third parties that assist in identifying potential investors, securing commitments to invest from such potential investors, preparing or revising offering marketing materials, developing strategies for attempting to secure investments by potential investors and/or providing feedback and insight regarding issues and concerns of potential investors.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Compensation and benefits decreased by $203.1 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to a decrease in profit sharing expense of $191.0 million due to lower carried interest income during the year ended December 31, 2015 as compared to the same period in 2014. In any year the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period. Equity-based compensation decreased $28.6 million during the year ended December 31, 2015 as compared to the same period in 2014 primarily due to non-cash expense of $45.6 million incurred in connection with the departure of an executive officer during the year ended December 31, 2014. This decrease was offset by additional expense incurred in relation to the AHL Awards granted to the Company's employees, which are liability awards that are marked to market based on the valuation of Athene (see note 13 to the consolidated financial statements) during the year ended December 31, 2015. The decreases in profit sharing expense and equity-based compensation were offset by an increase in salary, bonus and benefits of $16.5 million during the year ended December 31, 2015 as a result of an increase in headcount after December 31, 2014.

Included within profit sharing expense was $62.1 million and $62.0 million related to the Incentive Pool for the years ended December 31, 2015 and 2014, respectively. The fixed component of the Incentive Pool was $1.6 million and $6.5 million for the years ended December 31, 2015 and 2014, respectively.

Interest expense increased by $7.7 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 as a result of the issuance of the 2024 Senior Notes in May, 2014, as described in note 11 to our consolidated financial statements.

General, administrative and other expense decreased by $10.1 million for the year ended December 31, 2015, as compared to the year ended December 31, 2014. This change was primarily attributable to a decrease in professional fees related to lower consulting fees and lower technology expenses incurred during the year ended December 31, 2015 as compared to the same period in 2014. These decreases were offset by an increase in expense incurred primarily due to a legal reserve in connection with an SEC regulatory matter recorded during the year ended December 31, 2015.

Placement fees decreased by $7.0 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to placement fees with respect to COF III of $6.3 million during the year ended December 31, 2014 that did not recur during the year ended December 31, 2015.

Other Income (Loss)

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Net gains from investment activities increased by $18.0 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. The increase was primarily attributable to an increase in unrealized gains on the Company's investment in Athene during the year ended December 31, 2016. See note 6 to the consolidated financial statements for further information regarding the Company's investment in Athene.

Income from equity method investments increased by $88.3 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily driven by increases in the value of investments held by certain Apollo funds and other entities in which the Company has a direct interest, mainly with respect to Fund VIII, Apollo Energy Opportunity Fund, L.P. ("AEOF"), Apollo European Principal Finance Fund II, L.P. ("EPF II"), ANRP II, Credit Opportunity Fund

III, L.P. (“COF III”), ANRP I, an SIA and MidCap of $45.2 million, $7.9 million, $6.0 million, $5.7 million, $4.9 million, $4.5 million, $3.2 million and $2.7 million, respectively, as well as modest increases across most of our other equity method investments during the year ended December 31, 2016, as compared to the same period in 2015.

Other income, net decreased by $3.1 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily driven by foreign exchange losses during the year ended December 31, 2016, compared to foreign exchange gains during the year ended December 31, 2015.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Net gains from investment activities decreased by $91.5 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to net gains from investment activities with respect to AAA of $204.6 million during the year ended December 31, 2014 that did not recur during the year ended December 31, 2015 as a result of the deconsolidation of AAA effective January 1, 2015. (See note 2 to the consolidated financial statements for details regarding the Company’s adoption of the new consolidation guidance.) This was offset by an unrealized gain on the Company’s investment in Athene of $122.4 million during the year ended December 31, 2015.

Income from equity method investments decreased by $39.0 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily driven by decreases in the values of investments held by certain Apollo funds and other entities in which the Company has a direct interest, mainly with respect to Fund VII, AINV, AION, EPF I, ARI and Apollo Credit Liquidity Fund, L.P. (“ACLF”) which resulted in decreases in income from equity method investments of $12.4 million, $9.3 million, $5.9 million, $3.4 million, $2.7 million and $2.0 million, respectively. These decreases were offset by an increase in the value of Apollo’s ownership interest in AAA of $10.0 million.

Interest income decreased by $7.2 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 primarily due to payment-in-kind interest income earned during the year ended December 31, 2014 that did not recur in 2015 as a result of the sale of the Company’s investment in HFA Holdings Limited ("HFA") during the year ended December 31, 2014.

Other income, net decreased by $52.9 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily due to (i) a gain from the reduction of the tax receivable agreement liability of $32.2 million resulting from changes in projected income estimates and in estimated tax rates (see note 14 to our consolidated financial statements), (ii) a $14.0 million unrealized gain on Athene-related derivative contracts as a result of the settlement of these derivative contracts during 2014 and (iii) a gain on extinguishment of a portion of the contingent consideration obligation related to the acquisition of Stone Tower of $13.4 million, each of which occurred during the year ended December 31, 2014 and did not recur in 2015.

Income Tax Provision

The Apollo Operating Group and its subsidiaries generally operate as partnerships for U.S. federal income tax purposes. As a result, only a portion of the income we earn is subject to corporate-level tax in the United States and foreign jurisdictions. The provision for income taxes includes federal, state and local income taxes in the United States and foreign income taxes.

Years Ended December 31, 2016 Compared to Years Ended December 31, 2015

The income tax provision increased by $64.0 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015 primarily due to a change in the mix of earnings which are subject to corporate-level taxation, as well as an increase in Fee Related Earnings subject to corporate-level taxation. The provision for income taxes includes federal, state and local income taxes in the United States and foreign income taxes at an effective tax rate of 8.5% and 7.1% for the years ended December 31, 2016 and 2015, respectively. The reconciling items between our statutory tax rate and our effective tax rate were due to the following: (i) income passed through to Non-Controlling Interests; (ii) income passed through to Class A shareholders; and (iii) state and local income taxes including NYC UBT (see note 10 to the consolidated financial statements for further details regarding the Company’s income tax provision).

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The income tax provision decreased by $120.5 million primarily due to a change in the mix of earnings which are subject to corporate-level tax, as well as a decrease in Fee Related Earnings subject to corporate-level taxation. The provision for income taxes includes federal, state and local income taxes in the United States and foreign income taxes at an effective tax rate of 7.1% and 16.8% for the years ended December 31, 2015 and 2014, respectively. The reconciling items between our statutory tax rate and our effective tax rate were due to the following: (i) income passed through to Non-Controlling Interests; (ii) income

passed through to Class A shareholders; and (iii) state and local income taxes including NYC UBT (see note 10 to the consolidated financial statements for further details regarding the Company's income tax provision).

Non-Controlling Interests

Net income attributable to Non-Controlling Interests in the Apollo Operating Group consisted of the following:

	For the Years Ended December 31,		
	2016	2015	2014
	(in thousands)		
Net income	$ 970,307	$ 350,495	$ 729,922
Net income attributable to Non-Controlling Interests in consolidated entities	(5,789)	(21,364)	(157,011)
Net income after Non-Controlling Interests in consolidated entities	964,518	329,131	572,911
Adjustments:			
Income tax provision[1]	90,707	26,733	147,245
NYC UBT and foreign tax benefit[2]	(9,899)	(10,975)	(10,995)
Net (income) loss in non-Apollo Operating Group entities	(3,156)	449	(31,150)
Total adjustments	77,652	16,207	105,100
Net income after adjustments	1,042,170	345,338	678,011
Approximate weighted average ownership percentage of Apollo Operating Group	54.0%	55.9%	57.8%
Net income attributable to Non-Controlling Interests in Apollo Operating Group	$ 561,668	$ 194,634	$ 404,682

(1) Reflects all taxes recorded in our consolidated statements of operations. Of this amount, U.S. federal, state, and local corporate income taxes attributable to APO Corp. are added back to income of the Apollo Operating Group before calculating Non-Controlling Interests as the income allocable to the Apollo Operating Group is not subject to such taxes.

(2) Reflects NYC UBT and foreign taxes that are attributable to the Apollo Operating Group and its subsidiaries related to its operations in the U.S. as partnerships and in non-U.S. jurisdictions as corporations. As such, these amounts are considered in the income attributable to the Apollo Operating Group.

Segment Analysis

Discussed below are our results of operations for each of our reportable segments. They represent the segment information available and utilized by our executive management, which consists of our Managing Partners, who operate collectively as our chief operating decision maker, to assess performance and to allocate resources. Management divides its operations into three reportable segments: private equity, credit and real estate. These segments were established based on the nature of investment activities in each underlying fund, including the specific type of investment made and the level of control over the investment. Segment results represent segment income (loss) before income tax provision excluding transaction-related charges arising from the 2007 private placement, and any acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration and certain other charges associated with acquisitions. In addition, segment results exclude non-cash revenue and expense related to equity awards granted by unconsolidated related parties to employees of the Company, as well as the assets, liabilities and operating results of the funds and VIEs that are included in the consolidated financial statements.

Our financial results vary, since carried interest, which generally constitutes a large portion of the income from the funds that we manage, as well as the transaction and advisory fees that we receive, can vary significantly from quarter to quarter and year to year. As a result, we emphasize long-term financial growth and profitability to manage our business.

Private Equity

The following table sets forth our segment statement of operations information and our supplemental performance measure, EI, within our private equity segment for the years ended December 31, 2016, 2015 and 2014.

	For the Years Ended December 31,				For the Years Ended December 31,			
	2016	2015	Total Change	Percentage Change	2015	2014	Total Change	Percentage Change
	(in thousands)				(in thousands)			
Private Equity(1):								
Revenues:								
Management fees from related parties	$ 321,995	$ 295,836	$ 26,159	8.8 %	$ 295,836	$ 315,069	$ (19,233)	(6.1)%
Advisory and transaction fees from related parties, net	128,675	(7,485)	136,160	NM	(7,485)	58,241	(65,726)	NM
Carried interest income (loss) from related parties:								
Unrealized(2)	368,807	(314,161)	682,968	NM	(314,161)	(1,196,093)	881,932	(73.7)
Realized	82,292	339,822	(257,530)	(75.8)	339,822	1,428,076	(1,088,254)	(76.2)
Total carried interest income from related parties	451,099	25,661	425,438	NM	25,661	231,983	(206,322)	(88.9)
Total Revenues	**901,769**	**314,012**	**587,757**	**187.2**	**314,012**	**605,293**	**(291,281)**	**(48.1)**
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	124,463	123,653	810	0.7	123,653	129,547	(5,894)	(4.5)
Equity-based compensation	27,549	31,324	(3,775)	(12.1)	31,324	49,526	(18,202)	(36.8)
Profit sharing expense	158,536	46,572	111,964	240.4	46,572	178,373	(131,801)	(73.9)
Total compensation and benefits	310,548	201,549	108,999	54.1	201,549	357,446	(155,897)	(43.6)
Non-compensation expenses:								
General, administrative and other	71,323	75,559	(4,236)	(5.6)	75,559	68,092	7,467	11.0
Placement fees	2,297	4,550	(2,253)	(49.5)	4,550	2,194	2,356	107.4
Total non-compensation expenses	73,620	80,109	(6,489)	(8.1)	80,109	70,286	9,823	14.0
Total Expenses	**384,168**	**281,658**	**102,510**	**36.4**	**281,658**	**427,732**	**(146,074)**	**(34.2)**
Other Income:								
Income from equity method investments	66,281	19,125	47,156	246.6	19,125	30,418	(11,293)	(37.1)
Net gains from investment activities	11,379	6,933	4,446	64.1	6,933	—	6,933	NM
Net interest loss	(14,187)	(9,878)	(4,309)	43.6	(9,878)	(7,883)	(1,995)	25.3
Other income, net	1,650	3,148	(1,498)	(47.6)	3,148	14,027	(10,879)	(77.6)
Total Other Income	**65,123**	**19,328**	**45,795**	**236.9**	**19,328**	**36,562**	**(17,234)**	**(47.1)**
Economic Income	**$ 582,724**	**$ 51,682**	**$ 531,042**	**NM**	**$ 51,682**	**$ 214,123**	**$ (162,441)**	**(75.9)%**

(1) Prior period amounts have been recast to conform to the current presentation. See note 16 to our consolidated financial statements for more detail on the reclassification within our three segments.

(2) Included in unrealized carried interest income from related parties for the years ended December 31, 2016, 2015 and 2014 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 14 to our consolidated financial statements for further detail regarding the general partner obligation.

Revenues

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Management fees from related parties increased by $26.2 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily attributable to management fees earned with respect to ANRP II of $46.0 million during the year ended December 31, 2016 in connection with capital raises for the fund during 2016, partially offset by decreases in management fees earned with respect to Fund VI, ANRP I and Fund VII of $6.5 million, $4.9 million and $3.9 million, respectively, during the year ended December 31, 2016 as compared to the year ended December 31, 2015.

Advisory and transaction fees from related parties, net increased by $136.2 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily attributable to an increase in net advisory and transaction fees earned with respect to Fund VIII's portfolio companies of $113.1 million during the year ended December 31, 2016 as compared to the year ended December 31, 2015, as well as a legal reserve in connection with an SEC regulatory matter recorded during the year ended December 31, 2015.

Carried interest income from related parties increased by $425.4 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily attributable to increases in carried interest income earned from Fund VIII, ANRP I and ANRP II of $334.3 million, $64.8 million and $50.4 million, respectively, during the year ended December 31, 2016. The increase in carried interest income earned from Fund VIII was primarily driven by appreciation in the value of their privately held energy related portfolio companies. The increases in carried interest income from ANRP I and

ANRP II were driven by appreciation in the value of their privately held portfolio companies in the energy sector. This was partially offset by a decrease in carried interest income earned from Fund VI of $42.7 million. The decrease in carried interest income earned from Fund VI was primarily driven by its public portfolio company holdings.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Management fees from related parties decreased by $19.2 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to decreases in management fees earned with respect to Fund VI and Fund VII of $10.6 million and $10.6 million, respectively, as a result of lower invested capital. In addition, this change was attributable to a decrease in management fees earned with respect to ANRP I of $3.3 million resulting from a step down in fee basis from committed capital to invested capital during the year ended December 31, 2015 compared to the same period in 2014. These decreases were partially offset by an increase related to ANRP II of $7.9 million which launched during 2015.

Advisory and transaction fees from related parties, net decreased by $65.7 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to a change in the fee structure with respect to Fund VIII as a greater portion of the advisory and transaction fees were shared with limited partners of the fund in 2015. In addition, there were decreases in net advisory and transaction fees earned with respect to Fund VII and ANRP I of $26.6 million and $4.3 million, respectively, as well as a legal reserve in connection with an SEC regulatory matter recorded during the year ended December 31, 2015.

Carried interest income from related parties decreased by $206.3 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to decreases in carried interest income earned from Fund VII and ANRP I of $289.6 million and $40.1 million, respectively, partially offset by increased carried interest income earned from AAA/Other and Fund VI of $76.2 million and $60.6 million, respectively. The decreases in carried interest income earned from Fund VII and ANRP I were primarily driven by depreciation in their energy-related portfolio holdings during the year ended December 31, 2015. Additionally, the decrease in carried interest income earned from Fund VII was attributable to the non-recurrence of carried interest income of approximately $299.8 million with respect to certain of the fund’s investments that were sold subsequent to December 31, 2014. The increase in carried interest income earned from AAA/Other as compared to the year ended December 31, 2014 was primarily driven by the appreciation on the investment in Athene. The increase in carried interest income earned from Fund VI for the year ended December 31, 2015 as compared to the same period in 2014 was primarily a result of $112.7 million of carried interest loss relating to one of the fund’s public portfolio companies during the year ended December 31, 2014 that did not recur during the year ended December 31, 2015 and an increase in carried interest income earned with respect to the fund’s public portfolio company holdings during the year ended December 31, 2015.

Expenses

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Compensation and benefits expense increased by $109.0 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. This change was primarily attributable to an increase in profit sharing expense of $112.0 million as a result of a corresponding increase in carried interest income as described above. In any period the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period.

Included in profit sharing expense is $20.6 million and $46.6 million related to the Incentive Pool for the years ended December 31, 2016 and 2015, respectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular period.

General, administrative and other decreased by $4.2 million during the year ended December 31, 2016, as compared to the year ended December 31, 2015. The change was primarily driven by an expense relating to a legal reserve in connection with an SEC regulatory matter being recorded during the year ended December 31, 2015.

Placement fees decreased by $2.3 million during the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily driven by a decrease in placement fees of $2.1 million related to the launch of ANRP II during the year ended December 31, 2015.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Compensation and benefits expense decreased by $155.9 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to a decrease in profit sharing expense of $131.8

million as a result of a corresponding decrease in carried interest income earned from Fund VII, ANRP I and Fund V as discussed above, and a decrease in equity-based compensation of $18.2 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014. In any year the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds that are generating carried interest in the period. Equity-based compensation was higher during the year ended December 31, 2014 as a result of a non-cash expense of $17.9 million in connection with the departure of an executive officer during the year ended December 31, 2014. These decreases were offset by an increase in salary, bonus and benefits of $7.7 million due to an increase in headcount after December 31, 2014.

Included in profit sharing expense is $46.6 million and $55.5 million related to the Incentive Pool for the years ended December 31, 2015 and 2014, respectively.

General, administrative and other increased by $7.5 million during the year ended December 31, 2015, as compared to the year ended December 31, 2014. The change was primarily driven by a legal reserve in connection with an SEC regulatory matter recorded during the year ended December 31, 2015.

Placement fees increased by $2.4 million during the year ended December 31, 2015, as compared to the year ended December 31, 2014. This change was primarily driven by placement fees of $4.2 million related to the launch of ANRP II incurred during the year ended December 31, 2015, offset by a decrease in placement fees of $1.8 million related to the launch of Fund VIII during the year ended December 31, 2015, as compared to the year ended December 31, 2014.

Other Income (Loss)

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Income from equity method investments increased by $47.2 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily attributable to an increase in the income from Apollo's equity ownership interest in Fund VIII, ANRP II and ANRP I of $45.2 million, $5.7 million and $4.5 million, respectively, during the year ended December 31, 2016, as compared to the year ended December 31, 2015.

Net gains from investment activities increased by $4.4 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015, due to higher unrealized gains on the Company's investment in Athene during the year ended December 31, 2016, as compared to the year ended December 31, 2015. See note 6 to the consolidated financial statements for further information regarding the Company's investment in Athene.

Net interest loss increased by $4.3 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015, primarily due to additional interest expense incurred during the year ended December 31, 2016 as a result of the issuance of the 2026 Senior Notes in May 2016, as described in note 11 to our consolidated financial statements.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Income from equity method investments decreased by $11.3 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was driven by decreases in the income from Apollo's equity ownership interest in Fund VII and AION of $12.4 million and $5.9 million, respectively, offset by an increase in the value of Apollo's equity ownership interest in AAA of $10.0 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Net gains from investment activities increased by $6.9 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 due to an increase in unrealized gain on our investment in Athene Holding.

Net interest loss increased by $2.0 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 as a result of the issuance of the 2024 Senior Notes in May, 2014, as described in note 11 to our consolidated financial statements.

Other income, net decreased by $10.9 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily due to a gain of $11.8 million resulting from the reduction of the tax receivable agreement liability during the year ended December 31, 2014 that did not recur in 2015.

Credit

The following table sets forth segment statement of operations information and EI within our credit segment for the years ended December 31, 2016, 2015 and 2014.

	For the Years Ended December 31,				For the Years Ended December 31,			
	2016	2015	Total Change	Percentage Change	2015	2014	Total Change	Percentage Change
	(in thousands)				(in thousands)			
Credit(1):								
Revenues:								
Management fees from related parties	$ 596,709	$ 565,241	$ 31,468	5.6 %	$ 565,241	$ 538,742	$ 26,499	4.9 %
Advisory and transaction fees from related parties, net	12,533	17,246	(4,713)	(27.3)	17,246	255,186	(237,940)	(93.2)
Carried interest income (loss) from related parties:								
Unrealized(2)	137,274	(80,534)	217,808	NM	(80,534)	(156,644)	76,110	(48.6)
Realized	180,029	139,152	40,877	29.4	139,152	322,233	(183,081)	(56.8)
Total carried interest income from related parties	317,303	58,618	258,685	441.3	58,618	165,589	(106,971)	(64.6)
Total Revenues	**926,545**	**641,105**	**285,440**	**44.5**	**641,105**	**959,517**	**(318,412)**	**(33.2)**
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	209,256	200,032	9,224	4.6	200,032	184,497	15,535	8.4
Equity-based compensation	34,185	26,683	7,502	28.1	26,683	47,120	(20,437)	(43.4)
Profit sharing expense	147,727	34,384	113,343	329.6	34,384	83,788	(49,404)	(59.0)
Total compensation and benefits	391,168	261,099	130,069	49.8	261,099	315,405	(54,306)	(17.2)
Non-compensation expenses								
General, administrative and other	125,639	123,378	2,261	1.8	123,378	138,024	(14,646)	(10.6)
Placement fees	22,047	4,389	17,658	402.3	4,389	13,228	(8,839)	(66.8)
Total non-compensation expenses	147,686	127,767	19,919	15.6	127,767	151,252	(23,485)	(15.5)
Total Expenses	**538,854**	**388,866**	**149,988**	**38.6**	**388,866**	**466,657**	**(77,791)**	**(16.7)**
Other Income:								
Income (loss) from equity method investments	33,290	(6,025)	39,315	NM	(6,025)	18,812	(24,837)	NM
Net gains from investment activities	127,229	114,199	13,030	11.4	114,199	9,062	105,137	NM
Net interest loss	(20,669)	(13,740)	(6,929)	50.4	(13,740)	(9,274)	(4,466)	48.2
Other income (loss), net	(4,500)	3,574	(8,074)	NM	3,574	35,263	(31,689)	(89.9)
Total Other Income	**135,350**	**98,008**	**37,342**	**38.1**	**98,008**	**53,863**	**44,145**	**82.0**
Non-Controlling Interest	(7,464)	(11,684)	4,220	(36.1)	(11,684)	(12,688)	1,004	(7.9)
Economic Income	**$ 515,577**	**$ 338,563**	**$ 177,014**	**52.3 %**	**$ 338,563**	**$ 534,035**	**$ (195,472)**	**(36.6)%**

(1) Prior period amounts have been recast to conform to the current presentation. See note 16 to our consolidated financial statements for more detail on the reclassification within our three segments.

(2) Included in unrealized carried interest gains (losses) from related parties for the years ended December 31, 2016, 2015 and 2014 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 14 to our consolidated financial statements for further detail regarding the general partner obligation.

Revenues

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Management fees from related parties increased by $31.5 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily attributable to increases in management fees earned from MidCap, Athene, assets advised by AAME, COF III and Apollo Total Return Fund L.P. of $12.5 million, $10.8 million, $10.6 million, $8.0 million and $3.4 million, respectively, offset by a decrease in management fees earned from AINV of $13.6 million during the year ended December 31, 2016, as compared to the same period during 2015.

Advisory and transaction fees from related parties, net, decreased by $4.7 million during the year ended December 31, 2016, as compared to the year ended December 31, 2015. The decrease was primarily driven by a decrease in net advisory and transaction fees from FCI II, CLOs, Apollo Credit Master Fund Ltd. and SCRF III of $1.7 million, $0.7 million, $0.7 million and $0.6 million, respectively during the year ended December 31, 2016, as compared to the same period during 2015.

Carried interest income from related parties increased by $258.7 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily attributable to increases in carried interest income earned from EPF II, an SIA, SCRF III, Apollo Credit Master Fund Ltd., ACLF and CLOs of $64.4 million, $30.1 million, $29.4 million, $29.2 million, $26.2 million and $20.2 million, respectively, during the year ended December 31, 2016, as compared to the same period in 2015.

The increase in carried interest income earned from EPF II was primarily attributable to appreciation of European and UK hotel assets and German commercial real estate investments in the fund's portfolio offset by the depreciation of certain shipping investments in the fund's portfolio for the year ended December 31, 2016, compared to the appreciation of European direct real estate investments in the fund's portfolio offset by depreciation of a Spanish consumer bank investment in the fund's portfolio during the year ended December 31, 2015. The increase in carried interest income from the SIA was attributable to the depreciation of investments in energy and natural resources during the year ended December 31, 2015 that did not recur during the year ended December 31, 2016. The increase in carried interest income from SCRF III was attributable to stronger positive performance of the fund's structured credit portfolio during the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase in carried interest income from Apollo Credit Master Fund Ltd. was primarily attributable to gains from the leveraged loan market, as well as narrowing spreads in fixed-income instruments during the year ended December 31, 2016 as compared to the year ended December 31, 2015. Appreciation in consumer services and energy investments contributed to an increase in carried interest income earned from ACLF during the year ended December 31, 2016, compared to depreciation in energy investments during the year ended December 31, 2015. Gains from the broad leveraged loan market contributed to an increase in carried interest income earned from CLOs as assets appreciated and income remained steady during the year ended December 31, 2016.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Management fees from related parties increased by $26.5 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to increases in management fees earned with respect to COF III and MidCap of $12.3 million and $8.7 million, respectively, during the year ended December 31, 2015 as compared to the same period during 2014.

Advisory and transaction fees from related parties, net, decreased by $237.9 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease was primarily driven by a decrease in monitoring fees from Athene of $224.5 million as a result of the termination of the Athene Services Agreement as of December 31, 2014.

Carried interest income from related parties decreased by $107.0 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to a decrease in carried interest income earned from EPF I, EPF II, an SIA and ACLF of $57.0 million, $35.8 million, $30.2 million and $19.2 million, respectively, partially offset by increased carried interest income earned from FCI II and FCI I of $26.3 million and $9.7 million, respectively, during the year ended December 31, 2015 as compared to the same period in 2014.

The decrease in carried interest income from EPF I was attributable to the non-recurrence of appreciation of investments in the consumer finance sector during the year ended December 31, 2015. Carried interest income from EPF II decreased as a result of market value declines in the fund's investments in the financial and shipping sectors during the year ended December 31, 2015. Carried interest income from one of the SIAs the Company manages and ACLF decreased during the year ended December 31, 2015 compared to the same period in 2014 primarily due to market value declines in energy and natural resources. These decreases were offset by an increase in carried interest income from FCI II and FCI I during the year ended December 31, 2015 as compared to the year ended December 31, 2014. The portfolios of FCI II and FCI I had unrealized market value increases in their life settlements investments, as a result of an increase in the value of the fund's investments based on observed market transactions. During the year ended December 31, 2014, FCI II was early in its life, and had sizable purchases during the year ended December 31, 2015, therefore similar appreciation did not occur.

Expenses

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Compensation and benefits expense increased by $130.1 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily due to an increase in profit sharing expense of $113.3 million during the year ended December 31, 2016, as compared to the year ended December 31, 2015. Profit sharing expense increased as a result of a corresponding increase in carried interest income as described above. In any period the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period.

Included in profit sharing expense is $38.0 million and $15.2 million related to the Incentive Pool for the years ended December 31, 2016 and 2015, respectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular period.

General, administrative and other increased by $2.3 million during the year ended December 31, 2016, as compared to the year ended December 31, 2015. The change was primarily driven by higher technology expenses during the year ended December 31, 2016 compared to the same period in 2015.

Placement fees increased by $17.7 million during the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily attributable to placement fees of $19.4 million related to the launch of EPF III during the year ended December 31, 2016.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Compensation and benefits expense decreased by $54.3 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily due to decreases in profit sharing expense and equity-based compensation of $49.4 million and $20.4 million, respectively, during the year ended December 31, 2015 as compared to the year ended December 31, 2014. Profit sharing expense decreased as a result of a corresponding decrease in carried interest income as described above. In any year the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period. Equity-based compensation was higher during the year ended December 31, 2014 as compared to the same period in 2015 as a result of a non-cash expense of $23.2 million in connection with the departure of an executive officer during the year ended December 31, 2014.

Included in profit sharing expense is $15.2 million and $6.3 million related to the Incentive Pool for the years ended December 31, 2015 and 2014, respectively.

General, administrative and other expenses decreased by $14.6 million during the year ended December 31, 2015, as compared to the year ended December 31, 2014. The change was primarily driven by a decrease in professional fees of $7.7 million primarily attributable to lower consulting fees, and a decrease in general and administrative expense of $7.5 million driven by lower technology expenses during the year ended December 31, 2015 compared to the same period in 2014.

Placement fees decreased by $8.8 million during the year ended December 31, 2015, as compared to the year ended December 31, 2014 primarily driven by decreased fees related to COF III of $6.3 million during the year ended December 31, 2015, as compared to the year ended December 31, 2014.

Other Income

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Income from equity method investments was $33.3 million for the year ended December 31, 2016, as compared to a loss from equity method investments of $6.0 million for the year ended December 31, 2015. The increase of $39.3 million was driven by increases in income from Apollo's equity ownership interest in AEOF, EPF II, COF III, an SIA and MidCap of $7.9 million, $6.0 million, $4.9 million, $3.2 million and $2.7 million, respectively, as well as modest increases across most of our other equity method investments during the year ended December 31, 2016, as compared to the same period in 2015.

Net gains from investment activities increased by $13.0 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. The increase was primarily attributable to an increase in gains of $13.6 million on the Company's direct investment in Athene during the year ended December 31, 2016 as compared to the same period in 2015. See note 6 to the consolidated financial statements for further information regarding the Company's investment in Athene.

Net interest loss increased by $6.9 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015, primarily due to additional interest expense incurred during the year ended December 31, 2016 as a result of the issuance of the 2026 Senior Notes in May 2016, as described in note 11 to our consolidated financial statements.

Other loss, net was $4.5 million for the year ended December 31, 2016, as compared to other income, net of $3.6 million for the year ended December 31, 2015. The decrease of $8.1 million was primarily driven by a write-off of certain receivables during the year ended December 31, 2016 and foreign exchange losses during the year ended December 31, 2016 as compared to foreign exchange gains during the year ended December 31, 2015.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Income from equity method investments decreased by $24.8 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was driven by decreases in the values of investments in certain of our credit funds, primarily from Apollo's ownership interests in AINV, certain SIAs, EPF I, and EPF II of $9.3 million, $3.8 million, $3.4 million and $1.5 million, respectively, during the year ended December 31, 2015 as compared to the same period in 2014. The change was also driven by a decrease in the value of our investment in AEOF, a fund which launched during 2015, of $2.0 million.

Net gains from investment activities increased by $105.1 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to an increase in unrealized gains on the Company's investment in Athene of $100.1 million during the year ended December 31, 2015 compared to the same period in 2014.

Other income decreased by $31.7 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily due to a gain of $17.3 million resulting from the reduction of the tax receivable agreement liability during the year ended December 31, 2014 that did not recur in 2015 and a $12.4 million unrealized gain on Athene-related derivative contracts during the year ended December 31, 2014 that did not recur in 2015 as a result of settlement of these derivative contracts during 2014.

Real Estate

The following table sets forth our segment statement of operations information and EI within our real estate segment for the years ended December 31, 2016, 2015 and 2014.

	For the Years Ended December 31,				For the Years Ended December 31,			
	2016	2015	Total Change	Percentage Change	2015	2014	Total Change	Percentage Change
	(in thousands)				(in thousands)			
Real Estate(1):								
Revenues:								
Management fees from related parties	$ 58,945	$ 50,816	$ 8,129	16.0 %	$ 50,816	$ 47,213	$ 3,603	7.6 %
Advisory and transaction fees from related parties, net	5,907	4,425	1,482	33.5	4,425	2,655	1,770	66.7
Carried interest income from related parties:								
Unrealized	4,918	7,154	(2,236)	(31.3)	7,154	4,951	2,203	44.5
Realized	12,566	5,857	6,709	114.5	5,857	3,998	1,859	46.5
Total carried interest income from related parties	17,484	13,011	4,473	34.4	13,011	8,949	4,062	45.4
Total Revenues	**82,336**	**68,252**	**14,084**	**20.6**	**68,252**	**58,817**	**9,435**	**16.0**
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	33,171	32,237	934	2.9	32,237	25,802	6,435	24.9
Equity-based compensation	2,734	4,177	(1,443)	(34.5)	4,177	8,849	(4,672)	(52.8)
Profit sharing expense	10,387	5,075	5,312	104.7	5,075	2,747	2,328	84.7
Total compensation and benefits	46,292	41,489	4,803	11.6	41,489	37,398	4,091	10.9
Non-compensation expenses:								
General, administrative and other	21,528	22,869	(1,341)	(5.9)	22,869	21,669	1,200	5.5
Placement fees	89	—	89	NM	—	—	—	NM
Total non-compensation expenses	21,617	22,869	(1,252)	(5.5)	22,869	21,669	1,200	5.5
Total Expenses	**67,909**	**64,358**	**3,551**	**5.5**	**64,358**	**59,067**	**5,291**	**9.0**
Other Income (Loss):								
Income from equity method investments	3,010	2,978	32	1.1	2,978	5,675	(2,697)	(47.5)
Net interest loss	(4,163)	(2,915)	(1,248)	42.8	(2,915)	(1,941)	(974)	50.2
Other income, net	692	1,455	(763)	(52.4)	1,455	3,409	(1,954)	(57.3)
Total Other Income (Loss)	**(461)**	**1,518**	**(1,979)**	**NM**	**1,518**	**7,143**	**(5,625)**	**(78.7)**
Economic Income	**$ 13,966**	**$ 5,412**	**$ 8,554**	**158.1 %**	**$ 5,412**	**$ 6,893**	**$ (1,481)**	**(21.5)%**

(1) Prior period amounts have been recast to conform to the current presentation. See note 16 to our consolidated financial statements for more detail on the reclassification within our three segments.

Revenues

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Management fees from related parties increased by $8.1 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily attributable to increases in management fees earned with respect to ARI and U.S. RE Fund II of $6.6 million and $2.9 million, respectively during the year ended December 31, 2016, as compared to the year ended December 31, 2015.

Advisory and transaction fees from related parties, net, increased by $1.5 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily attributable to an increase in net advisory and transaction fees earned with respect to AGRE Debt Fund I of $1.4 million during the year ended December 31, 2016, as compared to the year ended December 31, 2015.

Carried interest income from related parties increased by $4.5 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily attributable to an increase in carried interest income earned from U.S. RE Fund II of $8.7 million during the year ended December 31, 2016, as compared to the same period in 2015. This was offset by decreases in carried interest income earned from London Prime Apartments Guernsey Holdings Limited ("London Prime Apartments") and CPI funds in Europe of $2.9 million and $2.2 million, respectively, during the year ended December 31, 2016, as compared to the same period during 2015. Carried interest income earned from certain funds, including U.S. Real Estate Fund I and II, includes an allocation of carried interest income from a strategic investment account that invests in the funds. The increase in carried interest income earned from U.S. Real Estate Fund II is primarily the result of strong operating performance across many of the funds' underlying properties and appreciation of several real estate investments during the year ended December 31, 2016. The decrease in carried interest income earned from London Prime Apartments is primarily due to depreciation of the British Pound against the U.S. Dollar and lower appreciation or values for some of the underlying properties for the year ended December 31, 2016. The decrease in carried interest income earned from the CPI funds in Europe was primarily attributable to a publicly traded security that was sold in the first quarter of 2015 and generated carried interest during that period.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Management fees from related parties increased by $3.6 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to increases in management fees earned with respect to ARI, a China-based investment fund we manage as a result of the Venator acquisition and U.S. RE Fund II of $4.5 million, $2.6 million and $1.7 million, respectively, which were partially offset by a decrease in management fees earned related to our CPI funds of $6.1 million.

Advisory and transaction fees from related parties, net, increased by $1.8 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to an increase in net advisory and transaction fees earned with respect to AGRE Debt Fund I of $1.5 million.

Carried interest income from related parties increased by $4.1 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to an increase in carried interest income earned from our CPI funds in Europe and U.S. RE Fund I of $5.5 million and $0.9 million, respectively, partially offset by a decrease related to London Prime Apartments of $2.3 million. The increase in carried interest income in U.S. RE Fund I was a result of improved performance across many of the fund's underlying investments and higher global real estate values during the year ended December 31, 2015 as compared to the same period in 2014. The increase in carried interest income from our CPI funds in Europe was attributable to an increase in the value of a publicly traded security sold subsequent to December 31, 2014. The decrease in carried interest income in London Prime Apartments was a result of a decrease in the values of the underlying properties as compared to the same period in 2014.

Expenses

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Compensation and benefits increased by $4.8 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily attributable to an increase in profit sharing expense of $5.3 million during the year ended December 31, 2016 as compared to the year ended December 31, 2015 as a result of a corresponding increase in carried interest income as described above. In any period the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period.

Included in profit sharing expense is $3.5 million and $0.3 million related to the Incentive Pool for the year ended December 31, 2016 and 2015, respectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular period.

General, administrative and other decreased by $1.3 million during the year ended December 31, 2016, as compared to the year ended December 31, 2015. This change was primarily attributable to a decrease in professional fees of $1.8 million as a result of a decrease in legal fees during the year ended December 31, 2016, as compared to the year ended December 31, 2015.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Compensation and benefits increased by $4.1 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily attributable to an increase in salary, bonus and benefits of $6.4 million as a result of a higher headcount in 2015, and an increase in profit sharing expense of $2.3 million due to a corresponding increase in carried interest income earned during the year ended December 31, 2015 as discussed above. These increases were offset by a

decrease in equity-based compensation of $4.7 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Included in profit sharing expense is $0.3 million and $0.2 million related to the Incentive Pool for the year ended December 31, 2015 and 2014, respectively.

General, administrative and other increased by $1.2 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014, primarily attributable to an increase in legal fees during the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Other Income (Loss)

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Net interest loss increased by $1.2 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015, primarily due to additional interest expense incurred during the year ended December 31, 2016 as a result of the issuance of the 2026 Senior Notes in May 2016, as described in note 11 to our consolidated financial statements.

Other income, net decreased by $0.8 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015. The change was primarily driven by a bargain purchase gain in connection with the Venator acquisition during the year ended December 31, 2015.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Income from equity method investments decreased by $2.7 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This decrease is primarily attributable to a $2.7 million decrease in the income from Apollo's ownership interest in ARI during the year ended December 31, 2015.

Net interest loss increased by $1.0 million for the year ended December 31, 2015, as compared to the year ended December 31, 2014 as a result of the issuance of the 2024 Senior Notes in May, 2014, as described in note 11 to our consolidated financial statements.

Other income decreased by $2.0 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This change was primarily due to a gain of $3.1 million resulting from the reduction of the tax receivable agreement liability during the year ended December 31, 2014 that did not recur in 2015.

Summary of Combined Results

The following table is a summary of our combined segments EI for the years ended December 31, 2016, 2015 and 2014.

	For the Years Ended December 31,		
	2016	2015	2014
		(in thousands)	
Revenues:			
Management fees from related parties	$ 977,649	$ 911,893	$ 901,024
Advisory and transaction fees from related parties, net	147,115	14,186	316,082
Carried interest income (loss) from related parties:			
Unrealized[1]	510,999	(387,541)	(1,347,786)
Realized	274,887	484,831	1,754,307
Total carried interest income from related parties	785,886	97,290	406,521
Total Revenues	**1,910,650**	**1,023,369**	**1,623,627**
Expenses:			
Compensation and benefits:			
Salary, bonus and benefits	366,890	355,922	339,846
Equity-based compensation	64,468	62,184	105,495
Profit sharing expense	316,650	86,031	264,908
Total compensation and benefits	748,008	504,137	710,249
Non-compensation expenses:			
General, administrative and other	218,490	221,806	227,785
Placement fees	24,433	8,939	15,422
Total non-compensation expenses	242,923	230,745	243,207
Total Expenses	**990,931**	**734,882**	**953,456**
Other Income:			
Income from equity method investments	102,581	16,078	54,905
Net gains from investment activities	138,608	121,132	9,062
Net interest loss	(39,019)	(26,533)	(19,098)
Other income (loss), net	(2,158)	8,177	52,699
Total Other Income	**200,012**	**118,854**	**97,568**
Non-Controlling Interests	(7,464)	(11,684)	(12,688)
Economic Income	**$ 1,112,267**	**$ 395,657**	**$ 755,051**
Income Tax Provision	(165,522)	(10,518)	(185,587)
Economic Net Income	**$ 946,745**	**$ 385,139**	**$ 569,464**

(1) Included in unrealized carried interest income (losses) from related parties for the years ended December 31, 2016, and 2015 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 14 to our consolidated financial statements for further detail regarding the general partner obligation.

Summary of Fee Related Earnings

The following table is a summary of Fee Related Earnings for the years ended December 31, 2016, 2015 and 2014.

	For the Years Ended December 31,		
	2016	2015	2014
	(in thousands, except per share data)		
Management Fees	$ 977,649	$ 911,893	$ 901,024
Advisory and Transaction Fees from Related Parties, net	147,115	48,186	316,082
Carried Interest Income from Related Parties[1]	22,941	40,625	41,199
Salary, Bonus and Benefits	(366,890)	(355,922)	(339,846)
Non-compensation Expenses	(242,923)	(218,745)	(243,207)
Other Loss	(8,018)	(3,990)	(3,067)
Fee Related Earnings[2]	$ 529,874	$ 422,047	$ 672,185

(1) Represents carried interest income earned from a publicly traded business development company we manage.
(2) Excludes a reserve of $45 million accrued during the year ended December 31, 2015 in connection with an SEC regulatory matter principally concerning the acceleration of fees from fund portfolio companies.

Summary of Distributable Earnings

The following table is a reconciliation of Distributable Earnings per share of common and equivalents[1] to net distribution per share of common and equivalent for the years ended December 31, 2016, 2015 and 2014.

	For the Years Ended December 31,		
	2016	2015	2014
	(in thousands, except per share data)		
Distributable Earnings	$ 647,932	$ 622,821	$ 1,429,780
Taxes and related payables[2]	(9,635)	(9,715)	(73,565)
Distributable Earnings After Taxes and Related Payables	638,297	613,106	1,356,215
Add back: Tax and related payables attributable to common and equivalents	110	12	66,429
Distributable Earnings before certain payables[3]	638,407	613,118	1,422,644
Percent to common and equivalents	47%	47%	45%
Distributable Earnings before other payables attributable to common and equivalents	302,899	290,420	633,380
Less: Tax and related payables attributable to common and equivalents	(110)	(12)	(66,429)
Distributable Earnings attributable to common and equivalents	$ 302,789	$ 290,408	$ 566,951
Distributable Earnings per share of common and equivalent[4]	$ 1.56	$ 1.50	$ 3.13
Retained capital per share of common and equivalent[4][5]	(0.14)	(0.12)	(0.24)
Net distribution per share of common and equivalent[4]	$ 1.42	$ 1.38	$ 2.89

(1) Common and equivalents refers to Class A shares outstanding and RSUs that participate in distributions.
(2) Represents the estimated current corporate, local and non-U.S. taxes as well as the payable under Apollo's tax receivable agreement.
(3) Distributable earnings before certain payables represents Distributable Earnings before the deduction for the estimated current corporate taxes and the payable under Apollo's tax receivable agreement.
(4) Per share calculations are based on end of period Distributable Earnings Shares Outstanding, which consist of total Class A shares outstanding and RSUs that participate in distributions (collectively referred to as "common & equivalents").
(5) Retained capital is withheld pro-rata from common and equivalent holders and AOG unitholders.

Summary of Non-U.S. GAAP Measures

The table below sets forth a reconciliation of net income attributable Apollo Global Management, LLC to our non-U.S. GAAP performance measures for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
		(in thousands)	
Net Income Attributable to Apollo Global Management, LLC	**$ 402,850**	**$ 134,497**	**$ 168,229**
Net income attributable to Non-Controlling Interests in consolidated entities and Appropriated Partners' Capital	5,789	21,364	157,011
Net income attributable to Non-Controlling Interests in the Apollo Operating Group	561,668	194,634	404,682
Net Income	**$ 970,307**	**$ 350,495**	**$ 729,922**
Income tax provision	90,707	26,733	147,245
Income Before Income Tax Provision	**$ 1,061,014**	**$ 377,228**	**$ 877,167**
Transaction-related charges and equity-based compensation	57,042	39,793	34,895
Net income attributable to Non-Controlling Interests in consolidated entities	(5,789)	(21,364)	(157,011)
Economic Income	**$ 1,112,267**	**$ 395,657**	**$ 755,051**
Income tax provision on Economic Income	(165,522)	(10,518)	(185,587)
Economic Net Income	**$ 946,745**	**$ 385,139**	**$ 569,464**
Income tax provision on Economic Income	165,522	10,518	185,587
Carried interest income from related parties[(1)]	(762,945)	(56,665)	(365,322)
Profit sharing expense	316,650	86,031	264,908
Equity-based compensation[(2)]	64,468	62,184	105,495
Investment income and other	(239,585)	(91,693)	(107,045)
Net interest loss	39,019	26,533	19,098
Fee Related Earnings	**$ 529,874**	**$ 422,047**	**$ 672,185**
Gain from reversal of tax receivable agreement liability	3,208	—	32,182
Depreciation, amortization and other, net[(3)]	9,928	(34,524)	10,182
Fee Related EBITDA	**$ 543,010**	**$ 387,523**	**$ 714,549**
Net realized carried interest income[(1)]	115,153	221,522	930,892
Fee Related EBITDA + 100% of Net Realized Carried Interest	**$ 658,163**	**$ 609,045**	**$ 1,645,441**
Realized investment and other loss	35,365	30,520	96,132
Net interest loss	(39,019)	(26,533)	(19,098)
Non-cash revenues	(3,369)	(35,211)	(260,513)
Gain from reversal of tax receivable agreement liability	(3,208)	—	(32,182)
Other[(3)]	—	45,000	—
Distributable Earnings	**$ 647,932**	**$ 622,821**	**$ 1,429,780**
Taxes and related payables	(9,635)	(9,715)	(73,565)
Distributable Earnings After Taxes and Related Payables	**$ 638,297**	**$ 613,106**	**$ 1,356,215**

(1) Excludes carried interest income from a publicly traded business development company we manage.
(2) Includes equity-based compensation related to RSUs (excluding RSUs granted in connection with the 2007 private placement), share options and restricted share awards.
(3) Includes a reserve of $45 million accrued during the year ended December 31, 2015 in connection with an SEC regulatory matter principally concerning the acceleration of fees from fund portfolio companies.

Liquidity and Capital Resources

Historical

Although we have managed our historical liquidity needs by looking at deconsolidated cash flows, our historical consolidated statements of cash flows reflect the cash flows of Apollo, as well as those of the consolidated Apollo funds.

The primary cash flow activities of Apollo are:

- Generating cash flow from operations;
- Making investments in Apollo funds;
- Meeting financing needs through credit agreements; and
- Distributing cash flow to equity holders and Non-Controlling Interests.

Primary cash flow activities of the consolidated Apollo funds and VIEs are:

- Raising capital from their investors, which have been reflected historically as Non-Controlling Interests of the consolidated subsidiaries in our financial statements;
- Using capital to make investments;
- Generating cash flow from operations through distributions, interest and the realization of investments;
- Distributing cash flow to investors; and
- Issuing debt to finance investments (CLOs).

While primarily met by cash flows generated through fee income and carried interest income received, working capital needs have also been met (to a limited extent) through borrowings as described in note 11 to the consolidated financial statements.

We determine whether to make capital commitments to our funds in excess of our minimum required amounts based on a variety of factors, including estimates regarding our liquidity resources over the estimated time period during which commitments will have to be funded, estimates regarding the amounts of capital that may be appropriate for other funds that we are in the process of raising or are considering raising, and our general working capital requirements.

Cash Flows

Significant amounts from our consolidated statements of cash flows for the years ended December 31, 2016, 2015 and 2014 are summarized and discussed within the table and corresponding commentary below:

	For the Years Ended December 31,		
	2016	2015	2014
		(in thousands)	
Operating Activities	$ 615,260	$ 582,673	$ (372,917)
Investing Activities	(182,761)	(202,936)	13,432
Financing Activities	(236,157)	(968,078)	485,611
Net Increase (Decrease) in Cash and Cash Equivalents	$ 196,342	$ (588,341)	$ 126,126

Operating Activities

Our net cash provided by (used in) operating activities was $615.3 million, $582.7 million and $(372.9) million during the years ended December 31, 2016, 2015 and 2014, respectively. These amounts were primarily driven by:

- net income of $970.3 million, $350.5 million and $729.9 million during the years ended December 31, 2016, 2015 and 2014, respectively, as well as non-cash adjustments, net of $3.6 million, $12.0 million and $214.0 million, respectively;
- a net (increase) decrease in our carried interest receivable of $(613.2) million, $303.3 million and $1.4 billion during the years ended December 31, 2016, 2015 and 2014, respectively, due to a change in the fair value of our funds that generate carried interest of $829.0 million, $181.5 million and $397.4 million during the years ended December 30, 2016, 2015 and 2014, respectively, offset by fund distributions to the Company of $215.8 million, $449.3 million and $1.8 billion during years ended December 31, 2016, 2015 and 2014, respectively;

- purchases of investments held by consolidated VIEs in the amount of $581.2 million, $521.2 million and $10.3 billion, offset by proceeds from sales of investments held by consolidated VIEs in the amount of $592.9 million, $409.2 million and $8.5 billion during the years ended December 31, 2016, 2015 and 2014, respectively;
- a net (decrease) increase in changes to other assets and other liabilities of consolidated VIEs in the amount of $(3.7) million, $(135.8) million and $126.2 million during the years ended December 31, 2016, 2015 and 2014, respectively;
- a net increase (decrease) in due from and due to related parties in the amount of $37.0 million, $14.0 million and $(349.9) million during the years ended December 31, 2016, 2015 and 2014, respectively;
- a net (decrease) increase in accrued compensation and benefits in the amount of $(1.7) million, $(9.9) million and $16.2 million during the years ended December 31, 2016, 2015 and 2014, respectively;
- a net increase (decrease) in our profit sharing payable of $227.8 million, $(122.6) million and $(518.0) million during the years ended December 31, 2016, 2015 and 2014, respectively, due to profit sharing expense of $381.6 million, $100.1 million and $276.2 million during the years ended December 31, 2016, 2015 and 2014, respectively, offset by payments of $127.1 million, $239.2 million and $833.6 million during the years ended December 31, 2016, 2015 and 2014, respectively; and
- an increase (decrease) in cash held at consolidated VIEs of $16.7 million, $256.6 million and $(13.8) million during the years ended December 31, 2016, 2015 and 2014, respectively.

Investing Activities

Our net cash (used in) provided by investing activities was $(182.8) million, $(202.9) million and $13.4 million during the years ended December 31, 2016, 2015 and 2014, respectively. These amounts were primarily driven by:

- net cash contributions to our equity method investments of $122.2 million, $172.8 million and $33.6 million during the years ended December 31, 2016, 2015 and 2014, respectively;
- issuance of related party loans of $8.6 million and $25.0 million during years ended December 31, 2016 and 2015, respectively;
- proceeds from sales of investments in the amount of $25.0 million and $50.0 million during years ended December 31, 2015 and 2014, respectively; and
- purchases of investments in the amount of $46.9 million and $25.0 million during years ended December 31, 2016 and 2015, respectively.

Financing Activities

Our net cash (used in) provided by financing activities was $(236.2) million, $(968.1) million and $485.6 million during the during the years ended December 31, 2016, 2015 and 2014, respectively. These amounts were primarily driven by:

- cash distributions paid to our Class A shareholders of $239.1 million, $354.4 million, and $506.0 million during the years ended December 31, 2016, 2015 and 2014, respectively;
- cash distributions paid to the Non-Controlling Interest holders in the Apollo Operating Group of $269.8 million, $453.3 million and $816.4 million during the years ended December 31, 2016, 2015 and 2014, respectively;
- payments made towards the satisfaction of our tax receivable agreement liability of $48.4 million and $32.0 million during the years ended December 31, 2015 and 2014, respectively;
- purchases of Class A shares of $13.4 million and $3.1 million during the years ended December 31, 2016 and 2015, respectively;
- net distributions related to deliveries of Class A shares in settlement of RSUs of $40.7 million, $78.9 million and $0.4 million during the years ended December 31, 2016, 2015 and 2014, respectively;
- issuance of debt (net of repayments of principal) held by consolidated VIEs in the amount of $1.9 billion during the year ended December 31, 2014; and
- issuance of debt of $532.7 million and $534.0 million during the years ended December 31, 2016 and 2014, respectively, offset by repayments of debt of $200.0 million and $250.0 million during the years ended December 31, 2016 and 2014, respectively.

Distributions

In addition to other distributions such as payments pursuant to the tax receivable agreement, see note 14 to the consolidated financial statements for information regarding the quarterly distributions which were made at the sole discretion of the Company's manager during 2016, 2015 and 2014.

Future Cash Flows

Our ability to execute our business strategy, particularly our ability to increase our AUM, depends on our ability to establish new funds and to raise additional investor capital within such funds. Our liquidity will depend on a number of factors, such as our ability to project our financial performance, which is highly dependent on our funds and our ability to manage our projected costs, fund performance, our access to credit facilities, our being in compliance with existing credit agreements, as well as industry and market trends. Also during economic downturns the funds we manage might experience cash flow issues or liquidate entirely. In these situations we might be asked to reduce or eliminate the management fee and incentive fees we charge, which could adversely impact our cash flow in the future.

An increase in the fair value of our funds' investments, by contrast, could favorably impact our liquidity through higher management fees where the management fees are calculated based on the net asset value, gross assets and adjusted assets. Additionally, higher carried interest income not yet realized would generally result when investments appreciate over their cost basis which would not have an impact on the Company's cash flow.

As of December 31, 2016, Fund VII's and Fund VI's remaining investments and escrow cash were valued at 103% and 82% of the fund's unreturned capital, respectively, which was below the required escrow ratio of 115%. As a result, these funds are required to place in escrow current and future carried interest income distributions to the general partner until the specified return ratio of 115% is met (at the time of a future distribution) or upon liquidation.

On April 20, 2010, the Company announced that it entered into a strategic relationship agreement with CalPERS. The strategic relationship agreement provides that Apollo will reduce fees charged to CalPERS on funds it manages, or in the future will manage, solely for CalPERS by $125 million over a five-year period or as close a period as required to provide CalPERS with that benefit. The agreement further provides that Apollo will not use a placement agent in connection with securing any future capital commitments from CalPERS. As of December 31, 2016, the Company had reduced fees charged to CalPERS on the funds it manages by approximately $103.8 million.

Although we expect to pay distributions according to our distribution policy, we may not pay distributions according to our policy, or at all, if, among other things, we do not have the cash necessary to pay the intended distributions. To the extent we do not have cash on hand sufficient to pay distributions, we may have to borrow funds to pay distributions, or we may determine not to pay distributions. The declaration, payment and determination of the amount of our quarterly distributions are at the sole discretion of our manager.

In February 2016, Apollo adopted a plan to repurchase up to $250 million in the aggregate of its Class A shares, including up to $150 million in the aggregate of its outstanding Class A shares through a share repurchase program and up to $100 million through a reduction of Class A shares to be issued to employees to satisfy associated tax obligations in connection with the settlement of equity-based awards granted under the Company's 2007 Omnibus Equity Incentive Plan (the "2007 Equity Plan"), which we refer to as net share settlement. Under the share repurchase program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise, with the size and timing of these repurchases depending on legal requirements, price, market and economic conditions and other factors. During the year ended December 31, 2016, the Company repurchased and canceled 1.0 million Class A shares for $12.9 million and, in connection with net share settlements, reduced Class A shares to be issued to employees under the 2007 Equity Plan by 2.7 million Class A shares resulting in a payment by the Company of $40.7 million to satisfy the applicable withholding obligation. See note 12 to the consolidated financial statements for further information regarding the Company's net share settlement during the year ended December 31, 2016.

On March 11, 2016, it was announced that Apollo intended to embark on a program to purchase $50 million of AINV's common stock, subject to certain regulatory approvals. Under the program, shares may be purchased from time to time in open market transactions and in accordance with applicable law. As of December 31, 2016, Apollo had purchased approximately 871 thousand shares, or approximately $4.9 million of AINV's common stock.

Carried interest income from our funds can be distributed to us on a current basis, but is subject to repayment by the subsidiaries of the Apollo Operating Group that act as general partner of such funds in the event that certain specified return thresholds are not ultimately achieved. The Managing Partners, Contributing Partners and certain other investment professionals have personally guaranteed, to the extent of their ownership interest, subject to certain limitations, the obligations of these subsidiaries in respect of this general partner obligation. Such guarantees are several and not joint and are limited to a particular Managing Partner's or Contributing Partner's distributions. Pursuant to the shareholders agreement dated July 13, 2007, as amended (the "Shareholders Agreement"), we agreed to indemnify each of our Managing Partners and certain Contributing Partners against all amounts that they pay pursuant to any of these personal guarantees in favor of Fund IV, Fund V and Fund VI (including costs and expenses related to investigating the basis for or objecting to any claims made in respect of the guarantees) for all interests that our Managing Partners and Contributing Partners have contributed or sold to the Apollo Operating Group.

Accordingly, in the event that our Managing Partners, Contributing Partners and certain investment professionals are required to pay amounts in connection with a general partner obligation to return previously distributed carried interest income with respect to Fund IV, Fund V and Fund VI, we will be obligated to reimburse our Managing Partners and certain Contributing Partners for the indemnifiable percentage of amounts that they are required to pay even though we did not receive the distribution to which that general partner obligation related.

On March 11, 2016, the maturity date of both the Term Facility and the Revolver Facility (each as defined in note 11 to our consolidated financial statements) were extended by two years and as a result, the maturity date is now January 18, 2021. The extension was determined to be a modification of the 2013 AMH Credit Facilities in accordance with U.S. GAAP.

On May 27, 2016, AMH issued $500 million in aggregate principal amount of its 4.400% Senior Notes due 2026 (the “2026 Senior Notes”). The 2026 Senior Notes will mature on May 27, 2026. In connection with the issuance of the 2026 Senior Notes, $200 million of the proceeds were used to repay a portion of the Term Facility outstanding with third party lenders at par. See note 11 to the consolidated financial statements for further information regarding the Company’s debt arrangements.

On February 3, 2017, the Company declared a cash distribution of $0.45 per Class A share, which will be paid on February 28, 2017 to holders of record on February 21, 2017.

Athene

Athene Holding was founded in 2009 to capitalize on favorable market conditions in the dislocated life insurance sector. Athene Holding, through its subsidiaries, is a leading retirement services company that issues, reinsures and acquires retirement savings products designed for the increasing number of individuals and institutions seeking to fund retirement needs. The products and services offered by Athene include: fixed and fixed indexed annuity products; reinsurance services offered to third-party annuity providers; and institutional products, such as funding agreements. Athene Holding became an effective registrant on December 9, 2016 under the U.S. Securities Exchange Act of 1934, as amended, and trades on the New York Stock Exchange (NYSE) under the symbol “ATH”. Apollo, through its subsidiaries, managed or advised $70.8 billion of AUM in accounts owned by or related to Athene (the “Athene Accounts”) as of December 31, 2016.

Investment Management Agreements - Athene Asset Management

Apollo, through its consolidated subsidiary, AAM, provides asset management services to Athene, including asset allocation services, direct asset management services, asset and liability matching management, mergers and acquisitions asset diligence hedging and other asset management services and receives management fees for providing these services.

As of December 31, 2016, AAM managed $66.1 billion of AUM in the Athene Accounts on which the Company earns a gross management fee of 0.40% per annum with certain limited exceptions.

AAM discounts certain fees due from Athene. For the total dollar amount of all liabilities sourced through Athene’s organic distribution channels during 2016 in excess of $5.1 billion (subject to certain exceptions, “Excess Liabilities”), AAM agreed to discount fees as follows:

- During 2016, a discount of 0.40% per annum multiplied by such Excess Liabilities. The 2016 discount relating to such Excess Liabilities was intended to reasonably approximate a full discount of the AAM fee on the assets relating to such Excess Liabilities during the remainder of the 2016 calendar year.
- For 2017, a discount of 0.20% per annum multiplied by such Excess Liabilities, resulting in a reasonable approximation of a 0.20% fee on the assets relating to such Excess Liabilities during the 2017 calendar year.
- For 2018 and thereafter, a discount of 0.075% per annum, resulting in a reasonable approximation of a 0.325% fee on the assets relating to such Excess Liabilities during the 2018 calendar year and thereafter.

Investment Advisory Agreement - AAME

Apollo, through AAME, provides investment advisory services to Athene and receives a gross fee of 0.10% per annum on the Athene assets it advises. As of December 31, 2016, AAME provided investment advisory services with respect to $4.7 billion of AUM in the Athene Accounts, of which $0.3 billion is sub-advised by the Company.

Sub-Advisory Agreement and Fund Investments

Apollo provides sub-advisory services with respect to a portion of the assets in the Athene Accounts, pursuant to a master sub-advisory agreement among AAM and certain other Apollo subsidiaries. In addition from time to time, Athene also

invests in funds and investment vehicles that Apollo manages. The Company broadly refers to "Athene Sub-Advised" AUM as those assets in the Athene Accounts which the Company explicitly sub-advises as well as those assets in the Athene Accounts which are invested directly in funds and investment vehicles Apollo manages ("Athene Assets Directly Invested"). As of December 31, 2016, the Athene Sub-Advised AUM totaled $15.7 billion, of which $2.7 billion was Athene Assets Directly Invested.

With respect to assets in the Athene Accounts which the Company explicitly sub-advises, the Company earns up to 0.40% per annum on assets up to $10 billion and 0.35% per annum on all such assets in excess of $10 billion, with certain limited exceptions. These fees are in addition to the gross management fee of 0.40% per annum paid to AAM on the portion of these assets that it manages and the gross fee of 0.10% per annum paid to AAME on the portion of these assets that it advises. A majority of the assets in the Athene Accounts which the Company explicitly sub-advises are in accounts that invest in high-grade credit asset classes, such as CLO debt, commercial mortgage backed securities and insurance-linked securities.

With respect to Athene Assets Directly Invested, Apollo receives management fees and carried interest, if applicable, directly from the relevant funds under the investment management agreements and other governing documents of such funds. Fees paid to the Company related to such fund investments vary from 0% per annum to 1.75% per annum with respect to management fees and 0% to 20% with respect to carried interest. These fees are in addition to the gross management fee of 0.40% per annum paid to AAM on the portion of these assets that it manages and the gross fee of 0.10% per annum paid to AAME on the portion of these assets that it advises.

The Company refers to the portion of the AUM in the Athene Accounts that is not Athene Sub-Advised AUM as "Athene Non-Sub-Advised" AUM. Accordingly, as of December 31, 2016, Athene Non-Sub-Advised AUM totaled $55.1 billion, which includes $4.4 billion of Athene AUM for which AAME provides investment advisory services. Apollo incurs all expenses associated with its provision of services to Athene.

On April 4, 2014, Athene Holding completed an initial closing of a private placement offering of common equity in which it raised $1.048 billion of primary commitments from third-party institutional and certain existing investors in Athene Holding (the "Athene Private Placement"). In connection with the Athene Private Placement, Athene raised an additional $80 million of third party capital at $26 per share, all of which was used to buy back a portion of the shares of one of its existing investors at a price of $26 per share in a transaction that was consummated on April 29, 2014. As announced on June 24, 2014, a second closing of the Athene Private Placement occurred in which Athene Holding raised $170 million of commitments primarily from employees of Athene and its affiliates at a price per common share of Athene Holding of $26. The Athene Private Placement offering was concluded in the first quarter of 2015 with a final closing of $60 million of additional commitments from affiliates of Athene.

In connection with the Athene Private Placement, the AAA limited partnership agreement was amended to provide that AAA will distribute to its shareholders their pro rata portion of the common shares of Athene Holding (or proceeds thereof) as such shares are released from their contractual lock-up over a period beginning 7.5 months after Athene's IPO and ending 15 months following Athene's IPO pursuant to the Athene registration rights agreement. On November 8, 2016, AAA announced a conditional distribution of 10,766,297 shares of Athene to its unitholders. This distribution was conditioned on pricing the initial public offering of shares of Athene Holding. AAA unitholders entitled to receive shares of Athene Holding on the record date were given the opportunity by Athene to sell into the initial public offering subject to certain lock-up restrictions applicable to Apollo and others. On December 8, 2016, Athene announced its IPO of 27,000,000 shares of Athene Holding, which was increased to 31,050,000 shares of Athene Holding after the underwriter's exercise of its over-allotment option, at a price to the public of $40 per share. The shares of Athene Holding began trading on the New York Stock Exchange on December 9, 2016 under the symbol "ATH." In total 10,766,297 Athene shares were distributed to AAA unitholders, or 0.14105129 shares of Athene Holding per AAA unit. In addition to the distribution to AAA unitholders, AAA Investments, L.P. distributed 771,653 shares of Athene Holding to Apollo in satisfaction of the carried interest obligation associated with the distribution to AAA unitholders and 6,073 shares of Athene Holding in respect of Apollo's approximate 0.06% equity ownership interest in AAA Investments, L.P.

In connection with the Athene Private Placement, Athene Holding amended its registration rights agreement to provide (i) investors who are party to such agreement, including AAA Investments, the potential opportunity for liquidity on their shares of Athene Holding through sales in registered public offerings over a 15 month period beginning on the date of Athene Holding's initial public offering (the "Athene IPO") and (ii) Athene Holding the right to cause certain investors who are party to the registration rights agreement to include in such offerings a certain percentage of their common shares of Athene Holding subject to the terms and conditions set forth in the agreement. However, pursuant to the registration rights agreement, any shares of Athene Holding held by Apollo (other than shares distributed to AAA in payment of carried interest to be sold for cash) will not be subject to such arrangements and instead will be subject to a lock-up period of two years following the effective date of the registration statement relating to the Athene IPO, but Athene Holding will not have the right to cause any shares owned by Apollo to be included in the Athene IPO or any follow-on offering. Apollo may elect to receive payment of carried interest in cash or in common shares of Athene Holding (valued at the then fair market value); and if the General Partner elects to receive payment of such carried interest

in cash, then common shares of Athene Holding shall be distributed to the General Partner and immediately sold by the General Partner to pay for such carried interest in cash.

Distributions to Managing Partners and Contributing Partners

The three Managing Partners who became employees of Apollo on July 13, 2007 each receive a $100,000 base salary. Additionally, our Managing Partners can receive other forms of compensation. Any additional consideration will be paid to them in their proportional ownership interest in Holdings. Additionally, as a result of the tax receivable agreement, 85% of any tax savings APO Corp. recognizes will be paid to the Managing Partners.

Subsequent to the 2007 Reorganization, the Contributing Partners retained ownership interests in subsidiaries of the Apollo Operating Group. Therefore, any distributions that flow up to management or general partner entities in which the Contributing Partners retained ownership interests are shared pro rata with the Contributing Partners who have a direct interest in such entities prior to flowing up to the Apollo Operating Group. These distributions are considered compensation expense.

The Contributing Partners are entitled to receive the following:

- Profit sharing related to private equity carried interest income, from direct ownership of advisory entities. Any changes in fair value of the underlying fund investments would result in changes to Apollo Global Management, LLC's profit sharing payable;
- Additional consideration based on their proportional ownership interest in Holdings; and
- As a result of the tax receivable agreement, 85% of any tax savings APO Corp. recognizes will be paid to the Contributing Partners.

Potential Future Costs

We may make grants of RSUs or other equity-based awards to employees and independent directors that we appoint in the future.

Critical Accounting Policies

This Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates. A summary of our significant accounting policies is presented in note 2 to our consolidated financial statements. The following is a summary of our accounting policies that are affected most by judgments, estimates and assumptions.

Consolidation

The Company assesses all entities with which it is involved for consolidation on a case by case basis depending on the specific facts and circumstances surrounding each entity. Pursuant to the consolidation guidance, the Company first evaluates whether it holds a variable interest in an entity. Apollo factors in all economic interests including proportionate interests through related parties, to determine if such interests are to be considered a variable interest. As Apollo's interest in many of these entities is solely through market rate performance fees and/or insignificant indirect interests through related parties, Apollo is generally not considered to have a variable interest in many of these entities under the guidance and no further consolidation analysis is performed. For entities where the Company has determined that it does hold a variable interest, the Company performs an assessment to determine whether each of those entities qualify as a VIE.

The determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and therefore certain of Apollo's funds may qualify as VIEs under the variable interest model whereas others may qualify as VOEs under the voting interest model. The granting of substantive kick-out rights is a key consideration in determining whether a limited partnership or similar entity is a VIE and whether or not that entity should be consolidated.

Under the voting interest model, Apollo consolidates those entities it controls through a majority voting interest. Apollo does not consolidate those voting interest entities ("VOEs") in which substantive kick-out rights have been granted to the unaffiliated investors to either dissolve the fund or remove the general partner.

Under the variable interest model, Apollo consolidates those entities where it is determined that the Company is the primary beneficiary of the entity. The Company is determined to be the primary beneficiary if it holds a controlling financial interest in the VIE defined as possessing both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. If Apollo alone is not considered to have a controlling financial interest in the VIE but Apollo and its related parties under common control in the aggregate have a controlling financial interest in the VIE, Apollo will still be deemed to be the primary beneficiary if it is the party within the related party group that is most closely associated with the VIE. If Apollo and its related parties not under common control in the aggregate have a controlling financial interest in a VIE, then Apollo is deemed to be the primary beneficiary if substantially all the activities of the entity are performed on behalf of Apollo. Apollo determines whether it is the primary beneficiary of a VIE at the time it becomes initially involved with the VIE and reconsiders that conclusion continuously. Investments and redemptions (either by Apollo, related parties of Apollo or third parties) or amendments to the governing documents of the respective entity may affect an entity's status as a VIE or the determination of the primary beneficiary.

The assessment of whether an entity is a VIE and the determination of whether Apollo should consolidate such VIE requires judgment by our management. Those judgments include, but are not limited to: (i) determining whether the total equity investment at risk is sufficient to permit the entity to finance its activities without additional subordinated financial support, (ii) evaluating whether the holders of equity investment at risk, as a group, can make decisions that have a significant effect on the success of the entity, (iii) determining whether the equity investors have proportionate voting rights to their obligations to absorb losses or rights to receive the expected residual returns from an entity and (iv) evaluating the nature of the relationship and activities of those related parties with shared power or under common control for purposes of determining which party within the related-party group is most closely associated with the VIE. Judgments are also made in determining whether a member in the equity group has a controlling financial interest including power to direct activities that most significantly impact the VIE's economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE. This analysis considers all relevant economic interests including proportionate interests held through related parties.

Revenue Recognition

Carried Interest Income (Loss) from Related Parties. We earn carried interest income from our funds as a result of such funds achieving specified performance criteria. Such carried interest income generally is earned based upon a fixed percentage of realized and unrealized gains of various funds after meeting any applicable hurdle rate or threshold minimum. Carried interest income from certain of the funds that we manage is subject to contingent repayment and is generally paid to us as particular investments made by the funds are realized. If, however, upon liquidation of a fund, the aggregate amount paid to us as carried interest exceeds the amount actually due to us based upon the aggregate performance of the fund, the excess (in certain cases net of taxes) is required to be returned by us to that fund. For a majority of our credit funds, once the annual carried interest income has been determined, there generally is no look-back to prior periods for a potential contingent repayment, however, carried interest income on certain other credit funds can be subject to contingent repayment at the end of the life of the fund. We have elected to adopt Method 2 from U.S. GAAP guidance applicable to accounting for management fees based on a formula, and under this method, we accrue carried interest income quarterly based on fair value of the underlying investments and separately assess if contingent repayment is necessary. The determination of carried interest income and contingent repayment considers both the terms of the respective partnership agreements and the current fair value of the underlying investments within the funds. Estimates and assumptions are made when determining the fair value of the underlying investments within the funds and could vary depending on the valuation methodology that is used. See "Investments, at Fair Value" below for further discussion related to significant estimates and assumptions used for determining fair value of the underlying investments in our private equity, credit and real estate funds.

Management Fees from Related Parties. The management fees related to our private equity funds are generally based on a fixed percentage of the committed capital or invested capital. The corresponding fee calculations that consider committed capital or invested capital are both objective in nature and therefore do not require the use of significant estimates or assumptions. Management fees related to our credit funds, by contrast, can be based on net asset value, gross assets, adjusted cost of all unrealized portfolio investments, capital commitments, adjusted assets, capital contributions, or stockholders' equity all as defined in the respective partnership agreements. The credit management fee calculations that consider net asset value, gross assets, adjusted cost of all unrealized portfolio investments and adjusted assets are normally based on the terms of the respective partnership agreements and the current fair value of the underlying investments within the funds. Estimates and assumptions are made when determining the fair value of the underlying investments within the funds and could vary depending on the valuation methodology that is used. The management fees related to our real estate funds are generally based on a specific percentage of the funds' stockholders' equity or committed or net invested capital or the capital accounts of the limited partners. See "Investments, at Fair Value" below for further discussion related to significant estimates and assumptions used for determining fair value of the underlying investments in our private equity, credit and real estate funds.

Investments, at Fair Value

On a quarterly basis, Apollo utilizes valuation committees consisting of members from senior management, to review and approve the valuation results related to the investments of the funds it manages. For certain publicly traded vehicles managed by Apollo, a review is performed by an independent board of directors. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses. However, because of the inherent uncertainty of valuation, the estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Private Equity Investments. The majority of the illiquid investments within our private equity funds are valued using the market approach, which provides an indication of fair value based on a comparison of the subject company to comparable publicly traded companies and transactions in the industry.

Market Approach. The market approach is driven by current market conditions, including actual trading levels of similar companies and, to the extent available, actual transaction data of similar companies. Judgment is required by management when assessing which companies are similar to the subject company being valued. Consideration may also be given to any of the following factors: (1) the subject company's historical and projected financial data; (2) valuations given to comparable companies; (3) the size and scope of the subject company's operations; (4) the subject company's individual strengths and weaknesses; (5) expectations relating to the market's receptivity to an offering of the subject company's securities; (6) applicable restrictions on transfer; (7) industry and market information; (8) general economic and market conditions; and (9) other factors deemed relevant. Market approach valuation models typically employ a multiple that is based on one or more of the factors described above. Enterprise value as a multiple of EBITDA is common and relevant for most companies and industries, however, other industry specific multiples are employed where available and appropriate. Sources for gaining additional knowledge related to comparable companies include public filings, annual reports, analyst research reports, and press releases. Once a comparable company set is determined, we review certain aspects of the subject company's performance and determine how its performance compares to the group and to certain individuals in the group. We compare certain measurements such as EBITDA margins, revenue growth over certain time periods, leverage ratios and growth opportunities. In addition, we compare our entry multiple and its relation to the comparable set at the time of acquisition to understand its relation to the comparable set on each measurement date.

Income Approach. For investments where the market approach does not provide adequate fair value information, we rely on the income approach. The income approach is also used to validate the market approach within our private equity funds. The income approach provides an indication of fair value based on the present value of cash flows that a business or security is expected to generate in the future. The most widely used methodology for the income approach is a discounted cash flow method. Inherent in the discounted cash flow method are significant assumptions related to the subject company's expected results, the determination of a terminal value and a calculated discount rate, which is normally based on the subject company's weighted average cost of capital, or "WACC." The WACC represents the required rate of return on total capitalization, which is comprised of a required rate of return on equity, plus the current tax-effected rate of return on debt, weighted by the relative percentages of equity and debt that are typical in the industry. The most critical step in determining the appropriate WACC for each subject company is to select companies that are comparable in nature to the subject company and the credit quality of the subject company. Sources for gaining additional knowledge about the comparable companies include public filings, annual reports, analyst research reports, and press releases. The general formula then used for calculating the WACC considers the after-tax rate of return on debt capital and the rate of return on common equity capital, which further considers the risk-free rate of return, market beta, market risk premium and small stock premium, if applicable. The variables used in the WACC formula are inferred from the comparable market data obtained. The Company evaluates the comparable companies selected and concludes on WACC inputs based on the most comparable company or analyzes the range of data for the investment.

The value of liquid investments, where the primary market is an exchange (whether foreign or domestic), is determined using period end market prices. Such prices are generally based on the close price on the date of determination.

Credit Investments. The majority of investments in Apollo's credit funds are valued based on quoted market prices and valuation models.

Quoted market prices are valued based on the average of the "bid" and the "ask" quotes provided by multiple brokers wherever possible without any adjustments. Apollo designates certain brokers to value specific securities. In order to determine the designated brokers, Apollo considers the following: (i) brokers with which Apollo has previously transacted, (ii) the underwriter of the security and (iii) active brokers indicating executable quotes. In addition, when valuing a security based on broker quotes wherever possible Apollo tests the standard deviation amongst the quotes received and the variance between the concluded fair

value and the value provided by a pricing service. When broker quotes are not available, we use pricing service quotes or other sources to mark a position. When relying on a pricing service as a primary source, (i) Apollo analyzes how the price has moved over the measurement period, (ii) reviews the number of brokers included in the pricing service's population and (iii) validates the valuation levels with Apollo's pricing team and traders.

Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value utilizing a model based approach to determine fair value. Valuation approaches used to estimate the fair value of illiquid credit investments also may include the market approach and the income approach, as previously described above. The valuation approaches used consider, as applicable, market risks, credit risks, counterparty risks and foreign currency risks.

Real Estate Investments. For the CMBS portfolio of Apollo's funds, the estimated fair value of the CMBS portfolio is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. Broker quotes are only indicative of fair value and may not necessarily represent what the funds would receive in an actual trade for the applicable instrument. Additionally, the loans held-for-investment are stated at the principal amount outstanding, net of deferred loan fees and costs. The loans in Apollo's real estate funds are evaluated for possible impairment on a quarterly basis. For Apollo's real estate funds, valuations of non-marketable underlying investments are determined using methods that include, but are not limited to (i) discounted cash flow estimates or comparable analysis prepared internally, (ii) third party appraisals or valuations by qualified real estate appraisers, and (iii) contractual sales value of investments/properties subject to bona fide purchase contracts. Methods (i) and (ii) also incorporate consideration of the use of the income, cost, or sales comparison approaches of estimating property values.

Certain of our funds may also enter into foreign currency exchange contracts, total return swap contracts, credit default swap contracts, and other derivative contracts, which may include options, caps, collars and floors. Foreign currency exchange contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. If securities are held at the end of this period, the changes in value are recorded in income as unrealized. Realized gains or losses are recognized when contracts are settled. Derivative contracts such as total return swaps and credit default swaps are recorded at fair value as an asset or liability, with changes in fair value recorded as unrealized appreciation or depreciation. Realized gains or losses are recognized at the termination of the contract based on the difference between the close-out price of the total return or credit default swap contract and the original contract price. Forward contracts are valued based on market rates obtained from counterparties or prices obtained from recognized financial data service providers.

The fair values of the investments in our funds can be impacted by changes to the assumptions used in the underlying valuation models. For further discussion on the impact of changes to valuation assumptions see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk—Sensitivity" in this Annual Report on Form 10-K. There have been no material changes to the valuation approaches utilized during the periods that our financial results are presented in this report.

Fair Value of Financial Instruments

Except for the Company's debt obligations (each as defined in note 11 to our consolidated financial statements), Apollo's financial instruments are recorded at fair value or at amounts whose carrying values approximate fair value. See "—Investments, at Fair Value" above. While Apollo's valuations of portfolio investments are based on assumptions that Apollo believes are reasonable under the circumstances, the actual realized gains or losses will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may ultimately differ significantly from the assumptions on which the valuations were based. Financial instruments' carrying values generally approximate fair value because of the short-term nature of those instruments or variable interest rates related to the borrowings.

Profit Sharing Expense. Profit sharing expense is primarily a result of agreements with our Contributing Partners and employees to compensate them based on the ownership interest they have in the general partners of the Apollo funds. Therefore, changes in the fair value of the underlying investments in the funds we manage and advise affect profit sharing expense. The Contributing Partners and employees are allocated approximately 30% to 50% of the total carried interest income which is driven primarily by changes in fair value of the underlying fund's investments and is treated as compensation expense. Additionally, profit sharing expenses paid may be subject to clawback from employees, former employees and Contributing Partners to the extent not indemnified. When applicable, the accrual for potential clawback of previously distributed profit sharing amounts, which is a component of due from related parties on the consolidated statements of financial condition, represents all amounts previously distributed to employees, former employees and Contributing Partners that would need to be returned to the general partner if the Apollo funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual general partner receivable, however, would not become realized until the end of a fund's life.

Changes in the fair value of the contingent obligations that were recognized in connection with certain Apollo acquisitions are reflected in the Company's consolidated statements of operations as profit sharing expense.

The Incentive Pool enables certain partners and employees to earn discretionary compensation based on carried interest realizations earned by the Company in a given year, which amounts are reflected in profit sharing expense in the accompanying consolidated financial statements. The Company adopted the Incentive Pool to attract and retain, and provide incentive to, partners and employees of the Company and to more closely align the overall compensation of partners and employees with the overall realized performance of the Company. Allocations to the Incentive Pool and to its participants contain both a fixed and a discretionary component and may vary year-to-year depending on the overall realized performance of the Company and the contributions and performance of each participant. There is no assurance that the Company will continue to compensate individuals through performance-based incentive arrangements in the future and there may be periods when the executive committee of the Company's manager determines that allocations of realized carried interest income are not sufficient to compensate individuals, which may result in an increase in salary, bonus and benefits.

Fair Value Option. Apollo has elected the fair value option for the Company's investment in Athene Holding, the assets and liabilities of certain consolidated VIEs (including CLOs) and the Company's investments in certain CLOs. Such election is irrevocable and is applied to financial instruments on an individual basis at initial recognition. Apollo has applied the fair value option for certain corporate loans, other investments and debt obligations held by the consolidated VIEs that otherwise would not have been carried at fair value. See notes 4, 5, and 6 for further disclosure on the investments in Athene Holding and financial instruments of the consolidated VIEs for which the fair value option has been elected.

Equity-Based Compensation. Equity-based compensation is accounted for in accordance with U.S. GAAP, which requires that the cost of employee services received in exchange for an award is generally measured based on the grant date fair value of the award. Equity-based awards that do not require future service (i.e., vested awards) are expensed immediately. Equity-based employee awards that require future service are recognized over the relevant service period. Further, as required under U.S. GAAP, the Company estimates forfeitures using industry comparables or historical trends for equity-based awards that are not expected to vest. Apollo's equity-based awards consist of, or provide rights with respect to, AOG Units, RSUs, share options, restricted shares, AHL Awards and other equity-based compensation awards. For more information regarding Apollo's equity-based compensation awards, see note 13 to our consolidated financial statements. The Company's assumptions made to determine the fair value on grant date and the estimated forfeiture rate are embodied in the calculations of compensation expense.

A significant part of our compensation expense is derived from amortization of RSUs. The fair value of all RSU grants after March 29, 2011 is based on the grant date fair value, which considers the public share price of the Company. RSUs are comprised of Plan Grants, which generally do not pay distributions until vested and, for grants made after 2011, the underlying shares are generally issued by March 15th after the year in which they vest, and Bonus Grants, which pay distributions on both vested and unvested grants and are generally issued after vesting on an approximate two-month lag. For Plan Grants, the grant date fair value is based on the public share price of the Company, and is discounted for transfer restrictions and lack of distributions until vested. For Bonus Grants, the grant date fair value is based on the public share price of the Company, and is discounted for transfer restrictions.

We utilized the present value of a growing annuity formula to calculate a discount for the lack of pre-vesting distributions on Plan Grant RSUs. The weighted average for the inputs utilized for the shares granted during the years ended December 31, 2016, 2015 and 2014 are presented in the table below for Plan Grants:

	For the Years Ended December 31,		
	2016	2015	2014
Distribution Yield(1)	6.6%	11.0%	14.3%
Cost of Equity Capital Rate(2)	11.3%	9.1%	12.3%

(1) Calculated based on the historical distributions paid during the twelve months ended December 31, 2016 and the Company's Class A share price as of the measurement date of the grant on a weighted average basis.

(2) Assumes a discount rate that was equivalent to the opportunity cost of foregoing distributions on unvested Plan Grant RSUs as of the valuation date, based on the Capital Asset Pricing Model ("CAPM"). CAPM is a commonly used mathematical model for developing expected returns.

The following table summarizes the weighted average discounts for Plan Grants for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
Plan Grants:			
Discount for the lack of distributions until vested[(1)]	14.0%	26.0%	32.5%

(1) Based on the present value of a growing annuity calculation.

We utilized the Finnerty Model to calculate a marketability discount on the Plan Grant and Bonus Grant RSUs to account for the lag between vesting and issuance. The Finnerty Model provides for a valuation discount reflecting the holding period restriction embedded in a restricted security preventing its sale over a certain period of time.

The Finnerty Model proposes to estimate a discount for lack of marketability such as transfer restrictions by using an option pricing theory. This model has gained recognition through its ability to address the magnitude of the discount by considering the volatility of a company's stock price and the length of restriction. The concept underpinning the Finnerty Model is that a restricted security cannot be sold over a certain period of time. Further simplified, a restricted share of equity in a company can be viewed as having forfeited a put on the average price of the marketable equity over the restriction period (also known as an "Asian Put Option"). If we price an Asian Put Option and compare this value to that of the assumed fully marketable underlying security, we can effectively estimate the marketability discount.

The inputs utilized in the Finnerty Model are (i) length of holding period, (ii) volatility and (iii) distribution yield. The weighted average for the inputs utilized for the shares granted during the years ended December 31, 2016, 2015 and 2014 are presented in the table below for Plan Grants and Bonus Grants:

	For the Years Ended December 31,		
	2016	2015	2014
Plan Grants			
Holding Period Restriction (in years)	0.5	0.6	0.6
Volatility[(1)]	24.7%	25.7%	31.4%
Distribution Yield[(2)]	6.6%	11.0%	14.3%
Bonus Grants			
Holding Period Restriction (in years)	0.2	0.2	0.2
Volatility[(1)]	20.6%	22.2%	32.1%
Distribution Yield[(2)]	6.5%	10.8%	13.7%

(1) The Company determined the expected volatility based on the volatility of the Company's Class A share price as of the grant date with consideration to comparable companies.

(2) Calculated based on the historical distributions paid during the twelve months ended December 31, 2016, 2015 and 2014 and the Company's Class A share price as of the measurement date of the grant on a weighted average basis.

The following table summarizes the weighted average marketability discounts for Plan Grants and Bonus Grants for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
Plan Grants:			
Marketability discount for transfer restrictions[(1)]	3.8%	4.2%	5.1%
Bonus Grants:			
Marketability discount for transfer restrictions[(1)]	2.1%	2.2%	3.2%

(1) Based on the Finnerty Model calculation.

After the grant date fair value is determined, an estimated forfeiture rate is applied. The estimated fair value was determined and recognized over the vesting period on a straight-line basis. A 4.0% forfeiture rate is estimated for RSUs, based on the Company's historical attrition rate as well as industry comparable rates. If employees are no longer associated with Apollo or

if there is no turnover, we will revise our estimated compensation expense to the actual amount of expense based on the RSUs vested at the reporting date in accordance with U.S. GAAP.

Bonus Grants constitute a component of the discretionary annual compensation awarded to certain of our professionals. For 2016, the Company has increased the default portion of annual compensation by approximately $11.0 million to be awarded as a discretionary Bonus Grant relative to the portion awarded in previous years. The increase in the proportion of discretionary annual compensation awarded as a Bonus Grant will be offset by a decrease in discretionary annual cash bonuses. These changes are intended to further align the interests of Apollo's employees and stakeholders and strengthen the long-term commitment of our partners and employees.

Fair Value Measurements

See note 6 to our consolidated financial statements for a discussion of the Company's fair value measurements.

Recent Accounting Pronouncements

A list of recent accounting pronouncements that are relevant to Apollo and its industry is included in note 2 to our consolidated financial statements.

Off-Balance Sheet Arrangements

In the normal course of business, we engage in off-balance sheet arrangements, including transactions in derivatives, guarantees, commitments, indemnifications and potential contingent repayment obligations. See note 15 to our consolidated financial statements for a discussion of guarantees and contingent obligations and note 2 for a discussion of derivatives.

Contractual Obligations, Commitments and Contingencies

As of December 31, 2016, the Company's material contractual obligations consisted of lease obligations, contractual commitments as part of the ongoing operations of the funds and debt obligations. Fixed and determinable payments due in connection with these obligations are as follows:

	2017	2018	2019	2020	2021	Thereafter	Total
				(in thousands)			
Operating lease obligations[1]	$ 34,705	$ 30,969	$ 30,198	$ 13,473	$ 4,572	$ 6,853	$ 120,770
Other long-term obligations[2]	19,229	6,398	3,694	1,365	1,365	1,365	33,416
2013 AMH Credit Facilities - Term Facility[3]	6,355	6,355	6,355	6,355	300,318	—	325,738
2013 AMH Credit Facilities - Revolver Facility[4]	625	625	625	625	8	—	2,508
2024 Senior Notes [5]	20,000	20,000	20,000	20,000	20,000	548,333	648,333
2026 Senior Notes [6]	22,000	22,000	22,000	22,000	22,000	596,984	706,984
2014 AMI Term Facility I	289	289	289	289	14,682	—	15,838
2014 AMI Term Facility II	285	285	16,575	—	—	—	17,145
2016 AMI Term Facility I	312	312	312	312	17,865	—	19,113
2016 AMI Term Facility II	278	278	278	278	14,058	—	15,170
Obligations as of December 31, 2016	$ 104,078	$ 87,511	$ 100,326	$ 64,697	$ 394,868	$ 1,153,535	$ 1,905,015

(1) The Company has entered into sublease agreements and is expected to contractually receive approximately $1.1 million over the life of the agreements.
(2) Includes (i) payments on management service agreements related to certain assets and (ii) payments with respect to certain consulting agreements entered into by the Company. Note that a significant portion of these costs are reimbursable by funds.
(3) $300 million of the outstanding Term Facility matures in January 2021. The interest rate on the $300 million Term Facility as of December 31, 2016 was 2.12%. See note 11 of the consolidated financial statements for further discussion of the 2013 AMH Credit Facilities.
(4) The commitment fee as of December 31, 2016 on the $500 million undrawn Revolver Facility was 0.125%. See note 11 of the consolidated financial statements for further discussion of the 2013 AMH Credit Facilities.
(5) $500 million of the 2024 Senior Notes matures in May 2024. The interest rate on the 2024 Senior Notes as of December 31, 2016 was 4.00%. See note 11 of the consolidated financial statements for further discussion of the 2024 Senior Notes.
(6) $500 million of the 2026 Senior Notes matures in May 2026. The interest rate on the 2026 Senior Notes as of December 31, 2016 was 4.40%. See note 11 of the consolidated financial statements for further discussion of the 2026 Senior Notes.

Note: Due to the fact that the timing of certain amounts to be paid cannot be determined or for other reasons discussed below, the following contractual commitments have not been presented in the table above.

(i) As noted previously, we have entered into a tax receivable agreement with our Managing Partners and Contributing Partners which requires us to pay to our Managing Partners and Contributing Partners 85% of any tax savings received by APO Corp. from our step-up in tax basis. The tax savings achieved may not ensure that we have sufficient cash available to pay this liability and we might be required to incur additional debt to satisfy this liability.

(ii) Debt amounts related to the consolidated VIEs are not presented in the table above as the Company is not a guarantor of these non-recourse liabilities.

(iii) In connection with the Stone Tower acquisition, the Company agreed to pay the former owners of Stone Tower a specified percentage of any future carried interest income earned from certain of the Stone Tower funds, CLOs and strategic investment accounts. This contingent consideration liability is remeasured to fair value at each reporting period until the obligations are satisfied. See note 15 to the consolidated financial statements for further information regarding the contingent consideration liability.

(iv) Commitments from certain of our management companies and general partners to contribute to the funds we manage and certain related parties.

Commitments

Certain of our management companies and general partners are committed to contribute to the funds we manage and certain related parties. While a small percentage of these amounts are funded by us, the majority of these amounts have historically been funded by our related parties, including certain of our employees and certain Apollo funds. The table below presents the commitment and remaining commitment amounts of Apollo and its related parties, the percentage of total fund commitments of Apollo and its related parties, the commitment and remaining commitment amounts of Apollo only (excluding related parties), and the percentage of total fund commitments of Apollo only (excluding related parties) for each private equity, credit and real estate fund as of December 31, 2016 as follows ($ in millions):

Fund	Apollo and Related Party Commitments	% of Total Fund Commitments	Apollo Only (Excluding Related Party) Commitments	Apollo Only (Excluding Related Party) % of Total Fund Commitments	Apollo and Related Party Remaining Commitments	Apollo Only (Excluding Related Party) Remaining Commitments
Private Equity:						
Fund VIII	$ 1,543.5	8.40%	$ 396.5	2.16%	$ 708.6	$ 184.2
Fund VII	467.2	3.18	178.1	1.21	76.5	28.0
Fund VI	246.3	2.43	6.1	0.06	9.7	0.2
Fund V	100.0	2.67	0.5	0.01	6.2	—
Fund IV	100.0	2.78	0.2	0.01	0.5	—
AION	151.5	18.34	50.0	6.05	86.9	28.4
ANRP I	426.1	32.21	10.1	0.76	108.5	2.6
ANRP II	581.2	16.83	48.0	1.39	499.3	40.4
A.A. Mortgage Opportunities, L.P.	425.0	84.46	—	—	20.8	—
Apollo Rose, L.P.	299.1	100.00	—	—	134.8	—
Champ, L.P.	108.6	100.00	17.4	16.01	36.8	1.9
Apollo Royalties Management, LLC	105.6	100.00	—	—	—	—
Other Private Equity	7.5	Various	7.5	Various	3.1	3.1
Credit:						
Credit Opportunity Fund III, L.P. (“COF III”)	358.1	10.45	83.1	2.43	69.9	16.6
Apollo Credit Opportunity Fund II, L.P. (“COF II”)	30.5	1.93	23.4	1.48	0.8	0.6
Credit Opportunity Fund, L.P. (“COF I”)	449.2	30.26	29.7	2.00	237.1	4.2
Apollo European Principal Finance Fund III, L.P. (“EPF III”)(2)	488.6	18.59	63.6	2.42	488.6	63.6
Apollo European Principal Finance Fund II, L.P. (“EPF II”)(2)	409.3	12.12	63.4	1.88	114.0	20.8
Apollo European Principal Finance Fund, L.P. (“EPF I”)(2)	282.6	20.74	18.6	1.37	46.3	4.3
Financial Credit Investment II, L.P. (“FCI II”)	244.6	15.72	—	—	65.0	—
Financial Credit Investment I, L.P. (“FCI I”)	95.3	17.05	—	—	58.8	—
Apollo Structured Credit Recovery Master Fund III, L.P. (“SCRF III”)	230.2	18.59	3.6	0.29	91.4	1.4
Apollo Structured Credit Recovery Master Fund II, Ltd. (“SCRF II”)	7.8	7.47	—	—	—	—
MidCap	1,672.6	80.23	110.9	5.32	229.0	31.0
Apollo Moultrie Credit Fund, L.P.	400.0	100.00	—	—	275.0	—
Apollo/Palmetto Short-Maturity Loan Portfolio, L.P.	300.0	100.00	—	—	—	—
Apollo Asia Private Credit Fund, L.P. (“APC”)	158.5	69.06	0.1	0.04	—	—
AEOF	125.5	12.01	25.5	2.44	89.2	18.1
Other Credit	375.8	Various	207.9	Various	274.5	119.7
Real Estate:						
U.S. RE Fund II	352.5	54.21	7.6	1.17	154.0	3.6
U.S. RE Fund I	434.0 (1)	66.94	16.4	2.53	127.1	3.1
CPI Capital Partners North America, L.P.	7.6	1.27	2.1	0.35	0.6	0.2
CPI Capital Partners Europe, L.P.(2)	5.8	0.47	—	—	0.4	—
CPI Capital Partners Asia Pacific, L.P.	6.9	0.53	0.5	0.04	0.1	—
Apollo Asia Real Estate Fund, L.P.	206.9	73.39	6.9	2.44	205.9	6.9
Other Real Estate	264.1	Various	1.7	Various	11.1	0.4
Other:						
Apollo SPN Investments I, L.P.	28.9	0.72	28.9	0.72	24.6	24.6
Total	$ 11,496.9		$ 1,408.3		$ 4,255.1	$ 607.9

(1) Figures for U.S. RE Fund I include base, additional, and co-investment commitments. A co-investment vehicle within U.S. RE Fund I is denominated in pound sterling and translated into U.S. dollars at an exchange rate of £1.00 to $1.23 as of December 31, 2016.
(2) Apollo’s commitment in these funds is denominated in Euros and translated into U.S. dollars at an exchange rate of €1.00 to $1.05 as of December 31, 2016.

On April 30, 2015, Apollo entered into a revolving credit agreement with AAA Investments (“the AAA Investments Credit Agreement”). Under the terms of the AAA Investments Credit Agreement, the Company shall make available to AAA Investments one or more advances at the discretion of AAA Investments in the aggregate amount not to exceed a balance of $10.0

million at an applicable rate of LIBOR plus 1.5%. The Company receives an annual commitment fee of 0.125% on the unused portion of the loan. As of December 31, 2016, $4.0 million had been advanced by the Company and remained outstanding on the AAA Investments Credit Agreement.

The 2013 AMH Credit Facilities, 2024 Senior Notes and 2026 Senior Notes will have future impacts on our cash uses. See note 11 of our consolidated financial statements for information regarding the Company's debt arrangements.

Contingent Obligations—Carried interest income in private equity and certain credit and real estate funds is subject to reversal in the event of future losses to the extent of the cumulative carried interest recognized in income to date. If all of the existing investments became worthless, the amount of cumulative revenues recognized by Apollo through December 31, 2016 that would be reversed approximates $2.9 billion. Management views the possibility of all of the investments becoming worthless as remote. Carried interest income is affected by changes in the fair values of the underlying investments in the funds that Apollo manages. Valuations, on an unrealized basis, can be significantly affected by a variety of external factors including, but not limited to, bond yields and industry trading multiples. Movements in these items can affect valuations quarter to quarter even if the underlying business fundamentals remain stable.

Additionally, at the end of the life of certain funds that the Company manages, there could be a payment due to a fund by the Company if the Company as general partner has received more carried interest income than was ultimately earned. This general partner obligation amount, if any, will depend on final realized values of investments at the end of the life of each fund or as otherwise set forth in the respective limited partnership agreement or other governing document of the fund. As of December 31, 2016, the Company recorded a general partner obligation to return previously distributed carried interest income of $116.6 million. See note 14 to the consolidated financial statements for further information regarding the general partner obligation.

As of December 31, 2016, one of the Company's subsidiaries had unfunded contingent commitments of $22.1 million, to facilitate fundings at closing by lead arrangers for syndicated term loans issued by portfolio companies of a fund managed by Apollo. The commitments expire by March 15, 2017. As of February 13, 2017, the unfunded commitment was approximately $1.0 million.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our predominant exposure to market risk is related to our role as investment manager and general partner for our funds and the sensitivity to movements in the fair value of their investments and resulting impact on carried interest income and management fee revenues. Our direct investments in the funds also expose us to market risk whereby movements in the fair values of the underlying investments will increase or decrease both net gains (losses) from investment activities and income (loss) from equity method investments. For a discussion of the impact of market risk factors on our financial instruments see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Investments, at Fair Value."

The fair value of our financial assets and liabilities of our funds may fluctuate in response to changes in the value of investments, foreign exchange, commodities and interest rates. The net effect of these fair value changes impacts the gains and losses from investments in our consolidated statements of operations. However, the majority of these fair value changes are absorbed by the Non-Controlling Interests.

The Company is subject to a concentration risk related to the investors in its funds. Although there are more than 1,000 investors in Apollo's active private equity, credit and real estate funds, no individual investor accounts for more than 10% of the total committed capital to Apollo's active funds.

Risks are analyzed across funds from the "bottom up" and from the "top down" with a particular focus on asymmetric risk. We gather and analyze data, monitor investments and markets in detail, and constantly strive to better quantify, qualify and circumscribe relevant risks.

Each risk management process is subject to our overall risk tolerance and philosophy and our enterprise-wide risk management framework. This framework includes identifying, measuring and managing market, credit and operational risks at each segment, as well as at the fund and Company level.

Each segment runs its own investment and risk management process subject to our overall risk tolerance and philosophy:

- The investment process of our private equity funds involves a detailed analysis of potential acquisitions, and investment management teams assigned to monitor the strategic development, financing and capital deployment decisions of each portfolio investment.

- Our credit funds continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios, as well as, fund-wide risks.

At the direction of the Company's manager, the Company has established a risk committee comprised of various members of senior management including the Company's Chief Financial Officer, Chief Legal Officer, and the Company's Chief Risk Officer. The risk committee is tasked with assisting the Company's manager in monitoring and managing enterprise-wide risk. The risk committee generally meets on a quarterly basis and reports to senior management of the Company's manager at such times as the committee deems appropriate and at least on an annual basis.

On at least a monthly basis, the Company's risk department provides a summary analysis of fund level market and credit risk to the portfolio managers of the Company's funds and the heads of the various business segments. On a periodic basis, the Company's risk department presents a consolidated summary analysis of fund level market and credit risk to the Company's risk committee. In addition, the Company's Chief Risk Officer reviews specific investments from the perspective of risk mitigation and discusses such analysis with the Company's risk committee and/or the executive committee of the Company's manager at such times as the Company's Chief Risk Officer determines such discussions are warranted. On an annual basis, the Company's Chief Risk Officer provides senior management of the Company's manager with a comprehensive overview of risk management along with an update on current and future risk initiatives.

Impact on Management Fees—Our management fees are based on one of the following:

- capital commitments to an Apollo fund;
- capital invested in an Apollo fund;
- the gross, net or adjusted asset value of an Apollo fund, as defined; or
- as otherwise defined in the respective agreements.

Management fees could be impacted by changes in market risk factors and management could consider an investment permanently impaired as a result of (i) such market risk factors causing changes in invested capital or in market values to below cost, in the case of our private equity funds and certain credit funds or (ii) such market risk factors causing changes in gross or net asset value, for the credit funds. The proportion of our management fees that are based on NAV is dependent on the number and types of our funds in existence and the current stage of each fund's life cycle.

Impact on Advisory and Transaction Fees—We earn transaction fees relating to the negotiation of private equity, credit and real estate transactions and may obtain reimbursement for certain out-of-pocket expenses incurred. Subsequently, on a quarterly or annual basis, ongoing advisory fees, and additional transaction fees in connection with additional purchases, dispositions, or follow-on transactions, may be earned. Management Fee Offsets and any broken deal costs, if applicable, are reflected as a reduction to advisory and transaction fees from related parties. Advisory and transaction fees will be impacted by changes in market risk factors to the extent that they limit our opportunities to engage in private equity, credit and real estate transactions or impair our ability to consummate such transactions. The impact of changes in market risk factors on advisory and transaction fees is not readily predicted or estimated.

Impact on Carried Interest Income—We earn carried interest income from our funds as a result of such funds achieving specified performance criteria. Our carried interest income will be impacted by changes in market risk factors. However, several major factors will influence the degree of impact:

- the performance criteria for each individual fund in relation to how that fund's results of operations are impacted by changes in market risk factors;
- whether such performance criteria are annual or over the life of the fund;
- to the extent applicable, the previous performance of each fund in relation to its performance criteria; and
- whether each funds' carried interest distributions are subject to contingent repayment.

As a result, the impact of changes in market risk factors on carried interest income will vary widely from fund to fund. The impact is heavily dependent on the prior and future performance of each fund, and therefore is not readily predicted or estimated.

Market Risk—We are directly and indirectly affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues and expenses will be adversely affected by changes in market conditions. Market risk is inherent in each of our investments and activities, including equity investments, loans, short-term borrowings, long-term debt, hedging instruments, credit default swaps and derivatives. Just a few of the market conditions that may shift from time

to time, thereby exposing us to market risk, include fluctuations in interest and currency exchange rates, equity prices, changes in the implied volatility of interest rates and price deterioration. Volatility in debt and equity markets can impact our pace of capital deployment, the timing of receipt of transaction fee revenues and the timing of realizations. These market conditions could have an impact on the value of fund investments and rates of return. Accordingly, depending on the instruments or activities impacted, market risks can have wide ranging, complex adverse effects on our results from operations and our overall financial condition. We monitor market risk using certain strategies and methodologies which management evaluates periodically for appropriateness. We intend to continue to monitor this risk going forward and continue to monitor our exposure to all market factors.

Interest Rate Risk—Interest rate risk represents exposure we and our funds have to instruments whose values vary with the change in interest rates. These instruments include, but are not limited to, loans, borrowings and derivative instruments. We may seek to mitigate risks associated with the exposures by having our funds take offsetting positions in derivative contracts. Hedging instruments allow us to seek to mitigate risks by reducing the effect of movements in the level of interest rates, changes in the shape of the yield curve, as well as, changes in interest rate volatility. Hedging instruments used to mitigate these risks may include related derivatives such as options, futures and swaps.

Credit Risk—Certain of our funds are subject to certain inherent risks through their investments.

Certain of our entities invest substantially all of their excess cash in open-end money market funds and money market demand accounts, which are included in cash and cash equivalents. The money market funds invest primarily in government securities and other short-term, highly liquid instruments with a low risk of loss. We continually monitor the funds' performance in order to manage any risk associated with these investments.

Certain of our funds hold derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. We seek to minimize our risk exposure by limiting the counterparties with which our funds enter into contracts to banks and investment banks who meet established credit and capital guidelines. As of December 31, 2016, we do not expect any counterparty to default on its obligations and therefore do not expect to incur any loss due to counterparty default.

Foreign Exchange Risk—Foreign exchange risk represents exposures our funds have to changes in the values of current fund holdings and future cash flows denominated in other currencies and investments in non-U.S. companies. The types of investments exposed to this risk include investments in foreign subsidiaries, foreign currency-denominated loans, foreign currency-denominated transactions, and various foreign exchange derivative instruments whose values fluctuate with changes in currency exchange rates or foreign interest rates. Instruments used to mitigate this risk are foreign exchange options, currency swaps, futures and forwards. These instruments may be used to help insulate our funds against losses that may arise due to volatile movements in foreign exchange rates and/or interest rates.

In our capacity as investment manager of the funds we manage, we continuously monitor a variety of markets for attractive opportunities for managing risk. For example, certain of the funds we manage may put in place foreign exchange hedges or borrowings with respect to certain foreign currency denominated investments to provide a hedge against foreign exchange exposure.

Non-U.S. Operations—We conduct business throughout the world and are continuing to expand into foreign markets. We currently have offices outside the U.S. in Toronto, London, Frankfurt, Madrid, Luxembourg, Mumbai, Delhi, Singapore, Hong Kong and Shanghai and have been strategically growing our international presence. Our fund investments and our revenues are primarily derived from our U.S. operations. With respect to our non-U.S. operations, we are subject to risk of loss from currency fluctuations, social instability, changes in governmental policies or policies of central banks, expropriation, nationalization, unfavorable political and diplomatic developments and changes in legislation relating to non-U.S. ownership. Our funds also invest in the securities of companies which are located in non-U.S. jurisdictions. As we continue to expand globally, we will continue to focus on monitoring and managing these risk factors as they relate to specific non-U.S. investments.

Sensitivity

Interest Rate Risk—Apollo has debt obligations that accrue interest at variable rates. Interest rate changes may therefore affect the amount of our interest payments, future earnings and cash flows. Based on our debt obligations payable as of December 31, 2016 and 2015, we estimate that interest expense would increase on an annual basis, in the event interest rates were to increase by one percentage point, by approximately $3.6 million and $5.3 million, respectively.

In addition to our debt obligations, we are also subject to interest rate risk through the investments of our funds. For funds that pay management fees based on NAV or other bases that are sensitive to market value fluctuations, we anticipate our management fees would change consistent with the increase or decrease experienced by the underlying funds' portfolios. In the event that interest rates were to increase by one percentage point, we estimate that management fees earned on a segment basis

that were dependent upon estimated fair value would decrease by approximately $15.4 million and $10.9 million during the years ended December 31, 2016 and 2015, respectively.

Credit Risk—Similar to interest rate risk, we are also subject to credit risk through the investments of our funds. In the event that credit spreads were to increase by one percentage point, we estimate that management fees earned on a segment basis that were dependent upon estimated fair value would decrease by approximately $22.1 million and $18.3 million during the years ended December 31, 2016 and 2015, respectively.

Foreign Exchange Risk—We estimate for the years ended December 31, 2016 and 2015, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in the following declines in management fees, carried interest income and income from equity method investments:

	For the Years Ended December 31,	
	2016	2015
Management fees	$ 4,956	$ 2,717
Carried interest income	3,236	1,953
Income from equity method investments	156	22

Net Gains From Investment Activities and Income From Equity Method Investments—Our assets and unrealized gains, and our related equity and net income are sensitive to changes in the valuations of our funds' underlying investments and could vary materially as a result of changes in our valuation assumptions and estimates. See "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations—Critical Accounting Policies—Investments, at Fair Value" for details related to the valuation methods that are used and the key assumptions and estimates employed by such methods. We also quantify the Level III investments that are included on our consolidated statements of financial condition by valuation methodology in note 6 to the consolidated financial statements. We employ a variety of valuation methods. Furthermore, the investments that we manage but are not on our consolidated statements of financial condition, and therefore impact carried interest, also employ a variety of valuation methods of which no single methodology is used more than any other. Changes in fair value will have the following impacts before a reduction of profit sharing expense and Non-Controlling Interests in the Apollo Operating Group and on a pre-tax basis on our results of operations for the years ended December 31, 2016 and 2015:

Management Fees—Management fees from the funds in our credit segment are based on the net asset value of the relevant fund, gross assets, capital commitments or invested capital, each as defined in the respective management agreements. Changes in the fair values of the investments in credit funds that earn management fees based on net asset value or gross assets will have a direct impact on the amount of management fees that are earned. Management fees earned from our credit segment on a segment basis that were dependent upon estimated fair value during the years ended December 31, 2016 and 2015 would decrease by approximately $46.0 million and $50.5 million, respectively, if the fair values of the investments held by such funds were 10% lower during the same respective periods.

Management fees for our private equity, real estate and certain credit funds, excluding AAA, generally are charged on either (a) a fixed percentage of committed capital over a stated investment period or (b) a fixed percentage of invested capital of unrealized portfolio investments. Changes in values of investments could indirectly affect future management fees from private equity funds by, among other things, reducing the funds' access to capital or liquidity and their ability to currently pay the management fees or if such change resulted in a write-down of investments below their associated invested capital.

Carried Interest Income—Carried interest income from most of our credit, private equity and real estate funds generally is earned based on achieving specified performance criteria and is impacted directly by changes in the fair value of the funds' investments. We anticipate that a 10% decline in the fair values of investments held by all of the credit, private equity and real estate funds at December 31, 2016 and 2015 would decrease carried interest income on a segment basis for the years ended December 31, 2016 and 2015 as presented in the table below:

	For the Years Ended December 31,	
	2016	2015
10% Decline in Fair Value of Investments Held		
Credit	$ 174,439	$ 140,461
Private Equity	578,021	202,171
Real Estate	21,684	10,865

Net Gains From Investment Activities—Net gains from investment activities related to the Company's investment in Athene Holding would decrease by approximately $65.8 million and $51.0 million for the years ended December 31, 2016 and

2015, respectively, if the fair value of the Company's investment in Athene Holding decreased by 10% during the same respective periods.

Income From Equity Method Investments—For select Apollo funds, our share of income from equity method investments as a general partner in such funds is derived from unrealized gains or losses on investments in funds included in the consolidated financial statements. For funds in which we have an interest, but are not consolidated, our share of investment income is limited to our direct investments in the funds.

We anticipate that a 10% decline in the fair value of investments at December 31, 2016 and 2015 would result in an approximate $88.2 million and $63.1 million decrease in investment income in our consolidated financial statements, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Apollo Global Management, LLC
New York, New York

We have audited the accompanying consolidated statements of financial condition of Apollo Global Management, LLC and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016. We also have audited the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Apollo Global Management, LLC and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
New York, New York
February 13, 2017

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2016 AND DECEMBER 31, 2015
(dollars in thousands, except share data)

	As of December 31,	
	2016	**2015**
Assets:		
Cash and cash equivalents	$ 806,329	$ 612,505
Cash and cash equivalents held at consolidated funds	7,335	4,817
Restricted cash	4,680	5,700
Investments	1,494,744	1,154,749
Assets of consolidated variable interest entities:		
Cash and cash equivalents	41,318	56,793
Investments, at fair value	913,827	910,566
Other assets	46,666	63,413
Carried interest receivable	1,257,105	643,907
Due from related parties	254,853	247,835
Deferred tax assets	572,263	646,207
Other assets	118,860	95,844
Goodwill	88,852	88,852
Intangible assets, net	22,721	28,620
Total Assets	**$ 5,629,553**	**$ 4,559,808**
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	$ 57,465	$ 92,012
Accrued compensation and benefits	52,754	54,836
Deferred revenue	174,893	177,875
Due to related parties	638,126	594,536
Profit sharing payable	550,148	295,674
Debt	1,352,447	1,025,255
Liabilities of consolidated variable interest entities:		
Debt, at fair value	786,545	801,270
Other liabilities	68,034	85,982
Other liabilities	81,613	43,387
Total Liabilities	**3,762,025**	**3,170,827**
Commitments and Contingencies (see note 15)		
Shareholders' Equity:		
Apollo Global Management, LLC shareholders' equity:		
Class A shares, no par value, unlimited shares authorized, 185,460,294 and 181,078,937 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively	—	—
Class B shares, no par value, unlimited shares authorized, 1 share issued and outstanding at December 31, 2016 and December 31, 2015	—	—
Additional paid in capital	1,830,025	2,005,509
Accumulated deficit	(986,186)	(1,348,384)
Accumulated other comprehensive loss	(8,723)	(7,620)
Total Apollo Global Management, LLC shareholders' equity	835,116	649,505
Non-Controlling Interests in consolidated entities	90,063	86,561
Non-Controlling Interests in Apollo Operating Group	942,349	652,915
Total Shareholders' Equity	**1,867,528**	**1,388,981**
Total Liabilities and Shareholders' Equity	**$ 5,629,553**	**$ 4,559,808**

See accompanying notes to consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(dollars in thousands, except share data)

	For the Years Ended December 31,		
	2016	**2015**	**2014**
Revenues:			
Management fees from related parties	$ 1,043,513	$ 930,194	$ 850,441
Advisory and transaction fees from related parties, net	146,665	14,186	315,587
Carried interest income from related parties	780,206	97,290	394,055
Total Revenues	1,970,384	1,041,670	1,560,083
Expenses:			
Compensation and benefits:			
Salary, bonus and benefits	389,130	354,524	338,049
Equity-based compensation	102,983	97,676	126,320
Profit sharing expense	357,074	85,229	276,190
Total Compensation and Benefits	849,187	537,429	740,559
Interest expense	43,482	30,071	22,393
General, administrative and other	247,000	255,061	265,189
Placement fees	26,249	8,414	15,422
Total Expenses	1,165,918	830,975	1,043,563
Other Income:			
Net gains from investment activities	139,721	121,723	213,243
Net gains from investment activities of consolidated variable interest entities	5,015	19,050	22,564
Income from equity method investments	103,178	14,855	53,856
Interest income	4,072	3,232	10,392
Other income, net	4,562	7,673	60,592
Total Other Income	256,548	166,533	360,647
Income before income tax provision	1,061,014	377,228	877,167
Income tax provision	(90,707)	(26,733)	(147,245)
Net Income	970,307	350,495	729,922
Net income attributable to Non-Controlling Interests	(567,457)	(215,998)	(561,693)
Net Income Attributable to Apollo Global Management, LLC	$ 402,850	$ 134,497	$ 168,229
Distributions Declared per Class A Share	$ 1.25	$ 1.96	$ 3.11
Net Income Per Class A Share:			
Net Income Available to Class A Share – Basic	$ 2.11	$ 0.61	$ 0.62
Net Income Available to Class A Share – Diluted	$ 2.11	$ 0.61	$ 0.62
Weighted Average Number of Class A Shares Outstanding – Basic	183,998,080	173,271,666	155,349,017
Weighted Average Number of Class A Shares Outstanding – Diluted	183,998,080	173,271,666	155,349,017

See accompanying notes to consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(dollars in thousands, except share data)

	For the Years Ended December 31,		
	2016	**2015**	**2014**
Net Income	**$ 970,307**	**$ 350,495**	**$ 729,922**
Other Comprehensive Income, net of tax:			
Allocation of currency translation adjustment of consolidated CLOs and funds (net of taxes of $0.3 million, $0.9 million and $0.0 million for Apollo Global Management, LLC for the years ended December 31, 2016, 2015 and 2014, respectively, and $0.0 million for Non-Controlling Interests in Apollo Operating Group for years ended December 31, 2016, 2015 and 2014)	(4,214)	(13,535)	724
Net gain (loss) from change in fair value of cash flow hedge instruments	106	105	(990)
Net income (loss) on available-for-sale securities	418	(904)	(2)
Total Other Comprehensive Loss, net of tax	(3,690)	(14,334)	(268)
Comprehensive Income	**966,617**	**336,161**	**729,654**
Comprehensive Income attributable to Non-Controlling Interests	(564,870)	(208,978)	(631,831)
Comprehensive Income Attributable to Apollo Global Management, LLC	**$ 401,747**	**$ 127,183**	**$ 97,823**

See accompanying notes to consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(dollars in thousands, except share data)

	Apollo Global Management, LLC Shareholders									
	Class A Shares	Class B Shares	Additional Paid in Capital	Accumulated Deficit	Appropriated Partners' Capital	Accumulated Other Comprehensive Loss	Total Apollo Global Management, LLC Shareholders' Equity	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Apollo Operating Group	Total Shareholders' Equity
Balance at January 1, 2014	146,280,784	1	$ 2,624,582	$ (1,568,487)	$ 1,581,079	$ 95	$ 2,637,269	$ 2,669,730	$ 1,381,723	$ 6,688,722
Dilution impact of issuance of Class A shares	—	—	5,267	—	—	—	5,267	—	—	5,267
Capital increase related to equity-based compensation	—	—	108,871	—	—	—	108,871	—	—	108,871
Capital contributions	—	—	—	—	135,356	—	135,356	936,915	—	1,072,271
Distributions	—	—	(555,532)	—	(713,264)	—	(1,268,796)	(615,301)	(816,412)	(2,700,509)
Payments related to deliveries of Class A shares for RSUs	10,491,649	—	27,899	(403)	—	—	27,496	—	—	27,496
Purchase of AAA units	—	—	—	—	—	—	—	(312)	—	(312)
Net transfers of AAA ownership interest to (from) Non-Controlling Interests in consolidated entities	—	—	(3,423)	—	—	—	(3,423)	3,423	—	—
Satisfaction of liability related to AAA RDUs	—	—	1,183	—	—	—	1,183	—	—	1,183
Exchange of AOG Units for Class A shares	6,274,121	—	45,436	—	—	—	45,436	—	(34,618)	10,818
Net income	—	—	—	168,229	(70,729)	—	97,500	227,740	404,682	729,922
Allocation of currency translation adjustment of consolidated CLOs and fund entities	—	—	—	—	724	—	724	—	—	724
Net loss from change in fair value of cash flow hedge instruments	—	—	—	—	—	(399)	(399)	—	(591)	(990)
Net loss on available-for-sale securities	—	—	—	—	—	(2)	(2)	—	—	(2)
Balance at December 31, 2014	163,046,554	1	$ 2,254,283	$ (1,400,661)	$ 933,166	$ (306)	$ 1,786,482	$ 3,222,195	$ 934,784	$ 5,943,461
Cumulative effect adjustment from adoption of accounting guidance	—	—	1,771	(3,350)	(933,166)	—	(934,745)	(3,134,518)	—	(4,069,263)
Dilution impact of issuance of Class A shares	—	—	3,588	—	—	—	3,588	—	—	3,588
Capital increase related to equity-based compensation	—	—	67,959	—	—	—	67,959	—	—	67,959
Capital contributions	—	—	—	—	—	—	—	5,916	—	5,916
Distributions	—	—	(367,894)	—	—	—	(367,894)	(21,317)	(453,324)	(842,535)
Payments related to deliveries of Class A shares for RSUs	11,521,762	—	6,276	(78,870)	—	—	(72,594)	—	—	(72,594)
Exchange of AOG Units for Class A shares	6,510,621	—	39,526	—	—	—	39,526	—	(23,238)	16,288
Net income	—	—	—	134,497	—	—	134,497	21,364	194,634	350,495
Allocation of currency translation adjustment of consolidated CLOs and fund entities	—	—	—	—	—	(6,456)	(6,456)	(7,079)	—	(13,535)
Net gain from change in fair value of cash flow hedge instruments	—	—	—	—	—	46	46	—	59	105
Net loss on available-for-sale securities	—	—	—	—	—	(904)	(904)	—	—	(904)
Balance at December 31, 2015	181,078,937	1	$ 2,005,509	$ (1,348,384)	$ —	$ (7,620)	$ 649,505	$ 86,561	$ 652,915	$ 1,388,981

	Apollo Global Management, LLC Shareholders									
	Class A Shares	Class B Shares	Additional Paid in Capital	Accumulated Deficit	Appropriated Partners' Capital	Accumulated Other Comprehensive Loss	Total Apollo Global Management, LLC Shareholders' Equity	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Apollo Operating Group	Total Shareholders' Equity
Balance at December 31, 2015	181,078,937	1	$ 2,005,509	$ (1,348,384)	$ —	$ (7,620)	$ 649,505	$ 86,561	$ 652,915	$ 1,388,981
Dilution impact of issuance of Class A shares	—	—	388	—	—	—	388	—	—	388

Capital increase related to equity-based compensation	—	—	69,587	—	—	—	69,587	—	—	69,587
Capital contributions	—	—	—	—	—	—	—	13,236	—	13,236
Distributions	—	—	(239,109)	—	—	—	(239,109)	(12,777)	(269,781)	(521,667)
Payments related to deliveries of Class A shares for RSUs and restricted shares	4,623,187	—	186	(40,652)	—	—	(40,466)	—	—	(40,466)
Repurchase of Class A shares	(954,447)	—	(12,902)	—	—	—	(12,902)	—	—	(12,902)
Exchange of AOG Units for Class A shares	712,617	—	6,366	—	—	—	6,366	—	(2,612)	3,754
Net income	—	—	—	402,850	—	—	402,850	5,789	561,668	970,307
Allocation of currency translation adjustment of consolidated CLOs and fund entities	—	—	—	—	—	(1,571)	(1,571)	(2,746)	103	(4,214)
Net gain from change in fair value of cash flow hedge instruments	—	—	—	—	—	50	50	—	56	106
Net income on available-for-sale securities	—	—	—	—	—	418	418	—	—	418
Balance at December 31, 2016	**185,460,294**	**1**	**$ 1,830,025**	**$ (986,186)**	**$ —**	**$ (8,723)**	**$ 835,116**	**$ 90,063**	**$ 942,349**	**$ 1,867,528**

See accompanying notes to consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(dollars in thousands, except share data)

	For the Years Ended December 31,		
	2016	**2015**	**2014**
Cash Flows from Operating Activities:			
Net income	$ 970,307	$ 350,495	$ 729,922
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity-based compensation	102,983	97,676	126,320
Depreciation and amortization	18,735	44,474	45,069
Unrealized gains from investment activities	(136,417)	(122,426)	(21,726)
Cash distributions of earnings from equity method investments	33,909	30,931	83,656
Satisfaction of contingent obligations	(13,721)	—	—
Income from equity method investments	(103,178)	(14,855)	(53,856)
Change in fair value of contingent obligations	40,424	(803)	11,281
Deferred taxes, net	81,880	26,431	80,356
Other non-cash amounts included in net income, net	(20,989)	(49,409)	(57,141)
Changes in assets and liabilities:			
Carried interest receivable	(613,198)	303,296	1,375,409
Due from related parties	(4,084)	1,500	(252,339)
Accounts payable and accrued expenses	(34,360)	49,403	33,986
Accrued compensation and benefits	(1,651)	(9,916)	16,185
Deferred revenue	387	(18,370)	(79,865)
Due to related parties	41,094	12,521	(97,521)
Profit sharing payable	227,771	(122,632)	(518,003)
Other assets and other liabilities, net	1,250	13,994	(17,979)
Apollo Fund and VIE related:			
Net realized and unrealized gains from investing activities and debt	(572)	(18,437)	(68,408)
Change in cash held at consolidated variable interest entities	16,673	256,623	(13,813)
Purchases of investments	(581,226)	(521,205)	(10,330,057)
Proceeds from sale of investments	592,941	409,218	8,509,361
Changes in other assets and other liabilities, net	(3,698)	(135,836)	126,246
Net Cash Provided by (Used in) Operating Activities	**$ 615,260**	**$ 582,673**	**$ (372,917)**
Cash Flows from Investing Activities:			
Purchases of fixed assets	$ (6,356)	$ (6,203)	$ (5,949)
Proceeds from sale of investments	—	25,000	50,000
Purchase of investments	(46,880)	(25,000)	—
Cash contributions to equity method investments	(224,946)	(234,382)	(109,923)
Cash distributions from equity method investments	102,768	61,576	76,343
Issuance of related party loans	(8,648)	(25,000)	—
Other investing activities	1,301	1,073	2,961
Net Cash (Used in) Provided by Investing Activities	**$ (182,761)**	**$ (202,936)**	**$ 13,432**
Cash Flows from Financing Activities:			
Principal repayments of debt	$ (200,000)	$ —	$ (250,000)
Issuance of debt	532,706	—	533,956
Satisfaction of tax receivable agreement	—	(48,420)	(32,032)
Purchase of Class A shares	(13,377)	(3,120)	—
Payments related to deliveries of Class A shares for RSUs	(40,652)	(78,870)	(403)
Distributions paid	(239,109)	(354,434)	(506,043)
Distributions paid to Non-Controlling Interests in Apollo Operating Group	(269,781)	(453,324)	(816,412)
Other financing activities	(13,809)	(26,464)	(33,325)
Apollo Fund and VIE related:			
Issuance of debt	396,266	—	4,225,451
Principal repayment of debt	(397,275)	—	(2,371,499)
Purchase of AAA units	—	—	(312)
Distributions paid	—	—	(703,041)
Distributions paid to Non-Controlling Interests in consolidated variable interest entities	(4,326)	(9,215)	(450,419)

Contributions from Non-Controlling Interests in consolidated variable interest entities	13,200	5,769	889,690
Net Cash (Used in) Provided by Financing Activities	**$ (236,157)**	**$ (968,078)**	**$ 485,611**
Net Increase (Decrease) in Cash and Cash Equivalents	196,342	(588,341)	126,126
Cash and Cash Equivalents, Beginning of Period	617,322	1,205,663	1,079,537
Cash and Cash Equivalents, End of Period	**$ 813,664**	**$ 617,322**	**$ 1,205,663**
Supplemental Disclosure of Cash Flow Information:			
Interest paid	$ 44,524	$ 32,270	$ 22,191
Interest paid by consolidated variable interest entities	18,208	17,574	157,812
Income taxes paid	8,353	7,922	57,276
Supplemental Disclosure of Non-Cash Investing Activities:			
Non-cash contributions to equity method investments	$ 1,231	$ 36,634	$ —
Non-cash distributions from equity method investments	(13,433)	(7,724)	(6,720)
Non-cash purchases of other investments, at fair value	8,937	—	—
Supplemental Disclosure of Non-Cash Financing Activities:			
Declared and unpaid distributions	$ —	$ (13,460)	$ (49,489)
Non-cash distributions from Non-Controlling Interests in consolidated entities to Appropriated Partners' Capital	—	—	(135,356)
Capital increases related to equity-based compensation	69,587	67,959	108,871
Other non-cash financing activities	559	3,559	6,448
Adjustments related to exchange of Apollo Operating Group units:			
Deferred tax assets	$ 7,342	$ 61,720	$ 58,696
Due to related parties	(3,588)	(45,432)	(47,878)
Additional paid in capital	(3,754)	(16,288)	(10,818)
Non-Controlling Interest in Apollo Operating Group	2,612	23,238	34,618
Net Assets Deconsolidated from Consolidated Variable Interest Entities and Funds:			
Cash and cash equivalents	$ —	$ 760,491	$ —
Investments, at fair value	—	16,930,227	—
Other Assets	—	280,428	—
Debt, at fair value	—	(13,229,570)	—
Other liabilities	—	(529,080)	—
Non-Controlling Interest in consolidated entities	—	(3,134,518)	—
Appropriated partners' capital	—	(929,708)	—

See accompanying notes to consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

1. ORGANIZATION

Apollo Global Management, LLC ("AGM", together with its consolidated subsidiaries, the "Company" or "Apollo") is a global alternative investment manager whose predecessor was founded in 1990. Its primary business is to raise, invest and manage private equity, credit and real estate funds as well as strategic investment accounts, on behalf of pension, endowment and sovereign wealth funds, as well as other institutional and individual investors. For these investment management services, Apollo receives management fees generally related to the amount of assets managed, transaction and advisory fees and carried interest income related to the performance of the respective funds that it manages. Apollo has three primary business segments:

- ***Private equity***—primarily invests in control equity and related debt instruments, convertible securities and distressed debt investments;
- ***Credit***—primarily invests in non-control corporate and structured debt instruments including performing, stressed and distressed investments across the capital structure; and
- ***Real estate***—primarily invests in real estate equity for the acquisition and recapitalization of real estate assets, portfolios, platforms and operating companies, and real estate debt including first mortgage and mezzanine loans, preferred equity and commercial mortgage backed securities.

Organization of the Company

The Company was formed as a Delaware limited liability company on July 3, 2007 and completed a reorganization of its predecessor businesses on July 13, 2007 (the "2007 Reorganization"). The Company is managed and operated by its manager, AGM Management, LLC, which in turn is indirectly wholly-owned and controlled by Leon Black, Joshua Harris and Marc Rowan, our Managing Partners.

As of December 31, 2016, the Company owned, through five intermediate holding companies that include APO Corp., a Delaware corporation that is a domestic corporation for U.S. federal income tax purposes, APO Asset Co., LLC, a Delaware limited liability company that is a disregarded entity for U.S. federal income tax purposes, APO (FC), LLC, an Anguilla limited liability company that is treated as a corporation for U.S. federal income tax purposes, APO (FC II), LLC, an Anguilla limited liability company that is treated as a corporation for U.S. federal income tax purposes and APO UK (FC), Limited, a United Kingdom incorporated company that is treated as a corporation for U.S. federal income tax purposes (collectively, the "Intermediate Holding Companies"), 46.3% of the economic interests of, and operated and controlled all of the businesses and affairs of, the Apollo Operating Group through its wholly-owned subsidiaries.

AP Professional Holdings, L.P., a Cayman Islands exempted limited partnership ("Holdings"), is the entity through which the Managing Partners and certain of the Company's other partners (the "Contributing Partners") indirectly beneficially own interests in each of the partnerships that comprise the Apollo Operating Group ("AOG Units"). As of December 31, 2016, Holdings owned the remaining 53.7% of the economic interests in the Apollo Operating Group. The Company consolidates the financial results of the Apollo Operating Group and its consolidated subsidiaries. Holdings' ownership interest in the Apollo Operating Group is reflected as a Non-Controlling Interest in the accompanying consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The consolidated financial statements include the accounts of the Company, its wholly-owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities ("VIEs") and for which the Company is considered the primary beneficiary, and certain entities which are not considered VIEs but which the Company controls through a majority voting interest. Intercompany accounts and transactions, if any, have been eliminated upon consolidation.

Certain reclassifications, when applicable, have been made to the prior period's consolidated financial statements and notes to conform to the current period's presentation and are disclosed accordingly.

Principles of Consolidation—The types of entities with which Apollo is involved generally include subsidiaries (e.g., general partners and management companies related to the funds the Company manages), entities that have all the attributes of an

investment company (e.g., funds) and securitization vehicles (e.g., collateralized loan obligations). Each of these entities is assessed for consolidation on a case by case basis depending on the specific facts and circumstances surrounding that entity.

In February 2015, the Financial Accounting Standards Board ("FASB") issued new consolidation guidance which changed the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. During the second quarter of 2015, the Company elected to adopt this new guidance using the modified retrospective method, which resulted in an effective date of adoption of January 1, 2015. Restatement of prior period results is not required. Amounts presented for the year ended December 31, 2015 in the consolidated statements of operations reflect the adoption of this accounting guidance as of January 1, 2015.

Pursuant to the consolidation guidance, the Company first evaluates whether it holds a variable interest in an entity. Fees that are customary and commensurate with the level of services provided, and where the Company does not hold other economic interests in the entity that would absorb more than an insignificant amount of the expected losses or returns of the entity, would not be considered a variable interest. Apollo factors in all economic interests including proportionate interests through related parties, to determine if such interests are considered a variable interest. As Apollo's interests in many of these entities are solely through market rate performance fees and/or insignificant indirect interests through related parties, Apollo is not considered to have a variable interest in many of these entities under the new guidance and no further consolidation analysis is performed. For entities where the Company has determined that it does hold a variable interest, the Company performs an assessment to determine whether each of those entities qualify as a variable interest entity ("VIE").

The determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and therefore certain of Apollo's funds may qualify as VIEs under the variable interest model whereas others may qualify as voting interest entities ("VOEs") under the voting interest model. The granting of substantive kick-out rights is a key consideration in determining whether a limited partnership or similar entity is a VIE and whether or not that entity should be consolidated.

Under the variable interest model, Apollo consolidates those entities where it is determined that the Company is the primary beneficiary of the entity. The Company is determined to be the primary beneficiary when it has a controlling financial interest in the VIE, which is defined as possessing both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. When Apollo alone is not considered to have a controlling financial interest in the VIE but Apollo and its related parties under common control in the aggregate have a controlling financial interest in the VIE, Apollo will be deemed the primary beneficiary if it is the party that is most closely associated with the VIE. When Apollo and its related parties not under common control in the aggregate have a controlling financial interest in the VIE, Apollo would be deemed to be the primary beneficiary if substantially all the activities of the entity are performed on behalf of Apollo.

Apollo determines whether it is the primary beneficiary of a VIE at the time it becomes initially involved with the VIE and reconsiders that conclusion continuously. Investments and redemptions (either by Apollo, related parties of Apollo or third parties) or amendments to the governing documents of the respective entity may affect an entity's status as a VIE or the determination of the primary beneficiary.

The assessment of whether an entity is a VIE and the determination of whether Apollo should consolidate such VIE requires judgment by our management. Those judgments include, but are not limited to: (i) determining whether the total equity investment at risk is sufficient to permit the entity to finance its activities without additional subordinated financial support, (ii) evaluating whether the holders of equity investment at risk, as a group, can make decisions that have a significant effect on the success of the entity, (iii) determining whether the equity investors have proportionate voting rights to their obligations to absorb losses or rights to receive the expected residual returns from an entity and (iv) evaluating the nature of the relationship and activities of those related parties with shared power or under common control for purposes of determining which party within the related-party group is most closely associated with the VIE. Judgments are also made in determining whether a member in the equity group has a controlling financial interest including power to direct activities that most significantly impact the VIE's economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE. This analysis considers all economic interests including proportionate interests through related parties.

Assets and liabilities of the consolidated VIEs are primarily shown in separate sections within the consolidated statements of financial condition. For additional disclosures regarding VIEs, see note 5.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

Under the voting interest model, Apollo consolidates those entities it controls through a majority voting interest. Apollo does not consolidate those VOEs in which substantive kick-out rights have been granted to the unrelated investors to either dissolve the fund or remove the general partner.

Cash and Cash Equivalents —Apollo considers all highly liquid short-term investments with original maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts are on deposit in interest bearing accounts with major financial institutions and exceed insured limits.

Restricted Cash—Restricted Cash represents cash deposited at a bank, which is pledged as collateral in connection with leased premises.

Deferred Revenue—Apollo earns management fees subject to the Management Fee Offset (described below). When advisory and transaction fees are earned by the management company, the Management Fee Offset reduces the management fee obligation of the fund. When the management company receives cash for advisory and transaction fees, a certain percentage of such advisory and/or transaction fees, as applicable, is allocated as a credit to reduce future management fees, otherwise payable by such fund. Such credit is recorded as deferred revenue in the consolidated statements of financial condition. A portion of any excess advisory and transaction fees may be required to be returned to the limited partners of certain funds upon such fund's liquidation. As the management fees earned by the management company are presented on a gross basis, any Management Fee Offsets calculated are presented as a reduction to advisory and transaction fees from related parties in the consolidated statements of operations.

Additionally, Apollo earns advisory fees pursuant to the terms of the advisory agreements with certain of the portfolio companies that are owned by the funds. When Apollo receives a payment from a portfolio company that exceeds the advisory fees earned at that point in time, the excess payment is recorded as deferred revenue in the consolidated statements of financial condition. The advisory agreements with the portfolio companies vary in duration and the associated fees are received monthly, quarterly or annually. Deferred revenue is reversed and recognized as revenue over the period that the agreed upon services are performed.

Under the terms of the funds' partnership agreements, Apollo is normally required to bear organizational expenses over a set dollar amount and placement fees or costs in connection with the offering and sale of interests in the funds to investors. The placement fees are payable to placement agents, who are independent third parties that assist in identifying potential investors, securing commitments to invest from such potential investors, preparing or revising offering and marketing materials, developing strategies for attempting to secure investments by potential investors and/or providing feedback and insight regarding issues and concerns of potential investors, when a limited partner either commits or funds a commitment to a fund. In certain instances the placement fees are paid over a period of time. Based on the management agreements with the funds, Apollo considers placement fees and organizational costs paid in determining if cash has been received in excess of the management fees earned. Placement fees and organizational costs are normally the obligation of Apollo but can be paid for by the funds. When these costs are paid by the fund, the resulting obligations are included within deferred revenue. The deferred revenue balance will also be reduced during future periods when management fees are earned but not paid.

Due from/to Related Parties—Apollo considers its existing partners, employees, certain former employees, portfolio companies of the funds and nonconsolidated private equity, credit and real estate funds to be related parties.

Fair Value of Financial Instruments —GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

- *Level I* - Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments included in Level I include listed equities and listed derivatives. As required by U.S. GAAP, the Company does not adjust the quoted price for these financial instruments, even in situations where the Company holds a large position and the sale of such position would likely deviate from the quoted price.

APOLLO GLOBAL MANAGEMENT, LLC
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(dollars in thousands, except share data, except where noted)

- *Level II* - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments that are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives where the fair value is based on observable inputs. These financial instruments exhibit higher levels of liquid market observability as compared to Level III financial instruments. The Company subjects broker quotes to various criteria in making the determination as to whether a particular financial instrument would qualify for treatment as a Level II financial instrument. These criteria include, but are not limited to, the number and quality of broker quotes, the standard deviation of obtained broker quotes, and the percentage deviation from independent pricing services.

- *Level III* - Pricing inputs are unobservable for the financial instrument and includes situations where there is little observable market activity for the financial instrument. The inputs into the determination of fair value may require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partner interests in corporate private equity and real estate funds, opportunistic credit funds, distressed debt and non-investment grade residual interests in securitizations and CDOs and CLOs where the fair value is based on observable inputs as well as unobservable inputs. When a security is valued based on broker quotes, the Company subjects those quotes to various criteria in making the determination as to whether a particular financial instrument would qualify for treatment as a Level II or Level III financial instrument. These criteria include, but are not limited to, the number and quality of the broker quotes, the standard deviations of the observed broker quotes, and the percentage deviation from independent pricing services.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument when the fair value is based on unobservable inputs.

In cases where a financial instrument that is measured and reported at fair value is transferred between levels of the fair value hierarchy, the Company accounts for the transfer as of the end of the reporting period.

On a quarterly basis, Apollo utilizes valuation committees consisting of members from senior management, to review and approve the valuation results related to the investments of the funds it manages. For certain publicly traded vehicles, a review is performed by an independent board of directors. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Investments, at Fair Value—The Company follows U.S. GAAP attributable to fair value measurements which, among other things, requires enhanced disclosures about investments that are measured and reported at fair value. Investments, at fair value represent investments of the consolidated funds, investments of the consolidated VIEs and certain financial instruments for which the fair value option has been elected. The unrealized gains and losses resulting from changes in the fair value are reflected as net gains (losses) from investment activities and net gains (losses) from investment activities of the consolidated VIEs in the consolidated statements of operations.

Derivatives—The Company records derivatives as assets or liabilities on its consolidated statements of financial condition at fair value. On the date the Company enters into a derivative contract, it designates and documents the derivative contract as one of the following: (a) a hedge of a recognized asset or liability ("fair value hedge"), (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), (c) a hedge of a net investment in a foreign operation ("net investment hedge") or (d) a derivative instrument not designated as a hedging instrument ("freestanding derivative"). The Company did not have any freestanding derivatives, fair value hedges or cash flow hedges as of December 31, 2016 or December 31, 2015. For net investment hedges, the Company records changes in the fair value of the derivative in the cumulative translation adjustment section of other comprehensive income to the extent it is effective as a hedge. The fair values of the derivative instruments are reflected in other assets and other liabilities on the consolidated statements of financial condition.

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The Company formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, the Company's risk management objectives, its strategy for undertaking the hedge transaction and the method for evaluating effectiveness of its hedged transactions. At least quarterly, the Company also formally assesses whether the derivatives it designated in each hedging relationship are expected to be, and have been, highly effective in offsetting changes in estimated fair values of the hedged items. The ineffective portion of a net investment hedge, if any, is recognized in current period earnings.

The Company has elected to not offset derivative assets and liabilities or financial assets in its consolidated statements of financial condition, even when an enforceable master netting agreement is in place that provides the Company the right to offset derivative assets and liabilities in the same currency by specific derivative type or, in the event of default by the counterparty, to offset derivative assets and liabilities with the same counterparty.

Equity Method Investments—For investments in entities over which the Company exercises significant influence but which do not meet the requirements for consolidation and for which the Company has not elected the fair value option, the Company uses the equity method of accounting, whereby the Company records its share of the underlying income or loss of such entities. The carrying amounts of equity method investments are recorded in investments in the consolidated statements of financial condition. As the underlying entities that the Company manages and invests in are, for U.S. GAAP purposes, primarily investment companies which reflect their investments at estimated fair value, the carrying value of the Company's equity method investments in such entities approximates fair value.

Private Equity Investments

The value of liquid investments in Apollo's private equity funds, where the primary market is an exchange (whether foreign or domestic) is determined using period end market prices. Such prices are generally based on the close price on the date of determination.

Valuation approaches used to estimate the fair value of investments in Apollo's private equity funds that are less liquid include the market approach and the income approach. The market approach provides an indication of fair value based on a comparison of the subject company to comparable publicly traded companies and transactions in the industry. The market approach is driven more by current market conditions, including actual trading levels of similar companies and, to the extent available, actual transaction data of similar companies. Judgment is required by management when assessing which companies are similar to the subject company being valued. Consideration may also be given to such factors as the Company's historical and projected financial data, valuations given to comparable companies, the size and scope of the Company's operations, the Company's strengths, weaknesses, expectations relating to the market's receptivity to an offering of the Company's securities, applicable restrictions on transfer, industry and market information and assumptions, general economic and market conditions and other factors deemed relevant. The income approach provides an indication of fair value based on the present value of cash flows that a business or security is expected to generate in the future. The most widely used methodology in the income approach is a discounted cash flow method. Inherent in the discounted cash flow method are assumptions of expected results, the determination of a terminal value and a calculated discount rate.

Credit Investments

The majority of investments in Apollo's credit funds are valued based on quoted market prices and valuation models. Quoted market prices are valued based on the average of the "bid" and the "ask" quotes provided by multiple brokers wherever possible without any adjustments. Apollo will designate certain brokers to use to value specific securities. In order to determine the designated brokers, Apollo considers the following: (i) brokers with which Apollo has previously transacted, (ii) the underwriter of the security and (iii) active brokers indicating executable quotes. In addition, when valuing a security based on broker quotes wherever possible Apollo tests the standard deviation amongst the quotes received and the variance between the concluded fair value and the value provided by a pricing service. When broker quotes are not available Apollo considers the use of pricing service quotes or other sources to mark a position. When relying on a pricing service as a primary source, Apollo (i) analyzes how the price has moved over the measurement period, (ii) reviews the number of brokers included in the pricing service's population and (iii) validates the valuation levels with Apollo's pricing team and traders.

Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value utilizing a model based approach to determine fair value. Valuation approaches used to estimate the fair value of illiquid credit investments also may include the market approach and the income approach, as previously described above. The valuation approaches used consider, as applicable, market risks, credit risks, counterparty risks and foreign currency risks.

Real Estate Investments

The estimated fair value of commercial mortgage-backed securities ("CMBS") in Apollo's real estate funds is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. Broker quotes are only indicative of fair value and may not necessarily represent what the funds would receive in an actual trade for the applicable instrument. Additionally, the loans held-for-investment are stated at the principal amount outstanding, net of deferred loan fees and costs for certain investments. The loans in Apollo's real estate funds are evaluated for possible impairment on a quarterly basis. For Apollo's real estate funds, valuations of non-marketable underlying investments are determined using methods that include, but are not limited to (i) discounted cash flow estimates or comparable analysis prepared internally, (ii) third party appraisals or valuations by qualified real estate appraisers and (iii) contractual sales value of investments/properties subject to bona fide purchase contracts. Methods (i) and (ii) also incorporate consideration of the use of the income, cost, or sales comparison approaches of estimating property values.

Certain of the private equity, credit, and real estate funds may also enter into foreign currency exchange contracts, total return swap contracts, credit default swap contracts, and other derivative contracts, which may include options, caps, collars and floors. Foreign currency exchange contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. If securities are held at the end of this period, the changes in value are recorded in income as unrealized. Realized gains or losses are recognized when contracts are settled. Total return swap and credit default swap contracts are recorded at fair value as an asset or liability with changes in fair value recorded as unrealized appreciation or depreciation. Realized gains or losses are recognized at the termination of the contract based on the difference between the close-out price of the total return or credit default swap contract and the original contract price. Forward contracts are valued based on market rates obtained from counterparties or prices obtained from recognized financial data service providers.

Fair Value of Financial Instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

Except for the Company's debt obligations (as described in note 11), Apollo's financial instruments are recorded at fair value or at amounts whose carrying values approximate fair value. See "Investments, at Fair Value" above. While Apollo's valuations of portfolio investments are based on assumptions that Apollo believes are reasonable under the circumstances, the actual realized gains or losses will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may ultimately differ significantly from the assumptions on which the valuations were based. Financial instruments' carrying values generally approximate fair value because of the short-term nature of those instruments or variable interest rates related to the borrowings.

Fair Value Option—Apollo has elected the fair value option for the Company's investment in Athene Holding, the assets and liabilities of certain consolidated VIEs (including CLOs) and the Company's investments in certain CLOs. Such election is irrevocable and is applied to financial instruments on an individual basis at initial recognition. Apollo has applied the fair value option for certain corporate loans, other investments and debt obligations held by the consolidated VIEs that otherwise would not have been carried at fair value. See notes 4, 5, and 6 for further disclosure on the investments in Athene Holding and financial instruments of the consolidated VIEs for which the fair value option has been elected.

Financial Instruments held by Consolidated VIEs

During the second quarter of 2015, the Company adopted the measurement alternative included in the collateralized financing entity ("CFE") guidance using a modified retrospective approach by recording a cumulative-effect adjustment to shareholders' equity as of January 1, 2015. Restatement of prior period results was not required. Amounts presented for the year ended December 31, 2015 in the consolidated statements of operations reflect the adoption of this accounting guidance as of January 1, 2015. The Company measures both the financial assets and financial liabilities of the consolidated CLOs in its consolidated financial statements using the fair value of the financial assets of the consolidated CLOs, which are more observable than the fair value of the financial liabilities of the consolidated CLOs. As a result, the financial assets of the consolidated CLOs are measured at fair value and the financial liabilities are measured in consolidation as: (i) the sum of the fair value of the financial assets and the carrying value of any non-financial assets that are incidental to the operations of the CLOs less (ii) the sum of the fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services) and the Company's carrying value of any beneficial interests that represent compensation for services. The resulting amount is allocated to the individual financial liabilities (other than the beneficial interest retained by the Company) using a reasonable and

consistent methodology. Under the measurement alternative, the Company's consolidated net income reflects the Company's own economic interests in the consolidated CLOs including (i) changes in the fair value of the beneficial interests retained by the Company and (ii) beneficial interests that represent compensation for collateral management services.

The consolidated VIEs hold investments that could be traded over-the-counter. Investments in securities that are traded on a securities exchange or comparable over-the-counter quotation systems are valued based on the last reported sale price at that date. If no sales of such investments are reported on such date, and in the case of over-the-counter securities or other investments for which the last sale date is not available, valuations are based on independent market quotations obtained from market participants, recognized pricing services or other sources deemed relevant, and the prices are based on the average of the "bid" and "ask" prices, or at ascertainable prices at the close of business on such day. Market quotations are generally based on valuation pricing models or market transactions of similar securities adjusted for security-specific factors such as relative capital structure priority and interest and yield risks, among other factors. When market quotations are not available, a model based approach is used to determine fair value.

As previously noted, the Company measures the debt obligations of the consolidated CLOs on the basis of the fair value of the financial assets of the consolidated CLOs.

Pending Deal Costs

Pending deal costs consist of certain costs incurred (e.g. research costs, due diligence costs, professional fees, legal fees and other related items) related to private equity, credit and real estate fund transactions that the Company is pursuing but which have not yet been consummated. These costs are deferred until such transactions are broken or successfully completed. A transaction is determined to be broken upon management's decision to no longer pursue the transaction. In accordance with the related fund agreements, in the event the deal is broken, all of the costs are generally reimbursed by the funds and considered in the calculation of the Management Fee Offset. These offsets are included in advisory and transaction fees from related parties, net in the Company's consolidated statements of operations. If a deal is successfully completed, Apollo is reimbursed by the fund or a fund's portfolio company for all costs incurred.

Fixed Assets

Fixed Assets consist primarily of leasehold improvements, furniture, fixtures and equipment, computer hardware and software and are recorded at cost, net of accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the assets' estimated useful lives and in the case of leasehold improvements the lesser of the useful life or the term of the lease. Expenditures for repairs and maintenance are charged to expense when incurred. The Company evaluates long-lived assets for impairment periodically and whenever events or changes in circumstances indicate the carrying amounts of the assets may be impaired.

Business Combinations

The Company accounts for business combinations using the acquisition method of accounting, under which the purchase price of the acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. Contingent consideration obligations that are elements of the consideration transferred are recognized as of the acquisition date as part of the fair value transferred in exchange for the acquired business. Acquisition-related costs incurred in connection with a business combination are expensed as incurred.

G***oodwill and Intangible Assets***

Goodwill represents the excess of cost over the fair value of identifiable net assets of an acquired business. Goodwill and other indefinite lived intangible assets are tested annually for impairment or more frequently if circumstances indicate impairment may have occurred.

The Company has historically performed its annual goodwill impairment test as of June 30 each year. During the year ended December 31, 2016, the Company voluntarily changed its annual impairment assessment date from June 30 to October 1. The change in measurement date represents a change in method of applying an accounting principle. This change is preferable because it better aligns the Company's goodwill impairment testing procedures with the completion of its annual financial statements and provides the Company with additional time to evaluate goodwill for impairment.

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In connection with the change in the date of the annual goodwill impairment test, the Company performed a goodwill impairment test as of October 1, 2016 and did not identify any impairment. The change in accounting principle did not delay, accelerate or avoid an impairment charge. The Company determined that it would be impracticable to objectively determine projected cash flows and related valuation estimates that would have been used for each of its prior reporting periods without the use of hindsight. As such, the Company prospectively applied the change in the annual goodwill impairment assessment date beginning October 1, 2016.

Finite-lived intangible assets such as contractual rights to earn future management fees and incentive fees acquired in business combinations are amortized over their estimated useful lives, which are periodically re-evaluated for impairment or when circumstances indicate an impairment may have occurred. Apollo amortizes its identifiable finite-lived intangible assets using a method of amortization reflecting the pattern in which the economic benefits of the finite-lived intangible assets are consumed or otherwise used up. If that pattern cannot be reliably determined, Apollo uses the straight-line method of amortization.

Debt Issuance Costs

Debt issuance costs consist of costs incurred in obtaining financing and are amortized over the term of the financing using the effective interest method. These costs are recorded as a direct deduction from the carrying amount of the related debt liability on the consolidated statements of financial condition.

Foreign Currency

The Company may, from time to time, hold foreign currency denominated assets and liabilities. Such assets and liabilities are translated using the exchange rates prevailing at the end of each reporting period. The functional currency of the Company's international subsidiaries is the U.S. Dollar, as their operations are considered an extension of U.S. parent operations. Non-monetary assets and liabilities of the Company's international subsidiaries are remeasured into the functional currency using historical exchange rates specific to each asset and liability. The results of the Company's foreign operations are normally remeasured using an average exchange rate for the respective reporting period. All currency remeasurement adjustments are included within other income (loss), net in the consolidated statements of operations. Gains and losses on the settlement of foreign currency transactions are also included within other income (loss), net in the consolidated statements of operations.

Revenues

Revenues—Revenues are reported in three separate categories that include (i) advisory and transaction fees from related parties, net, which relate to the investments of the funds and may include individual monitoring agreements the Company has with the portfolio companies and debt investment vehicles of the private equity funds and credit funds; (ii) management fees from related parties, which are based on committed capital, invested capital, net asset value, gross assets or as otherwise defined in the respective agreements; and (iii) carried interest income (loss) from related parties, which is normally based on the performance of the funds subject to preferred return.

Management Fees from Related Parties—Management fees for private equity, credit, and real estate funds are recognized in the period during which the related services are performed in accordance with the contractual terms of the related agreement, and are generally based upon (1) a percentage of the capital committed during the commitment period, and thereafter based on the remaining invested capital of unrealized investments, or (2) net asset value, gross assets or as otherwise defined in the respective agreements. Included in management fees are certain expense reimbursements where the Company is considered the principal under the agreements and is required to record the expense and related reimbursement revenue on a gross basis.

Advisory and Transaction Fees from Related Parties, Net—Advisory and transaction fees, including directors' fees, are recognized when the underlying services rendered are substantially completed in accordance with the terms of the transaction and advisory agreements. Additionally, during the normal course of business, the Company incurs certain costs related to certain transactions that are not consummated ("broken deal costs"). These costs (e.g., research costs, due diligence costs, professional fees, legal fees and other related items) are determined to be broken deal costs upon management's decision to no longer pursue the transaction. In accordance with the related fund agreement, in the event the deal is deemed broken, all of the costs are reimbursed by the funds and then included as a component of the calculation of the Management Fee Offset (described below). If a deal is successfully completed, Apollo is reimbursed by the fund or fund's portfolio company for all costs incurred and no offset is generated. As the Company acts as an agent for the funds it manages, any transaction costs incurred and paid by the Company on behalf of the respective funds relating to successful or broken deals are recorded net on the Company's consolidated statements of operations, and any receivable from the respective funds is recorded in due from related parties on the consolidated statements of financial condition.

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Advisory and transaction fees from related parties, net, also includes underwriting fees. Underwriting fees include gains, losses and fees, net of syndicate expenses, arising from securities offerings in which one of the Company's subsidiaries participates in the underwriter syndicate. Underwriting fees are recognized at the time the underwriting is completed and the income is reasonably assured and are included in the consolidated statements of operations. Underwriting fees recognized but not received are recorded in other assets on the consolidated statements of financial condition.

As a result of providing advisory services to certain private equity and credit portfolio companies, Apollo is generally entitled to receive fees for transactions related to the acquisition, in certain cases, and disposition of portfolio companies as well as ongoing monitoring of portfolio company operations and directors' fees. The amounts due from portfolio companies are recorded in due from related parties, which is discussed further in note 14. Under the terms of the limited partnership agreements for certain funds, the management fee payable by the funds may be subject to a reduction based on a certain percentage of such advisory and transaction fees, net of applicable broken deal costs ("Management Fee Offset"). Advisory and transaction fees from related parties are presented net of the Management Fee Offset in the consolidated statements of operations.

Carried Interest Income (Loss) from Related Parties—Apollo is entitled to an incentive return that can normally amount to as much as 20% of the total returns on a fund's capital, depending upon performance. Performance fees are assessed as a percentage of the investment performance of the funds. The carried interest income from related parties for any period is based upon an assumed liquidation of the fund's net assets on the reporting date, and distribution of the net proceeds in accordance with the fund's income allocation provisions. Carried interest receivable is presented separately in the consolidated statements of financial condition. The carried interest income from related parties may be subject to reversal to the extent that the carried interest income recorded exceeds the amount due to the general partner based on a fund's cumulative investment returns. When applicable, the accrual for potential repayment of previously received carried interest income, which is a component of due to related parties, represents all amounts previously distributed to the general partner that would need to be repaid to the Apollo funds if these funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual general partner obligation, however, would not become payable or realized until the end of a fund's life.

Carried interest income from related parties also includes a quarterly performance fee on the pre-incentive fee net investment income ("AINV Part I Fees") of Apollo Investment Corporation ("AINV"). For purposes of the AINV Part I Fees, the net investment income of AINV includes interest income, dividend income and certain other income but excludes any realized and unrealized capital gains or losses. Such AINV Part I Fees are paid quarterly and are not subject to repayment (or clawback).

Compensation and Benefits

Equity-Based Compensation—Equity-based awards granted to employees as compensation are measured based on the grant date fair value of the award. Equity-based awards that do not require future service (i.e., vested awards) are expensed immediately. Equity-based employee awards that require future service are expensed over the relevant service period. The Company estimates forfeitures for equity-based awards that are not expected to vest. Equity-based awards granted to non-employees for services provided to related parties are remeasured to fair value at the end of each reporting period and expensed over the relevant service period.

Salaries, Bonus and Benefits—Salaries, bonus and benefits include base salaries, discretionary and non-discretionary bonuses, severance and employee benefits. Bonuses are generally accrued over the related service period.

The Company sponsors a 401(k) savings plan whereby U.S.-based employees are entitled to participate in the plan based upon satisfying certain eligibility requirements. The Company may provide discretionary contributions from time to time. No contributions relating to this plan were made by the Company for the years ended December 31, 2016, 2015 and 2014.

Profit Sharing—Profit sharing expense and profit sharing payable primarily consist of a portion of carried interest earned from certain funds that is allocated to employees, former employees and Contributing Partners. Profit sharing amounts are recognized on an accrued basis as the related carried interest income is earned. Accordingly, profit sharing amounts can be reversed during periods when there is a decline in carried interest income that was previously recognized.

Profit sharing amounts are generally not paid until the related carried interest is distributed to the general partner upon realization of the fund's investments. Under certain profit sharing arrangements, a portion of the carried interest distributed to the general partner is settled by issuance of restricted shares, rather than cash to employees. Prior to distribution of the carried interest to the general partner, the Company records the value of the restricted shares expected to be granted in other assets and other liabilities within the consolidated statements of financial condition. Upon distribution of the carried interest to the general partner,

the general partner expects to purchase the Class A restricted shares on behalf of employees and simultaneously grant those shares to the employee. Such shares are recorded as equity-based compensation expense over the relevant service period.

Additionally, profit sharing amounts previously distributed may be subject to clawback from employees, former employees and Contributing Partners. When applicable, the accrual for potential clawback of previously distributed profit sharing amounts, which is a component of due from related parties on the consolidated statements of financial condition, represents all amounts previously distributed to employees, former employees and Contributing Partners that would need to be returned to the general partner if the Apollo funds were to be liquidated based on the fair value of the underlying funds' investments as of the reporting date. The actual general partner receivable, however, would not become realized until the end of a fund's life.

Profit sharing payable also includes contingent consideration obligations that were recognized in connection with certain Apollo acquisitions. Changes in the fair value of the contingent consideration obligations are reflected in the Company's consolidated statements of operations as profit sharing expense.

The Company has a performance based incentive arrangement for certain Apollo partners and employees designed to more closely align compensation on an annual basis with the overall realized performance of the Company. This arrangement enables certain partners and employees to earn discretionary compensation based on carried interest realizations earned by the Company in a given year, which amounts are reflected in profit sharing expense in the accompanying consolidated financial statements.

General, Administrative and Other

General, administrative and other primarily includes professional fees, occupancy, depreciation and amortization, travel, information technology, and administration. For the year ended December 31, 2016, presentation of professional fees, occupancy, and depreciation and amortization was combined with general, administrative and other on the consolidated statements of operations and the prior periods were recast to conform to the current presentation.

Other Income (Loss)

Net Gains (Losses) from Investment Activities—Net gains (losses) from investment activities include both realized gains and losses and the change in unrealized gains and losses in the Company's investments, at fair value between the opening reporting date and the closing reporting date.

Net Gains (Losses) from Investment Activities of Consolidated Variable Interest Entities—Changes in the fair value of the consolidated VIEs' assets and liabilities and related interest, dividend and other income and expenses are presented within net gains (losses) from investment activities of consolidated variable interest entities and are attributable to Non-Controlling Interests in the consolidated statements of operations.

Income from Equity Method Investments—Income from equity method investments includes the Company's share of net income generated from its investments in the private equity, credit and real estate funds it manages, which are not consolidated, but in which the Company exerts significant influence.

Other Income (Loss), Net—Other income (loss), net includes the recognition of gains (losses) arising from the remeasurement of foreign currency denominated assets and liabilities, reversal of a portion of the tax receivable agreement liability (see note 14), gains (losses) arising from the remeasurement of derivative instruments associated with fees from certain of the Company's affiliates, gains arising from extinguishment of contingent consideration obligations and other miscellaneous non-operating income and expenses.

Comprehensive Income (Loss)—U.S. GAAP guidance establishes standards for reporting comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements. U.S. GAAP requires that the Company classify items of OCI by their nature in the financial statements and display the accumulated balance of OCI separately in the shareholders' equity section of the Company's consolidated statements of financial condition. Comprehensive income (loss) consists of net income (loss) and OCI. Apollo's OCI is primarily comprised of the effective portion of changes in the fair value of the interest rate swap agreements discussed previously and foreign currency translation adjustments associated with the Company's non-U.S. dollar denominated subsidiaries.

Income Taxes—The Apollo Operating Group and its subsidiaries generally operate as partnerships for U.S. Federal income tax purposes. As a result, except as described below, the Apollo Operating Group has not been subject to U.S. income

taxes. However, these entities in some cases are subject to New York City unincorporated business taxes ("NYC UBT") and non-U.S. entities, in some cases, are subject to non-U.S. corporate income taxes. In addition, certain consolidated entities are, or are treated as, corporations for U.S. and non-U.S. tax purposes and therefore subject to U.S. federal, state and local corporate income tax, and the Company's provision for income taxes is accounted for in accordance with U.S. GAAP.

Significant judgment is required in determining tax expense and in evaluating tax positions, including evaluating uncertainties. The Company recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit is measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. If a tax position is not considered more likely than not to be sustained, then no benefits of the position are recognized. The Company's tax positions are reviewed and evaluated quarterly to determine whether or not the Company has uncertain tax positions that require financial statement recognition.

Deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amount of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Non-Controlling Interests—For entities that are consolidated, but not 100% owned, a portion of the income or loss and corresponding equity is allocated to owners other than Apollo. The aggregate of the income or loss and corresponding equity that is not owned by the Company is included in Non-Controlling Interests in the consolidated financial statements. The Non-Controlling Interests relating to Apollo Global Management, LLC primarily include the ownership interest in the Apollo Operating Group held by the Managing Partners and Contributing Partners through their limited partner interests in Holdings and other ownership interests in consolidated entities. Non-Controlling Interests also include limited partner interests of Apollo managed funds in certain consolidated VIEs.

Non-Controlling Interests are presented as a separate component of shareholders' equity on the Company's consolidated statements of financial condition. The primary components of Non-Controlling Interests are separately presented in the Company's consolidated statements of changes in shareholders' equity to clearly distinguish the interest in the Apollo Operating Group and other ownership interests in the consolidated entities. Net income (loss) includes the net income (loss) attributable to the holders of Non-Controlling Interests on the Company's consolidated statements of operations. Profits and losses are allocated to Non-Controlling Interests in proportion to their relative ownership interests regardless of their basis.

Net Income (Loss) Per Class A Share—As Apollo has issued participating securities, U.S. GAAP requires use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating security as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for distributions declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for distributions declared on participating securities only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity. Participating securities include vested and unvested restricted share units ("RSUs") that participate in distributions, as well as unvested restricted shares.

Whether during a period of net income or net loss, under the two-class method the remaining earnings are allocated to Class A shares and participating securities to the extent that each security shares in earnings as if all of the earnings for the period had been distributed. Earnings or losses allocated to each class of security are then divided by the applicable weighted average outstanding shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes all outstanding Class A shares and includes the number of additional Class A shares that would have been outstanding if the dilutive potential Class A shares had been issued. The numerator is adjusted for any changes in income or loss that would result from the issuance of these potential Class A shares.

Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Apollo's most significant estimates include goodwill, intangible assets, income taxes, carried

interest income from related parties, contingent consideration obligations related to acquisitions, non-cash compensation, and fair value of investments and debt. Actual results could differ materially from those estimates.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance to establish a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity's revenue across industries, transactions, and geographies. The new guidance requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services (i.e., the transaction price). When determining the transaction price under the new guidance, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved. The new guidance also requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The new guidance will apply to all entities. In August 2015, the FASB issued its final standard formally amending the effective date of the new revenue recognition guidance. The amended guidance defers the effective date of the new guidance to interim reporting periods within annual reporting periods beginning after December 15, 2017.

Upon adoption, the guidance currently applied by the Company in which it recognizes carried interest income from performance fees on an assumed liquidation basis at each reporting date will no longer be permitted. The Company expects the recognition of carried interest income from incentive fees, which are a form of variable consideration, to be deferred until such fees are no longer subject to significant reversal. Incentive fees are performance fees that are not capital allocations to the general partner or investment manager.

Performance fees, that are capital allocations to the general partner or investment manager, represent the remaining portion of carried interest income on the Company's consolidated statements of operations. In connection with the adoption of the new revenue guidance, the Company will apply a new accounting policy for its performance fees that are capital allocations to the general partner or investment manager. The Company intends to account for such performance fees as financial instruments under the equity method of accounting. The pattern and amount of recognition under the new policy is not expected to differ materially from the Company's existing recognition for such fees. Such performance fees will be reported as a separate line item within revenue (i.e., separate from incentive fee revenue). As performances fees and the related general partner investments are considered to be a single unit of account under the Company's new accounting policy, the equity method income associated with the general partner interests will be combined with the associated performance fees and reported in a single line within revenue.

The Company is currently in the process of implementing the new revenue guidance and is continuing to evaluate the effect this guidance will have on other less material revenue streams, including advisory and transaction fees and management fees, as well as any principal versus agent considerations for reporting revenue gross versus net. The Company expects to adopt the new revenue recognition guidance effective January 1, 2018.

In August 2014, the FASB issued guidance regarding management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new guidance requires that management evaluate each annual and interim reporting period whether conditions exist that give rise to substantial doubt about the entity's ability to continue as a going concern within one year from the financial statement issuance date, and if so, provide related disclosures. Substantial doubt exists when conditions and events, considered in the aggregate, indicate that it is probable that a company will be unable to meet its obligations as they become due within one year after the financial statement issuance date. The new guidance applies to all companies. The guidance is effective for annual reporting periods ending after December 15, 2016, and for annual and interim periods thereafter. The Company adopted the guidance for the year ended December 31, 2016. The guidance did not have an impact on the consolidated financial statements of the Company.

In May 2015, the FASB issued guidance to eliminate diversity in practice related to how certain investments measured at NAV are categorized within the fair value hierarchy. The guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Pursuant to the guidance, a reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the NAV per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. The Company adopted the guidance for the quarter ended March 31, 2016 and applied the guidance retrospectively. Adoption of the guidance did not have a material impact on the Company's consolidated financial statements. See note 6 for further disclosure related to the adoption of this guidance.

In January 2016, the FASB issued guidance that revises the accounting related to the classification and measurement of investments in equity securities as well as the presentation for certain fair value changes in financial liabilities measured at fair value, and amends certain disclosure requirements. The guidance requires that all equity investments, except those accounted for under the equity method of accounting or those resulting in the consolidation of the investee, be accounted for at fair value with all fair value changes recognized in income. For financial liabilities measured using the fair value option, the guidance requires that any change in fair value caused by a change in instrument-specific credit risk be presented separately in other comprehensive income until the liability is settled or reaches maturity. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted for certain provisions. A reporting entity would generally record a cumulative-effect adjustment to beginning retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements. However, the guidance is not expected to have a material impact on the consolidated financial statements of the Company.

In February 2016, the FASB issued guidance that amends the accounting for leases. The amended guidance requires recognition of a lease asset and a lease liability by lessees for leases classified as operating leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from existing guidance and accounting applied by a lessor is largely unchanged from existing guidance. The amended guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2018. Early application is permitted for all entities.

The Company expects its total assets and total liabilities on its consolidated statement of financial condition to increase upon adoption of this guidance as a result of recording a lease asset and lease liability related to our operating leases. The Company is continuing to evaluate the impact that this guidance will have on its consolidated financial statements. The Company expects to adopt the new leasing guidance on January 1, 2019.

In March 2016, the FASB issued guidance that amends the accounting for employee share-based payment awards. The amended guidance affects all entities that issue share-based payment awards to their employees. The amended guidance affects several aspects of accounting for share-based payment transactions including: (1) accounting for income taxes: all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the statements of operations, (2) classification of excess tax benefits on the statements of cash flows: excess tax benefits should be classified along with other income tax cash flows as an operating activity, (3) forfeitures: an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur, (4) minimum statutory tax withholding requirements: the threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions; and (5) classification of employee taxes paid on the statements of cash flows when an employer withholds shares for tax-withholding purposes: cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. The amended guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements.

In August 2016, the FASB issued guidance intended to reduce diversity in practice in how certain cash receipts and payments are classified in the statement of cash flows, including debt prepayment or extinguishment costs, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, and distributions from certain equity method investments. The guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements. However, the guidance is not expected to have a material impact on the consolidated financial statements of the Company.

In October 2016, the FASB issued guidance that amends the consolidation guidance issued in February 2015. Under the amended guidance a decision maker will need to consider only its proportionate indirect interest in a VIE that is held through a related party under common control. Under the originally issued guidance, a decision maker treats the interest of the related party under common control in the VIE as if the decision maker held the interest itself. The amended guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. Early adoption is permitted for all entities. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements.

In November 2016, the FASB issued guidance to reduce diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows. The new guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. Entities will also be required to reconcile such total to amounts on the Company's statement of financial condition and disclose the nature of

the restrictions. The guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements.

In January 2017, the FASB issued guidance that changes the definition of a business with the objective of adding guidance to assist companies with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements.

In January 2017, the FASB issued guidance to simplify the test for goodwill impairment. The new guidance removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment (Step 2). Under the new guidance, a goodwill impairment is calculated as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill in the reporting unit. The guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and should be performed prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements. However, the guidance is not expected to have an impact on the consolidated financial statements of the Company.

3. GOODWILL AND INTANGIBLE ASSETS

On May 5, 2015, the Company acquired 100% of the assets and liabilities of Venator Real Estate Capital Partners (Hong Kong) Limited and its wholly-owned subsidiary, Venator Investment Management Consulting (Shanghai) Limited (together referred to as "Venator"), in exchange for restricted shares of Apollo Global Management, LLC. The acquisition provided the Company's real estate segment with additional real estate investment management and related service capabilities in Asia. The transaction was accounted for as a business combination. Identifiable assets with a combined fair value of $3.0 million were acquired and liabilities with a combined fair value of $2.1 million were assumed, resulting in a bargain purchase gain of $0.9 million as of the acquisition date, which was recorded in other income, net in the consolidated statement of operations.

The carrying value of goodwill was $88.9 million as of both December 31, 2016 and 2015. Goodwill primarily relates to the 2007 Reorganization and the Company's acquisition of Stone Tower Capital LLC and its related management companies ("Stone Tower"). As of both December 31, 2016 and 2015, there was $23.1 million, $64.8 million and 1.0 million of goodwill related to private equity, credit and real estate segments, respectively.

Intangible assets, net consists of the following:

	As of December 31,	
	2016	2015
Finite-lived intangible assets/management contracts	$ 246,060	$ 242,863
Accumulated amortization	(223,339)	(214,243)
Intangible assets, net	$ 22,721	$ 28,620

The changes in intangible assets, net consist of the following:

	For the Year Ended December 31,		
	2016	2015	2014
Balance, beginning of year	$ 28,620	$ 60,039	$ 94,927
Amortization expense	(9,095)	(33,998)	(34,888)
Acquisitions / additions	3,196	2,579	—
Balance, end of year	$ 22,721 (1)	$ 28,620 (1)	$ 60,039

(1) Includes $1.0 million of indefinite-lived intangible assets as of both December 31, 2016 and 2015.

Expected amortization of these intangible assets for each of the next 5 years and thereafter is as follows:

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	2017	2018	2019	2020	2021	Thereafter	Total
Amortization of intangible assets	$ 6,106	$ 4,486	$ 4,194	$ 3,677	$ 2,250	$ 1,048	$ 21,761

There was no impairment of indefinite-lived intangible assets as of December 31, 2016.

4. INVESTMENTS

The following table represents Apollo's investments:

	As of December 31, 2016	As of December 31, 2015
Investments, at fair value	$ 708,080	$ 539,080
Equity method investments	786,664	615,669
Total Investments	$ 1,494,744	$ 1,154,749

Investments, at Fair Value

Investments, at fair value, consist of investments for which the fair value option has been elected and include the Company's investment in Athene Holding, investments held by the Company's consolidated funds, investments in debt of unconsolidated CLOs, and other investments held by the Company. See note 6 for further discussion regarding investments, at fair value.

Net Gains from Investment Activities

The following table presents the realized and net change in unrealized gains on investments, at fair value for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
Realized gains (losses) on sales of investments	$ 400	$ 889	$ (12,651)
Net change in unrealized gains due to changes in fair value	139,321 (1)	120,834 (1)	225,894
Net gains from investment activities	$ 139,721	$ 121,723	$ 213,243

(1) Primarily relates to the Company's investment in Athene Holding. See note 6 for further information regarding the Company's investment in Athene Holding.

Equity Method Investments

Apollo's equity method investments include its investments in Apollo private equity, credit and real estate funds, which are not consolidated, but in which the Company exerts significant influence. Apollo's share of net income generated by these investments is recorded within income from equity method investments in the consolidated statements of operations.

Equity method investments, excluding those for which the fair value option was elected, as of December 31, 2016 and December 31, 2015 consisted of the following:

	Equity Held as of	
	December 31, 2016(5)	December 31, 2015(5)
Private Equity(1)(2)	$ 428,581	$ 273,074
Credit(1)(3)	327,012	313,116
Real Estate	31,071	29,479
Total equity method investments(4)	$ 786,664	$ 615,669

(1) As of December 31, 2016, equity method investments include Fund VIII (Private Equity) and MidCap (Credit) of $260.9 million and $79.5 million, respectively, representing an ownership percentage of 2.2% and 4.3%, respectively. As of December 31, 2015, equity

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method investments include Fund VIII (Private Equity) and MidCap (Credit) of $116.4 million and $79.3 million, respectively, representing an ownership percentage of 2.2% and 4.9%, respectively.

(2) The equity method investment in AP Alternative Assets, L.P. ("AAA") was $66.8 million and $66.0 million as of December 31, 2016 and 2015, respectively. The value of the Company's investment in AAA was $64.9 million and $57.2 million based on the quoted market price as of December 31, 2016 and 2015, respectively.

(3) The equity method investment in AINV was $58.6 million and $61.9 million as of December 31, 2016 and 2015, respectively. The value of the Company's investment in AINV was $52.1 million and $41.8 million based on the quoted market price as of December 31, 2016 and 2015, respectively.

(4) Certain funds invest across multiple segments. The presentation in the table above is based on the classification of the majority of such funds' investments.

(5) Some amounts are included a quarter in arrears.

The Company's equity investment in Athene Holding, for which the fair value option was elected, met the significance criteria as defined by the SEC on an aggregate basis as of December 31, 2016 and for the year ended December 31, 2016. As such, the following tables present summarized financial information of Athene Holding as of December 31, 2016 and for the years ended December 31, 2016, 2015 and 2014.

	As of December 31,	
	2016[(1)]	2015
	(in millions)	
Statements of Financial Condition		
Investments	$ 71,223	$ 62,703
Assets	87,000	80,854
Liabilities	79,926	75,491
Equity	7,074	5,363

(1) The financial statement information for the year ended December 31, 2016 is presented a quarter in arrears and is comprised of the financial information as of September 30, 2016, which represents the latest available financial information as of the date of this report.

	For the Years Ended December 31,		
	2016[(1)]	2015	2014
	(in millions)		
Statements of Operations			
Revenues	$ 4,090	$ 2,616	$ 4,100
Expenses	3,503	2,024	3,568
Income before income tax provision	587	592	532
Income tax provision (benefit)	(92)	14	54
Net income	679	578	478
Net income attributable to Non-Controlling Interests	—	(16)	(15)
Net income available to Athene common shareholders	$ 679	$ 562	$ 463

(1) The financial statement information for the year ended December 31, 2016 is presented a quarter in arrears and is comprised of the financial information for the twelve months ended September 30, 2016, which represents the latest available financial information as of the date of this report.

The tables below present summarized aggregate financial information of the Company's equity method investments in aggregate, as of December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014.

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	Private Equity		Credit		Real Estate		Aggregate Totals	
	As of December 31,		As of December 31,		As of December 31,		As of December 31,	
Statement of Financial Condition	2016(1)	2015(1)	2016(1)	2015(1)	2016(1)	2015(1)	2016(1)	2015(1)
Investments	$ 27,084,486	$ 17,080,292	$ 19,085,779	$ 18,830,120	$ 3,512,344	$ 3,188,822	$ 49,682,609	$ 39,099,234
Assets	27,832,718	17,970,417	21,077,051	21,255,463	3,966,337	3,484,842	52,876,106	42,710,722
Liabilities	45,583	37,416	4,327,790	7,646,492	1,516,103	1,287,051	5,889,476	8,970,959
Equity	27,787,135	17,933,001	16,749,261	13,608,971	2,450,234	2,197,791	46,986,630	33,739,763

	Private Equity			Credit			Real Estate			Aggregate Totals		
	For the Years Ended December 31,			For the Years Ended December 31,			For the Years Ended December 31,			For the Years Ended December 31,		
Statement of Operations	2016(1)	2015(1)	2014(1)	2016(1)	2015(1)	2014(1)	2016(1)	2015(1)	2014(1)	2016(1)	2015(1)	2014(1)
Revenues/Investment Income	$ 235,231	$ 408,971	$ 340,380	$ 1,384,414	$ 1,352,017	$ 1,954,270	$ 215,738	$ 120,340	$ 89,579	$ 1,835,383	$ 1,881,328	$ 2,384,229
Expenses	298,705	306,044	326,126	483,335	464,610	417,967	66,869	35,340	29,022	848,909	805,994	773,115
Net Investment Income	(63,474)	102,927	14,254	901,079	887,407	1,536,303	148,869	85,000	60,557	986,474	1,075,334	1,611,114
Net Realized and Unrealized Gain (Loss)	2,999,627	20,757	1,300,343	1,033,550	(1,643,758)	(548,088)	21,193	(1,699)	62,516	4,054,370	(1,624,700)	814,771
Net Income	$ 2,936,153	$ 123,684	$ 1,314,597	$ 1,934,629	$ (756,351)	$ 988,215	$ 170,062	$ 83,301	$ 123,073	$ 5,040,844	$ (549,366)	$ 2,425,885

(1) Certain private equity, credit and real estate fund amounts are as of and for the twelve months ended September 30, 2016, 2015 and 2014.

5. VARIABLE INTEREST ENTITIES

As described in note 2, the Company consolidates entities that are VIEs for which the Company has been designated as the primary beneficiary. There is no recourse to the Company for the consolidated VIEs' liabilities.

Consolidated Variable Interest Entities

Apollo has consolidated VIEs in accordance with the policy described in note 2. Through its role as investment manager of these VIEs, the Company determined that Apollo has the power to direct the activities that most significantly impact the economic performance of these VIEs. Additionally, Apollo determined that its interests, both directly and indirectly from these VIEs, represent rights to returns that could potentially be significant to such VIEs. As a result, Apollo determined that it is the primary beneficiary and therefore should consolidate the VIEs.

Consolidated CLOs

Certain CLOs are consolidated by Apollo as the Company is considered to hold a controlling financial interest through direct and indirect interests in these CLOs exclusive of management and performance based fees received. Through its role as collateral manager of these VIEs, the Company determined that Apollo has the power to direct the activities that most significantly impact the economic performance of these VIEs. These CLOs were formed for the sole purpose of issuing collateralized notes to investors. The assets of these VIEs are primarily comprised of senior secured loans and the liabilities are primarily comprised of debt.

The assets of these consolidated CLOs are not available to creditors of the Company. In addition, the investors in these consolidated CLOs have no recourse against the assets of the Company. The Company measures both the financial assets and the financial liabilities of the CLOs using the fair value of the financial assets as further described in note 2. The Company has elected the fair value option for financial instruments held by its consolidated CLOs, which includes investments in loans and corporate bonds, as well as debt obligations and contingent obligations held by such consolidated CLOs. Other assets include amounts due from brokers and interest receivables. Other liabilities include payables for securities purchased, which represent open trades within the consolidated VIEs and primarily relate to corporate loans that are expected to settle within the next 60 days. From time to time, Apollo makes investments in certain consolidated CLOs denominated in foreign currencies. As of December 31, 2016 and December 31, 2015, the Company held an investment of $41.3 million and $42.3 million, respectively, in consolidated foreign currency denominated CLOs, which eliminates in consolidation.

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Net Gains from Investment Activities of Consolidated Variable Interest Entities

The following table presents net gains from investment activities of the consolidated VIEs for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016 (1)	2015 (1)	2014 (1)
Net gains (losses) from investment activities	$ 10,334	$ 15,787	$ (238,534)
Net gains (losses) from debt	(11,921)	3,057	102,554
Interest and other income	41,791	37,404	666,486
Interest and other expenses	(35,189)	(37,198)	(507,942)
Net gains from investment activities of consolidated variable interest entities	$ 5,015	$ 19,050	$ 22,564

(1) Amounts reflect consolidation eliminations.

***Senior Secured Notes and Subordinated Note*s**—Included within debt are amounts due to third-party institutions by the consolidated VIEs. The following table summarizes the principal provisions of the debt of the consolidated VIEs as of December 31, 2016 and December 31, 2015:

	As of December 31, 2016			As of December 31, 2015		
	Principal Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Principal Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes(2)(3)	$ 704,976	1.83%	12.3	$ 735,792	2.17%	12.1
Subordinated Notes(2)(3)	87,794	N/A (1)	19.2	82,365	N/A	15.1
Total	$ 792,770			$ 818,157		

(1) The subordinated notes do not have contractual interest rates but instead receive distributions from the excess cash flows of the VIEs.
(2) The fair value of Senior Secured Notes and Subordinated Notes as of December 31, 2016 and December 31, 2015 was $786.5 million and $801.3 million, respectively.
(3) The debt at fair value of the consolidated VIEs is collateralized by assets of the consolidated VIEs and assets of one vehicle may not be used to satisfy the liabilities of another vehicle. As of December 31, 2016 and December 31, 2015, the fair value of the consolidated VIE assets was $1,001.8 million and $1,030.8 million, respectively. This collateral consisted of cash and cash equivalents, investments, at fair value, and other assets.

The consolidated VIEs' debt obligations contain various customary loan covenants. As of December 31, 2016, the Company was not aware of any instances of non-compliance with any of these covenants.

As of December 31, 2016, the table below presents the contractual maturities for debt of the consolidated VIEs:

	2017	2018	2019	2020	2021	Thereafter	Total
Senior Secured Notes	$ —	$ —	$ —	$ —	$ —	$ 704,976	$ 704,976
Subordinated Notes	—	—	—	—	—	87,794	87,794
Total Obligations as of December 31, 2016	$ —	$ —	$ —	$ —	$ —	$ 792,770	$ 792,770

Variable Interest Entities Which are Not Consolidated

The Company holds variable interests in certain VIEs which are not consolidated, as it has been determined that Apollo is not the primary beneficiary.

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The following tables present the carrying amounts of the assets and liabilities of the VIEs for which Apollo has concluded that it holds a significant variable interest, but that it is not the primary beneficiary as of December 31, 2016 and December 31, 2015. In addition, the tables present the maximum exposure to losses relating to these VIEs.

	As of December 31, 2016		
	Total Assets	**Total Liabilities**	**Apollo Exposure**
Total	$ 7,523,335 (1)	$ 2,818,459 (2)	$ 272,191 (3)

(1) Consists of $231.9 million in cash, $7,253.9 million in investments and $37.5 million in receivables.
(2) Represents $2,818.5 million in debt and other payables.
(3) Represents Apollo's direct investment in those entities in which Apollo holds a significant variable interest and certain other investments. Additionally, cumulative carried interest income is subject to reversal in the event of future losses. The maximum amount of future reversal of carried interest income from all of Apollo's funds, including those entities in which Apollo holds a significant variable interest, was $2.9 billion as of December 31, 2016, as discussed in note 15.

	As of December 31, 2015		
	Total Assets	**Total Liabilities**	**Apollo Exposure**
Total	$ 5,378,456 (1)	$ 1,626,743 (2)	$ 202,146 (3)

(1) Consists of $219.8 million in cash, $5,149.0 million in investments and $9.6 million in receivables.
(2) Represents $1,626.7 million in debt and other payables.
(3) Represents Apollo's direct investment in those entities in which Apollo holds a significant variable interest. Additionally, cumulative carried interest income is subject to reversal in the event of future losses. The maximum amount of future reversal of carried interest income from all of Apollo's funds, including those entities in which Apollo holds a significant variable interest, was $2.4 billion as of December 31, 2015.

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6. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following tables summarize the valuation of the Company's financial assets and liabilities for which the fair value option has been elected by the fair value hierarchy as of December 31, 2016 and December 31, 2015:

	As of December 31, 2016				
	Level I[1]	Level II[1]	Level III	Total	Cost of Investments, at Fair Value
Assets					
Investments, at fair value:					
Investments of consolidated Apollo funds	$ 3,336	$ 1,475	$ 567	$ 5,378	$ 5,463
Other investments	—	—	45,154	45,154	47,690
Investment in Athene Holding[2]	—	657,548	—	657,548	387,526
Total investments, at fair value	3,336	659,023	45,721	708,080 [7]	$ 440,679
Investments of VIEs, at fair value[3]	—	816,167	92,474	908,641	
Investments of VIEs, valued using NAV[4]	—	—	—	5,186	
Total investments of VIEs, at fair value	—	816,167	92,474	913,827	
Derivative assets	—	1,360	—	1,360	
Total Assets	$ 3,336	$ 1,476,550	$ 138,195	$ 1,623,267	
Liabilities					
Liabilities of VIEs, at fair value[3][5]	$ —	$ 786,545	$ 11,055	$ 797,600	
Contingent consideration obligations[6]	—	—	106,282	106,282	
Derivative liabilities	—	1,167	—	1,167	
Total Liabilities	$ —	$ 787,712	$ 117,337	$ 905,049	

	As of December 31, 2015				
	Level I[1]	Level II[1]	Level III	Total	Cost of Investments, at Fair Value
Assets					
Investments, at fair value:					
Investments of consolidated Apollo funds	$ —	$ 26,913	$ 1,634	$ 28,547	$ 29,344
Other investments	—	—	434	434	831
Investment in Athene Holding[2]	—	—	510,099	510,099	387,526
Total investments, at fair value	—	26,913	512,167	539,080 [7]	$ 417,701
Investments of VIEs, at fair value[3][4]	—	803,412	100,941	904,353	
Investments of VIEs, valued using NAV [4]	—	—	—	6,213	
Total investments of VIEs, at fair value	—	803,412	100,941	910,566	
Total Assets	$ —	$ 830,325	$ 613,108	$ 1,449,646	
Liabilities					
Liabilities of VIEs, at fair value[3][5]	$ —	$ 801,270	$ 11,411	$ 812,681	
Contingent consideration obligations[6]	—	—	79,579	79,579	
Total Liabilities	$ —	$ 801,270	$ 90,990	$ 892,260	

(1) All Level I and Level II assets and liabilities were valued using third party pricing, with the exception of the investment in Athene Holding.
(2) See note 14 for further disclosure regarding the investment in Athene Holding.
(3) See note 5 for further disclosure regarding VIEs.
(4) Pursuant to the adoption of amended fair value guidance effective January 1, 2016, investments for which fair value is based on NAV are no longer required to be included in the fair value hierarchy. As such, prior periods have been recast to conform with the current period presentation. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy disclosure to

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the amounts presented in the consolidated statement of financial condition. See note 2 for further discussion of recent accounting pronouncements.

(5) As of December 31, 2016, liabilities of VIEs, at fair value included debt and other liabilities of $786.5 million and $11.1 million, respectively. As of December 31, 2015, liabilities of VIEs, at fair value included debt and other liabilities of $801.3 million and $11.4 million, respectively. Other liabilities include contingent obligations classified as Level III.

(6) See note 15 for further disclosure regarding contingent consideration obligations.

(7) See note 4 to our consolidated financial statements for further detail regarding our investments at fair value and reconciliation to the consolidated statements of financial condition.

There were no transfers of financial assets or liabilities between Level I and Level II for the years ended December 31, 2016 and 2015.

The following tables summarize the changes in fair value in financial assets measured at fair value for which Level III inputs have been used to determine fair value for the years ended December 31, 2016 and 2015:

	For the Year Ended December 31, 2016				
	Investments of Consolidated Apollo Funds	Other Investments	Investment in Athene Holding	Investments of Consolidated VIEs	Total
Balance, Beginning of Period [1]	$ 1,634	$ 434	$ 510,099	$ 100,941	$ 613,108
Purchases	1,430	46,880	8,937 [4]	74,043	131,290
Sale of investments/Distributions	(1,630)	—	—	(68,653)	(70,283)
Net realized gains (losses)	(77)	—	—	3,086	3,009
Changes in net unrealized gains (losses)	230	1	138,512	(2,842)	135,901
Cumulative translation adjustment	—	(2,161)	—	(2,691)	(4,852)
Transfer into Level III[2]	1,496	—	—	30,173	31,669
Transfer out of Level III[2][3]	(2,516)	—	(657,548)	(41,583)	(701,647)
Balance, End of Period	$ 567	$ 45,154	$ —	$ 92,474	$ 138,195
Change in net unrealized gains included in net gains from investment activities related to investments still held at reporting date	$ 55	$ 1	$ —	$ —	$ 56
Change in net unrealized gains included in net gains from investment activities of consolidated VIEs related to investments still held at reporting date	—	—	—	30	30

(1) Pursuant to the adoption of amended fair value guidance effective January 1, 2016, investments for which fair value is based on NAV are no longer required to be included in the fair value hierarchy. See note 2 for further discussion of recent accounting pronouncements.

(2) Transfers between Level II and III, with the exception of the investment in Athene Holding, were a result of subjecting the broker quotes on these financial assets to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes and the percentage deviation from independent pricing services.

(3) The investment in the Athene Holding was transferred from Level III to Level II at December 31, 2016, as the Company changed the valuation method used to value the investment in Athene Holding from the GAAP book value multiple approach to the use of Athene’s closing market price, adjusted for a discount due to a lack of marketability (“DLOM”).

(4) Represents a AAA distribution in kind in the form of shares of Athene Holding.

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	For the Year Ended December 31, 2015						
	Investments of Consolidated Apollo Funds	Other Investments	Investment in Athene Holding	AAA/Athene Receivable	Investment in RCAP[3]	Investments of Consolidated VIEs	Total
Balance, Beginning of Period [1]	$ 4,359	$ 600	$ 324,514	$ 61,292	$ —	$ 2,522,913	$ 2,913,678
Adoption of accounting guidance	—	—	—	—	—	(2,407,923)	(2,407,923)
Fees	—	—	—	1,942	—	—	1,942
Purchases	5,913	272	—	—	25,000	44,116	75,301
Sale of investments/Distributions	(6,996)	(115)	—	—	(25,667)	(34,548)	(67,326)
Net realized gains	48	—	—	—	667	3,178	3,893
Changes in net unrealized gains (losses)	(263)	(323)	122,351	—	—	11,396	133,161
Cumulative translation adjustment	—	—	—	—	—	(12,111)	(12,111)
Transfer into Level III[2]	5,439	—	—	—	—	59,316	64,755
Transfer out of Level III[2]	(6,866)	—	—	—	—	(85,396)	(92,262)
Settlement of receivable	—	—	63,234	(63,234)	—	—	—
Balance, End of Period[1]	$ 1,634	$ 434	$ 510,099	$ —	$ —	$ 100,941	$ 613,108
Change in net unrealized gains (losses) included in net gains from investment activities related to investments still held at reporting date	$ (677)	$ (323)	$ 122,351	$ —	$ —	$ —	$ 121,351
Change in net unrealized gains included in net gains from investment activities of consolidated VIEs related to investments still held at reporting date	—	—	—	—	—	11,543	11,543

(1) Pursuant to the adoption of amended fair value guidance effective January 1, 2016, investments for which fair value is based on NAV are no longer required to be included in the fair value hierarchy. As such, prior periods have been recast to conform with the current period presentation. See note 2 for further discussion of recent accounting pronouncements.
(2) Transfers between Level II and III were a result of subjecting the broker quotes on these financial assets to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes and the percentage deviation from independent pricing services.
(3) Represents Apollo's investment in preferred stock of RCS Capital Corporation ("RCAP"), which was sold in November 2015.

The following table summarizes the changes in fair value in financial liabilities measured at fair value for which Level III inputs have been used to determine fair value for the years ended December 31, 2016 and 2015:

	For the Years Ended December 31,					
	2016			2015		
	Liabilities of Consolidated VIEs	Contingent Consideration Obligations	Total	Liabilities of Consolidated VIEs	Contingent Consideration Obligations	Total
Balance, Beginning of Period	$ 11,411	$ 79,579	$ 90,990	$ 12,343,021	$ 96,126	$ 12,439,147
Adoption of accounting guidance	—	—	—	(11,433,815)	—	(11,433,815)
Payments/Extinguishment	—	(13,721)	(13,721)	—	(15,743)	(15,743)
Changes in net unrealized (gains) losses[1]	(356)	40,424	40,068	(8,244)	(804)	(9,048)
Cumulative translation adjustment	—	—	—	(92,593)	—	(92,593)
Transfers out of Level III	—	—	—	(796,958)	—	(796,958)
Balance, End of Period	$ 11,055	$ 106,282	$ 117,337	$ 11,411	$ 79,579	$ 90,990
Change in net unrealized gains included in net gains from investment activities of consolidated VIEs related to liabilities still held at reporting date	$ (356)	$ —	$ (356)	$ —	$ —	$ —

(1) Changes in fair value of contingent consideration obligations are recorded in profit sharing expense in the consolidated statements of operations.

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The following tables summarize the quantitative inputs and assumptions used for financial assets and liabilities categorized as Level III under the fair value hierarchy as of December 31, 2016 and December 31, 2015:

	As of December 31, 2016				
	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average
Financial Assets					
Investments of consolidated Apollo funds	$ 567	Third party pricing[1]	N/A	N/A	N/A
Investments in other	45,154	Third party pricing[1]	N/A	N/A	N/A
Investments of consolidated VIEs:					
Bank debt term loans	4,701	Third party pricing[1]	N/A	N/A	N/A
Corporate loans/bonds/CLO notes	15,496	Third party pricing[1]	N/A	N/A	N/A
Equity securities	72,277	Transaction	N/A	N/A	N/A
Total investments of consolidated VIEs	92,474				
Total Financial Assets	$ 138,195				
Financial Liabilities					
Liabilities of consolidated VIEs:					
Contingent obligation	$ 11,055	Other	N/A	N/A	N/A
Contingent consideration obligation	106,282	Discounted cash flow	Discount rate	13.0% - 17.3%	17.2%
Total Financial Liabilities	$ 117,337				

(1) These securities are valued primarily using unadjusted broker quotes.

	As of December 31, 2015				
	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average
Financial Assets					
Investments of consolidated Apollo funds	$ 1,634	Third party pricing[1]	N/A	N/A	N/A
Investments in other	434	Other	N/A	N/A	N/A
Investment in Athene Holding	510,099	Book value multiple	Book value multiple	1.18x	1.18x
Investments of consolidated VIEs:					
Bank debt term loans	15,776	Third party pricing[1]	N/A	N/A	N/A
Corporate loans/bonds/CLO notes	22,409	Third party pricing[1]	N/A	N/A	N/A
Equity securities	62,756	Market comparable companies	Comparable multiples	0.60x	0.60x
		Discounted cash flow	Discount rate	14.6%	14.6%
Total investments of consolidated VIEs [2]	100,941				
Total Financial Assets	$ 613,108				
Financial Liabilities					
Liabilities of Consolidated VIEs:					
Contingent obligation	$ 11,411	Other	N/A	N/A	N/A
Contingent consideration obligation	79,579	Discounted cash flow	Discount rate	11.0% - 18.5%	17.0%
Total Financial Liabilities	$ 90,990				

(1) These securities are valued primarily using unadjusted broker quotes.
(2) Pursuant to the adoption of amended fair value guidance effective January 1, 2016, investments for which fair value is based on NAV are no longer required to be included in the fair value hierarchy. As such, prior periods have been recast to conform with the current period presentation. See note 2 for further discussion of recent accounting pronouncements.

Investment in Athene Holding

As of December 31, 2016, Apollo changed the valuation method used to value the opportunistic investment in Athene Holding from the GAAP book value multiple approach to the use of Athene's closing market price, adjusted for a DLOM in order to reflect the post IPO sales restriction on such shares of Athene Holding. The DLOM is calculated based on the remaining length of such sales restrictions and the estimated market price volatility of the associated shares.

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As of December 31, 2016 the fair value of Apollo's investment in Athene Holding was estimated using the closing market price of Athene shares of $47.99 less a DLOM of 9.5%. The DLOM was derived based on the average remaining lock up restrictions on the shares of Athene Holding held by Apollo (23.3 months) and the estimated volatility in such shares of Athene Holding. Due to the limited trading history in Athene Holding shares, the historical share price volatility of a representative set of Athene Holding's publicly traded insurance peers was calculated over a period equivalent to the remaining average lock up on the shares of Athene Holding held by Apollo and used as a proxy to estimate the projected volatility in Athene Holding's shares. The fair value of Apollo's investment in Athene Holding after the application of the DLOM was estimated at a price of $43.43 per share.

As of December 31, 2015, the fair value of Apollo's investment in Athene Holding was estimated under the U.S. GAAP book value multiple approach by applying a book value multiple to the U.S. GAAP book value per share of Athene Holding. The adjustment for the conversion of all Athene management incentive shares was added to Athene's U.S. GAAP book value excluding accumulated other comprehensive income ("AOCI") for purposes of determining U.S. GAAP book value per share. Apollo calculated a multiple for public company peers of Athene by dividing each peer's market capitalization by its reported U.S. GAAP equity, excluding AOCI. A regression analysis was then prepared based on the calculated multiple of each peer relative to its expected return on U.S. GAAP equity, excluding AOCI, relative to Athene.

As of December 31, 2015, the significant unobservable input used in the fair value measurement of the investment in Athene Holding was the U.S. GAAP book value multiple. This input in isolation can cause significant increases or decreases in fair value. Specifically, when the U.S. GAAP book value multiple method is used to determine fair value, the significant input used in the valuation model is the U.S. GAAP book value multiple itself. An increase in the U.S. GAAP book value multiple can significantly increase the fair value of an investment; conversely a decrease in the U.S. GAAP book value multiple can significantly decrease the fair value of an investment. The sensitivity of the valuation to changes in the multiple is directly proportional to the change in the multiple itself.

Investments of Consolidated Apollo Funds

The Company is the sole investor in the Apollo Senior Loan Fund, L.P. and Apollo Alternative Credit Long Short Fund L.P. and therefore consolidates the assets and liabilities of these funds. These funds invest in U.S. denominated senior secured loans, senior secured bonds and other income generating fixed-income investments. Amounts related to these consolidated funds are primarily presented in net gains from investment activities on the consolidated statements of operations and in investments in the consolidated statements of financial condition.

Other Investments

Other investments primarily consists of Apollo's investments in debt of unconsolidated CLOs. The change in the fair value related to these investments is presented in net gains from investment activities on the consolidated statements of operations.

Consolidated VIEs

Investments

As of December 31, 2016, there were no significant unobservable inputs used in the fair value measurement of the equity securities. The significant unobservable inputs used in the fair value measurement of the equity securities as of December 31, 2015 include the discount rate applied and the multiples applied in the valuation models. These unobservable inputs in isolation can cause significant increases or decreases in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of an investment; conversely decreases in the discount rate can significantly increase the fair value of an investment. The discount rate is determined based on the market rates an investor would expect for a similar investment with similar risks. When a comparable multiple model is used to determine fair value, the comparable multiples are generally multiplied by the underlying companies' earnings before interest, taxes, depreciation and amortization ("EBITDA") to establish the total enterprise value of the company. The comparable multiple is determined based on the implied trading multiple of public industry peers.

Liabilities

As of December 31, 2016 and December 31, 2015, the debt obligations of the consolidated CLOs were measured on the basis of the fair value of the financial assets of the CLOs as the financial assets were determined to be more observable and, as a result, categorized as Level II in the fair value hierarchy. See note 2 for further discussion of the Company's adoption of CFE guidance.

Contingent Consideration Obligations

The significant unobservable input used in the fair value measurement of the contingent consideration obligations is the discount rate applied in the valuation models. This input in isolation can cause significant increases or decreases in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of the contingent consideration obligations; conversely, a decrease in the discount rate can significantly increase the fair value of the contingent consideration obligations. The discount rate was based on the hypothetical cost of equity for Stone Tower. See note 15 for further discussion of the contingent consideration obligations.

Net Investment Hedge

To manage the potential exposure from adverse changes in currency exchange rates arising from the Company's net investment in foreign operations related to Bremer Kreditbank AG, the German subsidiary of Belgian KBC Group NV ("BKB Bank") during June 2016, the Company entered into a foreign currency option contract to hedge a portion of the net investment in the Company's non-U.S. dollar denominated foreign operations related to BKB Bank. As of December 31, 2016, the notional amount of the net investment hedge was €17.6 million. The gains and losses due to changes in fair value attributable to foreign currency derivatives designated as net investment hedges are recognized in other comprehensive income (loss), net of tax. No portion of the net investment hedge was subsequently reclassified to net income or deemed ineffective for the year ended December 31, 2016. The resulting gain on derivative assets was $0.02 million for the year ended December 31, 2016. The resulting loss on derivative liabilities was $0.1 million for the year ended December 31, 2016.

7. CARRIED INTEREST RECEIVABLE

Carried interest receivable from private equity, credit and real estate funds consisted of the following:

	As of December 31, 2016	As of December 31, 2015
Private Equity	$ 798,465	$ 373,871
Credit	426,114	240,844
Real Estate	32,526	29,192
Total carried interest receivable	$ 1,257,105	$ 643,907

The table below provides a roll-forward of the carried interest receivable balance for the years ended December 31, 2016 and 2015:

	Private Equity	Credit	Real Estate	Total
Carried interest receivable, January 1, 2015	$ 672,119	$ 226,430	$ 13,117	$ 911,666
Change related to fair value of funds	42,016	126,426	13,074	181,516
Fund distributions to the Company	(340,264)	(152,370)	(4,035)	(496,669)
Adoption of new accounting guidance	—	40,358	7,036	47,394
Carried interest receivable, December 31, 2015	$ 373,871	$ 240,844	$ 29,192	$ 643,907
Change in fair value of funds	492,910	318,735	17,375	829,020
Fund distributions to the Company	(68,316)	(133,465)	(14,041)	(215,822)
Carried interest receivable, December 31, 2016	$ 798,465	$ 426,114	$ 32,526	$ 1,257,105

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The change in fair value of funds excludes the reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. The general partner obligation is recognized based upon a hypothetical liquidation of a fund's net assets as of the reporting date. The actual determination and any required payment of any such general partner obligation would not take place until the final disposition of a fund's investments based on the contractual termination of the fund or as otherwise set forth in the respective limited partnership agreement of the fund. See note 14 for further disclosure regarding the general partner obligation.

The timing of the payment of carried interest due to the general partner or investment manager varies depending on the terms of the applicable fund agreements. Generally, carried interest with respect to the private equity funds and certain credit and real estate funds is payable and is distributed to the fund's general partner upon realization of an investment if the fund's cumulative returns are in excess of the preferred return. For most credit funds, carried interest is payable based on realizations after the end of the relevant fund's fiscal year or fiscal quarter, subject to certain return thresholds, or "high water marks," having been achieved.

8. PROFIT SHARING PAYABLE

Profit sharing payable from private equity, credit and real estate funds consisted of the following:

	As of December 31, 2016	As of December 31, 2015
Private Equity	$ 268,170	$ 118,963
Credit	268,855	165,392
Real Estate	13,123	11,319
Total profit sharing payable	$ 550,148	$ 295,674

The table below provides a roll-forward of the profit sharing payable balance for the years ended December 31, 2016 and 2015:

	Private Equity	Credit	Real Estate	Total
Profit sharing payable, January 1, 2015	$ 240,595	$ 186,307	$ 7,950	$ 434,852
Profit sharing expense(1)(2)	52,807	42,172	5,076	100,055
Payments/other	(174,439)	(63,087)	(1,707)	(239,233)
Profit sharing payable, December 31, 2015	$ 118,963	$ 165,392	$ 11,319	$ 295,674
Profit sharing expense(1)(2)	184,852	186,345	10,387	381,584
Payments/other	(35,645)	(82,882)	(8,583)	(127,110)
Profit sharing payable, December 31, 2016	$ 268,170	$ 268,855	$ 13,123	$ 550,148

(1) Includes (i) changes in amounts payable to employees and former employees entitled to a share of carried interest income in Apollo's funds and (ii) changes to the fair value of the contingent consideration obligations recognized in connection with certain Apollo acquisitions. See notes 6 and 15 for further disclosure regarding the contingent consideration obligations.

(2) The Company has recorded a receivable from the Contributing Partners, certain employees and former employees for the potential return of profit sharing distributions that would be due if certain funds were liquidated in the amount of $39.3 million and $14.7 million as of December 31, 2016 and December 31, 2015, respectively. Profit sharing expense excludes the potential return of these profit sharing distributions. See note 14 for further discussion regarding the potential return of profit sharing distributions.

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9. OTHER ASSETS

Other assets consisted of the following:

	As of December 31,	
	2016	2015
Fixed assets	$ 108,422	$ 105,439
Less: Accumulated depreciation and amortization	(83,268)	(73,803)
Fixed assets, net	25,154	31,636
Prepaid expenses[1]	78,300	48,421
Tax receivables	5,617	4,466
Other	9,789	11,321
Total Other Assets	$ 118,860	$ 95,844

(1) Includes $42.6 million and $7.0 million as of December 31, 2016 and 2015, respectively, related to the restricted shares that are expected to be granted in connection with the settlement of certain profit sharing arrangements. A corresponding amount is included in other liabilities on the consolidated statements of financial condition.

Depreciation expense for the years ended December 31, 2016, 2015 and 2014 was $9.6 million, $10.5 million and $10.2 million, respectively.

10. INCOME TAXES

The Company is treated as a partnership for income tax purposes and is therefore not subject to U.S. federal, state and local income taxes. Certain consolidated entities are, or are treated as, corporations for U.S. and non-U.S. tax purposes and therefore subject to U.S. federal, state, and local corporate income tax. Certain other subsidiaries of the Company are subject to NYC UBT attributable to the Company's operations apportioned to New York City. In addition, certain non-U.S. subsidiaries of the Company are subject to income taxes in their local jurisdictions.

The Company's income tax provision totaled $90.7 million, $26.7 million and $147.2 million for the years ended December 31, 2016, 2015 and 2014, respectively. The Company's effective tax rate was approximately 8.5%, 7.1% and 16.8% for the years ended December 31, 2016, 2015 and 2014, respectively.

The provision for income taxes is presented in the following table:

	For the Years Ended December 31,		
	2016	2015	2014
Current:			
Federal income tax	$ —	$ (10,108)	$ 53,426
Foreign income tax	5,843 [1]	7,842 [1]	6,080
State and local income tax	2,847	2,573	7,369
Subtotal	8,690	307	66,875
Deferred:			
Federal income tax	66,567	19,581	28,702
Foreign income tax	(16) [1]	(256) [1]	(137)
State and local income tax	15,466	7,101	51,805
Subtotal	82,017	26,426	80,370
Total Income Tax Provision	$ 90,707	$ 26,733	$ 147,245

(1) The foreign income tax provision was calculated on $38.8 million and $27.6 million of pre-tax income generated in foreign jurisdictions for the years ended December 31, 2016 and 2015, respectively.

The following table reconciles the U.S. Federal statutory tax rate to the effective income tax rate:

	For the Years Ended December 31,		
	2016	2015	2014
U.S. Statutory Tax Rate	35.0 %	35.0 %	35.0 %
Income Passed Through to Non-Controlling Interests	(21.0)	(26.4)	(23.4)
Income Passed Through to Class A Shareholders	(7.1)	(4.4)	0.1
State and Local Income Taxes (net of Federal Benefit)	1.4	2.1	4.7
Other	0.2	0.8	0.4
Effective Income Tax Rate	8.5 %	7.1 %	16.8 %

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated statements of financial condition. These temporary differences result in taxable or deductible amounts in future years.

The Company's deferred tax assets and liabilities on the consolidated statements of financial condition consist of the following:

	As of December 31,	
	2016	2015
Deferred Tax Assets:		
Depreciation and amortization	$ 525,261	$ 567,018
Revenue recognition	26,629	31,363
Net operating loss carryforwards	43,733	47,139
Equity-based compensation - RSUs and AAA RDUs	1,801	4,551
Foreign tax credit	11,746	8,996
Other	4,947	5,472
Total Deferred Tax Assets	614,117	664,539
Deferred Tax Liabilities:		
Unrealized gains from investments	41,346	13,274
Other	508	5,058
Total Deferred Tax Liabilities	$ 41,854	$ 18,332

As of December 31, 2016, the Company had approximately $111.1 million of federal net operating loss ("NOL") carryforwards and $86.6 million of state and local net operating loss carryforwards that will begin to expire after 2035. As a result of certain realization requirements, the Company does not include certain deferred tax assets as of December 31, 2016 that arose directly from tax deductions related to equity-based compensation greater than compensation recognized for financial reporting. As discussed in note 2, upon adoption of new guidance that amends the accounting for employee share-based payment awards, $22.8 million of deferred tax asset will be recognized with a corresponding increase to retained earnings. In addition, the Company's foreign tax credit carryforwards will begin to expire after 2020.

The Company considered its historical and current year earnings, current utilization of existing deferred tax assets and deferred tax liabilities, the 15 year amortization periods of the tax basis of its intangible assets, the 20 year carry forward periods of any NOLs, and short and long term business forecasts in evaluating whether it should establish a valuation allowance. Based on this positive evidence, the Company concluded it is more likely than not that the deferred tax assets will be realized and that no valuation allowance was needed at December 31, 2016.

Under U.S. GAAP, a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. Based upon the Company's review of its federal, state, local and foreign income tax returns and tax filing positions, the Company determined that no unrecognized tax benefits for uncertain tax positions were required to be recorded. In addition, the Company does not believe that it has any tax positions for which it is reasonably possible that it will be required to record significant amounts of unrecognized tax benefits within the next twelve months.

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The Company's primary jurisdictions in which it operates are the United States, New York State, New York City, California and the United Kingdom. There are no unremitted earnings with respect to the United Kingdom and other foreign entities due to the flow-through nature of these entities. In the normal course of business, the Company is subject to examination by federal and certain state, local and foreign tax authorities. With a few exceptions, as of December 31, 2016, the Company's U.S. federal, state, local and foreign income tax returns for the years 2013 through 2016 are open under the general statute of limitations provisions and therefore subject to examination. Currently, the Internal Revenue Service is examining the tax return of a subsidiary for the 2012 tax year. The State and City of New York is examining certain subsidiaries' tax returns for tax years 2011 to 2013.

The Company has recorded a deferred tax asset for the future amortization of tax basis intangibles as a result of the 2007 Reorganization. The Company recorded additional deferred tax assets as a result of the step-up in tax basis of intangibles from subsequent exchanges of AOG Units for Class A shares. A related tax receivable agreement liability was recorded in due to related parties in the consolidated statements of financial condition for the expected payments under the tax receivable agreement entered into by and among APO Corp., the Managing Partners, the Contributing Partners, and other parties thereto (as amended, the "tax receivable agreement") (see note 14). The increases in the deferred tax asset less the related liability resulted in increases to additional paid in capital which were recorded in the consolidated statements of changes in shareholders' equity for the years ended December 31, 2016, 2015 and 2014. The amortization period for these tax basis intangibles is 15 years and the deferred tax assets will reverse over the same period.

Pursuant to an exchange agreement between Apollo, Holdings and the other parties thereto (as amended, the "Exchange Agreement"), the holders of the AOG Units (and certain permitted transferees thereof) may, upon notice and subject to the applicable vesting and minimum retained ownership requirements, transfer restrictions and other terms of the Exchange Agreement, exchange their AOG Units for the Company's Class A shares on a one-for-one basis a limited number of times each year, subject to customary conversion rate adjustments for splits, distributions and reclassifications. Pursuant to the Exchange Agreement, a holder of AOG Units must simultaneously exchange one partnership unit in each of the Apollo Operating Group partnerships to effectuate an exchange for one Class A share. As a holder exchanges its AOG Units, the Company's indirect interest in the Apollo Operating Group is correspondingly increased.

The tables below present the impact to the deferred tax asset, tax receivable agreement liability and additional paid in capital related to the exchange of AOG Units for Class A shares during the years ended December 31, 2016, 2015 and 2014.

Exchange of AOG Units for Class A shares	Increase in Deferred Tax Asset	Increase in Tax Receivable Agreement Liability	Increase to Additional Paid In Capital
For the Year Ended December 31, 2016	$ 7,342	$ 6,187	$ 1,155
For the Year Ended December 31, 2015	61,720	45,432	16,288
For the Year Ended December 31, 2014	58,696	47,878	10,818

During the years ended December 31, 2016 and 2014, the Company adjusted the estimated rate of tax it expects to pay in the future and thereby reduced its net deferred tax assets, and increased its income tax provision, by $4.5 million and $36.2 million, respectively (see note 14 for details regarding the impact on the tax receivable agreement liability).

During the year ended December 31, 2016, an additional $2.6 million of return-to-provision was recorded to additional paid in capital, reflected in the consolidated statements of changes in shareholders' equity.

11. DEBT

Debt consisted of the following:

	As of December 31, 2016			As of December 31, 2015		
	Outstanding Balance	Fair Value	Annualized Weighted Average Interest Rate	Outstanding Balance	Fair Value	Annualized Weighted Average Interest Rate
2013 AMH Credit Facilities - Term Facility[1]	$ 299,543	$ 298,500 [5]	1.82%	$ 499,327	$ 501,300 [5]	1.44%
2024 Senior Notes[2]	495,208	498,336 [6]	4.00	494,555	495,300 [6]	4.00
2026 Senior Notes[3]	495,165	497,923 [6]	4.40	—	—	—
2014 AMI Term Facility I[4]	14,449	14,449 [5]	2.00	14,543	14,549 [5]	2.15
2014 AMI Term Facility II[4]	16,306	16,306 [5]	1.75	16,830	16,830 [5]	1.85
2016 AMI Term Facility I[4]	17,852	17,852 [5]	1.75	—	—	—
2016 AMI Term Facility II[4]	13,924	13,924 [5]	2.00	—	—	—
Total Debt	$ 1,352,447	$ 1,357,290		$ 1,025,255	$ 1,027,979	

(1) Outstanding balance is presented net of unamortized debt issuance costs of $0.5 million and $0.7 million as of December 31, 2016 and December 31, 2015, respectively.

(2) Includes impact of any amortization of note discount. Outstanding balance is presented net of unamortized debt issuance costs of $4.1 million and $4.6 million as of December 31, 2016 and December 31, 2015, respectively.

(3) Includes impact of any amortization of note discount. Outstanding balance is presented net of unamortized debt issuance costs of $4.4 million as of December 31, 2016.

(4) Apollo Management International LLP ("AMI"), a subsidiary of the Company, entered into the following five year credit agreements and proceeds from the borrowings were used to fund the Company's investment in European CLOs it manages:

Facility	Date	Loan Amount
2014 AMI Term Facility I	July 3, 2014	€ 13,736
2014 AMI Term Facility II	December 9, 2014	€ 15,500
2016 AMI Term Facility I	January 18, 2016	€ 16,970
2016 AMI Term Facility II	June 22, 2016	€ 13,236

(5) Fair value is based on obtained broker quotes and these notes would be classified as a Level III liability within the fair value hierarchy based on the number and quality of broker quotes obtained, the standard deviations of the observed broker quotes and the percentage deviation from independent pricing services. For instances where broker quotes are not available, a discounted cash flow method is used to obtain a fair value.

(6) Fair value is based on obtained broker quotes and these notes would be classified as a Level II liability within the fair value hierarchy based on the number and quality of broker quotes obtained, the standard deviations of the observed broker quotes and the percentage deviation from independent pricing services.

2013 AMH Credit Facilities—On December 18, 2013, AMH and its subsidiaries and certain other subsidiaries of the Company (collectively, the "Borrowers") entered into new credit facilities (the "2013 AMH Credit Facilities") with JPMorgan Chase Bank, N.A. The 2013 AMH Credit Facilities provide for (i) a term loan facility to AMH (the "Term Facility") that includes $750 million of the term loan from third-party lenders and $271.7 million of the term loan held by a subsidiary of the Company and (ii) a $500 million revolving credit facility (the "Revolver Facility"), in each case, with an original maturity date of January 18, 2019. On March 11, 2016, the maturity date of both the Term Facility and the Revolver Facility was extended by two years to January 18, 2021. The extension was determined to be a modification of the 2013 AMH Credit Facilities in accordance with U.S. GAAP.

Interest on the borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus an applicable margin, and undrawn revolving commitments bear a commitment fee. In connection with the issuance of the 2024 Senior Notes and the 2026 Senior Notes (as defined below), $250 million of the proceeds and $200 million of the proceeds, respectively, were used to repay a portion of the Term Facility outstanding with third party lenders at par. The interest rate on the $300 million Term Facility as of December 31, 2016 was 2.12% and the commitment fee as of December 31, 2016 on the $500 million undrawn

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Revolver Facility was 0.125%. The $300 million carrying value of debt that is recorded on the consolidated statements of financial condition at December 31, 2016 is the amount for which the Company is obligated to settle the 2013 AMH Credit Facilities.

As of December 31, 2016, the 2013 AMH Credit Facilities were guaranteed by AMH and its subsidiaries, Apollo Management, L.P., Apollo Capital Management, L.P., Apollo International Management, L.P., AAA Holdings, L.P., Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P., Apollo Principal Holdings X, L.P., Apollo Principal Holdings XI, LLC, ST Holdings GP, LLC and ST Management Holdings, LLC. The 2013 AMH Credit Facilities contain affirmative and negative covenants which limit the ability of the Borrowers, the guarantors and certain of their subsidiaries to, among other things, incur indebtedness and create liens. Additionally, the 2013 AMH Credit Facilities contain financial covenants which require the Borrowers and their subsidiaries to maintain (1) at least $40 billion of Fee-Generating Assets Under Management and (2) a maximum total net leverage ratio of not more than 4.00 to 1.00 (subject to customary equity cure rights). The 2013 AMH Credit Facilities also contain customary events of default, including events of default arising from non-payment, material misrepresentations, breaches of covenants, cross default to material indebtedness, bankruptcy and changes in control of the Company.

Borrowings under the Revolver Facility may be used for working capital and general corporate purposes, including, without limitation, permitted acquisitions. In addition, the Borrowers may incur incremental facilities in respect of the Revolver Facility and the Term Facility in an aggregate amount not to exceed $500 million plus additional amounts so long as the Borrowers are in compliance with a net leverage ratio not to exceed 3.75 to 1.00. As of December 31, 2016 and December 31, 2015, the Revolver Facility was undrawn.

2024 Senior Notes—On May 30, 2014, AMH issued $500 million in aggregate principal amount of its 4.000% Senior Notes due 2024 (the "2024 Senior Notes"), at an issue price of 99.722% of par. Interest on the 2024 Senior Notes is payable semi-annually in arrears on May 30 and November 30 of each year. The 2024 Senior Notes will mature on May 30, 2024. The discount will be amortized into interest expense on the consolidated statements of operations over the term of the 2024 Senior Notes. The face amount of $500 million related to the 2024 Senior Notes is the amount for which the Company is obligated to settle the 2024 Senior Notes.

2026 Senior Notes—On May 27, 2016, AMH issued $500 million in aggregate principal amount of its 4.400% Senior Notes due 2026 (the "2026 Senior Notes"), at an issue price of 99.912% of par. Interest on the 2026 Senior Notes is payable semi-annually in arrears on May 27 and November 27 of each year. The 2026 Senior Notes will mature on May 27, 2026. The discount will be amortized into interest expense on the consolidated statements of operations over the term of the 2026 Senior Notes. The face amount of $500 million related to the 2026 Senior Notes is the amount for which the Company is obligated to settle the 2026 Senior Notes.

As of December 31, 2016, the 2026 Senior Notes and the 2024 Senior Notes were guaranteed by Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P., Apollo Principal Holdings X, L.P., Apollo Principal Holdings XI, LLC, AMH Holdings (Cayman), L.P. and any other entity that is required to become a guarantor of the notes under the terms of the indentures governing the 2026 Senior Notes and the 2024 Senior Notes (the "Indentures"). The Indentures include covenants that restrict the ability of AMH and, as applicable, the guarantors to incur indebtedness secured by liens on voting stock or profit participating equity interests of their respective subsidiaries or merge, consolidate or sell, transfer or lease assets. The Indentures also provide for customary events of default.

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The following table presents the interest expense incurred related to the Company's debt for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
Interest Expense:[1]			
2013 AMH Term Facility	$ 8,253	$ 8,672	$ 10,112
2024 Senior Notes	20,652	20,759	12,062
2026 Senior Notes	13,372	—	—
AMI Term Facilities	1,205	640	219
Total Interest Expense	$ 43,482	$ 30,071	$ 22,393

(1) Debt issuance costs incurred in connection with the Term Facility, the 2024 Senior Notes and the 2026 Senior Notes are amortized into interest expense over the term of the debt arrangement.

The table below presents the contractual maturities for the Company's debt arrangements as of December 31, 2016:

	2017	2018	2019	2020	2021	Thereafter	Total
2013 AMH Credit Facilities - Term Facility	$ —	$ —	$ —	$ —	$ 300,000	$ —	$ 300,000
2024 Senior Notes	—	—	—	—	—	500,000	500,000
2026 Senior Notes	—	—	—	—	—	500,000	500,000
2014 AMI Term Facility I	—	—	—	—	14,449	—	14,449
2014 AMI Term Facility II	—	—	16,306	—	—	—	16,306
2016 AMI Term Facility I	—	—	—	—	17,852		17,852
2016 AMI Term Facility II	—	—	—	—	13,924		13,924
Total Obligations as of December 31, 2016	$ —	$ —	$ 16,306	$ —	$ 346,225	$ 1,000,000	$ 1,362,531

12. NET INCOME PER CLASS A SHARE

U.S. GAAP requires use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating security as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for distributions declared on all classes of securities to arrive at undistributed earnings. During periods of undistributed losses, the undistributed loss is allocated to a participating security only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity.

The remaining undistributed earnings are allocated to Class A shares and participating securities to the extent that each security shares in earnings as if all of the earnings for the period had been distributed. Earnings or losses allocated to each class of security are then divided by the applicable number of shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes all outstanding Class A shares and includes the number of additional Class A shares that would have been outstanding if the dilutive Class A shares had been issued. The numerator is adjusted for any changes in income or loss that would result if the dilutive Class A shares were issued.

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The table below presents basic and diluted net income (loss) per Class A share using the two-class method for the years ended December 31, 2016, 2015 and 2014:

	Basic and Diluted		
	For the Years Ended December 31,		
	2016	2015	2014
Numerator:			
Net income attributable to Apollo Global Management, LLC	$ 402,850	$ 134,497	$ 168,229
Distributions declared on Class A shares	(230,713) (1)	(339,397) (1)	(483,458) (1)
Distributions on participating securities(3)	(8,396)	(28,497)	(72,074)
Earnings allocable to participating securities	(6,430)	— (2)	— (2)
Undistributed income (loss) attributable to Class A shareholders: Basic and Diluted	$ 157,311	$ (233,397)	$ (387,303)
Denominator:			
Weighted average number of Class A shares outstanding: Basic and Diluted	183,998,080	173,271,666	155,349,017
Net Income per Class A Share: Basic and Diluted(4)			
Distributed Income	$ 1.25	$ 1.96	$ 3.11
Undistributed Income (Loss)	0.86	(1.35)	(2.49)
Net Income per Class A Share: Basic and Diluted	$ 2.11	$ 0.61	$ 0.62

(1) See note 14 for information regarding the quarterly distributions declared and paid during 2016, 2015 and 2014.
(2) No allocation of undistributed losses was made to the participating securities as the holders do not have a contractual obligation to share in the losses of the Company with Class A shareholders.
(3) Participating securities consist of vested and unvested RSUs that have rights to distributions and unvested restricted shares.
(4) For the years ended December 31, 2016, 2015 and 2014, all of the classes of securities were determined to be anti-dilutive.

The Company has granted RSUs that provide the right to receive, subject to vesting, Class A shares of Apollo Global Management, LLC, pursuant to the Company's 2007 Omnibus Equity Incentive Plan (the "2007 Equity Plan"). Certain RSU grants to employees provide the right to receive distribution equivalents on vested RSUs on an equal basis any time a distribution is declared. The Company refers to these RSU grants as "Plan Grants." For certain Plan Grants, distribution equivalents are paid in January of the calendar year next following the calendar year in which a distribution on Class A shares was declared. In addition, certain RSU grants to employees provide that both vested and unvested RSUs participate in distribution equivalents on an equal basis with the Class A shareholders any time a distribution is declared. The Company refers to these as "Bonus Grants."

Any distribution equivalent paid to an employee will not be returned to the Company upon forfeiture of the award by the employee. Vested and unvested RSUs that are entitled to non-forfeitable distribution equivalents qualify as participating securities and are included in the Company's basic and diluted earnings per share computations using the two-class method. The holder of an RSU participating security would have a contractual obligation to share in the losses of the entity if the holder is obligated to fund the losses of the issuing entity or if the contractual principal or mandatory redemption amount of the participating security is reduced as a result of losses incurred by the issuing entity. Because the RSU participating securities do not have a mandatory redemption amount and the holders of the participating securities are not obligated to fund losses, neither the vested RSUs nor the unvested RSUs are subject to any contractual obligation to share in losses of the Company.

Holders of AOG Units are subject to the vesting requirements (all of which have fully vested) and transfer restrictions set forth in the agreements with the respective holders, and may a limited number of times each year, upon notice (subject to the terms of the Exchange Agreement), exchange their AOG Units for Class A shares on a one-for-one basis. An AOG Unit holder must exchange one unit in each of the Apollo Operating Group partnerships to effectuate an exchange for one Class A share.

Apollo Global Management, LLC has one Class B share outstanding, which is held by BRH Holdings GP, Ltd. ("BRH"). The voting power of the Class B share is reduced on a one vote per one AOG Unit basis in the event of an exchange of AOG Units for Class A shares, as discussed above. The Class B share has no net income (loss) per share as it does not participate in Apollo's earnings (losses) or distributions. The Class B share has no distribution or liquidation rights. The Class B share has voting rights on a pari passu basis with the Class A shares. The Class B share represented 60.5%, 61.4% and 65.4% of the total voting power of the Company's shares entitled to vote as of December 31, 2016, 2015 and 2014, respectively.

The following table summarizes the anti-dilutive securities for the years ended December 31, 2016, 2015 and 2014, respectively.

	For the Years Ended December 31,		
	2016	2015	2014
Weighted average vested RSUs	1,466,803	9,984,862	19,541,458
Weighted average unvested RSUs	5,975,293	4,858,935	9,556,131
Weighted average unexercised options	222,920	227,086	548,441
Weighted average AOG Units outstanding	215,917,462	219,575,738	225,005,386
Weighted average unvested restricted shares	82,301	90,985	—

Issuance of Class A Shares

During the years ended December 31, 2016, 2015 and 2014, the Company issued Class A shares in settlement of vested RSUs. The Company has generally allowed holders of vested RSUs and exercised share options to settle their tax liabilities by reducing the number of Class A shares issued to them, which the Company refers to as "net share settlement." Additionally, the Company has generally allowed holders of share options to settle their exercise price by reducing the number of Class A shares issued to them at the time of exercise by an amount sufficient to cover the exercise price. The net share settlement results in a liability for the Company and a corresponding accumulated deficit adjustment. This adjustment for the years ended December 31, 2016, 2015 and 2014 was $40.7 million, $78.9 million and $0.4 million, respectively.

The table below summarizes the issuances of Class A shares in settlement of vested RSUs and share options for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
Class A shares issued	4,625,304	11,296,338	10,491,649
Gross value of shares[(1)]	$ 108,716	$ 325,747	$ 289,000

(1) Based on the closing price of a Class A share at the time of issuance.

Share Repurchase Plan

In February 2016, Apollo adopted a plan to repurchase up to $250 million in the aggregate of its Class A shares, including up to $150 million in the aggregate of its outstanding Class A shares through a share repurchase program and up to $100 million through net share settlement of equity-based awards granted under the 2007 Equity Plan. During the year ended December 31, 2016, the Company repurchased and canceled 1.0 million Class A shares for $12.9 million and, in connection with net share settlements, reduced Class A shares to be issued to employees under the 2007 Equity Plan by 2.7 million Class A shares resulting in a payment by the Company of $40.7 million to satisfy the applicable withholding obligation.

13. EQUITY-BASED COMPENSATION

RSUs

The Company grants RSUs under the 2007 Omnibus Equity Incentive Plan. These grants are accounted for as a grant of equity awards in accordance with U.S. GAAP. The fair value of all grants is based on the grant date fair value, which considers the public share price of the Company's Class A shares subject to certain discounts, as applicable. The following table summarizes the weighted average discounts for Plan Grants and Bonus Grants for the years ended December 31, 2016, 2015 and 2014.

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	For the Years Ended December 31,		
	2016	2015	2014
Plan Grants:			
Discount for the lack of distributions until vested[(1)]	14.0%	26.0%	32.5%
Marketability discount for transfer restrictions[(2)]	3.8%	4.2%	5.1%
Bonus Grants:			
Marketability discount for transfer restrictions[(2)]	2.1%	2.2%	3.2%

(1) Based on the present value of a growing annuity calculation.
(2) Based on the Finnerty Model calculation.

The estimated total grant date fair value is charged to compensation expense on a straight-line basis over the vesting period, which for Plan Grants is generally up to six years, with the first installment vesting one year after grant and quarterly vesting thereafter, and for Bonus Grants is generally annual vesting over three years. The fair value of grants made during the years ended December 31, 2016, 2015 and 2014 was $62.6 million, $70.6 million and $149.1 million, respectively.

The following table presents the forfeiture rate and equity-based compensation expense recognized for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
Actual forfeiture rate	8.8%	1.2%	6.7%
Equity-based compensation	$ 67,958	$ 65,661	$ 80,695

The following table summarizes RSU activity for the year ended December 31, 2016:

	Unvested	Weighted Average Grant Date Fair Value	Vested	Total Number of RSUs Outstanding
Balance at January 1, 2016	11,040,143	$ 16.40	6,294,053	17,334,196 (1)
Granted	3,406,655	18.37	—	3,406,655
Forfeited	(1,270,579)	19.74	—	(1,270,579)
Issued	—	16.43	(7,326,251)	(7,326,251)
Vested	(3,784,653)	18.54	3,784,653	—
Balance at December 31, 2016	9,391,566	$ 15.80	2,752,455	12,144,021 (1)

(1) Amount excludes RSUs which have vested and have been issued in the form of Class A shares.

Units Expected to Vest—As of December 31, 2016, approximately 9.0 million RSUs were expected to vest over the next 2.8 years.

Restricted Share Awards

The Company has granted restricted share awards under the 2007 Omnibus Equity Incentive Plan in connection with certain performance-based incentive plans and in connection with the 2015 Venator acquisition. These grants are accounted for as a grant of equity awards in accordance with U.S. GAAP. The fair value of all grants is based on the grant date fair value, which considers the public share price of the Company's Class A shares discounted primarily for transfer restrictions. The grant date fair value of these awards is recognized as equity based compensation expense on a straight-line basis over the vesting period of two to three years.

The following table presents the actual forfeiture rate and equity-based compensation expense recognized for the years ended December 31, 2016, 2015 and 2014:

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	For the Years Ended December 31,		
	2016	2015	2014(1)
Actual forfeiture rate	1.6%	—%	—%
Equity-based compensation	$ 3,478	$ 2,749	$ —

(1) There were no Restricted Share Awards granted in 2014.

The following table summarizes the restricted share award activity related to a performance-based incentive plan and the 2015 Venator acquisition for the year ended December 31, 2016:

	Unvested	Weighted Average Grant Date Fair Value	Vested	Total Number of Restricted Share Awards Outstanding
Balance at January 1, 2016	105,866	$ 21.53	—	105,866
Granted	27,151	17.53	—	27,151
Forfeited	(2,117)	19.81	—	(2,117)
Issued	—	21.42	(51,764)	(51,764)
Vested	(51,764)	21.42	51,764	—
Balance at December 31, 2016	79,136	$ 20.27	—	79,136

Units Expected to Vest—As of December 31, 2016, approximately 75,971 restricted share awards were expected to vest over the next 1.5 years.

Share Options

The Company has granted options under the 2007 Equity Plan. For the years ended December 31, 2016, 2015 and 2014, compensation expense of $0.1 million, $0.1 million and $28.2 million was recognized as a result of these grants, respectively.

There were no share options granted during the years ended December 31, 2016, 2015 and 2014. Apollo measures the fair value of each option award on the date of grant using the Black-Scholes option-pricing model. As of December 31, 2016, there were 222,920 options outstanding, 160,417 options exercisable and 60,000 options. Unamortized compensation cost related to unvested share options at December 31, 2016 was $0.2 million and is expected to be recognized over a weighted average period of 1.5 years.

There were no options exercised or forfeited during the year ended December 31, 2016. The intrinsic value of options exercised was $0.0 million $0.1 million, and $26.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

AAA RDUs

Incentive units that provide the right to receive AAA restricted depositary units (“RDUs”) following vesting have been granted to employees of the Company. The incentive units granted to employees generally vest over three years and vested AAA RDUs can be converted into ordinary common units of AAA subject to applicable securities law restrictions. For the years ended December 31, 2016, 2015 and 2014, compensation expense of $1.7 million, $0.7 million and $0.4 million was recognized, respectively, in connection with AAA RDU grants. All AAA incentive units were fully vested and settled in the form of RDUs as of December 31, 2016.

Restricted Stock and Restricted Stock Unit Awards—ARI and AMTG

ARI granted restricted stock awards and restricted stock unit awards ("ARI Awards") and Apollo Residential Mortgage, Inc. (“AMTG”) granted restricted stock unit awards (“AMTG RSUs”) to the Company and certain employees of the Company. These awards generally vest over three years, either quarterly or annually.

The awards granted to the Company are recorded as investments under the equity method of accounting and deferred revenue in the consolidated statements of financial condition. As these awards vest, the deferred revenue is recognized as management fees.

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The ARI Awards and AMTG RSUs granted to the Company's employees are recorded in other assets and other liabilities in the consolidated statements of financial condition. The grant date fair value of the asset is amortized through equity-based compensation on a straight-line basis over the vesting period. The fair value of the liability is remeasured each period with any changes in fair value recorded in compensation expense in the consolidated statements of operations. Compensation expense is offset by related management fees earned by the Company from ARI and AMTG, respectively.

The grant date fair value of the employees' awards is based on the then public share price of ARI and AMTG at grant, less discounts for transfer restrictions as well as timing of distributions.

On August 31, 2016, pursuant to the terms and conditions of the Agreement and Plan of Merger, dated February 26, 2016 by and among ARI, AMTG and Arrow Merger Sub, Inc., a wholly owned subsidiary of the Company ("Merger Sub"), Merger Sub was merged with and into AMTG (the "first merger"), with AMTG continuing as the surviving entity and as a subsidiary of the Company, and AMTG merged with and into ARI (the "second merger") with ARI continuing as the surviving entity in the second merger. At the effective time of the first merger, each share of common stock of AMTG issued and outstanding immediately prior to the First Merger was converted into the right to receive $6.86 in cash, without interest and 0.417571 shares of ARI's common stock, with limited exceptions.

The following table summarizes the management fees, equity-based compensation expense, and actual forfeiture rates for the ARI Awards for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
Management fees	$ 6,643	$ 3,334	$ 1,326
Equity-based compensation	6,643	3,081	1,329
Actual forfeiture rate	3.8%	1.3%	—%

The following table summarizes the management fees, compensation expense, and actual forfeiture rates for the AMTG RSUs for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
Management fees	$ 2,478	$ 1,171	$ 915
Equity-based compensation	2,478	1,171	828
Actual forfeiture rate	0.1%	2.5%	2.5%

The following tables summarize activity for the ARI Awards and AMTG RSUs that were granted to certain of the Company's employees for the year ended December 31, 2016:

	ARI Awards Unvested	Weighted Average Grant Date Fair Value	ARI Awards Vested	Total Number of ARI Awards Outstanding
Balance at January 1, 2016	893,810	$ 16.88	365,000	1,258,810
Granted	903,068	16.35	—	903,068
Forfeited	(68,698)	16.35	—	(68,698)
Delivered	(390,051)	17.23	—	(390,051)
Vested	(404,383)	16.38	404,383	—
Balance at December 31, 2016	933,746	$ 16.48	769,383	1,703,129

Units Expected to Vest—As of December 31, 2016, approximately 896,396 ARI Awards were expected to vest over the next 2.5 years.

	AMTG RSUs Unvested	Weighted Average Grant Date Fair Value	AMTG RSUs Vested	Total Number of AMTG RSUs Outstanding
Balance at January 1, 2016	90,591	$ 15.85	57,581	148,172
Granted	91,427	12.53	—	91,427
Forfeited	(207)	13.38	—	(207)
Delivered	—	13.65	(239,392)	(239,392)
Vested	(181,811)	12.91	181,811	—
Balance at December 31, 2016	—	$ —	—	—

Restricted Share Awards—Athene Holding

The Company has granted Athene Holding restricted share awards to certain employees of the Company. Separately, Athene Holding has also granted restricted share awards to certain employees of the Company. Both awards are collectively referred to as the "AHL Awards". Certain of the AHL Awards function similarly to options as they are exchangeable for Class A shares of Athene Holding upon payment of a conversion price and the satisfaction of certain other conditions. The awards granted are either subject to time-based vesting conditions that generally vest over three to five years or vest upon achieving certain metrics, such as attainment of certain rates of return and realized cash received by certain investors in Athene Holding upon sale of their shares.

The Company records the AHL Awards in other assets and other liabilities in the consolidated statements of financial condition. The fair value of the asset is amortized through equity-based compensation over the vesting period. The fair value of the liability is remeasured each period with any changes in fair value recorded in compensation expense in the consolidated statements of operations. For AHL Awards granted by Athene Holding, compensation expense related to amortization of the asset is offset by related management fees earned by the Company from Athene.

The grant date fair value of the AHL Awards is based on the share price of Athene Holding, less discounts for transfer restrictions. The AHL Awards that function similarly to options were valued using a multiple-scenario model, which considers the price volatility of the underlying stock price of Athene Holding, time to expiration and the risk-free rate, while the other awards were valued using the share price of Athene Holding less any discounts for transfer restrictions.

The following table summarizes the management fees, equity-based compensation expense and actual forfeiture rates for the AHL Awards for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
Management fees	$ 19,173	$ 23,697	$ 16,738
Equity-based compensation	20,560	24,180	16,738
Actual forfeiture rate	3.2%	—%	—%

The following table summarizes activity for the AHL Awards that were granted to certain employees of the Company for the year ended December 31, 2016:

	AHL Awards Unvested	Weighted Average Grant Date Fair Value	AHL Awards Vested	Total Number of AHL Awards Outstanding
Balance at January 1, 2016	1,515,878	$ 3.54	1,044,869	2,560,747
Granted	181,105	33.89	—	181,105
Vested	(981,617)	3.68	981,617	—
Forfeited	(54,478)	1.23	—	(54,478)
Delivered	—	4.75	(1,018,462)	(1,018,462)
Balance at December 31, 2016	660,888	$ 11.83	1,008,024	1,668,912

Certain of the AHL Awards were not convertible into Class A shares of Athene Holding until the completion of an initial public offering of Athene Holding.

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Units Expected to Vest—As of December 31, 2016, 423,990 AHL Awards are expected to vest over the next 2.5 years and 236,898 AHL Awards may vest if certain metrics are achieved.

Equity-Based Compensation Allocation

Equity-based compensation is allocated based on ownership interests. Therefore, the amortization of equity-based compensation is allocated to shareholders' equity attributable to Apollo Global Management, LLC and the Non-Controlling Interests, which results in a difference in the amounts charged to equity-based compensation expense and the amounts credited to shareholders' equity attributable to Apollo Global Management, LLC in the Company's consolidated financial statements.

Below is a reconciliation of the equity-based compensation allocated to Apollo Global Management, LLC for the years ended December 31, 2016, 2015 and 2014:

	For the Year Ended December 31, 2016			
	Total Amount	Non-Controlling Interest % in Apollo Operating Group	Allocated to Non-Controlling Interest in Apollo Operating Group[1]	Allocated to Apollo Global Management, LLC
RSUs, share options and restricted share awards	$ 71,562	—%	$ —	$ 71,562
AHL Awards	20,560	53.7	11,049	9,511
Other equity-based compensation awards	10,861	53.7	5,837	5,024
Total equity-based compensation	$ 102,983		16,886	86,097
Less other equity-based compensation awards[2]			(16,886)	(16,510)
Capital increase related to equity-based compensation			$ —	$ 69,587

	For the Year Ended December 31, 2015			
	Total Amount	Non-Controlling Interest % in Apollo Operating Group	Allocated to Non-Controlling Interest in Apollo Operating Group[1]	Allocated to Apollo Global Management, LLC
RSUs, share options and restricted share awards	$ 68,535	—%	$ —	$ 68,535
AHL Awards	24,180	54.4	13,158	11,022
Other equity-based compensation awards	4,961	54.4	2,699	2,262
Total equity-based compensation	$ 97,676		15,857	81,819
Less other equity-based compensation awards[2]			(15,857)	(13,860)
Capital increase related to equity-based compensation			$ —	$ 67,959

	For the Year Ended December 31, 2014			
	Total Amount	Non-Controlling Interest % in Apollo Operating Group	Allocated to Non-Controlling Interest in Apollo Operating Group[1]	Allocated to Apollo Global Management, LLC
RSUs, share options and restricted share awards	$ 107,017	—%	$ —	$ 107,017
AHL Awards	16,738	57.7	9,938	6,800
Other equity-based compensation awards	2,565	57.7	1,517	1,048
Total equity-based compensation	$ 126,320		11,455	114,865
Less other equity-based compensation awards[2]			(11,455)	(5,994)
Capital increase related to equity-based compensation			$ —	$ 108,871

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(1) Calculated based on average ownership percentage for the period considering Class A share issuances during the period.
(2) Includes equity-based compensation reimbursable by certain funds.

14. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED ENTITIES

Management fees, transaction and advisory fees and reimbursable expenses from the funds and portfolio companies that the Company manages are included in due from related parties in the consolidated statements of financial condition. The Company also typically facilitates the initial payment of certain operating costs incurred by the funds that it manages as well as their related parties. These costs are normally reimbursed by such funds and are included in due from related parties.

Due from related parties and due to related parties are comprised of the following:

	As of December 31, 2016	As of December 31, 2015
Due from Related Parties:		
Due from private equity funds	$ 19,089	$ 21,532
Due from portfolio companies	34,339	36,424
Due from credit funds	112,516	124,660
Due from Contributing Partners, employees and former employees	72,305	42,491
Due from real estate funds	16,604	22,728
Total Due from Related Parties	$ 254,853	$ 247,835
Due to Related Parties:		
Due to Managing Partners and Contributing Partners	$ 506,542	$ 506,162
Due to private equity funds	56,880	16,293
Due to credit funds	66,859	57,981
Due to real estate funds	281	580
Distributions payable to employees	7,564	13,520
Total Due to Related Parties	$ 638,126	$ 594,536

Tax Receivable Agreement and Other

Subject to certain restrictions, each of the Managing Partners and Contributing Partners has the right to exchange their vested AOG Units for the Company's Class A shares. Certain Apollo Operating Group entities have made an election under Section 754 of the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), which will result in an adjustment to the tax basis of the assets owned by the Apollo Operating Group at the time of the exchange. These exchanges will result in increases in tax deductions that will reduce the amount of tax that APO Corp. will otherwise be required to pay in the future.

The tax receivable agreement provides for the payment to the Managing Partners and Contributing Partners of 85% of the amount of cash savings, if any, in U.S. federal, state, local and foreign income taxes that APO Corp. would realize as a result of the increases in tax basis of assets that resulted from the 2007 Reorganization and exchanges of AOG Units for Class A shares. APO Corp. retains the benefit from the remaining 15% of actual cash tax savings. If the Company does not make the required annual payment on a timely basis as outlined in the tax receivable agreement, interest is accrued on the balance until the payment date. These payments are expected to occur approximately over the next 15 years.

As a result of the exchanges of AOG Units for Class A shares during the years ended December 31, 2016, 2015 and 2014, a $6.2 million, $45.4 million and $47.9 million liability was recorded, respectively, to estimate the amount of the future expected payments to be made by APO Corp. to the Managing Partners and Contributing Partners pursuant to the tax receivable agreement.

In April, 2015 and 2014, Apollo made cash payments pursuant to the tax receivable agreement resulting from the realized tax benefit for each preceding tax year. Included in the payments was interest paid to the Managing Partners and Contributing Partners. There were no such cash payments made in 2016. The table below presents the cash payments made during 2015 and 2014.

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Date	Cash Payment	Interest Paid to Managing Partners	Interest Paid to Contributing Partners
April, 2015	$ 48,420	$ 13,090	$ 555
April, 2014	32,032	8,272	469

During the years ended December 31, 2016 and 2014, the Company reduced the tax receivable agreement liability and recorded $3.2 million and $32.2 million, respectively, in other income, net in the consolidated statement of operations due to changes in estimated tax rates.

Distributions

In addition to other distributions such as payments pursuant to the tax receivable agreement, the table below presents information regarding the quarterly distributions which were made at the sole discretion of the manager of the Company during 2016, 2015 and 2014 (in millions, except per share data):

Distribution Declaration Date	Distribution per Class A Share	Distribution Payment Date	Distribution to Class A Shareholders	Distribution to Non-Controlling Interest Holders in the Apollo Operating Group	Total Distributions from Apollo Operating Group	Distribution Equivalents on Participating Securities
February 7, 2014	$ 1.08	February 26, 2014	$ 160.9	$ 247.3	$ 408.2	$ 25.5
April 3, 2014	—	April 3, 2014	—	49.5 (1)	49.5	—
May 8, 2014	0.84	May 30, 2014	130.0	188.4	318.4	20.9
June 16, 2014	—	June 16, 2014	—	28.5 (1)	28.5	—
August 6, 2014	0.46	August 29, 2014	73.6	102.5	176.1	10.2
September 11, 2014	—	September 11, 2014	—	12.4 (1)	12.4	—
October 30, 2014	0.73	November 21, 2014	119.0	162.6	281.6	15.5
December 15, 2014	—	December 15, 2014	—	25.2 (1)	25.2	—
For the year ended December 31, 2014	$ 3.11		$ 483.5	$ 816.4	$ 1,299.9	$ 72.1
February 5, 2015	$ 0.86	February 27, 2015	$ 144.4	$ 191.3	$ 335.7	$ 15.3
April 11, 2015	—	April 11, 2015	—	22.4 (1)	22.4	—
May 7, 2015	0.33	May 29, 2015	56.8	72.8	129.6	4.9
July 29, 2015	0.42	August 31, 2015	74.8	91.2	166.0	5.1
October 28, 2015	0.35	November 30, 2015	63.4	75.7	139.1	3.1
For the year ended December 31, 2015	$ 1.96		$ 339.4	$ 453.4	$ 792.8	$ 28.4
February 3, 2016	$ 0.28	February 29, 2016	$ 51.4	$ 60.5	$ 111.9	$ 2.1
May 6, 2016	0.25	May 31, 2016	46.0	54.0	100.0	1.8
August 3, 2016	0.37	August 31, 2016	68.4	79.9	148.3	2.4
October 28, 2016	0.35	November 30, 2016	64.9	75.4	140.3	2.1
For the year ended December 31, 2016	$ 1.25		$ 230.7	$ 269.8	$ 500.5	$ 8.4

(1) On April 3, 2014, June 16, 2014, September 11, 2014, December 15, 2014 and April 11, 2015, the Company made a $0.22, $0.13, $0.06, $0.11 and $0.10 distribution per AOG Unit to the Non-Controlling Interest holders in the Apollo Operating Group.

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Due from Contributing Partners, Employees and Former Employees

As of December 31, 2016 and December 31, 2015, due from Contributing Partners, Employees and Former Employees includes various amounts due to the Company including employee loans and return of profit sharing distributions. As of December 31, 2016 and December 31, 2015, the balance included interest-bearing employee loans receivable of $26.1 million and $25.0 million, respectively. The outstanding principal amount of the loans as well as all accrued and unpaid interest is required to be repaid at the earlier of the eighth anniversary of the date of the relevant loan or at the date of the relevant employee's resignation from the Company.

The Company recorded a receivable from the Contributing Partners and certain employees and former employees for the potential return of profit sharing distributions that would be due if certain funds were liquidated as of December 31, 2016 and December 31, 2015 of $39.3 million and $14.7 million, respectively.

Indemnity

Carried interest income from certain funds that the Company manages can be distributed to the Company on a current basis, but is subject to repayment by the subsidiary of the Apollo Operating Group that acts as general partner of the fund in the event that certain specified return thresholds are not ultimately achieved. The Managing Partners, Contributing Partners and certain other investment professionals have personally guaranteed, subject to certain limitations, the obligation of these subsidiaries in respect of this general partner obligation. Such guarantees are several and not joint and are limited to a particular Managing Partner's or Contributing Partner's distributions. Pursuant to an existing shareholders agreement includes clauses that the Company has agreed to indemnify each of the Company's Managing Partners and certain Contributing Partners against all amounts that they pay pursuant to any of these personal guarantees in favor of certain funds that the Company manages (including costs and expenses related to investigating the basis for or objecting to any claims made in respect of the guarantees) for all interests that the Company's Managing Partners and Contributing Partners have contributed or sold to the Apollo Operating Group.

Accordingly, in the event that the Company's Managing Partners, Contributing Partners and certain investment professionals are required to pay amounts in connection with a general partner obligation for the return of previously made distributions, the Company will be obligated to reimburse the Company's Managing Partners and certain Contributing Partners for the indemnifiable percentage of amounts that they are required to pay even though the Company did not receive the certain distribution to which that general partner obligation related. The Company recorded an indemnification liability of $5.9 million and $4.6 million, respectively, as of December 31, 2016 and December 31, 2015.

Due to Private Equity Funds

Based upon a hypothetical liquidation of certain funds as of December 31, 2016, the Company has recorded a general partner obligation to return previously distributed carried interest income, which represents amounts due to these funds. As such, there was a general partner obligation to return previously distributed carried interest income of $56.0 million accrued as of December 31, 2016. As of December 31, 2015, the Company accrued a general partner obligation to return previously distributed carried interest income of $14.2 million. The actual determination and any required payment of a general partner obligation would not take place until the final disposition of the fund's investments based on contractual termination of the fund or as otherwise set forth in the respective limited partnership agreement of the fund.

Due to Credit Funds

Based upon a hypothetical liquidation of certain of our credit funds, as of December 31, 2016 and December 31, 2015, the Company has recorded a general partner obligation to return previously distributed carried interest income, which represents amounts due to these funds. As such, there was a general partner obligation to return previously distributed carried interest income of $60.6 million accrued as of December 31, 2016. As of December 31, 2015, the Company accrued a general partner obligation to return previously distributed carried interest income of $57.8 million. The actual determination and any required payment of a general partner obligation would not take place until the final disposition of the fund's investments based on contractual termination of the fund or as otherwise set forth in the respective limited partnership agreement or other governing document of the fund.

Athene

Athene Holding was founded in 2009 to capitalize on favorable market conditions in the dislocated life insurance sector. Athene Holding, through its subsidiaries, is a leading retirement services company that issues, reinsures and acquires retirement savings products designed for the increasing number of individuals and institutions seeking to fund retirement needs.

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The products and services offered by Athene include: fixed and fixed indexed annuity products; reinsurance services offered to third-party annuity providers; and institutional products, such as funding agreements. Athene Holding became an effective registrant on December 9, 2016 under the U.S. Securities Exchange Act of 1934, as amended, and trades on the New York Stock Exchange (NYSE) under the symbol "ATH".

The Company, through its consolidated subsidiary, Athene Asset Management, provides asset management services to Athene, including asset allocation services, direct asset management services, asset and liability matching management, mergers and acquisitions, asset diligence hedging and other asset management services, and receives a gross management fee of 0.40% per annum on all assets under management in accounts owned by or related to Athene (the "Athene Accounts") with certain limited exceptions. Another subsidiary of the Company, AAME, provides investment advisory services to Athene and receives a gross fee of 0.10% per annum on the assets with respect to which it advises.

Under a transaction advisory services agreement with Athene (the "Athene Services Agreement"), effective February 5, 2013 through December 31, 2014, Apollo earned a quarterly monitoring fee of 0.50% of Athene's capital and surplus as of the end of the applicable quarter multiplied by 2.5, excluding the shares of Athene Holding that were newly acquired (and not in satisfaction of prior commitments to buy such shares) by AAA Investments in the contribution of certain assets by AAA to Athene in October 2012 (the "Excluded Athene Shares"). The Athene Services Agreement was amended in connection with the Athene Private Placement described below (the "Amended Athene Services Agreement"). The Amended Athene Services Agreement adjusted the calculation of Athene Holding's capital and surplus downward by an amount equal to (x) the equity capital raised in the Athene Private Placement and (y) certain disproportionate increases to the statutory capital and surplus of Athene, as compared to the stockholders' equity of Athene calculated on a U.S. GAAP basis, as a result of certain future acquisitions by Athene. Prior to the consummation of the Athene Private Placement, all such monitoring fees were paid pursuant to the Athene Services Derivative. In connection with the Athene Private Placement, the Athene Services Derivative was settled on April 29, 2014 by delivery to Apollo of common shares of Athene Holding, and as a result, such derivative was terminated. Following settlement of the Athene Services Derivative, future monitoring fees paid to Apollo pursuant to the Amended Athene Services Agreement, were paid on a quarterly basis in arrears by delivery to Apollo of common shares of Athene Holding. Unsettled monitoring fees pursuant to the Amended Athene Services Agreement are recorded as due from affiliates in the consolidated statements of financial condition. For the year ended December 31, 2014, Apollo earned $226.4 million related to this monitoring fee. The monitoring fee is recorded in advisory and transaction fees from affiliates, net, in the consolidated statements of operations.

In accordance with the services agreement among AAA, AAA Investments and the other service recipients party thereto and Apollo (the "AAA Services Agreement"), Apollo receives a management fee for managing the assets of AAA Investments. In connection with each of the contribution of certain assets by AAA to Athene in October 2012, and the initial closing of the Athene Private Placement on April 4, 2014, the AAA Services Agreement was amended (the "Amended AAA Services Agreement"). Pursuant to the Amended AAA Services Agreement, the parties agreed that there will be no management fees payable by AAA Investments with respect to the Excluded Athene Shares. AAA Investments agreed to continue to pay Apollo the same management fee on its investment in Athene Holding (other than with respect to the Excluded Athene Shares), except that Apollo agreed that the obligation to pay the existing management fee terminated on December 31, 2014 (although services will continue through December 31, 2020). Prior to the consummation of the Athene Private Placement, all such management fees were accrued pursuant to the AAA Services Derivative. In connection with the Athene Private Placement, the AAA Services Derivative was settled on April 29, 2014 by delivery to Apollo of common shares of Athene Holding, and as a result, such derivative was terminated. Following settlement of the AAA Services Derivative, future management fees paid to Apollo pursuant to the Amended AAA Services Agreement were paid on a quarterly basis in arrears by delivery to Apollo of common shares of Athene Holding. There were no management fees receivable as of December 31, 2016 and December 31, 2015 as AAA Investments' obligation to pay the existing management fee terminated on December 31, 2014. The total management fees earned by Apollo related to the Amended AAA Services Agreement were $3.4 million, $3.4 million and $1.9 million for the years ended December 31, 2016, 2015 and 2014, respectively. These management fees are recorded in management fees from affiliates in the consolidated statements of operations.

The Company provides sub-advisory services with respect to a portion of the assets in the Athene Accounts. In addition, from time to time, Athene also invests in funds and investment vehicles that Apollo manages. The Company broadly refers to "Athene Sub-Advised" assets under management as those assets in the Athene Accounts which the Company explicitly sub-advises as well as those assets in the Athene Accounts which are invested directly in funds and investment vehicles Apollo manages ("Athene Assets Directly Invested").

With respect to assets in the Athene Accounts which the Company explicitly sub-advises, the Company earns up to 0.40% per annum on assets up to $10 billion and 0.35% per annum on all such assets in excess of $10 billion, with certain limited

exceptions. These fees are in addition to the gross management fee of 0.40% per annum paid to Athene Asset Management on the portion of such assets that it manages and the gross fee of 0.10% per annum paid to AAME on the portion of such assets that it advises. A majority of the assets in the Athene Accounts which the Company explicitly sub-advises are in accounts that invest in high-grade credit asset classes, such as CLO debt, commercial mortgage backed securities and insurance-linked securities.

With respect to Athene Assets Directly Invested, Apollo receives management fees and carried interest, if applicable, directly from the relevant funds under the investment management agreements and other governing documents of such funds. Fees paid to the Company related to such fund investments vary from 0% per annum to 1.75% per annum with respect to management fees and 0% to 20% with respect to carried interest. These fees are in addition to the gross management fee of 0.40% per annum paid to Athene Asset Management on the portion of such assets that it manages and the gross fee of 0.10% per annum paid to AAME on the portion of such assets it advises.

The Company refers to the portion of the Athene Asset Management assets under management that is not Athene Sub-Advised as "Athene Non-Sub-Advised". Athene Asset Management and other Apollo subsidiaries incur all expenses associated with their provision of services to Athene.

Apollo, as general partner of AAA Investments, is generally entitled to a carried interest that allocates to it 20% of the realized returns (net of related expenses, including borrowing costs) on the investments of AAA Investments, except that Apollo is not entitled to receive any carried interest with respect to the shares of Athene Holding that were acquired (and not in satisfaction of prior commitments to buy such shares) by AAA Investments in the contribution of certain assets by AAA to Athene in October 2012. Apollo may elect to receive payment of carried interest receivable from AAA Investments in cash or in common shares of Athene Holding (valued at the then fair market value); and if Apollo elects to receive payment of such carried interest in cash, then common shares of Athene Holding shall be distributed to Apollo and immediately sold by Apollo to pay for such carried interest in cash. For the years ended December 31, 2016, 2015 and 2014, the Company recorded carried interest income, taking into account the related profit sharing expense, of $47.8 million, $36.1 million and $14.6 million, respectively, from AAA Investments, which is recorded in the consolidated statements of operations. As of December 31, 2016 and December 31, 2015, the Company had a $229.8 million and $185.5 million carried interest receivable, respectively, related to AAA Investments. As of December 31, 2016 and December 31, 2015, the Company had a related profit sharing payable of $80.6 million and $62.8 million, respectively, recorded in profit sharing payable in the consolidated statements of financial condition.

For the years ended December 31, 2016, 2015 and 2014, Apollo earned revenues in the aggregate totaling $547.0 million, $526.5 million and $546.5 million, respectively, consisting of management fees, sub-advisory, monitoring fees and carried interest income from Athene after considering the related profit sharing expense and changes in the market value of the Athene Holding shares owned directly by Apollo, which is recorded in the consolidated statements of operations. These amounts exclude the deferred revenue recognized as management fees associated with the vesting of AHL Awards granted to employees of Athene Asset Management as further described in note 13.

The Company had an approximate 8.9% economic ownership interest in Athene Holding as of December 31, 2016, which comprises Apollo's direct 8.0% economic ownership interest in Athene Holding plus an additional 0.9% economic ownership interest, which is calculated as the sum of the Company's approximate 2.2% economic ownership interest in AAA and the Company's approximate 0.06% economic ownership interest in AAA Investments, multiplied by AAA Investments' approximate 39.4% economic ownership interest in Athene, calculated without giving effect to restricted common shares issued under Athene's management equity plan as of December 31, 2016.

The Company had an approximate 9.2% economic ownership interest in Athene Holding as of December 31, 2015, which comprises Apollo's direct ownership of 8.0% of the economic equity of Athene Holding plus an additional 1.2% economic ownership interest, which is calculated as the sum of the Company's approximate 2.4% economic ownership interest in AAA and the Company's approximate 0.06% economic ownership interest in AAA Investments, multiplied by AAA Investments' approximate 46.3% economic ownership interest in Athene, calculated without giving effect to restricted common shares issued under Athene's management equity plan as of December 31, 2015.

AAA Investments Credit Agreement

On April 30, 2015, Apollo entered into a revolving credit agreement with AAA Investments ("AAA Investments Credit Agreement"). Under the terms of the AAA Investments Credit Agreement, the Company shall make available to AAA Investments one or more advances at the discretion of AAA Investments in the aggregate amount not to exceed a balance of $10.0 million at an applicable rate of LIBOR plus 1.5%. The Company receives an annual commitment fee of 0.125% on the unused portion of

the loan. As of December 31, 2016, $4.0 million had been advanced by the Company and remained outstanding on the AAA Investments Credit Agreement.

Regulated Entities

Apollo Global Securities, LLC ("AGS") is a registered broker dealer with the SEC and is a member of the Financial Industry Regulatory Authority, subject to the minimum net capital requirements of the SEC. AGS was in compliance with these requirements at December 31, 2016. From time to time, this entity is involved in transactions with related parties of Apollo, including portfolio companies of the funds Apollo manages, whereby AGS earns underwriting and transaction fees for its services.

Interests in Consolidated Entities

The table below presents equity interests in Apollo's consolidated, but not wholly-owned, subsidiaries and funds. Net income and comprehensive income attributable to Non-Controlling Interests consisted of the following:

	For the Years Ended December 31,		
	2016	2015	2014
AAA[(1)]	$ —	$ —	$ (196,964)
Interest in management companies and a co-investment vehicle[(2)]	(7,403)	(10,543)	(13,186)
Other consolidated entities	1,614	(10,821)	(17,590)
Net income attributable to Non-Controlling Interests in consolidated entities	(5,789)	(21,364)	(227,740)
Net income attributable to Appropriated Partners' Capital[(3)]	—	—	70,729
Net income attributable to Non-Controlling Interests in the Apollo Operating Group	(561,668)	(194,634)	(404,682)
Net Income attributable to Non-Controlling Interests	$ (567,457)	$ (215,998)	$ (561,693)
Net income attributable to Appropriated Partners' Capital[(4)]	—	—	(70,729)
Other comprehensive loss attributable to Non-Controlling Interests	2,587	7,020	591
Comprehensive Income Attributable to Non-Controlling Interests	$ (564,870)	$ (208,978)	$ (631,831)

(1) Reflects the Non-Controlling Interests in the net (income) loss of AAA and is calculated based on the Non-Controlling Interests ownership percentage in AAA as of December 31, 2014, which was approximately 97.5%. As of December 31, 2014, Apollo owned approximately 2.5% of AAA. AAA was deconsolidated effective January 1, 2015 as a result of the Company's adoption of new accounting guidance, as described in note 2.

(2) Reflects the remaining interest held by certain individuals who receive an allocation of income from certain of our credit funds.

(3) Reflects net income of the consolidated CLOs classified as VIEs.

(4) Appropriated Partners' Capital is included in total Apollo Global Management, LLC shareholders' equity and is therefore not a component of comprehensive income attributable to Non-Controlling Interests on the consolidated statements of comprehensive income.

15. COMMITMENTS AND CONTINGENCIES

Investment Commitments—As a limited partner, general partner and manager of the Apollo funds, Apollo had unfunded capital commitments as of December 31, 2016 and December 31, 2015 of $607.9 million and $566.3 million, respectively.

Debt Covenants—Apollo's debt obligations contain various customary loan covenants. As of December 31, 2016, the Company was not aware of any instances of non-compliance with the financial covenants contained in the documents governing the Company's debt obligations.

Litigation and Contingencies—Apollo is, from time to time, party to various legal actions arising in the ordinary course of business including claims and lawsuits, reviews, investigations or proceedings by governmental and self regulatory agencies regarding its business.

Various state attorneys general and federal and state agencies have initiated industry-wide investigations into the use of placement agents in connection with the solicitation of investments, particularly with respect to investments by public pension funds. Certain affiliates of Apollo have received subpoenas and other requests for information from various government regulatory agencies and investors in Apollo's funds, seeking information regarding the use of placement agents. California Public Employees' Retirement System ("CalPERS"), one of Apollo's Strategic Investors, announced on October 14, 2009, that it had initiated a special

review of placement agents and related issues. The report of the CalPERS' Special Review was issued on March 14, 2011. That report does not allege any wrongdoing on the part of Apollo or its affiliates. Apollo is continuing to cooperate with all such investigations and other reviews. In addition, on May 6, 2010, the California Attorney General filed a civil complaint against Alfred Villalobos and his company, Arvco Capital Research, LLC ("Arvco") (a placement agent that Apollo has used) and Federico Buenrostro Jr., the former CEO of CalPERS, alleging conduct in violation of certain California laws in connection with CalPERS's purchase of securities in various funds managed by Apollo and another asset manager. Apollo is not a party to the civil lawsuit and the lawsuit does not allege any misconduct on the part of Apollo. Likewise, on April 23, 2012, the SEC filed a lawsuit alleging securities fraud on the part of Arvco, as well as Messrs. Buenrostro and Villalobos, in connection with their activities concerning certain CalPERS investments in funds managed by Apollo. This lawsuit also does not allege wrongdoing on the part of Apollo, and alleges that Apollo was defrauded by Arvco, Villalobos, and Buenrostro. On March 14, 2013, the United States Department of Justice unsealed an indictment against Messrs. Villalobos and Buenrostro alleging, among other crimes, fraud in connection with those same activities; again, Apollo is not accused of any wrongdoing and in fact is alleged to have been defrauded by the defendants. The criminal action was set for trial in a San Francisco federal court in July 2014, but was put on hold after Mr. Buenrostro pleaded guilty on July 11, 2014. As part of Mr. Buenrostro's plea agreement, he admitted to taking cash and other bribes from Mr. Villalobos in exchange for several improprieties, including attempting to influence CalPERS' investing decisions and improperly preparing disclosure letters to satisfy Apollo's requirements. There is no suggestion that Apollo was aware that Mr. Buenrostro had signed the letters with a corrupt motive. The government has indicated that they will file new charges against Mr. Villalobos incorporating Mr. Buenrostro's admissions. On August 7, 2014, the government filed a superseding indictment against Mr. Villalobos asserting additional charges. Trial had been scheduled for February 23, 2015, but Mr. Villalobos passed away on January 13, 2015. Additionally, on April 15, 2013, Mr. Villalobos, Arvco and related entities (the "Arvco Debtors") brought a civil action in the United States Bankruptcy Court for the District of Nevada (the "Bankruptcy Court") against Apollo. The action is related to the ongoing bankruptcy proceedings of the Arvco Debtors. This action alleges that Arvco served as a placement agent for Apollo in connection with several funds associated with Apollo, and seeks to recover purported fees the Arvco Debtors claim Apollo has not paid them for a portion of Arvco's placement agent services. In addition, the Arvco Debtors allege that Apollo has interfered with the Arvco Debtors' commercial relationships with third parties, purportedly causing the Arvco Debtors to lose business and to incur fees and expenses in the defense of various investigations and litigations. The Arvco Debtors also seek compensation from Apollo for these alleged lost profits and fees and expenses. The Arvco Debtors' complaint asserts various theories of recovery under the Bankruptcy Code and common law. Apollo denies the merit of all of the Arvco Debtors' claims and will vigorously contest them. The Bankruptcy Court had stayed this action pending the result in the criminal case against Mr. Villalobos but lifted the stay on May 1, 2015; in light of Mr. Villalobos's death, the criminal case was dismissed. On August 25, 2016, Christina Lovato, in her capacity as the Chapter 7 Trustee for the Arvco Debtors, filed an amended complaint. No estimate of possible loss, if any, can be made at this time.

On June 18, 2014, BOKF N.A. (the "First Lien Trustee"), the successor indenture trustee under the indenture governing the First Lien Notes issued by Momentive Performance Materials, Inc. ("Momentive"), commenced a lawsuit in the Supreme Court for the State of New York, New York County against AGM and members of an ad hoc group of Second Lien Noteholders (including, but not limited to, Euro VI (BC) S.a.r.l.). The First Lien Trustee amended its complaint on July 2, 2014 (the "First Lien Intercreditor Action"). In the First Lien Intercreditor Action, the First Lien Trustee seeks, among other things, a declaration that the defendants violated an intercreditor agreement entered into between holders of the First Lien Notes and holders of the second lien notes. On July 16, 2014, the successor indenture trustee under the indenture governing the 1.5 Lien Notes (the "1.5 Lien Trustee," and, together with the First Lien Trustee, the "Indenture Trustees") filed an action in the Supreme Court of the State of New York, New York County that is substantially similar to the First Lien Intercreditor Action (the "1.5 Lien Intercreditor Action," and, together with the First Lien Intercreditor Action, the "Intercreditor Actions"). AGM subsequently removed the Intercreditor Actions to federal district court, and the Intercreditor Actions were automatically referred to the Bankruptcy Court adjudicating the Momentive chapter 11 bankruptcy cases. The Indenture Trustees then filed motions with the Bankruptcy Court to remand the Intercreditor Actions back to the state court (the "Remand Motions"). On September 9, 2014, the Bankruptcy Court denied the Remand Motions. On August 15, 2014, the defendants in the Intercreditor Actions (including AGM) filed a motion to dismiss the 1.5 Lien Intercreditor Action and a motion for judgment on the pleadings in the First Lien Intercreditor Action (the "Dismissal Motions"). On September 30, 2014, the Bankruptcy Court granted the Dismissal Motions. In its order granting the Dismissal Motions, the Bankruptcy Court gave the Indenture Trustees until mid-November 2014 to move to amend some, but not all, of the claims alleged in their respective complaints. On November 14, 2014, the Indenture Trustees moved to amend their respective complaints pursuant to the Bankruptcy Court's order (the "Motions to Amend"). On January 9, 2015, the defendants filed their oppositions to the Motions to Amend. On January 16, 2015, the Bankruptcy Court denied the Motions to Amend (the "Dismissal Order"), but gave the Indenture Trustees until March 2, 2015 to seek to amend their respective complaints. On March 2, 2015, the First Lien Trustee filed a motion seeking to amend its complaint. On April 10, 2015, the defendants, including AGM and Euro VI (BC) S.a.r.l., filed an opposition to the First Lien Trustee's motion to amend. Instead of moving again to amend its complaint,

the 1.5 Lien Trustee chose to appeal the Dismissal Order (the "1.5 Lien Appeal"). On March 30, 2015, the 1.5 Lien Trustee filed its Statement of Issues and Designation of Record on Appeal. On March 31, 2015, because the legal issues presented in the 1.5 Lien Appeal are substantially similar to those presented in the First Lien Intercreditor Action, the parties in the 1.5 Lien Appeal submitted a joint stipulation and proposed order to the District Court staying the briefing schedule on the 1.5 Lien Appeal pending the outcome of the First Lien Trustee's most recent motion to amend. On April 13, 2015, the Defendants filed their Counter-Designation of the Record on Appeal in the 1.5 Lien Appeal. On May 8, 2015, the Bankruptcy Court denied the motion to amend filed on March 2, 2015 by the First Lien Trustee. On May 27, 2015, the First Lien Trustee filed a notice of appeal from the orders of the Bankruptcy Court dismissing the First Lien Intercreditor Action and denying the First Lien Trustee's motions to amend (the "First Lien Appeal"). On June 2, 2015, the First Lien Trustee filed its Statement of Issues and Designation of Record on Appeal. On June 24, 2015, the defendants filed their Counter-Designation of the Record on Appeal in the First Lien Appeal. On July 31, 2015, the 1.5 Lien Trustee sent a letter to the federal district court hearing the 1.5 Lien Appeal asking the court to consolidate the 1.5 Lien Appeal with the First Lien Appeal which had been assigned to a different judge (the "Consolidation Request"). On April 8, 2016, the court granted the Consolidation Request. On May 20, 2016, the Indenture Trustees filed their opening appellate brief. The Appellees filed their response brief on July 14, 2016, and the Indenture Trustees filed their reply brief on August 5, 2016. The court has not yet set a date for oral argument. Apollo is unable at this time to assess a potential risk of loss. In addition, Apollo does not believe that AGM is a proper defendant in these actions.

There are several pending actions concerning transactions related to Caesars Entertainment Corporation ("Caesars Entertainment"), Caesars Entertainment Operating Company, Inc. ("CEOC") and certain of their respective subsidiaries.

A. In re: Caesars Entertainment Operating Company, Inc. bankruptcy proceedings, No. 15-01145 (N.D. Ill. Bankr.) (the "Illinois Bankruptcy Action"). On January 17, 2017, an order was entered in the Illinois Bankruptcy Action confirming a plan of reorganization for CEOC and its debtor subsidiaries (the "Plan") which, inter alia, grants broad releases to Apollo (as defined below) and others. The Plan is likely to become effective in the third quarter of 2017 after the conditions to its effectiveness have been satisfied. On the effective date of the Plan (the "Plan Effective Date"), the Apollo Released Parties (as defined below) will be released from the claims in the WSFS Action, the UMB Action, the Trilogy Action, the Danner Action, the BOKF Action, the UMB SDNY Action, the Wilmington Trust Action and the CEOC Action (each as defined below).

- Background: On January 12, 2015, three holders of CEOC second lien notes filed an involuntary bankruptcy petition against CEOC in the United States Bankruptcy Court for the District of Delaware (the "Delaware Bankruptcy Action"). On January 15, 2015, CEOC and certain of its affiliates (collectively the "Debtors") filed the Illinois Bankruptcy Action under Chapter 11 in the Northern District of Illinois. On February 2, 2015, the court in the Delaware Bankruptcy Action ordered that all bankruptcy proceedings relating to the Debtors should take place in the Illinois Bankruptcy Action. The Illinois Bankruptcy Court held an evidentiary hearing to determine whether the Debtors' petition date was January 12, 2015 or January 15, 2015; this motion has not yet been ruled on by the Illinois Bankruptcy Court, and pursuant to the Plan this motion will be dismissed as moot. Certain of the Debtors' creditors indicated in filings with the Illinois Bankruptcy Court that an investigation into certain acts and transactions that predated the Debtors' bankruptcy filing could lead to claims against a number of parties, including AGM and certain of its affiliates. No such claims were brought by the Debtors' prepetition creditors against Apollo in the Illinois Bankruptcy Action. On May 13, 2016, the Official Committee of Second Priority Noteholders (the "Second Lien Noteholders Committee") filed a motion seeking an Order granting it standing to commence, prosecute and settle claims on behalf of the Debtors' estates (the "Standing Motion"). The proposed complaint filed with the Standing Motion names Apollo and many others as defendants (see also "H" below). On or about September 27, 2016, Caesars Entertainment and the Debtors announced that they had received confirmations from representatives of the Debtors' major creditor groups of those groups' support for a term sheet that describes the key economic terms of a proposed consensual chapter 11 plan for the Debtors. On October 4, 2016, the Debtors filed the Third Amended Joint Plan of Reorganization which subsequently was amended and became the Plan. As part of the Plan, and in connection with the merger between Caesars Entertainment and Caesars Acquisition Company ("CAC"), funds managed by Apollo will not retain any of their equity interests in the merged Caesars Entertainment on account of their pre-merger Caesars Entertainment shares. Such equity interests would, instead, be for the benefit of CEOC's creditors. Funds managed by Apollo will, however, retain their equity interests in the merged Caesars Entertainment on account of their CAC shares. The voting deadline on the Plan was November 21, 2016, and approximately 90% in dollar amount of the Debtors' creditors voted in favor of the Plan. On October 17, 2016, the Bankruptcy Court granted the Debtors' requested injunction of the WSFS, Trilogy, Danner, UMB, Wilmington Trust and BOKF Actions (defined below "B", "C", "D", "F" and "G") (the "105 Injunction") through the first omnibus hearing after Plan confirmation, and by order

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dated January 26, 2017 the 105 Injunction was extended to, inter alia, the Plan Effective Date. At the confirmation hearing, no creditor presented any objection to the Plan. As noted above, the Plan was confirmed by the Illinois Bankruptcy Court and will become effective after the conditions to its effectiveness have been satisfied. The Plan provides several parties, including, Apollo and certain of its affiliates (collectively referred to as the "Apollo Released Parties") with a release of claims that the Debtors and the Debtors' creditors have or may have against any or all of the Apollo Released Parties, including those described below in the WSFS Action, the Trilogy Action, the Danner Action, the UMB Action, the BOKF Action, the Wilmington Trust Action and the CEOC Action.

B. Wilmington Savings Fund Society, FSB v. Caesars Entertainment Corp. et al., No. 10004-CVG (Del. Ch.) (the "WSFS Action"). On August 4, 2014, Wilmington Savings Fund Society, FSB ("WSFS"), as trustee for certain CEOC second-lien notes, sued Caesars Entertainment, CEOC, other Caesars Entertainment-affiliated entities, and certain of Caesars Entertainment's directors, including Marc Rowan, Eric Press, David Sambur (each an Apollo Partner) and Jeffrey Benjamin (a consultant to Apollo), in Delaware's Court of Chancery (the "Delaware Court"). WSFS (i) asserts claims (against some or all of the defendants) for fraudulent conveyance, breach of fiduciary duty, breach of contract, corporate waste, and aiding and abetting related to certain transactions among CEOC and certain of its subsidiaries and Caesars Entertainment and certain of its affiliates, and (ii) requests (among other things) that the Delaware Court unwind the challenged transactions and award damages. WSFS served a subpoena for documents on Apollo on September 11, 2014, but Apollo's response was stayed during the pendency of motions to dismiss under a September 23, 2014 stipulated order. On March 18, 2015, the Delaware Court denied Defendants' motion to dismiss. Apollo served responses and objections to WSFS' subpoena on March 25, 2015. Caesars Entertainment answered the complaint on April 1, 2015. During the pendency of CEOC's bankruptcy proceedings, the WSFS Action has been automatically stayed with respect to CEOC. WSFS additionally advised the Illinois Bankruptcy Court that, during CEOC's bankruptcy proceedings, WSFS would only pursue claims in the WSFS Action relating to whether Caesars Entertainment remains liable on a guarantee of certain of CEOC's second priority notes. On July 17, 2015, WSFS served supplemental subpoenas to several entities affiliated with AGM, and AGM and these entities have substantially completed their production of non-privileged documents responsive to those subpoenas. On March 11, 2016, WSFS filed a motion for partial summary judgment (the "Summary Judgment Motion") on its breach of contract claim against Caesars Entertainment. On April 25, 2016, Caesars Entertainment filed a joint Cross-Motion for Partial Summary Judgment and answering brief in opposition to WSFS' Summary Judgment Motion (the "Cross-Motion"). WSFS filed its joint reply and opposition to Caesars Entertainment's Cross-Motion on May 25, 2016, and Caesars Entertainment filed a reply to WSFS' opposition on June 9, 2016. On June 15, 2016, the Illinois Bankruptcy Court issued a temporary restraining order and preliminary injunction pursuant to Section 105(a) of the Bankruptcy Code enjoining the plaintiffs in the WSFS Action from prosecuting actions against Caesars Entertainment until August 29, 2016. On October 17, 2016, the Illinois Bankruptcy Court granted the 105 Injunction staying the WSFS Action initially through the first omnibus hearing after Plan confirmation, and now through, inter alia, the Plan Effective Date. Pursuant to the Plan, the Apollo Released Parties will be released from all claims relating to the WSFS Action. As aforementioned, the Plan was confirmed by an order dated January 17, 2017.

C. Trilogy Portfolio Company, L.L.C., et al. v. Caesars Entertainment Corp., et al., No. 14-cv-7091 (S.D.N.Y.) (the "Trilogy Action"). On September 3, 2014, institutional investors allegedly holding approximately $137 million in CEOC unsecured senior notes sued CEOC and Caesars Entertainment in federal court in New York (the "New York Court") for breach of contract and the implied covenant of good faith, Trust Indenture Act ("TIA") violations, and a declaratory judgment challenging the August 2014 private financing transaction in which a portion of outstanding senior unsecured notes were purchased by Caesars Entertainment, and a majority of the noteholders agreed to amend the indenture to terminate Caesars Entertainment's guarantee of the notes and modify certain restrictions on CEOC's ability to sell assets. Caesars Entertainment and CEOC filed a motion to dismiss on November 12, 2014. On January 15, 2015, the New York Court granted the motion with respect to a TIA claim by Trilogy but otherwise denied the motion. On January 30, 2015, plaintiffs filed an amended complaint seeking relief against Caesars Entertainment only, and Caesars Entertainment answered on February 12, 2015. On October 2, 2014, a related putative class action complaint was filed on behalf of the holders of these notes captioned Danner v. Caesars Entertainment Corp., et al., No. 14-cv-7973 (S.D.N.Y.) (the "Danner Action"), against Caesars Entertainment alleging claims similar to those in the Trilogy Action. On February 19, 2015, plaintiffs filed an amended complaint, and Caesars Entertainment answered the amended complaint on February 25, 2015. In March 2015, each of Trilogy and Danner served subpoenas for documents on Apollo. Apollo produced responsive, non-privileged documents in response to those subpoenas. In July 2015, Trilogy and Danner served subpoenas for depositions on Apollo and those depositions were completed on September 22, 2015. On October 23, 2015, Trilogy and Danner filed motions

for partial summary judgment, related to TIA and breach of contract claims. On December 29, 2015, the New York Court denied the motions for partial summary judgment. On March 23, 2016, the judge presiding over the Trilogy and Danner Actions announced that she was retiring from the bench effective April 28, 2016. A new judge was assigned to preside over the Trilogy and Danner Actions (in addition to the BOKF, UMB SDNY and Wilmington Trust Actions, defined below). On April 6, 2016, the parties agreed to a renewed summary judgment schedule for the Trilogy, Danner, BOKF, UMB SDNY (as defined below) and Wilmington Trust Actions. The moving parties submitted their briefs to the New York Court on May 10, 2016. Opposition briefs were filed on May 31, 2016. Reply briefs were filed on June 14, 2016. On June 15, 2016, the Illinois Bankruptcy Court issued a temporary restraining order and preliminary injunction pursuant to Section 105(a) of the Bankruptcy Code, enjoining the plaintiffs in the Trilogy and Danner Actions from prosecuting actions against Caesars Entertainment until August 29, 2016. On October 17, 2016, the Illinois Bankruptcy Court granted the 105 Injunction, staying the Trilogy and Danner Actions initially through the first omnibus hearing after Plan confirmation and now by order dated January 26, 2017 through, inter alia, the Plan Effective Date. Pursuant to the Plan, the Apollo Released Parties will be released from all claims relating to the Trilogy and Danner Actions. As aforementioned, the Plan was confirmed by an order dated January 17, 2017.

D. UMB Bank v. Caesars Entertainment Corporation, et al., No. 10393 (Del. Ch.) (the "UMB Action"). On November 25, 2014, UMB Bank, as trustee for certain CEOC notes, sued Caesars Entertainment, CEOC, other Caesars Entertainment-affiliated entities and certain of Caesars Entertainment's directors, including Marc Rowan, Eric Press, David Sambur (each an Apollo Partner) and Jeffrey Benjamin (an Apollo consultant), in the Delaware Court. The UMB Action alleges claims for actual and constructive fraudulent conveyance and transfer, insider preferences, illegal dividends, breach of contract, intentional interference with contractual relations, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, usurpation of corporate opportunities, and unjust enrichment. The UMB Action seeks appointment of a receiver for CEOC, a constructive trust and other relief. The UMB Action has been assigned to the same judge overseeing the WSFS Action. The UMB Action has effectively been stayed since April 7, 2016, and on October 17, 2016, the Illinois Bankruptcy Court granted the 105 Injunction staying the UMB Action initially through the first omnibus hearing after Plan confirmation and now by order dated January 26, 2017 through, inter alia, the Plan Effective Date. Pursuant to the Plan, the Apollo Released Parties will be released from all claims relating to the UMB Action. As aforementioned, the Plan was confirmed by an order dated January 17, 2017.

E. Koskie v. Caesars Acquisition Company, et al., No. A-14-711712-C (Clark Cnty Nev. Dist. Ct.) (the "Koskie Action"). On December 30, 2014, Nicholas Koskie brought a shareholder class action on behalf of shareholders of Caesars Acquisition Company ("CAC") against CAC, Caesars Entertainment, and members of CAC's Board of Directors, including Marc Rowan and David Sambur (each an Apollo partner). The lawsuit challenges CAC's and Caesars Entertainment's plan to merge, alleging that the proposed transaction will not give CAC shareholders fair value. Koskie asserts claims for breach of fiduciary duty relating to the director defendants' interrelationships with the entities involved the proposed transaction. The case has been dismissed for failure to prosecute, and the time granted to the plaintiff to refile has passed without there being any refiling.

F. BOKF, N.A. v. Caesars Entertainment Corporation, No. 15-156 (S.D.N.Y) (the "BOKF Action"). On March 3, 2015, BOKF, N.A., as trustee for certain CEOC notes, sued Caesars Entertainment in the New York Court. The lawsuit alleges claims for breach of contract, intentional interference with contractual relations and a declaratory judgment, and seeks to enforce Caesars Entertainment's guarantee of certain CEOC notes. The BOKF Action has been assigned to the same judge in the New York Court as the Trilogy and Danner Actions. On March 25, 2015, Caesars Entertainment filed an answer to the complaint. On May 19, 2015, BOKF sent the New York Court a letter requesting permission to file a partial summary judgment motion on Counts II and V of its complaint, related to the validity and enforceability of Caesars Entertainment's guarantee of certain notes issued by CEOC and alleged violations of the Trust Indenture Act, 15 U.S.C. §§ 76aaa, et seq. The Trilogy and Danner plaintiffs did not join BOKF's request to file for partial summary judgment. On May 28, 2015, the New York Court granted BOKF permission to move for partial summary judgment. On June 15, 2015, another related complaint captioned UMB Bank, N.A. v. Caesars Entertainment Corp., et al., No. 15-cv-4634 (S.D.N.Y.) (the "UMB SDNY Action") was filed by UMB Bank, N.A., solely in its capacity as Indenture Trustee of certain first lien notes ("UMB"), against Caesars Entertainment alleging claims similar to those alleged in the BOKF, Trilogy and Danner Actions. On June 16, 2015, UMB sent a letter to the New York Court requesting permission to file a partial summary judgment motion on the same schedule with BOKF. On June 26, 2015, BOKF and UMB filed partial summary judgment motions (the "Partial Summary Judgment Motions"). On July 24, 2015, Caesars Entertainment filed its opposition to the Partial Summary Judgment Motions, and on August 7, 2015, BOKF and UMB filed reply briefs in

further support of the Partial Summary Judgment Motions. On August 27, 2015, the New York Court denied the Partial Summary Judgment Motions and certified its opinion for an interlocutory appeal to the United States Court of Appeals for the Second Circuit. On December 22, 2015, the Second Circuit declined to hear the interlocutory appeal. Separately, on November 20, 2015, BOKF and UMB filed a second set of motions for partial summary judgment, on the issue of the disputed contract interpretation related to indenture release provisions. On January 5, 2016 the New York Court denied these motions. At a hearing on February 22, 2016, the New York Court bifurcated the trial in the BOKF and UMB SDNY Actions and scheduled the trial on the breach of contract and TIA claims to begin on March 14, 2016. The New York Court ordered a separate trial on the claims for breach of the covenant of good faith and fair dealing and tortious interference with contract to begin at a later date to be determined. On February 26, 2016, the Illinois Bankruptcy Court granted the stay request as to the BOKF Action until May 9, 2016, resulting in a stay of the trial on the breach of contract and TIA claims in the BOKF and UMB SDNY Actions. On February 24, 2016, Caesars Entertainment filed a motion for partial summary judgment to dispose of the claims for (1) breach of the implied covenant of good faith and fair dealing brought by BOKF and UMB, and (2) intentional interference with contractual relations brought by BOKF. The moving parties submitted their briefs on May 10, 2016. Opposition briefs were filed on May 31, 2016. Reply briefs were filed on June 14, 2016. On June 15, 2016, the Illinois Bankruptcy Court issued a temporary restraining order and preliminary injunction pursuant to Section 105(a) of the Bankruptcy Code, enjoining the plaintiffs in the BOKF Action from prosecuting actions against Caesars Entertainment until August 29, 2016. On October 17, 2016, after several motions and appeals relating to extending the stay past August 29, 2016, the Illinois Bankruptcy Court granted the 105 Injunction staying the BOKF Action initially through the first omnibus hearing after Plan confirmation and now by order dated January 26, 2017 through, inter alia, the Plan Effective Date. Pursuant to the Plan, the Apollo Released Parties will be released from all claims relating to the BOKF Action. As aforementioned, the Plan was confirmed by an order dated January 17, 2017.

G. Wilmington Trust, National Association v. Caesars Entertainment Corporation, No. 15-cv-08280 (S.D.N.Y.) (the "Wilmington Trust Action"). On October 20, 2015, Wilmington Trust, N.A., solely in its capacity as Indenture Trustee for the 10.75% Notes due 2016 ("Wilmington Trust"), sued Caesars Entertainment in the New York Court alleging claims similar to those alleged in the BOKF, UMB, Trilogy, and Danner Actions. The parties cross-moved for partial summary judgment on the same schedule as the Trilogy Action. Caesars Entertainment argued that its actions did not violate the TIA and that its guarantee of the 10.75% Notes was automatically released under a certain clause contained in the indenture governing the 10.75% Notes. Wilmington Trust argued that Caesars Entertainment's actions constituted an improper out-of-court reorganization under the TIA and that Caesars Entertainment's guarantee was not released because the necessary conditions precedent did not occur. Although the temporary restraining order and preliminary injunction issued by the Illinois Bankruptcy Court did not apply to the Wilmington Trust Action, on July 6, 2016, Wilmington Trust and Caesars Entertainment filed a stipulation staying the Wilmington Trust Action until August 29, 2016. The New York Court scheduled oral argument for August 30, 2016. A motion was made by CEOC and the other Debtors to the Illinois Bankruptcy Court to extend the stay beyond August 29, 2016, which motion was denied. On October 17, 2016, the Illinois Bankruptcy Court granted the 105 Injunction staying the Wilmington Trust Action initially through the first omnibus hearing after Plan confirmation and now by order dated January 26, 2017 through, inter alia, the Plan Effective Date. Pursuant to the Plan, the Apollo Released Parties will be released from all claims relating to the Wilmington Trust Action. As aforementioned, the Plan was confirmed by an order dated January 17, 2017.

H. CEOC v. Caesars Entertainment et al., Illinois Bankruptcy Court (the "CEOC Action"). On or about August 9, 2016, CEOC and certain of the other Debtors commenced a "placeholder" lawsuit against Caesars Entertainment, AGM, Caesars Entertainment directors (including Messrs. Rowan, Sambur, Press and Benjamin) and certain of its officers, and many others to, inter alia, prevent the statute of limitations from running respecting any claim owned by a Debtor's estate. This lawsuit basically asserts the claims identified in the Examiner's Report and has been stayed by an order of the Bankruptcy Court. Pursuant to the Plan, the Apollo Released Parties will be released from all claims relating to the CEOC Action. As aforementioned, the Plan was confirmed by an order dated January 17, 2017.

Apollo believes that the claims in the WSFS Action, the UMB Action, the Trilogy Action, the Danner Action, the Koskie Action, the BOKF Action, the UMB SDNY Action, the Wilmington Trust Action and the CEOC Action are without merit. For this reason, and because the confirmed Plan has not become effective yet, no reasonable estimate of possible loss, if any, can be made at this time.

The Bankruptcy Court administering the CEOC bankruptcy proceedings appointed an examiner (the "Examiner") to report on certain transactions engaged in by CEOC and certain of its subsidiaries. The Examiner issued his report on March 16, 2016. The Examiner's report states that potential claims may exist against "Apollo" and persons affiliated with it relating to certain

transactions that occurred in the years preceding CEOC's bankruptcy filing, principally relating to Bankruptcy Code fraudulent conveyance claims as well as aiding and abetting claims. Apollo and persons affiliated with it deny any wrongdoing and deny any liability in connection with such transactions, and if any new claim is asserted against any of them, such claim will be vigorously contested.

Following the January 16, 2014 announcement that CEC Entertainment, Inc. ("CEC") had entered into a merger agreement with certain entities affiliated with Apollo (the "Merger Agreement"), four putative shareholder class actions were filed in the District Court of Shawnee County, Kansas on behalf of purported stockholders of CEC against, among others, CEC, its directors and Apollo and certain of its affiliates, which include Queso Holdings Inc., Q Merger Sub Inc., Apollo Management VIII, L.P., and AP VIII Queso Holdings, L.P. The first purported class action, which is captioned Hilary Coyne v. Richard M. Frank et al., Case No. 14C57, was filed on January 21, 2014 (the "Coyne Action"). The second purported class action, which was captioned John Solak v. CEC Entertainment, Inc. et al., Civil Action No. 14C55, was filed on January 22, 2014 (the "Solak Action"). The Solak Action was dismissed for lack of prosecution on October 14, 2014. The third purported class action, which is captioned Irene Dixon v. CEC Entertainment, Inc. et al., Case No. 14C81, was filed on January 24, 2014 and additionally names as defendants Apollo Management VIII, L.P. and AP VIII Queso Holdings, L.P. (the "Dixon Action"). The fourth purported class action, which is captioned Louisiana Municipal Public Employees' Retirement System v. Frank, et al., Case No. 14C97, was filed on January 31, 2014 (the "LMPERS Action") (together with the Coyne and Dixon Actions, the "Shareholder Actions"). A fifth purported class action, which was captioned McCullough v. Frank, et al., Case No. CC-14-00622-B, was filed in the County Court of Dallas County, Texas on February 7, 2014. This action was dismissed for want of prosecution on May 21, 2014. Each of the Shareholder Actions alleges, among other things, that CEC's directors breached their fiduciary duties to CEC's stockholders in connection with their consideration and approval of the Merger Agreement, including by agreeing to an inadequate price, agreeing to impermissible deal protection devices, and filing materially deficient disclosures regarding the transaction. Each of the Shareholder Actions further alleges that Apollo and certain of its affiliates aided and abetted those alleged breaches. As filed, the Shareholder Actions seek, among other things, rescission of the various transactions associated with the merger, damages and attorneys' and experts' fees and costs. On February 7, 2014 and February 11, 2014, the plaintiffs in the Shareholder Actions pursued a consolidated action for damages after the transaction closed. Thereafter, the Shareholder Actions were consolidated under the caption In re CEC Entertainment, Inc. Stockholder Litigation, Case No. 14C57, and the parties engaged in limited discovery. On July 21, 2015, a consolidated class action complaint was brought by Twin City Pipe Trades Pension Trust in the Shareholder Actions that did not name as defendants Apollo, Queso Holdings Inc., Q Merger Sub Inc., Apollo Management VIII, L.P., or AP VIII Queso Holdings, L.P., continued to assert claims against CEC and its former directors, and added The Goldman Sachs Group Inc. ("Goldman Sachs") as a defendant. The consolidated complaint alleges, among other things, that CEC's former directors breached their fiduciary duties to CEC's stockholders by conducting a deficient sales process, agreeing to impermissible deal protection devices, and filing materially deficient disclosures regarding the transaction. It further alleges that two members of the board who also served as the senior managers of CEC had material conflicts of interest and that Goldman Sachs aided and abetted the board's breaches as a result of various conflicts of interest facing the bank. The consolidated complaint seeks, among other things, to recover damages, attorneys' fees and costs. On October 22, 2015, the parties to the consolidated action moved to dismiss the complaint. Although Apollo cannot predict the ultimate outcome of the consolidated action, and therefore no reasonable estimate of possible loss, if any, can be made at this time, Apollo believes that such action is without merit.

On June 12, 2015, a putative class action was commenced in the United States District Court for the Northern District of California ("California Court") by Rachel Silva ("Silva") and Don Hudson ("Hudson"), on behalf of themselves and all others similarly situated, against Aviva plc; Athene Annuity and Life Company f/k/a Aviva Life and Annuity Company ("Aviva"); Athene USA Corporation f/k/a Aviva USA Corporation; Athene Holding; Athene Life Re Ltd.; Athene Asset Management; and AGM. The original complaint in this action alleged violations of the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. Sections 1962(c) and (d). The plaintiffs alleged that commencing in 2007 and continuing thereafter, Aviva and its then management engaged in a scheme to, among other things, falsely represent the financial strength of and hide the true financial condition of Aviva by, among other things, allegedly ceding risky liabilities to Aviva's undercapitalized subsidiaries and affiliates, misvaluing assets, and failing to make required disclosures to purchasers of policies, and that after Athene Holding purchased all of the outstanding stock of Aviva's parent effective October 2, 2013 the scheme was "unwound and rewound" so as to continue, and that as a result thereof some of the purchasers of annuity products issued by Aviva were charged an excessive price and were damaged as a result thereof. All defendants (except Aviva plc) (a) moved to transfer this action to the United States District Court for the Southern District of Iowa ("Iowa Court") and (b) moved to dismiss this action. Aviva plc separately moved to dismiss the action for lack of jurisdiction over it. The California Court granted the motion to transfer to the Iowa Court and denied without prejudice the motions to dismiss. Plaintiff Hudson moved for leave to amend the complaint, which motion was granted by the Iowa Court. The amended complaint removed Silva as a named plaintiff and removed Aviva plc as a defendant, but otherwise substantively makes the same or similar allegations. The Defendants have moved to dismiss the amended complaint, and that motion has been fully briefed. The Court has

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now stayed its decision on the motion to dismiss and discovery until the Eighth Circuit Court of Appeals renders its decision in a different case that has some of the same jurisdictional issues. If the action is not dismissed, Athene Asset Management and AGM (and the other defendants) will deny the material allegations of the amended complaint and will vigorously defend themselves against these claims. Although neither Athene Asset Management nor AGM can predict the ultimate outcome of this action, each believes that it is without merit, and because this action is in its early stages, no reasonable estimate of possible loss, if any, can be made at this time.

After the announcement of the execution of the Agreement and Plan of Merger among Apollo Commercial Real Estate Finance, Inc., Apollo Residential Mortgage, Inc. and Arrow Merger Sub, Inc. ("Merger Sub"), two putative class action lawsuits challenging the proposed merger, captioned Aivasian v. Apollo Residential Mortgage, Inc., et al., No. 24-C-16-001532, and Wiener v. Apollo Residential Mortgage, Inc., et al., No. 24-C-16-001837, were filed in the Circuit Court for Baltimore City. A putative class and derivative lawsuit was later filed in the same Court, captioned Crago v. Apollo Residential Mortgage, Inc., et al., No. 24-C-16-002610. Following a hearing on May 6, 2016, the Court entered orders among other things, consolidating the three actions under the caption In Re Apollo Residential Mortgage, Inc. Shareholder Litigation, Case No.: 24-C-16-002610. The plaintiffs have designated the Crago complaint as the operative complaint. The operative complaint includes both direct and derivative claims, names as defendants AGM, AMTG, the board of directors of AMTG (the "AMTG Board"), ARI, Merger Sub and Athene Holding and alleges, among other things, that the members of the AMTG Board breached their fiduciary duties to AMTG's stockholders and that the other defendants aided and abetted such fiduciary breaches. The operative complaint further alleges, among other things, that the proposed merger involves inadequate consideration, was the result of an inadequate and conflicted sales process, and includes unreasonable deal protection devices that purportedly preclude competing offers. It also alleges that the transactions with Athene Holding are unfair and that the registration statement on Form S-4 filed with the SEC on April 6, 2016 contains materially misleading disclosures and omits certain material information. The operative complaint seeks, among other things, certification of the proposed class, declaratory relief, preliminary and permanent injunctive relief, including enjoining or rescinding the merger, unspecified damages, and an award of other unspecified attorneys' and other fees and costs. On May 6, 2016, counsel for the plaintiffs filed with the Court a stipulation seeking the appointment of interim co-lead counsel, which stipulation was approved by the Court on June 9, 2016. Defendants' motions to dismiss have been fully briefed, and oral argument was held on December 8, 2016. Apollo believes that the claims asserted in the complaints are without merit. For this reason, and because the claims are in their early stages, no reasonable estimate of possible loss, if any, can be made at this time.

Following the March 14, 2016 announcement that The Fresh Market, Inc. ("TFM") had entered into a merger agreement with certain entities affiliated with Apollo (the "TFM Merger Agreement"), two Petitions for Appraisal of Stock were filed in the Chancery Court for the State of Delaware. The first, captioned Hudson Bay Master Fund, Ltd. and Brigade Leveraged Capital Structures Fund, Ltd. v. The Fresh Market, Inc., was filed May 23, 2016 on behalf of holders of 1,660,000 shares of common stock of TFM and names only TFM as the respondent. The second captioned Verition Multi-Strategy Master Ltd. and Verition Partners Master Fund Ltd. v. The Fresh Market, Inc. was filed August 22, 2016 on behalf of holders of 1,198,318 shares of common stock of TFM and names only TFM as the respondent. Both actions seek a determination of the fair value of the shares of the common stock of TFM under Section 262 of the Delaware Corporate Code. The two actions have since been consolidated and will proceed together under the caption, In re Appraisal of The Fresh Market, Inc., Case No. 12372-VCG (the "Appraisal Action"). The Court in the Appraisal Action has scheduled a trial on the merits to take place in November 2017. In addition, a purported shareholder class action, captioned Elizabeth Morrison v. Ray Berry, et. al., Case No. 12808-VCG, was filed October 6, 2016 in the Chancery Court for the State of Delaware and names as defendants TFM's former officers and directors (the "Morrison Action"). The Morrison Action alleges, among other things, that the TFM officers and directors breached their fiduciary duties to the TFM shareholders in connection with their consideration and approval of the TFM Merger Agreement, including by engaging in a sale process that improperly favored AGM and/or Apollo Management VIII, L.P., by agreeing to an inadequate price and by filing materially deficient disclosures regarding the transaction. The Court has not yet set a schedule for resolving this Action on the merits. Because each of the pending actions is in the early stages, no reasonable estimate of possible loss, if any, can be made. Apollo believes that each of these actions is without merit.

On March 4, 2016, the Public Employees Retirement System of Mississippi filed a putative securities class action against Sprouts Farmers Market, Inc. ("SFM"), several SFM directors (including Andrew Jhawar, an Apollo partner), AP Sprouts Holdings, LLC and AP Sprouts Holdings (Overseas), L.P. (the "AP Entities"), which are controlled by entities managed by Apollo affiliates, and two underwriters of a March 2015 secondary offering of SFM common stock. The AP Entities sold SFM common stock in the March 2015 secondary offering. The complaint, filed in Arizona Superior Court and captioned Public Employees Retirement System of Mississippi v. Sprouts Farmers Market, Inc. (CV2016-050480), alleges that SFM filed a materially misleading registration statement for the secondary offering that incorporated alleged misrepresentations in SFM's 2014 annual report regarding SFM's business prospects, and failed to disclose alleged accelerating produce deflation. The two causes of action against the AP

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Entities are for alleged violations of Sections 11 and 15 of the Securities Act of 1933. Plaintiff seeks, among other things, compensatory damages for alleged losses sustained from a decline in SFM's stock price. On March 24, 2016, defendants removed the case to United States District Court for the District of Arizona. Plaintiff's April 18, 2016 remand motion was fully briefed as of May 27, 2016. Because this action is in its early stages, no reasonable estimate of possible loss, if any, can be made at this time.

Between February 25 and March 23, 2016, plaintiffs filed five putative class actions in the Superior Court of Maricopa County, Arizona, on behalf of purported stockholders of Apollo Education Group, Inc. The actions were captioned as follows: Casey v. Apollo Education Group, Inc., et al., CV2016-051605 (Ariz. Super. Ct. Feb. 25, 2016); Miglio v. Apollo Education Group, Inc., et al., CV2016-003718 (Ariz. Super. Ct. Feb. 26, 2016); Wagner v. Apollo Education Group, Inc., et al., CV2016-001905 (Ariz. Super. Ct. Mar. 9, 2016); Ladouceur v. Apollo Education Group, Inc., et al., CV2016-002148 (Ariz. Super. Ct. Mar. 17, 2016); Simkhovich v. Apollo Education Group, Inc., et al., CV2016-002339 (Ariz. Super. Ct. Mar. 23, 2016). The defendants include, among others, Apollo Education Group, Inc. ("AEG"), members of AEG's board of directors, AGM, Fund VIII, AP VIII Queso Holdings, L.P., which is a subsidiary of funds affiliated with Apollo Management VIII, L.P., and AGM, and Socrates Merger Sub, Inc., which is a wholly owned subsidiary of AP VIII Queso Holdings, L.P. The complaints allege that AEG's directors breached their fiduciary duties to AEG's stockholders by entering into a merger agreement that provides for AEG to be acquired by AP VIII Queso Holdings, L.P., and Socrates Merger Sub, Inc. Plaintiffs claim that AEG's directors engaged in a flawed sales process, agreed to a price that does not adequately compensate AEG's stockholders, and agreed to certain unfair deal protection terms in connection with the merger agreement. Two of the complaints further allege (1) that AEG's directors breached their fiduciary duty of candor by filing a materially incomplete and misleading preliminary proxy statement, and (2) that the sales process was flawed because of certain alleged conflicts with AEG's financial advisors. All the complaints allege that AP VIII Queso Holdings, L.P., and Socrates Merger Sub, Inc., aided and abetted the alleged breaches. The complaints that name as defendants AGM and Fund VIII, allege that those entities also aided and abetted the alleged breaches. No amount of damages is specified in any of the complaints. On April 12, 2016, the Court consolidated all the actions under the following caption: In re Apollo Education Group, Inc. Shareholder Litigation, Lead Case No. CV2016-001905 (Ariz. Super. Ct.). The parties have informed the Court that they have entered into a memorandum of understanding providing for the settlement of the suit. The settlement contemplated by the memorandum will provide for the dismissal with prejudice on the merits and release of any and all claims by the proposed class against Defendants. The settlement also will recognize that the pendency of the suit was a factor in the decision by the purchasers of AEG to increase the price offered to acquire all of the outstanding shares of AEG's common stock from $9.50 per share to $10.00 per share. The settlement is contingent upon the consummation of the merger agreement, Plaintiffs' taking confirmatory discovery, the execution of definitive settlement papers, certification of the proposed class, and court approval. The parties asked the court to extend the deadline by which the Plaintiffs must file an amended consolidated complaint or designate an operative complaint until November 8, 2016. The Court responded with an order explaining that the case will be dismissed on December 9, 2016, unless the parties submit a stipulated judgment or stipulated dismissal before that date, or the court otherwise extends the deadline for good cause. On December 9, 2016, the parties requested that the court extend the deadline by which Plaintiffs must file their amended complaint to March 10, 2017. The motion explained that the Department of Education had provided its response to a pre-acquisition application for approval of the merger agreement, indicating that the continuing participation of the University of Phoenix in Title IV programs following consummation of the merger would be subject to certain conditions. The motion further explained that the defendants were evaluating the Department of Education's response, its implications for the merger, and that any closing of the merger would be delayed. On December 15, 2016, the Court responded to the parties' motion with an order explaining that it would dismiss the case on March 10, 2017, unless the parties submitted a final judgment or stipulated dismissal before that date, or the Court otherwise extends the deadline for good cause. Because this action is in its early stages, no reasonable estimate of possible loss, if any, can be made at this time.

On June 20, 2016 Banca Carige S.p.A. ("Carige") commenced a lawsuit in the Court of Genoa (Italy) (No. 8965/2016), against its former Chairman, its former Chief Executive Officer, AGM and certain entities (the "Apollo Entities") organized and owned by investment funds managed by affiliates of AGM. The complaint alleges that AGM and the Apollo Entities (i) aided and abetted breaches of fiduciary duty to Carige allegedly committed by Carige's former Chairman and former CEO in connection with the sale to the Apollo Entities of Carige subsidiaries engaged in the insurance business; and (ii) took wrongful actions aimed at weakening Banca Carige's financial condition supposedly to facilitate an eventual acquisition of Carige. The causes of action are based in tort under Italian law. Carige purportedly seeks damages of €450 million in connection with the sale of the insurance businesses and €800 million for other losses. The first hearing has been scheduled for May 9, 2017. Based on the allegations made in the complaint, Apollo believes that there is no merit to Carige's claims. Additionally, as the case is in its early stages, no reasonable estimate of possible loss, if any, can be made at this time.

On December 12, 2016, the CORE Litigation Trust (the "Trust"), which was created under the Chapter 11 reorganization plan for CORE Media and other affiliated entities, including CORE Entertainment, Inc. ("CORE"), approved by the Southern

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District of New York Bankruptcy Court on September 22, 2016, commenced an action in California Superior Court for Los Angeles County, captioned Core Litigation Trust v. Apollo Global Management, LLC, et al., Case No. BC 643732, which was removed to the United States District Court for the Central District of California on February 3, 2017. The Trust's complaint asserts claims for inducing the breach of and tortiously interfering with $360 million in loans under the 2011 loan agreements entered into between CORE and certain First and Second Lien Lenders (the "Lenders"), who assigned their loan-agreement claims to the Trust as part of CORE's Chapter 11 plan of reorganization. The complaint names as defendants: (i) AGM (ii) Apollo Global Securities, LLC, (iii) other AGM subsidiaries, (iv) the funds managed by Apollo that were the beneficial owners of CORE Media (the "CORE Funds"), (v) certain affiliated-entities through which the CORE Funds owned their beneficial interest in CORE Media, (vi) Twenty-First Century Fox, Inc. ("Fox") and certain Fox affiliates, and (vii) Endemol USA Holding, Inc. ("Endemol") and certain Endemol-affiliated entities. The Trust alleges that defendants' participation in certain transactions related to CORE-including the December 12, 2014 formation of the joint venture through which the CORE Funds and Fox beneficially owned CORE Media and Endemol Shine-induced CORE to breach the loan agreements and tortiously interfered with CORE's performance of its obligations under the loan agreements. The Trust seeks unspecified compensatory and punitive damages. Apollo believes these claims are without merit. Because this action is in its early stages, no reasonable estimate of possible loss, if any, can be made at this time.

In December 2016, the Company received a subpoena from the SEC principally concerning the Company's disclosure of IRR calculations for certain private equity funds, costs associated with a European service provider, and certain personnel changes. These topics generally track matters with which the Company is familiar and has previously examined. The Company is fully cooperating with the SEC in this matter.

Commitments and Contingencies—Apollo leases office space and certain office equipment under various lease and sublease arrangements, which expire on various dates through 2025. As these leases expire, it can be expected that in the normal course of business, they will be renewed or replaced. Certain lease agreements contain renewal options, rent escalation provisions based on certain costs incurred by the landlord or other inducements provided by the landlord. Rent expense is accrued to recognize lease escalation provisions and inducements provided by the landlord, if any, on a straight-line basis over the lease term and renewal periods where applicable. Apollo has entered into various operating lease service agreements in respect of certain assets.

As of December 31, 2016, the approximate aggregate minimum future payments required for operating leases were as follows:

	2017	2018	2019	2020	2021	Thereafter	Total
Aggregate minimum future payments	$ 34,705	$ 30,969	$ 30,198	$ 13,473	$ 4,572	$ 6,853	$ 120,770

Expenses related to non-cancellable contractual obligations for premises, equipment, auto and other assets were $40.5 million, $41.9 million and $42.5 million for the years ended December 31, 2016, 2015 and 2014, respectively, and are included in general, administrative and other on the consolidated statements of operations.

Other long-term obligations relate to payments with respect to certain consulting agreements entered into by Apollo Investment Consulting LLC, a subsidiary of Apollo, as well as long-term service contracts. A significant portion of these costs are reimbursable by funds or portfolio companies. As of December 31, 2016, fixed and determinable payments due in connection with these obligations were as follows:

	2017	2018	2019	2020	2021	Thereafter	Total
Other long-term obligations	$ 19,229	$ 6,398	$ 3,694	$ 1,365	$ 1,365	$ 1,365	$ 33,416

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Contingent Obligations—Carried interest income with respect to private equity funds and certain credit and real estate funds is subject to reversal in the event of future losses to the extent of the cumulative carried interest recognized in income to date. If all of the existing investments became worthless, the amount of cumulative revenues that have been recognized by Apollo through December 31, 2016 and that would be reversed approximates $2.9 billion. Management views the possibility of all of the investments becoming worthless as remote. Carried interest income is affected by changes in the fair values of the underlying investments in the funds that Apollo manages. Valuations, on an unrealized basis, can be significantly affected by a variety of external factors including, but not limited to, bond yields and industry trading multiples. Movements in these items can affect valuations quarter to quarter even if the underlying business fundamentals remain stable.

Additionally, at the end of the life of certain funds that the Company manages, there could be a payment due to a fund by the Company if the Company, as general partner, has received more carried interest income than was ultimately earned. The general partner obligation amount, if any, will depend on final realized values of investments at the end of the life of each fund or as otherwise set forth in the respective limited partnership agreement of the fund. See note 14 to our consolidated financial statements for further details regarding the general partner obligation.

Certain funds may not generate carried interest income as a result of unrealized and realized losses that are recognized in the current and prior reporting period. In certain cases, carried interest income will not be generated until additional unrealized and realized gains occur. Any appreciation would first cover the deductions for invested capital, unreturned organizational expenses, operating expenses, management fees and priority returns based on the terms of the respective fund agreements.

One of the Company's subsidiaries, AGS, provides underwriting commitments in connection with securities offerings to the portfolio companies of the funds Apollo manages. As of December 31, 2016, there were no underwriting commitments outstanding related to such offerings.

As of December 31, 2016, one of the Company's subsidiaries had unfunded contingent commitments of $22.1 million, to facilitate fundings at closing by lead arrangers for syndicated term loans issued by portfolio companies of a fund managed by Apollo. The commitments expire by February 13, 2017. As of February 13, 2017, the unfunded commitment was approximately $1.0 million.

Contingent Consideration—In connection with the acquisition of Stone Tower in April 2012, the Company agreed to pay the former owners of Stone Tower a specified percentage of any future carried interest income earned from certain of the Stone Tower funds, CLOs, and strategic investment accounts. This contingent consideration liability was determined based on the present value of estimated future carried interest payments, and is recorded in profit sharing payable in the consolidated statements of financial condition. The fair value of the remaining contingent obligation was $106.3 million and $70.9 million as of December 31, 2016 and December 31, 2015, respectively.

In connection with the Gulf Stream Asset Management, LLC ("Gulf Stream") acquisition, the Company agreed to make payments to the former owners of Gulf Stream under a contingent consideration obligation which required the Company to transfer cash to the former owners of Gulf Stream based on a specified percentage of carried interest income. As of December 31, 2016, there was no contingent liability as the Gulf Stream liabilities had been satisfied. The contingent liability had a fair value of $8.7 million as of December 31, 2015, which was recorded in profit sharing payable in the consolidated statements of financial condition.

The contingent consideration obligations will be remeasured to fair value at each reporting period until the obligations are satisfied. The changes in the fair value of the contingent consideration obligations is reflected in profit sharing expense in the consolidated statements of operations.

The contingent consideration obligations are measured at fair value and are characterized as Level III liabilities. See note 6 for further information regarding fair value measurements.

16. SEGMENT REPORTING

Apollo conducts its business primarily in the United States and substantially all of its revenues are generated domestically. Apollo's business is conducted through three reportable segments: private equity, credit and real estate. Segment information is utilized by our Managing Partners, who operate collectively as our chief operating decision maker, to assess performance and to allocate resources. These segments were established based on the nature of investment activities in each underlying fund, including the specific type of investment made and the level of control over the investment.

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The performance is measured by the Company's chief operating decision maker on an unconsolidated basis because management makes operating decisions and assesses the performance of each of Apollo's business segments based on financial and operating metrics and data that exclude the effects of consolidation of any of the affiliated funds.

Economic Income

Economic Income, or "EI", is a key performance measure used by management in evaluating the performance of Apollo's private equity, credit and real estate segments. Management believes the components of EI, such as the amount of management fees, advisory and transaction fees and carried interest income, are indicative of the Company's performance. Management uses EI in making key operating decisions such as the following:

- Decisions related to the allocation of resources such as staffing decisions including hiring and locations for deployment of the new hires;
- Decisions related to capital deployment such as providing capital to facilitate growth for the business and/or to facilitate expansion into new businesses; and
- Decisions relating to expenses, such as determining annual discretionary bonuses and equity-based compensation awards to its employees. With respect to compensation, management seeks to align the interests of certain professionals and selected other individuals with those of the investors in such funds and those of the Company's shareholders by providing such individuals a profit sharing interest in the carried interest income earned in relation to the funds. To achieve that objective, a certain amount of compensation is based on the Company's performance and growth for the year.

EI is a measure of profitability and has certain limitations in that it does not take into account certain items included under U.S. GAAP. EI represents segment income before income tax provision excluding transaction-related charges arising from the 2007 private placement, and any acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions. In addition, segment data excludes non-cash revenue and expense related to equity awards granted by unconsolidated related parties to employees of the Company, compensation and administrative related expense reimbursements, as well as the assets, liabilities and operating results of the funds and VIEs that are included in the consolidated financial statements.

Economic Income (Loss) for the years ended December 31, 2015 and 2014 includes a recast of salary, bonus and benefits due to management's change in allocation methodology among the segments during the first quarter of 2016. All prior periods have been recast to conform to the current presentation. The impact to the combined segments' total Economic Income (Loss) for all periods was zero.

	Impact on Economic Income (Loss) For the Year Ended December 31, 2015			
	Private Equity Segment	Credit Segment	Real Estate Segment	Total Reportable Segments
Total Economic Income (Loss), as previously presented	$ 70,968	$ 325,116	$ (427)	$ 395,657
Impact of reclassification	(19,286)	13,447	5,839	—
Total Economic Income, as currently presented	$ 51,682	$ 338,563	$ 5,412	$ 395,657

	Impact on Economic Income For the Year Ended December 31, 2014			
	Private Equity Segment	Credit Segment	Real Estate Segment	Total Reportable Segments
Total Economic Income, as previously presented	$ 246,981	$ 507,986	$ 84	$ 755,051
Impact of reclassification	(32,858)	26,049	6,809	—
Total Economic Income, as currently presented	$ 214,123	$ 534,035	$ 6,893	$ 755,051

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The following tables present financial data for Apollo's reportable segments as of and for the years ended December 31, 2016 and 2015 and for the year ended December 31, 2014:

	As of and for the Year Ended December 31, 2016			
	Private Equity Segment	Credit Segment	Real Estate Segment	Total Reportable Segments
Revenues:				
Management fees from related parties	$ 321,995	$ 596,709	$ 58,945	$ 977,649
Advisory and transaction fees from related parties, net	128,675	12,533	5,907	147,115
Carried interest income from related parties:				
Unrealized[(1)]	368,807	137,274	4,918	510,999
Realized	82,292	180,029	12,566	274,887
Total Revenues[(2)]	901,769	926,545	82,336	1,910,650
Expenses:				
Compensation and benefits:				
Salary, bonus and benefits	124,463	209,256	33,171	366,890
Equity-based compensation	27,549	34,185	2,734	64,468
Profit sharing expense	158,536	147,727	10,387	316,650
Total compensation and benefits	310,548	391,168	46,292	748,008
Non-compensation expenses:				
General, administrative and other	71,323	125,639	21,528	218,490
Placement fees	2,297	22,047	89	24,433
Total non-compensation expenses	73,620	147,686	21,617	242,923
Total Expenses[(2)]	384,168	538,854	67,909	990,931
Other Income (Loss):				
Income from equity method investments	66,281	33,290	3,010	102,581
Net gains from investment activities	11,379	127,229	—	138,608
Net interest loss	(14,187)	(20,669)	(4,163)	(39,019)
Other income (loss), net	1,650	(4,500)	692	(2,158)
Total Other Income (Loss)[(2)]	65,123	135,350	(461)	200,012
Non-Controlling Interests	—	(7,464)	—	(7,464)
Economic Income[(2)]	$ 582,724	$ 515,577	$ 13,966	$ 1,112,267
Total Assets[(2)]	$ 2,004,833	$ 2,505,980	$ 183,830	$ 4,694,643

(1) Included in unrealized carried interest gains (losses) from related parties for the year ended December 31, 2016 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 14 for further details regarding the general partner obligation.

(2) Refer below for a reconciliation of total revenues, total expenses, other income and total assets for Apollo's total reportable segments to total consolidated revenues, total consolidated expenses, total consolidated other income (loss) and total assets.

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	As of and for the Year Ended December 31, 2015			
	Private Equity Segment	**Credit Segment**	**Real Estate Segment**	**Total Reportable Segments**
Revenues:				
Management fees from related parties	$ 295,836	$ 565,241	$ 50,816	$ 911,893
Advisory and transaction fees from related parties, net	(7,485)	17,246	4,425	14,186
Carried interest income (loss) from related parties:				
Unrealized[1]	(314,161)	(80,534)	7,154	(387,541)
Realized	339,822	139,152	5,857	484,831
Total Revenues[2]	314,012	641,105	68,252	1,023,369
Expenses:				
Compensation and benefits:				
Salary, bonus and benefits	123,653	200,032	32,237	355,922
Equity-based compensation	31,324	26,683	4,177	62,184
Profit sharing expense	46,572	34,384	5,075	86,031
Total compensation and benefits	201,549	261,099	41,489	504,137
Non-compensation expenses:				
General, administrative and other	75,559	123,378	22,869	221,806
Placement fees	4,550	4,389	—	8,939
Total non-compensation expenses	80,109	127,767	22,869	230,745
Total Expenses[2]	281,658	388,866	64,358	734,882
Other Income:				
Income (loss) from equity method investments	19,125	(6,025)	2,978	16,078
Net gains from investment activities	6,933	114,199	—	121,132
Net interest loss	(9,878)	(13,740)	(2,915)	(26,533)
Other income, net	3,148	3,574	1,455	8,177
Total Other Income[2]	19,328	98,008	1,518	118,854
Non-Controlling Interests	—	(11,684)	—	(11,684)
Economic Income[2]	$ 51,682	$ 338,563	$ 5,412	$ 395,657
Total Assets[2]	$ 1,255,340	$ 2,143,813	$ 192,469	$ 3,591,622

(1) Included in unrealized carried interest gains from related parties for the year ended December 31, 2015 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 14 for further detail regarding the general partner obligation.

(2) Refer below for a reconciliation of total revenues, total expenses and other income for Apollo's total reportable segments to total consolidated revenues, total consolidated expenses and total consolidated other income (loss).

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

	For the Year Ended December 31, 2014			
	Private Equity Segment	Credit Segment	Real Estate Segment	Total Reportable Segments
Revenues:				
Management fees from related parties	$ 315,069	$ 538,742	$ 47,213	$ 901,024
Advisory and transaction fees from related parties, net	58,241	255,186	2,655	316,082
Carried interest income (loss) from related parties:				
Unrealized[(1)]	(1,196,093)	(156,644)	4,951	(1,347,786)
Realized	1,428,076	322,233	3,998	1,754,307
Total Revenues[(2)]	605,293	959,517	58,817	1,623,627
Expenses:				
Compensation and benefits:				
Salary, bonus and benefits	129,547	184,497	25,802	339,846
Equity-based compensation	49,526	47,120	8,849	105,495
Profit sharing expense	178,373	83,788	2,747	264,908
Total compensation and benefits	357,446	315,405	37,398	710,249
Non-compensation Expenses:				
General, administrative and other	68,092	138,024	21,669	227,785
Placement fees	2,194	13,228	—	15,422
Total non-compensation expenses	70,286	151,252	21,669	243,207
Total Expenses[(2)]	427,732	466,657	59,067	953,456
Other Income:				
Income from equity method investments	30,418	18,812	5,675	54,905
Net gains from investment activities	—	9,062	—	9,062
Net interest loss	(7,883)	(9,274)	(1,941)	(19,098)
Other income, net	14,027	35,263	3,409	52,699
Total Other Income[(2)]	36,562	53,863	7,143	97,568
Non-Controlling Interests	—	(12,688)	—	(12,688)
Economic Income[(2)]	$ 214,123	$ 534,035	$ 6,893	$ 755,051

(1) Included in unrealized carried interest gains from related parties for the year ended December 31, 2014 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income.

(2) Refer below for a reconciliation of total revenues, total expenses and other income for Apollo’s total reportable segments to total consolidated revenues, total consolidated expenses and total consolidated other income (loss).

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
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(dollars in thousands, except share data, except where noted)

The following table reconciles total consolidated revenues to total revenues for Apollo's reportable segments for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
Total Consolidated Revenues	$ 1,970,384	$ 1,041,670	$ 1,560,083
Equity awards granted by unconsolidated related parties and reimbursable expenses[(1)]	(73,913)	(27,949)	(18,665)
Adjustments related to consolidated funds and VIEs[(1)]	5,477	3,696	75,830
Other[(1)]	8,702	5,952	6,379
Total Reportable Segments Revenues	$ 1,910,650	$ 1,023,369	$ 1,623,627

(1) Represents advisory fees, management fees and carried interest income earned from consolidated VIEs which are eliminated in consolidation. Includes non-cash revenues related to equity awards granted by unconsolidated related parties to employees of the Company and certain compensation and administrative related expense reimbursements.

The following table reconciles total consolidated expenses to total expenses for Apollo's reportable segments for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
Total Consolidated Expenses	$ 1,165,918	$ 830,975	$ 1,043,563
Equity awards granted by unconsolidated related parties and reimbursable expenses[(1)]	(75,653)	(28,658)	(19,207)
Transaction-related compensation charges[(1)]	(46,293)	(4,825)	(12,903)
Reclassification of interest expenses	(43,482)	(30,071)	(22,393)
Amortization of transaction-related intangibles[(1)]	(8,807)	(33,998)	(34,887)
Other[(1)]	(752)	1,459	(717)
Total Reportable Segments Expenses	$ 990,931	$ 734,882	$ 953,456

(1) Represents the addition of expenses of consolidated funds and VIEs, transaction-related charges, non-cash expenses related to equity awards granted by unconsolidated related parties to employees of the Company and certain compensation and administrative expenses. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions.

The following table reconciles total consolidated other income to total other income for Apollo's reportable segments for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
Total Consolidated Other Income	$ 256,548	$ 166,533	$ 360,647
Reclassification of interest expense	(43,482)	(30,071)	(22,393)
Adjustments related to consolidated funds and VIEs[(1)]	(3,982)	(14,652)	(222,129)
Other	(9,072)	(2,956)	(18,557)
Total Reportable Segments Other Income	$ 200,012	$ 118,854	$ 97,568

(1) Represents the addition of other income of consolidated funds and VIEs.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

The following table presents the reconciliation of income before income tax provision reported in the consolidated statements of operations to Economic Income for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
Income before income tax provision	$ 1,061,014	$ 377,228	$ 877,167
Adjustments:			
Net income attributable to Non-Controlling Interests in consolidated entities and appropriated partners' capital	(5,789)	(21,364)	(157,011)
Transaction-related charges[(1)]	57,042	39,793	34,895
Total consolidation adjustments and other	51,253	18,429	(122,116)
Economic Income	$ 1,112,267	$ 395,657	$ 755,051

(1) Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions. Equity-based compensation adjustment includes non-cash revenues and expenses related to equity awards granted by unconsolidated related parties to employees of the Company.

The following table presents the reconciliation of Apollo's total reportable segment assets to total assets as of December 31, 2016 and 2015:

	As of December 31, 2016	As of December 31, 2015
Total reportable segment assets	$ 4,694,643	$ 3,591,622
Adjustments[(1)]	934,910	968,186
Total assets	$ 5,629,553	$ 4,559,808

(1) Represents the addition of assets of consolidated funds and VIEs and consolidation elimination adjustments.

17. SUBSEQUENT EVENTS

On February 3, 2017, the Company declared a cash distribution of $0.45 per Class A share, which will be paid on February 28, 2017 to holders of record on February 21, 2017.

On February 7, 2017, the Company issued 1,683,662 Class A shares in settlement of vested RSUs. These issuances caused the Company's ownership interest in the Apollo Operating Group to increase from 46.3% to 46.5%.

18. QUARTERLY FINANCIAL DATA (UNAUDITED)

	For the Three Months Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Revenues	$ 120,826	$ 660,447	$ 503,731	$ 685,380
Expenses	141,899	343,398	282,257	398,364
Other Income (Loss)	(58,635)	136,742	42,911	135,530
Income (Loss) Before Provision for Taxes	$ (79,708)	$ 453,791	$ 264,385	$ 422,546
Net Income (Loss)	$ (74,561)	$ 415,803	$ 234,718	$ 394,347
Net Income (Loss) Attributable to Apollo Global Management, LLC	$ (32,828)	$ 174,092	$ 94,619	$ 166,967
Net Income (Loss) per Class A Share-Basic	$ (0.19)	$ 0.91	$ 0.50	$ 0.87
Net Income (Loss) per Class A Share - Diluted	$ (0.19)	$ 0.91	$ 0.50	$ 0.87

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

	For the Three Months Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Revenues	$ 303,024	$ 351,727	$ 193,268	$ 193,651
Expenses	223,996	244,539	174,911	187,529
Other Income	7,984	49,978	84,793	23,778
Income Before Provision for Taxes	$ 87,012	$ 157,166	$ 103,150	$ 29,900
Net Income	$ 81,498	$ 148,074	$ 96,559	$ 24,364
Net Income Attributable to Apollo Global Management, LLC	$ 30,927	$ 56,428	$ 41,051	$ 6,091
Net Income per Class A Share - Basic	$ 0.09	$ 0.30	$ 0.20	$ 0.02
Net Income per Class A Share - Diluted	$ 0.09	$ 0.30	$ 0.20	$ 0.02

ITEM 8A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATING STATEMENTS OF FINANCIAL CONDITION (Unaudited)
(dollars in thousands, except share data)

	As of December 31, 2016			
	Apollo Global Management, LLC and Consolidated Subsidiaries	Consolidated Funds and VIEs	Eliminations	Consolidated
Assets:				
Cash and cash equivalents	$ 806,329	$ —	$ —	$ 806,329
Cash and cash equivalents held at consolidated funds	—	7,335	—	7,335
Restricted cash	4,680	—	—	4,680
Investments	1,567,388	5,378	(78,022)	1,494,744
Assets of consolidated variable interest entities:				
Cash and cash equivalents	—	41,318	—	41,318
Investments, at fair value	—	914,110	(283)	913,827
Other assets	—	46,666	—	46,666
Carried interest receivable	1,258,887	—	(1,782)	1,257,105
Due from related parties	255,342	—	(489)	254,853
Deferred tax assets	572,263	—	—	572,263
Other assets	118,181	768	(89)	118,860
Goodwill	88,852	—	—	88,852
Intangible assets, net	22,721	—	—	22,721
Total Assets	**$ 4,694,643**	**$ 1,015,575**	**$ (80,665)**	**$ 5,629,553**
Liabilities and Shareholders' Equity				
Liabilities:				
Accounts payable and accrued expenses	$ 57,465	$ —	$ —	$ 57,465
Accrued compensation and benefits	52,754	—	—	52,754
Deferred revenue	174,893	—	—	174,893
Due to related parties	638,126	—	—	638,126
Profit sharing payable	550,148	—	—	550,148
Debt	1,352,447	—	—	1,352,447
Liabilities of consolidated variable interest entities:				
Debt, at fair value	—	827,854	(41,309)	786,545
Other liabilities	—	68,123	(89)	68,034
Due to related parties	—	2,271	(2,271)	—
Other liabilities	81,568	45	—	81,613
Total Liabilities	**2,907,401**	**898,293**	**(43,669)**	**3,762,025**
Shareholders' Equity:				
Apollo Global Management, LLC shareholders' equity:				
Additional paid in capital	1,830,025	—	—	1,830,025
Accumulated deficit	(986,187)	16,131	(16,130)	(986,186)
Accumulated other comprehensive income (loss)	(5,750)	(3,029)	56	(8,723)
Total Apollo Global Management, LLC shareholders' equity	838,088	13,102	(16,074)	835,116
Non-Controlling Interests in consolidated entities	6,805	104,180	(20,922)	90,063
Non-Controlling Interests in Apollo Operating Group	942,349	—	—	942,349
Total Shareholders' Equity	**1,787,242**	**117,282**	**(36,996)**	**1,867,528**
Total Liabilities and Shareholders' Equity	**$ 4,694,643**	**$ 1,015,575**	**$ (80,665)**	**$ 5,629,553**

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATING STATEMENTS OF FINANCIAL CONDITION (Unaudited)
(dollars in thousands, except share data)

	As of December 31, 2015			
	Apollo Global Management, LLC and Consolidated Subsidiaries	Consolidated Funds and VIEs	Eliminations	Consolidated
Assets:				
Cash and cash equivalents	$ 612,505	$ —	$ —	$ 612,505
Cash and cash equivalents held at consolidated funds	—	4,817	—	4,817
Restricted cash	5,700	—	—	5,700
Investments	1,223,407	28,547	(97,205)	1,154,749
Assets of consolidated variable interest entities:				
Cash and cash equivalents	—	56,793	—	56,793
Investments, at fair value	—	910,858	(292)	910,566
Other assets	—	63,413	—	63,413
Carried interest receivable	643,907	—	—	643,907
Due from related parties	248,972	—	(1,137)	247,835
Deferred tax assets	646,207	—	—	646,207
Other assets	93,452	2,636	(244)	95,844
Goodwill	88,852	—	—	88,852
Intangible assets, net	28,620	—	—	28,620
Total Assets	**$ 3,591,622**	**$ 1,067,064**	**$ (98,878)**	**$ 4,559,808**
Liabilities and Shareholders' Equity				
Liabilities:				
Accounts payable and accrued expenses	$ 92,012	$ —	$ —	$ 92,012
Accrued compensation and benefits	54,836	—	—	54,836
Deferred revenue	177,875	—	—	177,875
Due to related parties	594,536	—	—	594,536
Profit sharing payable	295,674	—	—	295,674
Debt	1,025,255	—	—	1,025,255
Liabilities of consolidated variable interest entities:				
Debt, at fair value	—	843,584	(42,314)	801,270
Other liabilities	—	86,226	(244)	85,982
Due to related parties	—	1,137	(1,137)	—
Other liabilities	38,750	4,637	—	43,387
Total Liabilities	**2,278,938**	**935,584**	**(43,695)**	**3,170,827**
Shareholders' Equity:				
Apollo Global Management, LLC shareholders' equity:				
Additional paid in capital	2,005,509	—	—	2,005,509
Accumulated deficit	(1,348,386)	34,468	(34,466)	(1,348,384)
Accumulated other comprehensive income (loss)	(5,171)	(2,496)	47	(7,620)
Total Apollo Global Management, LLC shareholders' equity	651,952	31,972	(34,419)	649,505
Non-Controlling Interests in consolidated entities	7,817	99,508	(20,764)	86,561
Non-Controlling Interests in Apollo Operating Group	652,915	—	—	652,915
Total Shareholders' Equity	**1,312,684**	**131,480**	**(55,183)**	**1,388,981**
Total Liabilities and Shareholders' Equity	**$ 3,591,622**	**$ 1,067,064**	**$ (98,878)**	**$ 4,559,808**

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain "disclosure controls and procedures", as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No changes in our internal control over financial reporting (as such term is defined in Rules 13a–15(f) and 15d–15(f) under the Exchange Act) occurred during our most recent quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of Apollo is responsible for establishing and maintaining adequate internal control over financial reporting. Apollo's internal control over financial reporting is a process designed under the supervision of its principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Apollo's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets, provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Apollo's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of Apollo's internal control over financial reporting as of December 31, 2016 based on the framework established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that Apollo's internal control over financial reporting as of December 31, 2016 was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited Apollo's financial statements included in this annual report on Form 10-K and issued its report on the effectiveness of Apollo's internal control over financial reporting as of December 31, 2016, which is included herein.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The following table presents certain information concerning our board of directors and executive officers:

Name	Age	Position(s)
Leon Black	65	Chairman, Chief Executive Officer and Director
Joshua Harris	52	Senior Managing Director and Director
Marc Rowan	54	Senior Managing Director and Director
Martin Kelly	49	Chief Financial Officer
John Suydam	57	Chief Legal Officer
Michael Ducey	68	Director
Paul Fribourg	63	Director
Robert Kraft	75	Director
A.B. Krongard	80	Director
Pauline Richards	68	Director

Leon Black. Mr. Black is the Chairman of the board of directors and Chief Executive Officer of Apollo and a Managing Partner of Apollo Management, L.P. In 1990, Mr. Black founded Apollo Management, L.P. and Lion Advisors, L.P. to manage investment capital on behalf of a group of institutional investors, focusing on corporate restructuring, leveraged buyouts and taking minority positions in growth-oriented companies. From 1977 to 1990, Mr. Black worked at Drexel Burnham Lambert Incorporated, where he served as a Managing Director, head of the Mergers & Acquisitions Group, and co-head of the Corporate Finance Department. Mr. Black also serves on the board of directors of the general partner of AAA and previously served on the board of directors of Sirius XM Radio Inc. Mr. Black is a Co-Chairman of The Museum of Modern Art and a trustee of The Mount Sinai Medical Center and The Asia Society. He is also a member of The Council on Foreign Relations and The Partnership for New York City. He is also a member of the boards of directors of FasterCures and the Port Authority Task Force. Mr. Black graduated summa cum laude from Dartmouth College in 1973 with a major in Philosophy and History and received an MBA from Harvard Business School in 1975. Mr. Black has significant experience making and managing private equity investments on behalf of Apollo and has over 37 years' experience financing, analyzing and investing in public and private companies. In his prior positions with Drexel and in his positions at Apollo, Mr. Black is responsible for leading and overseeing teams of professionals. His extensive experience allows Mr. Black to provide insight into various aspects of Apollo's business and is of significant value to the board of directors.

Joshua Harris. Mr. Harris is a Senior Managing Director and a member of the board of directors of Apollo and a Managing Partner of Apollo Management, L.P., which he co-founded in 1990. Prior to 1990, Mr. Harris was a member of the Mergers and Acquisitions group of Drexel Burnham Lambert Incorporated. Mr. Harris is a member of the Federal Reserve Bank of New York's Investor Advisory Committee on Financial Markets and the Council of Foreign Relations. He is a Managing Partner of the Philadelphia 76ers, Managing Member of the New Jersey Devils and a General Partner of the Crystal Palace Football Club. Mr. Harris also serves on the Board of Trustees of Mount Sinai Medical Center, Harvard Business School, the Wharton School at the University of Pennsylvania, and the United States Olympic Committee. Mr. Harris has previously served on the board of directors of Berry Plastics Group Inc., EP Energy Corporation, EPE Acquisition, LLC, CEVA Logistics, Constellium N.V., and LyondellBasell Industries B.V. Mr. Harris graduated summa cum laude and Beta Gamma Sigma from the University of Pennsylvania's Wharton School of Business with a B.S. in Economics and received his M.B.A. from the Harvard Business School, where he graduated as a Baker and Loeb Scholar. Mr. Harris has significant experience in making and managing private equity investments on behalf of Apollo and has over 27 years' experience in financing, analyzing and investing in public and private companies. Mr. Harris's extensive knowledge of Apollo's business and experience in a variety of senior leadership roles enhance the breadth of experience of the board of directors.

Marc Rowan. Mr. Rowan is a Senior Managing Director and member of the board of directors of Apollo and a Managing Partner of Apollo Management, L.P., which he co-founded in 1990. Prior to 1990, Mr. Rowan was a member of the Mergers & Acquisitions Group of Drexel Burnham Lambert Incorporated, with responsibilities in high yield financing, transaction idea generation and merger structure negotiation. Mr. Rowan currently serves on the boards of directors of, inter alia, Athene Holding Ltd, Caesars Entertainment Corporation and Caesars Acquisition Co. He has previously served on the boards of directors of, inter alia, the general partner of AAA, AMC Entertainment, Inc., Cablecom GmbH, Caesars Entertainment Operating Co.,

Culligan Water Technologies, Inc., Countrywide Holdings Limited, Furniture Brands International Inc., Mobile Satellite Ventures, LLC, National Cinemedia, Inc., National Financial Partners, Inc., New World Communications, Inc., Norwegian Cruise Lines, Quality Distribution, Inc., Samsonite Corporation, SkyTerra Communications Inc., Unity Media SCA, Vail Resorts, Inc. and Wyndham International, Inc. Mr. Rowan is also active in charitable activities. He is a founding member and Chairman of the YRF-Darca and is a member of the Board of Overseers of the University of Pennsylvania's Wharton School of Business and serves on the boards of directors of Jerusalem Online and the New York City Police Foundation. Mr. Rowan graduated summa cum laude from the University of Pennsylvania's Wharton School of Business with a B.S. and an M.B.A. in Finance. Mr. Rowan has significant experience making and managing private equity investments on behalf of Apollo and has over 28 years' experience financing, analyzing and investing in public and private companies. Mr. Rowan's extensive financial background and expertise in private equity investments enhance the breadth of experience of the board of directors.

Martin Kelly. Mr. Kelly joined Apollo in 2012 as Chief Financial Officer. Mr. Kelly also oversees the Firm's IT, Risk, Operations and Audit groups. From 2008 to 2012, Mr. Kelly was with Barclays Capital and, from 2000 to 2008, Mr. Kelly was with Lehman Brothers Holdings Inc. Prior to departing Barclays Capital, Mr. Kelly served as Managing Director, CFO of the Americas, and Global Head of Financial Control for their Corporate and Investment Bank. Prior to joining Lehman Brothers in 2000, Mr. Kelly spent 13 years with PricewaterhouseCoopers LLP, including serving in the Financial Services Group in New York from 1994 to 2000. Mr. Kelly was appointed a Partner of the firm in 1999. Mr. Kelly received a degree in Commerce, majoring in Finance and Accounting, from the University of New South Wales in 1989.

John Suydam. Mr. Suydam joined Apollo in 2006 and serves as Apollo's Chief Legal Officer. From 2002 to 2006, Mr. Suydam was a partner at O'Melveny & Myers LLP where he served as head of Mergers and Acquisitions and co-head of the Corporate Department. Prior to that time, Mr. Suydam served as Chairman of the law firm O'Sullivan, LLP which specialized in representing private equity investors. Mr. Suydam serves on the boards of The Legal Action Center, Environmental Solutions Worldwide, Inc. and New York University School of Law, and is a member of the Department of Medicine Advisory Board of the Mount Sinai Medical Center. Mr. Suydam received his J.D. from New York University and graduated magna cum laude with a B.A. in History from the State University of New York at Albany.

Michael Ducey. Mr. Ducey has served as an independent director of Apollo and a member of the audit committee and as Chairman of the conflicts committee of our board of directors since 2011. Mr. Ducey was with Compass Minerals International, Inc., from March 2002 to May 2006, where he served in a variety of roles, including as President, Chief Executive Officer and Director prior to his retirement in May 2006. Prior to joining Compass Minerals International, Inc., Mr. Ducey worked for nearly 30 years at Borden Chemical, Inc., in various management, sales, marketing, planning and commercial development positions, and ultimately as President, Chief Executive Officer and Director. Mr. Ducey is currently the Chairman of the compliance and governance committee and the nominations committee of the board of directors of HaloSource, Inc. Mr. Ducey joined Ciner Resources Corporation (formerly OCI Resources LP) as an independent member of the board of directors in September 2014, where he serves on the audit committee and the conflicts committee. From May 2006 to July 2016, Mr. Ducey was a member of the board of directors of Verso Paper Holdings, Inc. and served as Chairman of the audit committee. From September 2009 to December 2012, Mr. Ducey was the non-executive Chairman of TPC Group, Inc. and served on the audit committee and the environmental health and safety committee. From June 2006 to May 2008, Mr. Ducey served on the board of directors of and as a member of the governance and compensation committee of the board of directors of UAP Holdings Corporation. Also, from July 2010 to May 2011, Mr. Ducey was a member of the board of directors and served on the audit committee of Smurfit-Stone Container Corporation. Mr. Ducey graduated from Otterbein University with a degree in Economics and an M.B.A. in finance from the University of Dayton. Mr. Ducey's comprehensive corporate background and his experience serving on various boards and committees add significant value to the board of directors.

Paul Fribourg. Mr. Fribourg has served as an independent director of Apollo and as a member of the conflicts committee of our board of directors since 2011. From 1997 to the present, Mr. Fribourg has served as Chairman and Chief Executive Officer of Continental Grain Company. Prior to 1997, Mr. Fribourg served in a variety of other roles at Continental Grain Company, including Merchandiser, Product Line Manager, Group President and Chief Operating Officer. Mr. Fribourg serves on the boards of directors of Restaurant Brands International Inc., Loews Corporation, Castleton Commodities International LLC and The Estee Lauder Companies, Inc. He also serves as a board member of the Rabobank International North American Agribusiness Advisory Board, the New York University Mitchell Jacobson Leadership Program in Law and Business Advisory Board and Endeavor Global Inc. Mr. Fribourg is also a member of the Council on Foreign Relations and the International Business Leaders Advisory Council for The Mayor of Shanghai. Mr. Fribourg graduated magna cum laude from Amherst College and completed the Advanced Management Program at Harvard Business School. Mr. Fribourg's extensive corporate experience enhances the breadth of experience and independence of the board of directors.

Robert Kraft. Mr. Kraft has served as an independent director of Apollo since 2014. Mr. Kraft is Chairman and Chief Executive Officer of The Kraft Group, which includes the New England Patriots, New England Revolution, Gillette Stadium, Rand-Whitney Group and International Forest Products Corporation. Mr. Kraft serves on a number of NFL Committees, including

the Executive Committee, Finance Committee and Broadcast Committee (Chairman). He also serves as Chairman for both the New England Patriots Charitable Foundation and the Robert and Myra Kraft Family Foundation, and is a director of the Dana Farber Cancer Institute. From 2006 to 2015, Mr. Kraft served as a member of the board of directors of Viacom Inc. Mr. Kraft's corporate strategic and operational experience combined with his strong relationships in the business community make him a valuable member of the board of directors.

A.B. Krongard. Mr. Krongard has served as an independent director of Apollo and as a member of the audit committee of our board of directors since 2011. From 2001 to 2004, Mr. Krongard served as Executive Director of the Central Intelligence Agency. From 1998 to 2001, Mr. Krongard served as Counselor to the Director of Central Intelligence. Prior to 1998, Mr. Krongard served in various capacities at Alex Brown, Incorporated, including serving as Chief Executive Officer beginning in 1991 and assuming additional duties as Chairman of the board of directors in 1994. Upon the merger of Alex Brown, Incorporated with Bankers Trust Corporation in 1997, Mr. Krongard served as Vice-Chairman of the Board of Bankers Trust Corporation and served in such capacity until joining the Central Intelligence Agency. Mr. Krongard serves as the Lead Director and audit committee Chairman of Under Armour, Inc. and also serves as a board member of Iridium Communications Inc. and In-Q-Tel, Inc. Mr. Krongard graduated with honors from Princeton University and received a J.D. from the University of Maryland School of Law, where he also graduated with honors. Mr. Krongard also serves as the Vice Chairman of the Johns Hopkins Health System. Mr. Krongard's comprehensive corporate background contributes to the range of experience of the board of directors.

Pauline Richards. Ms. Richards has served as an independent director of Apollo and as Chairman of the audit committee of our board of directors since 2011. Ms. Richards currently serves as Chief Operating Officer of Armour Group Holdings Limited, a position she has held since 2008. Ms. Richards also serves as a member of the Audit and Compensation Committees of the board of directors of Wyndham Worldwide, a position she has held since 2006; is a director of Hamilton Insurance Group, serving on the audit and investment committees, a position she has held since 2013; and is the Treasurer of the board of directors of PRIDE Bermuda, a drug prevention organization of which she has been a member for over 20 years. Prior to 2008, Ms. Richards served as Director of Development of Saltus Grammar School from 2003 to 2008, as Chief Financial Officer of Lombard Odier Darier Hentsch (Bermuda) Limited from 2001 to 2003, and as Treasurer of Gulf Stream Financial Limited from 1999 to 2000. Ms. Richards also served as a member of the Audit Committee and chair of the Corporate Governance Committee of the board of directors of Butterfield Bank from 2006 to 2013. Ms. Richards graduated from Queen's University, Ontario, Canada, with a BA in psychology and has obtained certification as a CPA, CMA. Ms. Richards' extensive finance experience and her service on the boards of other public companies add significant value to the board of directors.

Our Manager

Our operating agreement provides that so long as the Apollo Group beneficially owns at least 10% of the aggregate number of votes that may be cast by holders of outstanding voting shares, our manager, which is owned and controlled by our Managing Partners, will manage all of our operations and activities and will have discretion over significant corporate actions, such as the issuance of securities, payment of distributions, sales of assets, making certain amendments to our operating agreement and other matters, and our board of directors will have no authority other than that which our manager chooses to delegate to it. We refer to the Apollo Group's beneficial ownership of at least 10% of such voting power as the "Apollo control condition." For purposes of our operating agreement, the "Apollo Group" means (i) our manager and its affiliates, including their respective general partners, members and limited partners, (ii) Holdings and its affiliates, including their respective general partners, members and limited partners, (iii) with respect to each Managing Partner, such Managing Partner and such Managing Partner's "group" (as defined in Section 13(d) of the Exchange Act), (iv) any former or current investment professional of or other employee of an "Apollo employer" (as defined below) or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group), (v) any former or current executive officer of an Apollo employer or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group); and (vi) any former or current director of an Apollo employer or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group). With respect to any person, "Apollo employer" means Apollo Global Management, LLC or such other entity controlled by Apollo Global Management, LLC or its successor as may be such person's employer but does not include any portfolio companies.

Decisions by our manager are made by its executive committee, which is composed of our three Managing Partners. Each Managing Partner will remain on the executive committee for so long as he is employed by us, provided that Mr. Black, upon his retirement, may at his option remain on the executive committee until his death or disability or any commission of an act that would constitute cause if Mr. Black had still been employed by us. Other than those actions that require unanimous consent, actions by the executive committee are determined by majority vote of its voting members, except as to the following matters, as to which Mr. Black will have the right of veto: (i) the designations of directors to our board, or (ii) a sale or other disposition of the Apollo Operating Group and/or its subsidiaries or any portion thereof, through a merger, recapitalization, stock sale, asset sale or otherwise, to an unaffiliated third party (other than through an exchange of Apollo Operating Group units, transfers by a Managing Partner or a permitted transferee to another permitted transferee, or the issuance of bona fide equity incentives to any of our non-Managing Partner employees) that constitutes (x) a direct or indirect sale of a ratable interest (or substantially ratable interest) in

each entity that constitutes the Apollo Operating Group or (y) a sale of all or substantially all of the assets of Apollo (this clause (ii), an "LB Approval Event"). Exchanges of Apollo Operating Group units for Class A shares that are not pro rata among our Managing Partners or in which each Managing Partner has the option not to participate are not subject to Mr. Black's right of veto.

Subject to limited exceptions described in our operating agreement, our manager may not sell, exchange or otherwise dispose of all or substantially all of our assets and those of our subsidiaries, taken as a whole, in a single transaction or a series of related transactions without the approval of holders of a majority of the aggregate number of voting shares outstanding; provided, however, that this does not preclude or limit our manager's ability, in its sole discretion, to mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets and those of our subsidiaries (including for the benefit of persons other than us or our subsidiaries, including affiliates of our manager) and does not apply to any forced sale of any or all of our assets pursuant to the foreclosure of, or other realization upon, any such encumbrance.

We will reimburse our manager and its affiliates for all costs incurred in managing and operating us, and our operating agreement provides that our manager will determine the expenses that are allocable to us. The agreement does not limit the amount of expenses for which we will reimburse our manager and its affiliates.

Board Composition and Limited Powers of Our Board of Directors

For so long as the Apollo control condition is satisfied, our manager shall (i) nominate and elect all directors to our board of directors, (ii) set the number of directors of our board of directors and (iii) fill any vacancies on our board of directors. After the Apollo control condition is no longer satisfied, each of our directors will be elected by the vote of a plurality of our shares entitled to vote, voting as a single class, to serve until his or her successor is duly elected or appointed and qualified or until his or her earlier death, retirement, disqualification, resignation or removal. Our board currently consists of eight members. For so long as the Apollo control condition is satisfied, our manager may remove any director, with or without cause, at any time. After such condition is no longer satisfied, a director or the entire board of directors may be removed by the affirmative vote of holders of 50% or more of the total voting power of our shares.

As noted, so long as the Apollo control condition is satisfied, our manager will manage all of our operations and activities, and our board of directors will have no authority other than that which our manager chooses to delegate to it. In the event that the Apollo control condition is not satisfied, our board of directors will manage all of our operations and activities.

Pursuant to a delegation of authority from our manager, which may be revoked, our board of directors has established and at all times will maintain audit and conflicts committees of the board of directors that have the responsibilities described below under "—Committees of the Board of Directors—Audit Committee" and "—Committees of the Board of Directors—Conflicts Committee."

Where action is required or permitted to be taken by our board of directors or a committee thereof, a majority of the directors or committee members present at any meeting of our board of directors or any committee thereof at which there is a quorum shall be the act of our board or such committee, as the case may be. Our board of directors or any committee thereof may also act by unanimous written consent.

Under the Agreement Among Managing Partners (as described under "Item 13. Certain Relationships and Related Transactions—Lenders Rights Agreement—Amendments to Managing Partner Transfer Restrictions"), the vote of a majority of the independent members of our board of directors will decide the following: (i) in the event that a vacancy exists on the executive committee of our manager and the remaining members of the executive committee cannot agree on a replacement (other than a replacement for Mr. Black nominated by Mr. Black or his representative, which requires the approval of only one member of the executive committee), the independent members of our board of directors shall select one of the two nominees to the executive committee of our manager presented to them by the remaining members of such executive committee to fill the vacancy on such executive committee and (ii) in the event that Mr. Black wishes to exercise his ability to cause an LB Approval Event, the affirmative vote of the majority of the independent members of our board of directors shall be required to approve such a transaction. We are not a party to the Agreement Among Managing Partners, and neither we nor our shareholders (other than our Strategic Investors, as described under "Item 13. Certain Relationships and Related Transactions—Lenders Rights Agreement—Amendments to Managing Partner Transfer Restrictions") have any right to enforce the provisions described above. Such provisions can be amended or waived upon agreement of our Managing Partners at any time.

Committees of the Board of Directors

We have established an audit committee as well as a conflicts committee. Our audit committee has adopted a charter that complies with current SEC and NYSE rules relating to corporate governance matters. Our board of directors may from time to time establish other committees of our board of directors.

Audit Committee

The primary purpose of our audit committee is to assist our manager in overseeing and monitoring (i) the quality and integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) our independent registered public accounting firm's qualifications and independence and (iv) the performance of our independent registered public accounting firm.

The current members of our audit committee are Messrs. Ducey and Krongard and Ms. Richards. Ms. Richards currently serves as Chairperson of the committee. Each of the members of our audit committee meets the independence standards and financial literacy requirements for service on an audit committee of a board of directors pursuant to the Exchange Act and NYSE rules applicable to audit committees and corporate governance. Furthermore, our manager has determined that Ms. Richards is an "audit committee financial expert" within the meaning of Item 407(d)(5) of Regulation S-K. Our audit committee has a charter which is available on our website at www.agm.com under the "Investor Relations" section.

Conflicts Committee

The current members of our conflicts committee are Messrs. Ducey and Fribourg. Mr. Ducey currently serves as Chairman of the committee. The purpose of the conflicts committee is to review specific matters that our manager believes may involve conflicts of interest. The conflicts committee will determine whether the resolution of any conflict of interest submitted to it is fair and reasonable to us. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to us and not a breach by us of any duties that we may owe to our shareholders. In addition, the conflicts committee may review and approve any related person transactions, other than those that are approved pursuant to our related person policy, as described under "Item 13. Certain Relationships and Related Party Transactions—Statement of Policy Regarding Transactions with Related Persons," and may establish guidelines or rules to cover specific categories of transactions.

Code of Business Conduct and Ethics

We have a Code of Business Conduct and Ethics, which applies to, among others, our principal executive officer, principal financial officer and principal accounting officer. A copy of our Code of Business Conduct and Ethics is available on our website at www.agm.com under the "Investor Relations" section. We intend to disclose any amendment to or waiver of the Code of Business Conduct and Ethics on behalf of an executive officer or director either on our website or in an 8-K filing.

Corporate Governance Guidelines

We have Corporate Governance Guidelines that address significant issues of corporate governance and set forth procedures by which our manager and board of directors carry out their respective responsibilities. The guidelines are available for viewing on our website at www.agm.com under the "Investor Relations" section. We will also provide the guidelines, free of charge, to shareholders who request them. Requests should be directed to our Secretary at Apollo Global Management, LLC, 9 West 57th Street, 43rd Floor, New York, New York 10019.

Communications with the Board of Directors

A shareholder or other interested party who wishes to communicate with our directors, a committee of our board of directors, our independent directors as a group or our board of directors generally may do so in writing. Any such communications may be sent to our board of directors by U.S. mail or overnight delivery and should be directed to our Secretary at Apollo Global Management, LLC, 9 West 57th Street, 43rd Floor, New York, New York 10019, who will forward them to the intended recipient(s). Any such communications may be made anonymously. Unsolicited advertisements, invitations to conferences or promotional materials, in the discretion of our Secretary, are not required, however, to be forwarded to the directors.

Executive Sessions of Independent Directors

The independent directors serving on our board of directors meet periodically in executive sessions during the year at regularly scheduled meetings of our board of directors. These executive sessions will be presided over by one of the independent directors serving on our board of directors selected on an ad-hoc basis.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities to file initial reports of ownership and reports of changes in ownership with the SEC and furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on our review of the copies of such reports furnished to us or written representations from such persons that they were not required to file a Form 5 to report previously unreported ownership or changes in ownership, we believe that, with respect to the fiscal year ended December 31, 2016, such persons complied with all such filing requirements, with the exception of a Form 4 for Ms. Richards reporting one transaction which was filed one day late due to administrative reasons through no fault of the reporting person.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Philosophy

Alignment of Interests with Investors and Shareholders. Our principal compensation philosophy is to align the interests of our Managing Partners and other senior professionals with those of our Class A shareholders and fund investors. This alignment, which we believe is a key driver of our success, has been achieved principally by our Managing Partners' and other investment professionals' direct beneficial ownership of equity in our business in the form of AOG Units and Class A shares, their ownership of rights to receive a portion of the incentive income earned from our funds, the direct investment by our investment professionals in our funds, and our practice of paying annual compensation partly in the form of equity-based grants that are subject to vesting. As a result of this alignment, the compensation of our professionals is closely tied to the performance of our businesses. To enhance this alignment and strengthen retention incentives, in 2016 our Managing Partners generally reduced the portion of our professionals' annual compensation that is paid in cash.

Significant Personal Investment. Our investment professionals generally make significant personal investments in our funds (as more fully described under "Item 13. Certain Relationships and Related Party Transactions"), directly or indirectly, and our professionals who receive carried interests in our funds are generally required to invest their own capital in the funds on which they work in amounts that are generally proportionate to the size of their participation in incentive income. We believe that these investments help to ensure that our professionals have capital at risk and reinforce the linkage between the success of the funds we manage, the success of the Company and the compensation paid to our professionals.

Long-Term Performance and Commitment. Most of our professionals have been issued RSUs, which provide rights to receive Class A shares and, in some instances, distribution equivalents on those shares. The vesting requirements and minimum retained ownership requirements for these awards contribute to our professionals' focus on long-term performance while enhancing retention of these professionals. RSUs are not awarded to our Managing Partners, whose beneficial ownership of equity interests in the company is generally in the form of AOG units, as discussed below under "-Note on Distributions on Apollo Operating Group Units."

Discouragement of Excessive Risk-Taking. Although investments in alternative assets can pose risks, we believe that our compensation program includes significant elements that discourage excessive risk-taking while aligning the compensation of our professionals with our long-term performance. For example, notwithstanding that we accrue compensation for our carried interest programs (described below) as increases in the value of the portfolio investments are recorded in the related funds, we generally make payments in respect of carried interest allocations to our employees only after profitable investments have actually been realized. This helps to ensure that our professionals take a long-term view that is consistent with the interests of the Company, our shareholders and the investors in our funds. Moreover, if a fund fails to achieve specified investment returns due to diminished performance of later investments, our carried interest program relating to that fund generally permits, for the benefit of the limited partner investors in that fund, the return of carried interest payments (generally net of tax) previously made to us or our employees. These provisions discourage excessive risk-taking and promote a long-term view that is consistent with the interests of our fund investors and shareholders. Our general requirement that our professionals invest in the funds we manage further aligns the interests of our professionals, fund investors and Class A shareholders. Finally, the minimum retained ownership requirements of our RSUs and AOG Units, as well as a requirement that certain investment professionals use a portion of their distributions of carried interest income and incentive fees to purchase Class A restricted shares, discourage excessive risk-taking because the value of these interests is tied directly to the long-term performance of our Class A shares.

Note on Distributions on Apollo Operating Group Units

We note that all of our Managing Partners beneficially own AOG Units. In particular, as of December 31, 2016, the Managing Partners beneficially owned, through their interest in Holdings, approximately 48% of the total limited partner interests

in the Apollo Operating Group. When made, distributions on these units are in the same amount per unit as distributions made to us in respect of the AOG Units we hold. Although distributions on AOG Units are distributions on equity rather than compensation, they play a central role in aligning our Managing Partners' interests with those of our Class A shareholders, which is consistent with our compensation philosophy. As of December 31, 2016, the Managing Partners were required to retain 70% of their AOG Units.

Compensation Elements for Named Executive Officers

Consistent with our emphasis on alignment of interests with our fund investors and Class A shareholders, compensation elements tied to the profitability of our different businesses and that of the funds that we manage are the primary means of compensating our five executive officers listed in the tables below, or the "named executive officers." The key elements of the compensation of our named executive officers during fiscal year 2016 are described below. We distinguish among the compensation components applicable to our named executive officers as appropriate in the below summary. Messrs. Black, Harris and Rowan are the three members of the group referred to elsewhere in this report as the "Managing Partners."

Annual Salary. Each of our named executive officers receives an annual salary. The base salaries of our named executive officers are set forth in the Summary Compensation Table below, and those base salaries were set by our Managing Partners in their judgment after considering the historic compensation levels of the officer, competitive market dynamics, and each officer's level of responsibility and anticipated contributions to our overall success.

RSUs. In 2016, a portion of our named executive officers' compensation (other than for our Managing Partners) was paid in the form of RSUs. We refer to our annual grants of RSUs as Bonus Grants. The RSUs are subject to multi-year vesting and minimum retained ownership requirements. All named executive officers who have received RSUs were required to retain at least 50% of any Class A shares issued to them pursuant to Bonus Grants granted prior to September 1, 2016, and 25% of any Class A Shares issued to them pursuant to all other RSU awards (including Bonus Grants granted on or after that date), in each case net of the number of gross shares sold or netted to pay applicable income or employment taxes. The Managing Directors determined to make this reduction based on their understanding, informed by publicly available information and independent research by our human capital department, that the previous requirements were high relative to current industry norms. The named executive officer Plan Grants and Bonus Grants are described below under "-Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table-Awards of Restricted Share Units Under the Equity Plan."

Carried Interest and Incentive Fees. Carried interests and incentive fee entitlements with respect to our funds confer rights to receive distributions if a distribution is made to investors following the realization of an investment or receipt of operating profit from an investment by the fund. Distributions of carried interest generally are subject to contingent repayment (generally net of tax) if the fund fails to achieve specified investment returns due to diminished performance of later investments, while distributions in respect of incentive fees are generally not subject to contingent repayment. The actual gross amount of carried interest allocations or incentive fees available for distribution are a function of the performance of the applicable fund. For these reasons, we believe that participation in carried interest and incentive fees generated by our funds aligns the interests of our participating named executive officers with those of our Class A shareholders and fund investors.

We currently have two principal types of carried interest programs, which we refer to as dedicated and incentive pool. Messrs. Kelly and Suydam have been awarded rights to participate in a dedicated percentage of the carried interest or incentive fee income earned by the general partners of certain of our funds. Participation in dedicated carried interest in our private equity funds is typically subject to vesting, which rewards long-term commitment to the firm and thereby enhances the alignment of participants' interests with the Company. As with our distributions in respect of incentive fees, our financial statements characterize the carried interest income allocated to participating professionals in respect of their dedicated carried interests as compensation. Actual distributions in respect of dedicated carried interests and incentive fees are included in the "All Other Compensation" column of the summary compensation table.

Our performance based incentive arrangement referred to as the incentive pool further aligns the overall compensation of certain of our professionals to the realized performance of our business. The incentive pool provides for compensation based on carried interest realizations earned by us during the year and enhances our capacity to offer competitive compensation opportunities to our professionals. "Carried interest realizations earned" means carried interest earned by the general partners of our funds under the applicable fund limited partnership agreements based upon transactions that have closed or other rights to cash that have become fixed in the applicable calendar year period. Under this arrangement, Messrs. Kelly and Suydam, among other of our professionals, were awarded incentive pool compensation based on carried interest realizations earned during 2016. Allocations to participants in the incentive pool contain both a fixed component and a discretionary component, both of which may vary year-to-year, including as a result of our overall realized performance and the contributions and performance of each participant. The Managing Partners determine the amount of the carried interest realizations to place into the incentive pool in their discretion after considering various factors, including Company profitability, management company cash requirements and

anticipated future costs, provided that the incentive pool consists of an amount equal to at least one percent (1%) of the carried interest realizations attributable to profits generated after creation of the incentive pool that were taxable in the applicable year and not allocable to dedicated carried interests. Each participant in the incentive pool is entitled to receive, as a fixed component of participation in the incentive pool, his or her pro rata allocation of this 1% amount each year, provided the participant remains employed by us at the time of allocation. Our financial statements characterize the carried interest income allocated to participating professionals in respect of incentive pool interests as compensation. The "All Other Compensation" column of the summary compensation table includes actual distributions paid from the incentive pool.

Restricted Shares. We require that a portion of the carried interest and incentive fee distributions in respect of certain of the investment funds we manage is used by our employees who receive those distributions to purchase Class A restricted shares issued under our 2007 Omnibus Equity Incentive Plan. This practice further promotes alignment with our shareholders and encourages participating professionals to maximize the success of the Company as a whole. Like our RSUs, the restricted shares are subject to multi-year vesting, which fosters retention. In 2016, the funds with respect to which Messrs. Kelly and Suydam have rights subject to this restricted share purchase requirement had not yet commenced making carried interest or incentive fee distributions.

Determination of Compensation of Named Executive Officers

Our Managing Partners make all final determinations regarding named executive officer compensation. Decisions about the variable elements of a named executive officer's compensation, including participation in our carried interest and incentive fee programs, discretionary bonuses (if any) and grants of equity-based awards, are based primarily on our Managing Partners' assessment of such named executive officer's individual performance, operational performance for the department or division in which the officer (other than a Managing Partner) serves, and the officer's impact on our overall operating performance and potential to contribute to long-term shareholder value. In evaluating these factors, our Managing Partners do not utilize quantitative performance targets but rather rely upon their judgment about each named executive officer's performance to determine an appropriate reward for the current year's performance. The determinations by our Managing Partners are ultimately subjective, are not tied to specified annual, qualitative or individual objectives or performance factors, and reflect discussions among the Managing Partners. Factors that our Managing Partners typically consider in making such determinations include the named executive officer's type, scope and level of responsibilities, active participation in managing a team of professionals, corporate citizenship and the named executive officer's overall contributions to our success. Our Managing Partners also consider each named executive officer's prior-year compensation, the appropriate balance between incentives for long-term and short-term performance, competitive market dynamics, compensation provided to the named executive officer by other entities, and the compensation paid to the named executive officer's peers within the Company. The Managing Partners determined that, based on the above factors, including the named executive officers' overall compensation levels, discretionary cash bonuses would not be awarded to any named executive officer for 2016. For a discussion of our Managing Partners' determinations in respect of our RSU program, see below under "—Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table—Awards of Restricted Share Units Under the Equity Plan."

Compensation Committee Interlocks and Insider Participation

Our board of directors does not have a compensation committee. Our Managing Partners make all compensation determinations with respect to executive officer compensation. For a description of certain transactions between us and the Managing Partners, see "Item 13. Certain Relationships and Related Party Transactions."

Compensation Committee Report

As noted above, our board of directors does not have a compensation committee. The executive committee of our manager identified below has reviewed and discussed with management the foregoing Compensation Discussion and Analysis and, based on such review and discussion, has determined that the Compensation Discussion and Analysis should be included in this Annual Report on Form 10-K.

Leon Black
Joshua Harris
Marc Rowan

Summary Compensation Table

The following summary compensation table sets forth information concerning the compensation earned by, awarded to or paid to our principal executive officer, our principal financial officer, and our three other most highly compensated executive officers for the fiscal year ended December 31, 2016. The earnings of our Managing Partners, Messrs. Black, Harris and Rowan, derive predominantly from distributions they receive as a result of their indirect beneficial ownership of AOG Units and their rights under the tax receivable agreement (described elsewhere in this report, including above under "Item 5. Market for Registrant's

Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Cash Distribution Policy"), rather than from compensation, and accordingly are not included in the tables below. The executive officers named in the table are referred to as the named executive officers.

Name and Principal Position	Year	Salary ($)	Stock Awards ($)(1)	All Other Compensation ($)(2)	Total ($)
Leon Black, Chairman, Chief Executive Officer and Director	2016	100,000	—	150,622	250,622
	2015	100,000	—	144,751	244,751
	2014	100,000	—	173,980	273,980
Martin Kelly, Chief Financial Officer	2016	1,000,000	1,897,640	1,050,000	3,947,640
	2015	1,000,000	681,643	1,300,000	2,981,643
	2014	1,000,000	698,444	1,300,000	2,998,444
John Suydam, Chief Legal Officer	2016	2,500,000	498,260	668,934	3,667,194
	2015	2,500,000	499,058	1,640,003	4,639,062
	2014	3,000,000	511,370	5,420,540	8,931,910
Joshua Harris, Senior Managing Director and Director	2016	100,000	—	228,537	328,537
	2015	100,000	—	281,204	381,204
Marc Rowan, Senior Managing Director and Director	2016	100,000	—	215,020	315,020
	2015	100,000	—	169,671	269,671

(1) For Messrs. Kelly and Suydam, represents the aggregate grant date fair value of stock awards granted, as applicable, computed in accordance with FASB ASC Topic 718. The amounts shown do not reflect compensation actually received by the named executive officers, but instead represent the aggregate grant date fair value of the awards. See note 13 to our consolidated financial statements for further information concerning the assumptions made in valuing our RSU awards.

(2) Amounts included for 2016 represent, in part, actual cash distributions in respect of dedicated carried interest allocations for Mr. Suydam of $149,150. The 2016 amounts also include actual incentive pool cash distributions of $1,050,000 for Mr. Kelly and $500,000 for Mr. Suydam. The "All Other Compensation" column for 2016 also includes costs relating to Company-provided cars and drivers for the business and personal use of Messrs. Black, Harris, Rowan and Suydam. We provide this benefit because we believe that its cost is outweighed by the convenience, increased efficiency and added security and confidentiality that it offers. The personal use cost was approximately $135,097 for Mr. Black, $197,012 for Mr. Harris, $199,495 for Mr. Rowan and $17,809 for Mr. Suydam. For Messrs. Black, Harris and Rowan, this amount includes both fixed and variable costs, including lease costs, driver compensation, driver meals, fuel, parking, tolls, repairs, maintenance and insurance, and, for Mr. Rowan, car service costs. For Mr. Suydam, this amount includes the costs to the Company associated with his use of a car service. Except as discussed in this paragraph, no 2016 perquisites or personal benefits individually exceeded the greater of $25,000 or 10% of the total amount of all perquisites and other personal benefits reported for the named executive officer. The cost of excess liability insurance provided to our named executive officers, and the cost of information technology services provided to Mr. Harris, falls below this threshold. Mr. Kelly did not receive perquisites or personal benefits in 2016, except for incidental benefits having an aggregate value of less than $10,000. Our named executive officers also receive secretarial support with respect to personal matters. We incur no incremental cost for the provision of such additional benefits. Accordingly, no such amount is included in the Summary Compensation Table.

Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table

Employment, Non-Competition and Non-Solicitation Agreements with Chairman and Chief Executive Officer and with each Senior Managing Director

On January 4, 2017, we entered into an employment, non-competition and non-solicitation agreement with Leon Black, our chairman and chief executive officer, and with each of Joshua Harris and Marc Rowan, our senior managing directors, all of whom are members of our manager's executive committee. These agreements, which provide for an annual salary of $100,000 and the right to participate in our employee benefit plans as in effect from time to time, superseded but are substantially similar to agreements with our Managing Partners dated July 2012. The 2017 agreements, like the 2012 agreements, have a three-year term. Although the term of the 2012 agreements concluded in 2015, during 2016, our Managing Partners' employment continued on the same terms as provided under those agreements.

Employment, Non-Competition and Non-Solicitation Agreement with Chief Financial Officer

On July 2, 2012, we entered into an employment, non-competition and non-solicitation agreement with Martin Kelly, our chief financial officer. His annual base salary is $1,000,000. As provided in his employment agreement, Mr. Kelly received a Plan Grant of 375,000 RSUs in connection with his commencement of employment. He is eligible for an annual bonus in an amount

to be determined by the Managing Partners in their discretion. Mr. Kelly participates in the incentive pool and is eligible to receive distributions thereunder.

Employment Terms of Chief Legal Officer

John Suydam, our chief legal officer, does not have an employment agreement with us.

Awards of Restricted Share Units Under the Equity Plan

Our equity plan, known as the 2007 Omnibus Equity Incentive Plan, was last approved by our shareholders on March 10, 2011. Grants of RSUs under the plan have been made to certain of our named executive officers primarily pursuant to two programs, which we call the “Plan Grants” and the “Bonus Grants.” Plan Grants have been made to a broad range of our employees, including Mr. Suydam and Mr. Kelly. The Plan Grants generally vest over six years, with the first installment becoming vested approximately one year after grant and the balance vesting thereafter in equal quarterly installments. Holders of Plan Grant RSUs become entitled to distribution equivalents on their vested RSUs if we pay ordinary distributions on our outstanding Class A shares. The administrator of the 2007 Omnibus Equity Incentive Plan determines when shares issued pursuant to the RSU Awards may be disposed of, except that a participant will generally be permitted to sell shares if necessary to cover taxes. Under our retained ownership requirements, as of December 31, 2016, all executive officers who received RSU awards were required to retain at least 50% of any Class A shares issued to them pursuant to RSU awards granted prior to September 1, 2016, and 25% of any Class A Shares issued to them pursuant to RSU awards granted after that date (in each case net of the number of gross shares sold or netted to pay applicable income or employment taxes).

The RSUs advance several goals of our compensation program. The Plan Grants align employee interests with those of our shareholders by making our employees, upon issuance of the underlying Class A shares, shareholders themselves. Because they vest over time, the Plan Grants reward employees for sustained contributions to the Company and foster retention. The size of the Plan Grants is determined by the Plan administrator based on the grantee’s level of responsibility and contributions to the Company. The restrictive covenants contained in the RSU agreements reinforce our culture of fiduciary protection of our fund investors and shareholders by requiring RSU holders to abide by the provisions regarding non-competition, confidentiality and other limitations on behavior described in the immediately preceding paragraph.

The Bonus Grants are also grants of RSUs under the 2007 Omnibus Equity Incentive Plan. However, the Bonus Grants constitute payment of a portion of the annual compensation earned by certain of our professionals, including Messrs. Kelly and Suydam, subject to the employee’s continued service through the vesting dates. Our named executive officers’ Bonus Grants generally differ from their Plan Grants in the following principal ways:

- The RSU Shares underlying Bonus Grants are generally scheduled to vest in three equal annual installments.
- Distribution equivalents are earned on Bonus Grant RSUs (whether or not vested) when ordinary distributions are made on Class A shares after the grant date, but distribution equivalents are earned on Plan Grant RSUs only after they have vested.

In addition to his Bonus Grant, Mr. Kelly received a special Plan Grant in 2016 that vests over three years, in recognition of his contributions to the Company in his role as chief financial officer and the view by our Managing Partners, after considering Mr. Kelly’s oversight of our expanded operations, competitive market dynamics, his prior year compensation, his corporate citizenship and his role in the Company’s success, that his compensation should be increased. This increase was made in the form of RSUs rather than cash consistent with our philosophy that a greater percentage of the compensation of our more highly compensated employees (relative to the compensation of less highly compensated employees) should be variable and subject to risk, to more closely align their interests with those of our shareholders. The committee that administers our 2007 Omnibus Equity Incentive Plan took into account that Mr. Kelly had received in 2016 a grant of 10,000 restricted stock units (having a grant date fair value of $164,200) in respect of shares of ARI, the publicly traded REIT that we manage, pursuant to an approval by its the compensation committee consistent with a recommendation it received from us.

Grants of Plan-Based Awards

The following table presents information regarding RSUs granted to Messrs. Kelly and Suydam under our 2007 Omnibus Equity Incentive Plan in 2016. No options were granted to a named executive officer in 2016.

Name	Grant Date	Estimated Future Payouts under Equity Incentive Plan Awards Target (#)	Stock Awards: Number of Shares of Stock or Units (#)(1)	Grant Date Fair Value or Modification Date Incremental Fair Value of Stock and Option Awards ($)(2)
Leon Black	—	—	—	—
Martin Kelly	December 29, 2016	—	36,632	692,711
	December 29, 2016		71,979	1,204,929
John Suydam	December 29, 2016	—	26,349	498,260
Joshua Harris	—	—	—	—
Marc Rowan	—	—	—	—

(1) Represents the aggregate number of RSUs covering our Class A shares (none of the RSUs awarded in 2016 vested in 2016). For a discussion of these grants, please see the discussion above under "-Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table-Awards of Restricted Share Units Under the Equity Plan." Mr. Kelly's award of 71,979 RSUs is a Plan Grant and the other awards shown in the table are Bonus Grants.

(2) Represents the aggregate grant date fair value of the RSUs granted in 2016, computed in accordance with FASB ASC Topic 718. The amounts shown do not reflect compensation actually received, but instead represent the aggregate grant date fair value of the award.

Outstanding Equity Awards at Fiscal Year-End

The following table presents information regarding unvested RSU awards made by us to our named executive officers under our 2007 Omnibus Equity Incentive Plan that were outstanding at December 31, 2016. Our named executive officers did not hold any options at fiscal year-end.

Name		Stock Awards		
		Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)		Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(6)
Leon Black	—	—		—
Martin Kelly	December 29, 2016	36,632	(1)	709,196
	December 29, 2016	71,979	(2)	1,393,514
	December 29, 2015	30,581	(3)	592,048
	December 29, 2014	10,284	(4)	199,098
	September 30, 2012	109,375	(5)	2,117,500
John Suydam	December 29, 2016	26,349	(1)	510,117
	December 29, 2015	22,390	(3)	433,470
	December 29, 2014	7,530	(4)	145,781
Joshua Harris	—	—		—
Marc Rowan	—	—		—

(1) Bonus Grant RSUs that vest in substantially equal annual installments on December 31 of each of 2017, 2018 and 2019.

(2) Plan Grant RSUs, one third (1/3) of which vest on December 31, 2017 and the remainder of which vest in substantially equal quarterly installments over the eight calendar quarters beginning March 31, 2018.

(3) Bonus Grant RSUs that vest in substantially equal annual installments on December 31 of each of 2017 and 2018.

(4) Bonus Grant RSUs that vest on December 31, 2017.

(5) Plan Grant RSUs that vest in substantially equal quarterly installments over the seven calendar quarters beginning March 31, 2017.

(6) Amounts calculated by multiplying the number of unvested RSUs held by the named executive officer by the closing price of $19.36 per Class A share on December 31, 2016.

Option Exercises and Stock Vested

The following table presents information regarding the number of outstanding initially unvested RSUs held by our named executive officers that vested during 2016 and the number of options exercised by our named executive officers in 2016. The amounts shown below do not reflect compensation actually received by the named executive officers, but instead are calculations of the number of RSUs that vested during 2016 based on the closing price of our Class A shares on the date of vesting. Shares

received by our named executive officers are subject to our retained ownership requirements. No options were exercised by our named executive officers in 2016.

		Stock Awards	
Name	Type of Award	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Leon Black	—	—	—
Martin Kelly	RSUs	94,111	1,699,333 (1)
John Suydam	RSUs	24,350	471,416 (1)
Joshua Harris	—	—	—
Marc Rowan	—	—	—

(1) Amounts calculated by multiplying the number of RSUs held by the named executive officer that vested on each applicable vesting date in 2016 by the closing price per Class A share on that date. Class A shares underlying these vested RSUs are issued to the named executive officer in accordance with the schedules described above under "—Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table—Awards of Restricted Share Units Under the Equity Plan."

Potential Payments upon Termination or Change in Control

None of the named executive officers is entitled to payment or other benefits in connection with a change in control.

None of Messrs. Black, Harris or Rowan is entitled to severance or other payments or benefits in connection with an employment termination. Messrs. Black, Harris and Rowan are required to protect the confidential information of Apollo both during and after employment. In addition, until one year after employment termination, each is required to refrain from soliciting employees under specified circumstances or interfering with our relationships with investors and to refrain from competing with us in a business that involves primarily (i.e., more than 50%) third-party capital. These post-termination covenants survive any termination or expiration of the Agreement Among Managing Partners (described elsewhere in this report under "Item 13. Certain Relationships and Related Party Transactions—Agreement Among Managing Partners"). If any of Messrs. Black, Harris or Rowan becomes subject to a potential termination for cause or by reason of disability, our manager may appoint an investment professional to perform his functional responsibilities and duties until cause or disability definitively results in his termination or is determined not to have occurred, but the manager may so appoint an investment professional only if such Managing Partner is unable to perform his responsibilities and duties or, as a matter of fiduciary duty, should be prohibited from doing so. During any such period, the Managing Partner shall continue to serve on the executive committee of our manager unless otherwise prohibited from doing so pursuant to the Agreement Among Managing Partners.

If Mr. Kelly's employment is terminated by us without cause or he resigns for good reason, he will be entitled to severance of six months' base pay and reimbursement of health insurance premiums paid in the six months following his employment termination. If Mr. Kelly's employment is terminated by us without cause or he resigns for good reason, he will vest in 50% of any unvested portion of his Plan Grant RSUs. If his employment is terminated by reason of death or disability, he will vest in 50% of any unvested portion of his Plan Grant and Bonus Grant RSUs. We may terminate Mr. Kelly's employment with or without cause, and we will provide 90 days' notice (or payment in lieu of such period of notice) prior to a termination without cause. Mr. Kelly is required to give us 90 days' notice prior to a resignation for any reason. He is required to protect the confidential information of Apollo both during and after employment. In addition, during employment and for 12 months after employment, Mr. Kelly is also obligated to refrain from soliciting our employees, interfering with our relationships with investors or other business relations, and competing with us in a business that manages or invests in assets substantially similar to those managed or invested in by Apollo or its affiliates.

If Mr. Suydam's employment is terminated by reason of death or disability, he will vest in 50% of his then unvested RSUs. Mr. Suydam is required to protect our confidential information at all times. During his employment and for 12 months thereafter, Mr. Suydam is also obligated to refrain from soliciting our employees, interfering with our relationships with investors or other business relations, and competing with us in a business that manages or invests in assets substantially similar to those invested in or managed by Apollo or its affiliates. Mr. Suydam is required to provide 90 days' notice prior to a resignation for any reason.

The named executive officers' obligations during and after employment were considered by the Managing Partners in determining appropriate post-employment payments and benefits for the named executive officers.

The following table lists the estimated amounts that would have been payable to each of our named executive officers in connection with a termination that occurred on the last day of our last completed fiscal year and the value of any additional

equity that would vest upon such termination. When listing the potential payments to named executive officers under the plans and agreements described above, we have assumed that the applicable triggering event occurred on December 31, 2016 and that the price per share of our Class A shares was $19.36, which is equal to the closing price on such date. For purposes of this table, RSU values are based on the $19.36 closing price.

Name	Reason for Employment Termination	Estimated Value of Cash Payments ($)	Estimated Value of Equity Acceleration ($)
Leon Black	Cause	—	—
	Death, disability	—	—
Martin Kelly	Without cause, by executive for good reason	516,413 (1)	1,058,750 (2)
	Death, disability	—	2,505,678 (2)
John Suydam	Without cause; by executive for good reason	—	—
	Death, disability	—	544,684 (2)
Joshua Harris	Cause	—	—
	Death, disability	—	—
Marc Rowan	Cause	—	—
	Death, disability	—	—

(1) This amount would have been payable to the named executive officer had his employment been terminated by the Company without cause (and other than by reason of death or disability) or for good reason on December 31, 2016.

(2) This amount represents the additional equity vesting that the named executive officer would have received had his employment terminated in the circumstances described in the column, "Reason for Employment Termination," on December 31, 2016, based on the closing price of a Class A share on such date. Please see our "Outstanding Equity Awards at Fiscal Year-End" table above for information regarding the named executive officer's unvested equity as of December 31, 2016.

Director Compensation

We do not pay additional remuneration to our employees, including Messrs. Black, Harris and Rowan, for their service on our board of directors. The 2016 compensation of Messrs. Black, Harris and Rowan is set forth above on the Summary Compensation Table.

During 2016, each independent director received (1) a base annual director fee of $125,000, (2) an additional annual director fee of $25,000 if he or she was a member of the audit committee, (3) an additional annual director fee of $10,000 if he or she was a member of the conflicts committee, (4) an additional annual director fee of $25,000 (incremental to the fee described in (2)) if he or she served as the chairperson of the audit committee, and (5) an additional annual director fee of $15,000 (incremental to the fee described in (3)) if he or she served as the chairperson of the conflicts committee. In addition, independent directors were reimbursed for reasonable expenses incurred in attending board meetings.

Currently, upon initial election to the board of directors, an independent director receives a grant of RSUs with a value of $300,000 that vests in equal annual installments on June 30 of each of the first, second and third years following the year that the grant is made. Mr. Kraft received this type of award on July 14, 2014 in connection with his appointment to the board of directors. Incumbent independent directors who have fully vested in their initial RSU award receive an annual RSU award with a value of $100,000 that vests on June 30 of the year following the year that the grant is made, and the directors listed on the below table (other than Mr. Kraft) received that award on July 26, 2016.

The following table provides the compensation for our independent directors during the year ended December 31, 2016.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Total ($)
Michael Ducey	175,000	96,112	271,112
Paul Fribourg	135,000	96,112	231,112
Robert Kraft	129,830	—	129,830
A. B. Krongard	150,000	96,112	246,112
Pauline Richards	175,000	96,112	271,112

(1) Represents the aggregate grant date fair value of stock awards granted, as applicable, computed in accordance with FASB ASC Topic 718. See note 13 to our consolidated financial statements for further information concerning the assumptions made in valuing our RSU awards. The amounts shown do not reflect compensation actually received by the independent directors, but instead represent the aggregate grant date fair value of the awards. Unvested director RSUs are not entitled to distributions or distribution equivalents. As of December 31, 2016, each of Ms. Richards and Messrs. Ducey, Fribourg and Krongard, held 6,583 RSUs that were unvested and outstanding, and Mr. Kraft held 3,620 RSUs that were unvested and outstanding.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of our Class A shares as of February 8, 2017 by (i) each person known to us to beneficially own more than 5% of the voting Class A shares of Apollo Global Management, LLC, (ii) each of our directors, (iii) each person who is a named executive officer for 2016 and (iv) all directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. To our knowledge, each person named in the table below has sole voting and investment power with respect to all of the Class A shares and interests in our Class B share shown as beneficially owned by such person, except as otherwise set forth in the notes to the table and pursuant to applicable community property laws. Unless otherwise indicated, the address of each person named in the table is c/o Apollo Global Management, LLC, 9 West 57th Street, New York, NY 10019.

In respect of our Class A shares, the table set forth below assumes the exchange by Holdings of all AOG Units for our Class A shares with respect to which the person listed below has the right to direct such exchange pursuant to the Amended and Restated Exchange Agreement described under “Item 13. Certain Relationships and Related Party Transactions—Amended and Restated Exchange Agreement,” and the distribution of such shares to such person as a limited partner of Holdings.

	Class A Shares Beneficially Owned			Class B Share Beneficially Owned		
	Number of Shares	Percent(1)	Total Percentage of Voting Power(2)	Number of Shares	Percent	Total Percentage of Voting Power(2)
Directors and Executive Officers:						
Leon Black(3)(4)	92,727,166	33.1%	57.9%	1	100%	57.9%
Joshua Harris(3)(4)	53,932,643	22.4%	57.9%	1	100%	57.9%
Marc Rowan(3)(4)	45,731,402	19.6%	57.9%	1	100%	57.9%
Pauline Richards	33,806	*	*	—	—	—
Alvin Bernard Krongard(5)	279,732	*	*	—	—	—
Michael Ducey(6)	36,746	*	*	—	—	—
Robert Kraft(7)	267,240	*	*	—	—	—
Paul Fribourg	33,577	*	*	—	—	—
Martin Kelly	167,777	*	*	—	—	—
John Suydam(8)	835,332	*	*	—	—	—
All directors and executive officers as a group (ten persons)(9)	194,045,421	51.1%	52.2%	1	100%	57.9%
BRH(4)	—	—	—	1	100%	57.9%
AP Professional Holdings, L.P.(10)	215,457,239	53.5%	57.9%	—	—	—
5% Stockholders:						
—	—	—	—	—	—	—

*Represents less than 1%.

(1) The percentage of beneficial ownership of our Class A shares is based on voting and non-voting Class A shares outstanding.

(2) The total percentage of voting power is based on voting Class A shares and the Class B share.

(3) The number of Class A shares presented are held by estate planning vehicles, for which this individual disclaims beneficial ownership except to the extent of his pecuniary interest therein. The number of Class A shares presented do not include any Class A shares owned by Holdings with respect to which this individual, as one of the three owners of all of the interests in BRH, the general partner of Holdings, or as a party to the Agreement Among Managing Partners described under "Item 13. Certain Relationships and Related Party Transactions—Agreement Among Managing Partners" or the Managing Partner Shareholders Agreement described under "Item 13. Certain Relationships and Related Party Transactions—Managing Partner Shareholders Agreement," may be deemed to have shared voting or dispositive power. Each of these individuals disclaims any beneficial ownership of these shares, except to the extent of his pecuniary interest therein.

(4) BRH, the holder of the Class B share, is one third owned by Mr. Black, one third owned by Mr. Harris and one third owned by Mr. Rowan. Pursuant to the Agreement Among Managing Partners, the Class B share is to be voted and disposed of by BRH based on the determination of at least two of the three Managing Partners; as such, they share voting and dispositive power with respect to the Class B share.

(5) Includes 250,000 Class A shares held by a trust for the benefit of Mr. Krongard's children, for which Mr. Krongard's children are the trustees. Mr. Krongard disclaims beneficial ownership with respect to such shares, except to the extent of his pecuniary interest therein.

(6) Includes 2,616 Class A shares held by two trusts for the benefit of Mr. Ducey's grandchildren, for which Mr. Ducey and several of Mr. Ducey's immediate family members are trustees and have shared investment power. Mr. Ducey disclaims beneficial ownership of the Class A shares held in the trusts, except to the extent of his pecuniary interest therein.

(7) Includes 260,000 Class A shares held by two entities, which are under the sole control of Mr. Kraft, and may be deemed to be beneficially owned by Mr. Kraft.

(8) Includes 199,008 Class A shares held by a trust for the benefit of Mr. Suydam's spouse and children, for which Mr. Suydam's spouse is the trustee. Mr. Suydam disclaims beneficial ownership with respect to such shares, except to the extent of his pecuniary interest therein.

(9) Refers to shares beneficially owned by the individuals who were directors and executive officers as of February 8, 2017.

(10) Assumes that no Class A shares are distributed to the limited partners of Holdings. The general partner of Holdings is BRH, which is one third owned by Mr. Black, one third owned by Mr. Harris and one third owned by Mr. Rowan. BRH is also the general partner of BRH Holdings, L.P., the limited partnership through which Messrs. Black, Harris and Rowan indirectly beneficially own (through estate planning vehicles) their limited partner interests in Holdings. These individuals disclaim any beneficial ownership of these Class A shares, except to the extent of their pecuniary interest therein.

Securities Authorized for Issuance under Equity Incentive Plans

The following table sets forth information concerning the awards that may be issued under the Company's Omnibus Equity Incentive Plan as of December 31, 2016.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights[(1)]	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)[(2)]
	(a)	(b)	(c)
Equity Compensation Plans Approved by Security Holders	12,864,223	$17.69	45,230,529
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	12,864,223	$17.69	45,230,529

(1) Reflects the aggregate number of outstanding options and RSUs granted under the Company's 2007 Omnibus Equity Incentive Plan (the "Equity Plan") as of December 31, 2016.

(2) The Class A shares reserved under the Equity Plan are increased on the first day of each fiscal year by (i) the amount (if any) by which (a) 15% of the number of outstanding Class A shares and AOG Units exchangeable for Class A shares on a fully converted and diluted basis on the last day of the immediately preceding fiscal year exceeds (b) the number of shares then reserved and available for issuance under the Equity Plan, or (ii) such lesser amount by which the administrator may decide to increase the number of Class A shares. The number of shares reserved under the Equity Plan is also subject to adjustment in the event of a share split, share dividend, or other change in our capitalization. Generally, employee shares that are forfeited, canceled, surrendered or exchanged from awards under the Equity Plan will be available for future awards. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register Class A shares under the Equity Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, Class A shares registered under such registration statement will be available for sale in the open market.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Agreement Among Managing Partners

Our Managing Partners have entered into the Agreement Among Managing Partners. The Managing Partners beneficially own Holdings in accordance with their respective sharing percentages, or "Sharing Percentages," as set forth in the Agreement Among Managing Partners. For the purposes of the Agreement Among Managing Partners, "Pecuniary Interest" means, with respect to each Managing Partner, the number of AOG Units that would be distributable to him assuming that Holdings was liquidated and its assets distributed in accordance with its governing agreements.

Pursuant to the Agreement Among Managing Partners, each Managing Partner is vested in full in his respective AOG Units. We may not terminate a Managing Partner except for cause or by reason of disability.

The transfer by a Managing Partner of any portion of his Pecuniary Interest to a permitted transferee will in no way affect any of his obligations under the Agreement Among Managing Partners; provided, that all permitted transferees are required to sign a joinder to the Agreement Among Managing Partners.

The Managing Partners' respective Pecuniary Interests in certain funds, or the "Heritage Funds," within the Apollo Operating Group are not held in accordance with the Managing Partners' respective Sharing Percentages. Instead, each Managing Partner's Pecuniary Interest in such Heritage Funds is held in accordance with the historic ownership arrangements among the Managing Partners, and the Managing Partners continue to share the operating income in such Heritage Funds in accordance with their historic ownership arrangement with respect to such Heritage Funds.

The Agreement Among Managing Partners may be amended and the terms and conditions of the Agreement Among Managing Partners may be changed or modified upon the unanimous approval of the Managing Partners. We, our shareholders (other than the Strategic Investors, as set forth under "—Lenders Rights Agreement—Amendments to Managing Partner Transfer Restrictions") and the Apollo Operating Group have no ability to enforce any provision of the Agreement Among Managing Partners or to prevent the Managing Partners from amending it.

Managing Partner Shareholders Agreement

We have entered into the Managing Partner Shareholders Agreement with our Managing Partners. The Managing Partner Shareholders Agreement provides the Managing Partners with certain rights with respect to the approval of certain matters and the designation of nominees to serve on our board of directors, as well as registration rights for our securities that they own.

Board Representation

The Managing Partner Shareholders Agreement requires our board of directors, so long as the Apollo control condition is satisfied, to nominate individuals designated by our manager such that our manager will have a majority of the designees on our board.

Transfer Restrictions

The Managing Partner Shareholders Agreement provides that no Managing Partner may, nor shall any of such Managing Partner's permitted transferees, directly or indirectly, voluntarily effect cumulative transfers of Pecuniary Interests (as defined in the Managing Partner Shareholders Agreement), representing more than: (i) 30% of his Pecuniary Interests at any time on or after the fifth anniversary and prior to the sixth anniversary of our IPO; and (ii) 100% of his Pecuniary Interests at any time on or after the sixth anniversary of our IPO, other than, in each case, with respect to transfers (a) from one Managing Partner to another Managing Partner, (b) to a permitted transferee of such Managing Partner, or (c) in connection with a sale by one or more of our Managing Partners in one or a related series of transactions resulting in the Managing Partners owning or controlling, directly or indirectly, less than 50.1% of the economic or voting interests in us or the Apollo Operating Group, or any other person exercising control over us or the Apollo Operating Group by contract, which would include a transfer of control of our manager.

The percentages referenced in the preceding paragraph will apply to the aggregate amount of Equity Interests held by each Managing Partner (and his permitted transferees) as of July 13, 2007. Following the sixth anniversary of the IPO, each Managing Partner and his permitted transferees may transfer all of the Pecuniary Interests of such Managing Partner to any person or entity in accordance with Rule 144, in a registered public offering or in a transaction exempt from the registration requirements of the Securities Act. The above transfer restrictions will lapse with respect to a Managing Partner if he dies or becomes disabled.

A "permitted transferee" means, with respect to each Managing Partner and his permitted transferees, (i) such Managing Partner's spouse, (ii) a lineal descendant of such Managing Partner's parents (or any such descendant's spouse), (iii) a charitable institution controlled by such Managing Partner, (iv) a trustee of a trust (whether inter vivos or testamentary), the current

beneficiaries and presumptive remaindermen of which are one or more of such Managing Partner and persons described in clauses (i) through (iii) above, (v) a corporation, limited liability company or partnership, of which all of the outstanding shares of capital stock or interests therein are owned by one or more of such Managing Partner and persons described in clauses (i) through (iv) above, (vi) an individual mandated under a qualified domestic relations order, (vii) a legal or personal representative of such Managing Partner in the event of his death or disability, (viii) any other Managing Partner with respect to transactions contemplated by the Managing Partner Shareholders Agreement, and (ix) any other Managing Partner who is then employed by Apollo or any of its affiliates or any permitted transferee of such Managing Partner in respect of any transaction not contemplated by the Managing Partner Shareholders Agreement, in each case that agrees in writing to be bound by these transfer restrictions.

Any waiver of the above transfer restrictions may only occur with our consent. As our Managing Partners control the management of our company, however, they have discretion to cause us to grant one or more such waivers. Accordingly, the above transfer restrictions might not be effective in preventing our Managing Partners from selling or transferring their Pecuniary Interests.

Indemnity

Carried interest income from our funds can be distributed to us on a current basis, but is subject to repayment by the subsidiaries of the Apollo Operating Group that act as general partners of the funds in the event that certain specified return thresholds are not ultimately achieved. The Managing Partners, Contributing Partners and certain other investment professionals have personally guaranteed, subject to certain limitations, the obligations of these subsidiaries in respect of this general partner obligation. Such guarantees are several and not joint and are limited to a particular Managing Partner's, Contributing Partner's or other investment professional's distributions. Pursuant to the Managing Partner Shareholders Agreement, we agreed to indemnify each of our Managing Partners and certain Contributing Partners against all amounts that they pay pursuant to any of these personal guarantees in favor of Fund IV, Fund V and Fund VI (including costs and expenses related to investigating the basis for or objecting to any claims made in respect of the guarantees) for all interests that our Managing Partners and Contributing Partners have contributed or sold to the Apollo Operating Group.

Accordingly, in the event that our Managing Partners, Contributing Partners and certain other investment professionals are required to pay amounts in connection with a general partner obligation for the return of previously made distributions with respect to Fund IV, Fund V and Fund VI, we will be obligated to reimburse our Managing Partners and certain Contributing Partners for the indemnifiable percentage of amounts that they are required to pay even though we did not receive the distribution to which that general partner obligation related.

Registration Rights

Pursuant to the Managing Partner Shareholders Agreement, we have granted Holdings, an entity through which our Managing Partners and Contributing Partners beneficially own their AOG Units, and its permitted transferees the right, under certain circumstances and subject to certain restrictions, to require us to register under the Securities Act our Class A shares held or acquired by them. Under the Managing Partner Shareholders Agreement, the registration rights holders (i) have "demand" registration rights that require us to register under the Securities Act the Class A shares that they hold or acquire, (ii) may require us to make available registration statements permitting sales of Class A shares they hold or acquire in the market from time to time over an extended period and (iii) have the ability to exercise certain piggyback registration rights in connection with registered offerings requested by other registration rights holders or initiated by us. We have agreed to indemnify each registration rights holder and certain related parties against any losses or damages resulting from any untrue statement or omission of material fact in any registration statement or prospectus pursuant to which such holder sells our shares, unless such liability arose from the holder's misstatement or omission, and each registration rights holder has agreed to indemnify us against all losses caused by his misstatements or omissions. We have filed a shelf registration statement in connection with the rights described above.

Roll-Up Agreements

Pursuant to the Roll-Up Agreements, the Contributing Partners received interests in Holdings, which we refer to as AOG Units, in exchange for their contribution of assets to the Apollo Operating Group. The AOG Units received by our Contributing Partners and any units into which they have been exchanged are fully vested. AOG Units were subject to a lock-up until two years after our IPO. Thereafter, 7.5% of the AOG Units became tradable on each of the second, third, fourth and fifth anniversaries of our IPO, with the remaining AOG Units becoming tradable on the sixth anniversary of our IPO or upon subsequent vesting. Our Contributing Partners have the ability to direct Holdings to exercise Holdings' registration rights described above under "—Managing Partner Shareholders Agreement—Registration Rights."

Under their Roll-Up Agreements, each of our Contributing Partners is subject to a noncompetition provision until the first anniversary of the date of termination of his service as a partner to us. During that period, our Contributing Partners are prohibited from (i) engaging in any business activity in which we operate, (ii) rendering any services to any alternative asset management business (other than that of us or our affiliates) that involves primarily (i.e., more than 50%) third-party capital or

(iii) acquiring a financial interest in, or becoming actively involved with, any competitive business (other than as a passive holding of a specified percentage of publicly traded companies). In addition, our Contributing Partners are subject to nonsolicitation, nonhire and noninterference covenants during employment and for at least 12 months thereafter. Our Contributing Partners are also bound to a nondisparagement covenant with respect to us and our Contributing Partners and to confidentiality restrictions. Resignation by any of our Contributing Partners shall require ninety days' notice. Any restricted period applicable to a Contributing Partner will commence after the ninety-day notice of termination period.

Amended and Restated Exchange Agreement

We have entered into an exchange agreement with Holdings under which, subject to certain procedures and restrictions (including any applicable transfer restrictions and lock-up agreements described above) upon 60 days' written notice prior to a designated quarterly date, each Managing Partner and Contributing Partner (or certain transferees thereof) has the right to cause Holdings to exchange the AOG Units that he owns through Holdings for our Class A shares and to sell such Class A shares at the prevailing market price (or at a lower price that such Managing Partner or Contributing Partner is willing to accept). To effect the exchange, Holdings distributes the AOG Units to be exchanged to the applicable Managing Partner or Contributing Partner. Under the exchange agreement, the Managing Partner or Contributing Partner must then simultaneously exchange one AOG Unit (being an equal limited partner interest in each Apollo Operating Group entity) for each Class A share received from our intermediate holding companies. As a Managing Partner or Contributing Partner exchanges his AOG Units, our interest in the AOG Units will be correspondingly increased and the voting power of the Class B share will be correspondingly decreased.

The exchange agreement was amended and restated on May 6, 2013, further amended and restated on March 5, 2014 and further amended and restated on May 5, 2016. The amendments to the original exchange agreement (i) permit exchanging holders certain rights to revoke exchanges of their AOG Units in whole, but not in part, in certain circumstances; (ii) permit transfers of a holder's exchanged shares to a qualifying entity that can sell them under a Rule 10b5-1 trading plan; (iii) require the Company to use its commercially reasonable efforts to file and keep effective a shelf registration statement relating to the exchange of Class A shares received upon an exchange of AOG Units; (iv) modify the exchange mechanics to address certain tax considerations of an exchange for exchanging holders; and (v) require exchanging holders to reimburse APO Corp. for any incremental U.S. federal income tax incurred by APO Corp. as a result of the modification of the exchange mechanics.

Amended and Restated Tax Receivable Agreement

As a result of each of AMH Holdings (Cayman), L.P. and the Apollo Operating Group entities controlled by it or Apollo Management Holdings, L.P. having made an election under Section 754 of the Internal Revenue Code, any exchanges by a Managing Partner or Contributing Partner of AOG Units that he owns through Holdings (together with the corresponding interest in our Class B share) for our Class A shares in a taxable transaction may result in an adjustment to the tax basis of a portion of the assets owned by the Apollo Operating Group at the time of the exchange. The taxable exchanges may result in increases in the tax depreciation and amortization deductions from depreciable and amortizable assets, as well as an increase in the tax basis of other assets, of the Apollo Operating Group that otherwise would not have been available. A portion of these increases in tax depreciation and amortization deductions, as well as the increase in the tax basis of such other assets, will reduce the amount of tax that APO Corp. would otherwise be required to pay in the future. Additionally, our acquisition of AOG Units from the Managing Partners or Contributing Partners, such as our acquisition of AOG Units from the Managing Partners in the Strategic Investors Transaction, have resulted, and may continue to result, in increases in tax deductions and tax basis that reduces the amount of tax that APO Corp. would otherwise be required to pay in the future.

APO Corp. has entered into a tax receivable agreement with our Managing Partners and Contributing Partners that provides for the payment by APO Corp. to an exchanging or selling Managing Partner or Contributing Partner of 85% of the amount of actual cash savings, if any, in U.S. Federal, state, local and foreign income tax that APO Corp. realizes (or is deemed to realize in the case of an early termination payment by APO Corp. or a change of control, as discussed below) as a result of these increases in tax deductions and tax basis, and certain other tax benefits, including imputed interest expense, related to payments pursuant to the tax receivable agreement. APO Corp. expects to benefit from the remaining 15% of actual cash savings, if any, in income tax that it realizes. For purposes of the tax receivable agreement, cash savings in income tax will be computed by comparing our actual income tax liability to the amount of such taxes that APO Corp. would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of the applicable Apollo Operating Group entity as a result of the transaction and had APO Corp. not entered into the tax receivable agreement. The tax savings achieved may not ensure that we have sufficient cash available to pay our tax liability or generate additional distributions to our investors. Also, we may need to incur additional debt to repay the tax receivable agreement if our cash flow needs are not met. The term of the tax receivable agreement will continue until all such tax benefits have been utilized or expired, unless APO Corp. exercises the right to terminate the tax receivable agreement by paying an amount based on the present value of payments remaining to be made under the agreement with respect to units that have been exchanged or sold and units which have not yet been exchanged or sold. Such present value will be determined based on certain assumptions, including that APO Corp. would have sufficient taxable income to fully utilize

the deductions that would have arisen from the increased tax deductions and tax basis and other benefits related to the tax receivable agreement. In the event that other of our current or future U.S. subsidiaries become taxable as corporations and acquire AOG Units in the future, or if we become taxable as a corporation for U.S. Federal income tax purposes, each U.S. corporation will become subject to a tax receivable agreement with substantially similar terms.

The IRS could challenge our claim to any increase in the tax basis of the assets owned by the Apollo Operating Group that results from the exchanges entered into by the Managing Partners or Contributing Partners. The IRS could also challenge any additional tax depreciation and amortization deductions or other tax benefits we claim as a result of such increase in the tax basis of such assets. If the IRS were to successfully challenge a tax basis increase or tax benefits we previously claimed from a tax basis increase, our Managing Partners and Contributing Partners would not be obligated under the tax receivable agreement to reimburse APO Corp. for any payments previously made to it (although future payments would be adjusted to reflect the result of such challenge). As a result, in certain circumstances, payments could be made to our Managing Partners and Contributing Partners under the tax receivable agreement in excess of 85% of APO Corp.'s actual cash tax savings. In general, estimating the amount of payments that may be made to our Managing Partners and Contributing Partners under the tax receivable agreement is by its nature, imprecise, in the absence of an actual transaction, insofar as the calculation of amounts payable depends on a variety of factors. The actual increase in tax basis and the amount and timing of any payments under the tax receivable agreement will vary depending upon a number of factors, including:

- the timing of the transactions-for instance, the increase in any tax deductions will vary depending on the fair market value, which may fluctuate over time, of the depreciable or amortizable assets of the Apollo Operating Group entities at the time of the transaction;
- the price of our Class A shares at the time of the transaction-the increase in any tax deductions, as well as tax basis increase in other assets, of the Apollo Operating Group entities, is directly proportional to the price of the Class A shares at the time of the transaction;
- the taxability of exchanges–to the extent an exchange is not taxable for any reason, increased deductions will not be available; and
- the amount and timing of our income–APO Corp. will be required to pay 85% of the tax savings as and when realized, if any. If APO Corp. does not have taxable income, it is not required to make payments under the tax receivable agreement for that taxable year because no tax savings were actually realized.

In addition, the tax receivable agreement provides that, upon a merger, asset sale or other form of business combination or certain other changes of control, APO Corp.'s (or its successor's) obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such change of control) would be based on certain assumptions, including that APO Corp. would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement. As noted above, no payments will be made if a Managing Partner or Contributing Partner elects to exchange his or her AOG Units in a tax-free transaction.

In connection with the first amendment and restatement of the exchange agreement, the tax receivable agreement was amended and restated on May 6, 2013 to conform the agreement to the amended and restated exchange agreement, particularly to address the modified exchange mechanics, and to make non-substantive updates to recognize certain additional Apollo Operating Group entities that have been formed since the original tax receivable agreement was entered into in 2007.

Strategic Relationship Agreement

On April 20, 2010, we announced a strategic relationship agreement with CalPERS, whereby we agreed to reduce management fees and other fees charged to CalPERS on funds we manage, or in the future will manage, solely for CalPERS by $125 million over a five-year period or as close a period as required to provide CalPERS with that benefit. The agreement further provides that we will not use a placement agent in connection with securing any future capital commitments from CalPERS. Through December 31, 2016, the Company had reduced fees charged to CalPERS on the funds it manages by approximately $103.8 million.

Strategic Investors Transaction

On July 13, 2007, we sold securities to the Strategic Investors in return for a total investment of $1.2 billion. Through our intermediate holding companies, we used all of the proceeds from the issuance of such securities to the Strategic Investors to purchase AOG Units from our Managing Partners, and to purchase from our Contributing Partners a portion of their points. The Strategic Investors hold non-voting Class A shares, which represented 24.3% of our issued and outstanding Class A shares and 11.2% of the economic interest in the Apollo Operating Group, in each case as of December 31, 2016.

As all of their holdings in us are non-voting, neither of the Strategic Investors has any means for exerting control over our company.

Lenders Rights Agreement

In connection with the Strategic Investors Transaction, we entered into a shareholders agreement, or the "Lenders Rights Agreement," with the Strategic Investors.

Transfer Restrictions

Each Strategic Investor may transfer 100% of its non-voting Class A shares at any time after the fifth anniversary of our IPO.

Notwithstanding the foregoing, at no time following the registration effectiveness date may a Strategic Investor make a transfer representing 2% or more of our total Class A shares to any one person or group of related persons.

Registration Rights

Pursuant to the Lenders Rights Agreement, each Strategic Investor is afforded four demand registrations with respect to its non-voting Class A shares, covering offerings of at least 2.5% of our total equity ownership and customary piggyback registration rights. All cutbacks between the Strategic Investors and Holdings (or its partners) in any such demand registration shall be pro rata based upon the number of shares available for sale at such time (regardless of which party exercises a demand).

Amendments to Managing Partner Transfer Restrictions

Each Strategic Investor has a consent right with respect to any amendment or waiver of any transfer restrictions that apply to our Managing Partners.

Apollo Operating Group Limited Partnership Agreements

Pursuant to the partnership agreements of the Apollo Operating Group partnerships, the indirect wholly-owned subsidiaries of Apollo Global Management, LLC that are the general partners of those partnerships have the right to determine when distributions will be made to the partners of the Apollo Operating Group and the amount of any such distributions. If a distribution is authorized, such distribution will be made to the partners of the Apollo Operating Group pro rata in accordance with their respective partnership interests.

The partnership agreements of the Apollo Operating Group partnerships also provide that substantially all of our expenses, including substantially all expenses solely incurred by or attributable to Apollo Global Management, LLC, will be borne by the Apollo Operating Group; provided that obligations incurred under the tax receivable agreement by Apollo Global Management, LLC and its wholly-owned subsidiaries, income tax expenses of Apollo Global Management, LLC and its wholly-owned subsidiaries and indebtedness incurred by Apollo Global Management, LLC and its wholly-owned subsidiaries shall be borne solely by Apollo Global Management, LLC and its wholly-owned subsidiaries.

Employment Arrangements

Please see the section entitled "Item 11. Executive Compensation—Narrative Disclosure to the Summary Compensation Table and Grants of Plan—Based Awards Table" and "—Potential Payments upon Termination or Change in Control" for a description of the employment agreements of our named executive officers who have employment agreements.

In addition, Joshua Black a son of Leon Black, is currently employed by the Company as a Principal in the Company's private equity business. He is entitled to receive a base salary, incentive compensation and employee benefits comparable to those offered to similarly situated employees of the Company during 2016. He is also eligible to receive an annual performance-based bonus in 2016 in an amount determined by the Company in its discretion.

Reimbursements

In the normal course of business, our personnel have made use of aircraft owned as personal assets by Messrs. Black, Rowan and Harris. Messrs. Black, Rowan and Harris paid for their purchases of the aircraft and bear all operating, personnel and maintenance costs associated with their operation for personal use. Payment by us for the business use of these aircraft by Messrs. Black, Rowan and Harris and other of our personnel totaled $1,083,718, $831,997 and $451,401 for 2016 to Messrs. Black, Rowan and Harris, respectively (which amounts are determined based on the lower of the actual costs of operating the aircraft or a specified hourly market rate).

Investments In Apollo Funds

Our directors and executive officers are generally permitted to invest their own capital (or capital of estate planning vehicles that they control) directly in our funds and affiliated entities. In general, such investments are not subject to management fees, and in certain instances, may not be subject to carried interest. The opportunity to invest in our funds in the same manner is available to all of the senior Apollo professionals and to those of our employees whom we have determined to have a status that reasonably permits us to offer them these types of investments in compliance with applicable laws. From our inception through December 31, 2016, our professionals have committed or invested approximately $1.2 billion of their own capital to our funds.

The amount invested in our investment funds by our directors and executive officers (and their estate planning vehicles) during 2016 was $8,798,182, $10,923,518, $4,617,433, $2,664,246, $438,666, $361,789 and $1,243,821 for Messrs. Black, Harris, Rowan, Suydam, Kelly, Ducey, and Kraft, respectively. The amount of distributions, including profits and return of capital to our directors and executive officers (and their estate planning vehicles) during 2016 was $10,751,106, $10,193,345, $4,811,152, $1,638,505, $113,716, $273,917 and $741,690 for Messrs. Black, Harris, Rowan, Suydam, Kelly, Ducey, and Kraft, respectively.

Sub-Advisory Arrangements and Strategic Investment Accounts

From time to time, we have entered into sub-advisory arrangements with, or established strategic investment accounts for, certain of our directors and executive officers or vehicles they manage. Such arrangements have been approved in advance in accordance with our policy regarding transactions with related persons. In addition, such sub-advisory arrangements or strategic investment accounts have been entered into with, or advised by, an Apollo entity serving as investment advisor registered under the Investment Advisers Act, and any fee arrangements, if applicable, have been on an arms-length basis. The amount of such fees paid by our directors and executive officers or vehicles they manage to the Company during 2016 was $140,830 for Mr. Rowan and $152,881 for Mr. Harris.

Indemnification of Directors, Officers and Others

Under our operating agreement, in most circumstances we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts: our manager; any departing manager; any person who is or was an affiliate of our manager or any departing manager; any person who is or was a member, partner, tax matters partner, officer, director, employee, agent, fiduciary or trustee of us or our subsidiaries, our manager or any departing manager or any affiliate of us or our subsidiaries, our manager or any departing manager; any person who is or was serving at the request of our manager or any departing manager or any affiliate of our manager or any departing manager as an officer, director, employee, member, partner, agent, fiduciary or trustee of another person; or any person designated by our manager. We have agreed to provide this indemnification unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that these persons acted in bad faith or engaged in fraud or willful misconduct. We have also agreed to provide this indemnification for criminal proceedings. Any indemnification under these provisions will only be out of our assets. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our operating agreement.

We have entered into indemnification agreements with each of our directors, executive officers and certain of our employees which set forth the obligations described above.

We have also agreed to indemnify each of our Managing Partners and certain Contributing Partners against certain amounts that they are required to pay in connection with a general partner obligation for the return of previously made carried interest distributions in respect of Fund IV, Fund V and Fund VI. See the above description of the indemnity provisions of the Managing Partner Shareholders Agreement.

Statement of Policy Regarding Transactions with Related Persons

Our board of directors has adopted a written statement of policy regarding transactions with related persons, which we refer to as our "related person policy." Our related person policy requires that a "related person" (as defined in paragraph (a) of Item 404 of Regulation S-K) must promptly disclose to our Chief Legal Officer any "related person transaction" (defined as any transaction that is reportable by us under Item 404(a) of Regulation S-K in which we were or are to be a participant and the amount involved exceeds $120,000 and in which any related person had or will have a direct or indirect material interest) and all material facts with respect thereto. Our Chief Legal Officer will then promptly communicate that information to our manager. No related person transaction will be consummated without the approval or ratification of the executive committee of our manager or any committee of our board of directors consisting exclusively of disinterested directors. It is our policy that persons interested in a related person transaction will recuse themselves from any vote of a related person transaction in which they have an interest.

Director Independence

Because more than fifty percent of our voting power is controlled by BRH, we are considered a "controlled company" as defined in the listing standards of the NYSE and we are exempt from the NYSE rules that require that:

- our board of directors be comprised of a majority of independent directors;
- we establish a compensation committee composed solely of independent directors; and
- we establish a nominating and corporate governance committee composed solely of independent directors.

While our board of directors is currently comprised of a majority of independent directors, we plan on availing ourselves of the controlled company exceptions. We have elected not to have a nominating and corporate governance committee comprised entirely of independent directors, nor a compensation committee comprised entirely of independent directors. Our board of directors has determined that five of our eight directors meet the independence standards under the NYSE and the SEC. These directors are Messrs. Ducey, Fribourg, Krongard and Kraft and Ms. Richards.

At such time that we are no longer deemed a controlled company, our board of directors will take all action necessary to comply with all applicable rules within the applicable time period under the NYSE listing standards.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table summarizes the aggregate fees for professional services provided by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, the "Deloitte Entities") for the years ended December 31, 2016 and 2015.

	Year Ended December 31,	
	2016	2015
	(in thousands)	
Audit fees	$ 9,506 (1)	$ 10,185 (1)
Audit fees for Apollo fund entities	20,920 (2)	20,389 (2)
Audit-related fees	1,548 (3)(4)	6,138 (3)(4)
Tax fees	3,483 (5)	2,188 (5)
Tax fees for Apollo fund entities	23,367 (2)	19,150 (2)

(1) Audit fees consisted of fees for (a) the audits of our consolidated financial statements in our Annual Report on Form 10-K and services attendant to, or required by, statute or regulation; (b) reviews of the interim condensed consolidated financial statements included in our quarterly reports on Form 10-Q.
(2) Audit and Tax fees for Apollo fund entities consisted of services to investment funds managed by Apollo in its capacity as the general partner and/or manager of such entities.
(3) Audit-related fees consisted of comfort letters, consents and other services related to SEC and other regulatory filings.
(4) Includes audit-related fees for Apollo fund entities of $0.3 million and $0.9 million for the years ended December 31, 2016 and 2015, respectively.
(5) Tax fees consisted of fees for services rendered for tax compliance and tax planning and advisory services.

Our audit committee charter requires the audit committee of our board of directors to approve in advance all audit and non-audit related services to be provided by our independent registered public accounting firm. All services reported in the Audit, Audit-related, Tax and Other categories above were approved by the committee.

PART IV

ITEM 15. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Certificate of Formation of Apollo Global Management, LLC (incorporated by reference to Exhibit 3.1 to the Registrant’s Registration Statement on Form S-1 (File No. 333-150141)).
3.2	Amended and Restated Limited Liability Company Agreement of Apollo Global Management, LLC (incorporated by reference to Exhibit 3.2 to the Registrant’s Registration Statement on Form S-1 (File No. 333-150141)).
4.1	Specimen Certificate evidencing the Registrant’s Class A shares (incorporated by reference to Exhibit 4.1 to the Registrant’s Registration Statement on Form S-1 (File No. 333-150141)).
4.2	Indenture dated as of May 30, 2014, among Apollo Management Holdings, L.P., the Guarantors party thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant’s Form 8-K filed with the Securities and Exchange Commission on May 30, 2014 (File No. 001-35107)).
4.3	First Supplemental Indenture dated as of May 30, 2014, among Apollo Management Holdings, L.P., the Guarantors party thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant’s Form 8-K filed with the Securities and Exchange Commission on May 30, 2014 (File No. 001-35107)).
4.4	Form of 4.000% Senior Note due 2024 (included in Exhibit 4.2 to the Registrant’s Form 8-K filed with the Securities and Exchange Commission on May 30, 2014 (File No. 001-35107), which is incorporated by reference).
4.5	Second Supplemental Indenture dated as of January 30, 2015, among Apollo Management Holdings, L.P., the Guarantors party thereto, Apollo Principal Holdings X, L.P. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.5 to the Registrant’s Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
4.6	Third Supplemental Indenture dated as of February 1, 2016, among Apollo Management Holdings, L.P., the Guarantors party thereto, Apollo Principal Holdings XI, LLC and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.6 to the Registrant’s Form 10-Q for the period ended March 31, 2016 (File No. 001-35107)).
4.7	Fourth Supplemental Indenture dated as of May 27, 2016, among Apollo Management Holdings, L.P., the Guarantors party thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to the Registrant’s Form 8-K filed with the Securities and Exchange Commission on May 27, 2016 (File No. 001-35107)).
10.1	Amended and Restated Limited Liability Company Operating Agreement of AGM Management, LLC dated as of July 10, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant’s Registration Statement on Form S-1 (File No. 333-150141)).
10.2	Third Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings I, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.2 to the Registrant’s Registration Statement on Form S-1 (File No. 333-150141)).

Exhibit Number	Exhibit Description
10.3	Third Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings II, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.4	Third Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings III, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.5	Third Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings IV, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.6	Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.7	Agreement Among Principals, dated as of July 13, 2007, by and among Leon D. Black, Marc J. Rowan, Joshua J. Harris, Black Family Partners, L.P., MJR Foundation LLC, AP Professional Holdings, L.P. and BRH Holdings, L.P. (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.8	Shareholders Agreement, dated as of July 13, 2007, by and among Apollo Global Management, LLC, AP Professional Holdings, L.P., BRH Holdings, L.P., Black Family Partners, L.P., MJR Foundation LLC, Leon D. Black, Marc J. Rowan and Joshua J. Harris (incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.9	Fourth Amended and Restated Exchange Agreement, dated as of May 5, 2016, by and among Apollo Global Management, LLC, Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P., Apollo Principal Holdings X, L.P., Apollo Principal Holdings XI, LLC, AMH Holdings (Cayman), L.P. and the Apollo Principal Holders (as defined therein) from time to time party thereto (incorporated by reference to Exhibit 10.9 to the Registrant's Form 10-Q for the period ended March 31, 2016 (File No. 001-35107)).
10.10	Amended and Restated Tax Receivable Agreement, dated as of May 6, 2013, by and among APO Corp., Apollo Principal Holdings II, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings VI, Apollo Principal Holdings VIII, L.P., AMH Holdings (Cayman), L.P. and each Holder defined therein. (incorporated by reference to Exhibit 10.10 to the Registrant's Form 10-Q for the period ended June 30, 2016 (File No. 001-35107)).
*10.11	Employment Agreement with Leon D. Black dated January 4, 2017.
*10.12	Employment Agreement with Marc J. Rowan dated January 4, 2017.
*10.13	Employment Agreement with Joshua J. Harris dated January 4, 2017.

Exhibit Number	Exhibit Description
10.14	Second Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings V, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.20 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.15	Second Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings VI, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.21 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.16	Second Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings VII, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.22 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.17	Second Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings VIII, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.23 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.18	Second Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings IX, L.P. dated as of April 14, 2010 (incorporated by reference to Exhibit 10.24 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.19	Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings X, L.P. dated as of April 8, 2015 (incorporated by reference to Exhibit 10.19 to the Registrant's Form 10-Q for the period ended March 31, 2015 (File No. 001-35107)).
10.20	Amended and Restated Limited Liability Company Agreement of Apollo Principal Holdings XI, LLC dated as of April 11, 2016 (incorporated by reference to Exhibit 10.20 to the Registrant's Form 10-Q for the period ended March 31, 2016 (File No. 001-35107)).
10.21	Fourth Amended and Restated Limited Partnership Agreement of Apollo Management Holdings, L.P. dated as of October 30, 2012 (incorporated by reference to Exhibit 10.25 to the Registrant's Form 10-Q for the period ended March 31, 2013 (File No. 001-35107)).
10.22	Settlement Agreement, dated December 14, 2008, by and among Huntsman Corporation, Jon M. Huntsman, Peter R. Huntsman, Hexion Specialty Chemicals, Inc., Hexion LLC, Nimbus Merger Sub, Inc., Craig O. Morrison, Leon Black, Joshua J. Harris and Apollo Global Management, LLC and certain of its affiliates (incorporated by reference to Exhibit 10.26 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.23	First Amendment and Joinder, dated as of August 18, 2009, to the Shareholders Agreement, dated as of July 13, 2007, by and among Apollo Global Management, LLC, AP Professional Holdings, L.P., BRH Holdings, L.P., Black Family Partners, L.P., MJR Foundation LLC, Leon D. Black, Marc J. Rowan and Joshua J. Harris (incorporated by reference to Exhibit 10.27 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.24	Joinder, dated as of May 5, 2016, to the Shareholders Agreement, dated as of July 13, 2007, as amended by the First Amendment and Joinder dated as of August 18, 2009, by and among Apollo Global Management, LLC, AP Professional Holdings, L.P., BRH Holdings, L.P., Black Family Partners, L.P., MJR Foundation LLC, MJH Partners, L.P., Leon D. Black, Marc J. Rowan and Joshua J. Harris, and, solely in connection with Article VII of the Agreement, APO Corp., APO Asset Co., LLC, APO (FC), LLC, Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P. and Apollo Management Holdings, L.P. (incorporated by reference to Exhibit 10.24 to the Registrant's Form 10-Q for the period ended March 31, 2016 (File No. 001-35107)).

Exhibit Number	Exhibit Description
10.25	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.28 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.26	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for Plan Grants) (incorporated by reference to Exhibit 10.31 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.27	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for Bonus Grants) (incorporated by reference to Exhibit 10.32 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.28	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for new independent directors) (incorporated by reference to Exhibit 10.31 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.29	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for continuing independent directors) (incorporated by reference to Exhibit 10.32 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.30	Form of Restricted Share Award Grant Notice and Restricted Share Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.33 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.31	Form of Share Award Grant Notice and Share Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for Retired Partners) (incorporated by reference to Exhibit 10.34 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.32	Apollo Management Companies AAA Unit Plan (incorporated by reference to Exhibit 10.34 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.33	Non-Qualified Share Option Agreement pursuant to the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan with Marc Spilker dated December 2, 2010 (incorporated by reference to Exhibit 10.40 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.34	Amended Form of Independent Director Engagement Letter (incorporated by reference to Exhibit 10.38 to the Registrant's Form 10-Q for the period ended March 31, 2014 (File No. 001-35107)).
+10.35	Employment Agreement with Martin Kelly, dated July 2, 2012 (incorporated by reference to Exhibit 10.42 to the Registrant's Form 10-Q for the period ended June 30, 2012 (File No. 001-35107)).
10.36	Second Amended and Restated Exempted Limited Partnership Agreement of AMH Holdings (Cayman), L.P., dated November 30, 2012 (incorporated by reference to Exhibit 10.38 to the Registrant's Form 10-Q for the period ended June 30, 2015 (File No. 001-35107)).

Exhibit Number	Exhibit Description
+10.37	Amended and Restated Limited Partnership Agreement of Apollo Advisors VI, L.P., dated as of April 14, 2005 and amended as of August 26, 2005 (incorporated by reference to Exhibit 10.41 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.38	Third Amended and Restated Limited Partnership Agreement of Apollo Advisors VII, L.P. dated as of July 1, 2008 and effective as of August 30, 2007 (incorporated by reference to Exhibit 10.42 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.39	Third Amended and Restated Limited Partnership Agreement of Apollo Credit Opportunity Advisors I, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.43 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.40	Third Amended and Restated Limited Partnership Agreement of Apollo Credit Opportunity Advisors II, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.44 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.41	Third Amended and Restated Limited Partnership Agreement of Apollo Credit Liquidity Advisors, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.45 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.42	Second Amended and Restated Limited Partnership Agreement of Apollo Credit Liquidity CM Executive Carry, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.46 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.43	Second Amended and Restated Limited Partnership Agreement Apollo Credit Opportunity CM Executive Carry I, L.P. dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.47 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.44	Second Amended and Restated Limited Partnership Agreement of Apollo Credit Opportunity CM Executive Carry II, L.P. dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.48 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.45	Second Amended and Restated Exempted Limited Partnership Agreement of AGM Incentive Pool, L.P., dated June 29, 2012 (incorporated by reference to Exhibit 10.49 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
10.46	Credit Agreement, dated as of December 18, 2013, by and among Apollo Management Holdings, L.P., as the Term Facility Borrower and a Revolving Facility Borrower, the other Revolving Facility Borrowers party thereto, the other guarantors party thereto from time to time, the lenders party thereto from time to time, the issuing banks party thereto from time to time and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.50 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).

Exhibit Number	Exhibit Description
10.47	Guarantor Joinder Agreement, dated as of January 30, 2015, by Apollo Principal Holdings X, L.P. to the Credit Agreement, dated as of December 18, 2013, by and among Apollo Management Holdings, L.P., as the Term Facility Borrower and a Revolving Facility Borrower, the other Revolving Facility Borrowers party thereto, the existing guarantors party thereto, the lenders party thereto from time to time, the issuing banks party thereto from time to time and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.49 to the Registrant's Form 10-Q for the period ended March 31, 2015 (File No. 001-35107)).
10.48	Guarantor Joinder Agreement, dated as of February 1, 2016, by Apollo Principal Holdings XI, LLC to the Credit Agreement, dated as of December 18, 2013, by and among Apollo Management Holdings, L.P., as the Term Facility Borrower and a Revolving Facility Borrower, the other Revolving Facility Borrowers party thereto, the existing guarantors party thereto, the lenders party thereto from time to time, the issuing banks party thereto from time to time and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.48 to the Registrant's Form 10-Q for the period ended March 31, 2016 (File No. 001-35107)).
10.49	Amendment No. 1, dated as of March 11, 2016, to the Credit Agreement, dated as of December 18, 2013, among Apollo Management Holdings, L.P., Apollo Management, L.P., Apollo Capital Management, L.P., Apollo International Management, L.P., AAA Holdings, L.P., Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX L.P., Apollo Principal Holdings X, L.P., Apollo Principal Holdings XI, LLC, ST Holdings GP, LLC and ST Management Holdings, LLC, the guarantors party thereto, the lenders party thereto, the issuing banks party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on March 15, 2016 (File No. 001-35107)).
+10.50	Form of Letter Agreement under the Amended and Restated Limited Partnership Agreement of Apollo Advisors VIII, L.P. effective as of January 1, 2014 (incorporated by reference to Exhibit 10.56 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.51	Form of Award Letter under the Amended and Restated Limited Partnership Agreement of Apollo Advisors VIII, L.P. effective as of January 1, 2014 (incorporated by reference to Exhibit 10.57 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.52	Amended and Restated Limited Partnership Agreement of Apollo EPF Advisors, L.P., dated as of February 3, 2011 (incorporated by reference to Exhibit 10.52 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.53	First Amended and Restated Exempted Limited Partnership Agreement of Apollo EPF Advisors II, L.P. dated as of April 9, 2012 (incorporated by reference to Exhibit 10.53 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.54	Amended and Restated Agreement of Exempted Limited Partnership of Apollo CIP Partner Pool, L.P., dated as of December 18, 2014 (incorporated by reference to Exhibit 10.54 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.55	Form of Award Letter under the Amended and Restated Agreement of Exempted Limited Partnership Agreement of Apollo CIP Partner Pool, L.P. (incorporated by reference to Exhibit 10.55 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).

Exhibit Number	Exhibit Description
+10.56	Second Amended and Restated Agreement of Limited Partnership of Apollo Credit Opportunity Advisors III (APO FC), L.P., dated as of December 18, 2014 (incorporated by reference to Exhibit 10.56 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.57	Form of Award Letter under Second Amended and Restated Agreement of Limited Partnership of Apollo Credit Opportunity Advisors III (APO FC), L.P. (incorporated by reference to Exhibit 10.57 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
*21.1	Subsidiaries of Apollo Global Management, LLC.
*23.1	Consent of Deloitte & Touche, LLP
*31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
*31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
*32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
*32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Scheme Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

\+ Management contract or compensatory plan or arrangement.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Apollo Global Management, LLC
(Registrant)

Date: February 13, 2017

By: /s/ Martin Kelly

Name: Martin Kelly
Title: Chief Financial Officer
(principal financial officer and
authorized signatory)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Name	Title	Date
/s/ Leon Black Leon Black	Chairman and Chief Executive Officer and Director (principal executive officer)	February 13, 2017
/s/ Martin Kelly Martin Kelly	Chief Financial Officer (principal financial officer)	February 13, 2017
/s/ Elliott Russell Elliott Russell	Chief Accounting Officer (principal accounting officer)	February 13, 2017
/s/ Joshua Harris Joshua Harris	Senior Managing Director and Director	February 13, 2017
/s/ Marc Rowan Marc Rowan	Senior Managing Director and Director	February 13, 2017
/s/ Michael Ducey Michael Ducey	Director	February 13, 2017
/s/ Paul Fribourg Paul Fribourg	Director	February 13, 2017
/s/ Robert Kraft Robert Kraft	Director	February 13, 2017
/s/ AB Krongard AB Krongard	Director	February 13, 2017
/s/ Pauline Richards Pauline Richards	Director	February 13, 2017

Exhibit 10.11

APOLLO GLOBAL MANAGEMENT, LLC
EMPLOYMENT, NON-COMPETITION AND NON-SOLICITATION AGREEMENT

THIS EMPLOYMENT, NON-COMPETITION AND NON-SOLICITATION AGREEMENT (this " **Agreement**") is made and entered into as of January 4, 2017 (the "**Effective Date**"), by and between Apollo Global Management, LLC, a Delaware limited liability company (the "**Company**"), and Leon D. Black ("**Executive**"). Where the context permits, references to the "Company" shall include the Company and any successor of the Company. Capitalized terms used herein that are not defined in the paragraph in which they first appear are defined in Section 5(b) or in the Agreement Among Principals.

WITNESSETH:

WHEREAS, the Company desires to secure the continued services of Executive for the benefit of the Company and its Affiliates (as defined below) from and after the Effective Date hereof; and

WHEREAS, Executive desires to continue to provide such services.

NOW, THEREFORE, in consideration of the mutual promises, covenants and agreements herein contained, together with other good and valuable consideration the receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

1 . SERVICES AND DUTIES. From and after the Effective Date, Executive shall be employed by the Company in the capacity of its Chairman and Chief Executive Officer. Executive shall be a full-time employee of the Company and shall dedicate substantially all of Executive's working time to the Company and its Affiliates and shall have no other employment and no other business ventures which either are undisclosed to the Company or conflict with Executive's duties under this Agreement. Executive will perform such duties as are required by the Company from time to time and normally associated with Executive's position, together with such additional duties, commensurate with Executive's positions with the Company and with its Affiliates, as may be assigned to Executive from time to time by the Governing Body. The "**Governing Body**" means AGM Management, LLC for so long as it is designated as the principal governing body of the Company pursuant to the Shareholders Agreement and thereafter, the Board. Notwithstanding the foregoing, nothing herein shall prohibit Executive from (i) subject to prior approval of the Governing Body, accepting directorships, roles equivalent to that of a non-executive chairman and roles that do not involve day-to-day operational involvement so long as in each case the role does not give rise to any conflicts of interest with the Company or its Affiliates and does not involve a Competing Business (defined below), (ii) accepting directorships, roles equivalent to that of a non-executive chairman and roles that do not involve day-to-day operational involvement so long as in each case the role does not give rise to any conflicts of interest with the Company or its Affiliates or involve a Competing Business and so long as the role is at a company that is an investment made by the Executive or a member of his Group (as defined below) in accordance with the requirements of the Code of Ethics and Clause F in Exhibit A, (iii) being actively involved in personal investing through the Family Office or otherwise so long as such involvement is consistent with the requirements of the Code of Ethics and Clause F in Exhibit A, (iv) engaging and being actively involved in charitable, cultural, educational and civic activities, so long as such outside interests do not interfere with the performance of Executive's duties hereunder, or (v) engaging in a business of the Apollo Operating Group or a member or Subsidiary thereof or of any Person in which a member or Subsidiary of the Apollo Operating Group holds an Investment in each case on behalf of the Apollo Operating Group.

2. TERM. Executive's employment under the terms and conditions of this Agreement will commence on the Effective Date. The term of this Agreement (the "**Term**") shall commence on the Effective Date and end on the third anniversary thereof. If the Term expires and Executive is employed by the Company thereafter, unless a new employment agreement has been entered into, such employment shall be "at-will." Notwithstanding the foregoing provisions of this Section 2, Executive will have the right to voluntarily terminate his employment with the Company at any time, any such termination being effective on the date on which a written notice thereof is delivered to the Company pursuant to Section 8(a) hereof.

3. COMPENSATION.

(a) Base Salary. In consideration of Executive's full and faithful satisfaction of Executive's duties under this Agreement, the Company agrees to pay to Executive a salary in the amount of one hundred thousand dollars ($100,000.00) per annum (the "**Base Salary**"), payable in such installments as the Company pays its similarly placed employees (but not less frequently than each calendar month), subject to usual and customary deductions for withholding taxes and similar charges, and customary employee contributions to the health, welfare and retirement programs in which Executive is enrolled from time to time.

(b) Withholding. All taxable compensation payable to Executive pursuant to this Section 3 or otherwise pursuant to

this Agreement shall be subject to customary deductions for withholding taxes and such other excise or employment taxes as are required under Federal law or the applicable law of any state or governmental body to be collected with respect to compensation paid by the Company to an employee.

4. BENEFITS AND EXPENSE REIMBURSEMENT.

(a) Retirement and Welfare Benefits. During the Term, Executive will be entitled to all the usual benefits offered to employees at Executive's level, including sick time and participation in the Company's medical, dental and insurance programs, subject to the applicable limitations and requirements imposed by the terms of such benefit plans, in each case in accordance with the terms of such plans as in effect from time to time. Nothing in this Section 4, however, shall require the Company to maintain any benefit plan or provide any type or level of benefits to its employees, including Executive.

(b) Vacation/Paid Time Off. Executive will be entitled to vacation and paid time off ("**PTO**") each year on the most favorable basis afforded to any employee pursuant to the Company's policies as in effect from time to time.

(c) Reimbursement of Expenses. The Company shall reimburse Executive for any expenses reasonably incurred by Executive in furtherance of Executive's duties hereunder, including travel, meals and accommodations, upon submission by Executive of vouchers or receipts and in compliance with such rules and policies relating thereto as the Company may from time to time adopt.

5. TERMINATION. Executive's employment shall be terminated at the earliest to occur of (i) the date on which the Governing Body delivers written notice that Executive is being terminated as a result of a Disability (as defined below), or (ii) the date of Executive's death. In addition, Executive's employment with the Company may be terminated (i) by the Company for Cause (as defined below), effective on the date on which a written notice to such effect is delivered to Executive; or (ii) by Executive at any time, effective on the date on which a written notice to such effect is delivered to the Company. For the avoidance of doubt, this Agreement does not address the consequences of termination of Executive's employment, if any, to the equity interests in the Company or its Affiliates held by Executive or members of his Group.

(a) Termination by the Company with Cause or by Reason of Death or Disability or a Termination by Executive. If Executive's employment with the Company is terminated by the Company with Cause or is terminated voluntarily by Executive or by reason of Executive's death or Disability, Executive shall not be entitled to any further compensation or benefits other than accrued but unpaid Base Salary (payable as provided in Section 3(a) hereof) and accrued and unused PTO pay through the date of such termination.

(b) Definitions. For purposes of this Agreement:

"**Affiliate**" means an affiliate of the Company (or other referenced entity, as the case may be) as defined in Rule 405 promulgated under the Securities Act of 1933, as amended.

"**Agreement Among Principals**" means the Agreement Among Principals, by and among Leon D. Black, Marc J. Rowan, Joshua J. Harris, Black Family Partners, L.P., MJR Foundation LLC, MJH Partners, L.P., AP Professional Holdings, L.P. and BRH Holdings, L.P., as may be amended, modified, supplemented or restated from time to time.

"**Cause**" means (i) a final, non-appealable conviction of or plea of *nolo contendere* to a felony prohibiting Executive from continuing to provide services as an investment professional to the Company due to legal restriction or physical confinement; or (ii) ceasing to be eligible to continue performing services as an investment professional on behalf of the Company or any of its material Subsidiaries (as defined below), in each case, pursuant to a final, non-appealable legal restriction (such as a final, non-appealable injunction, but expressly excluding a preliminary injunction or other provisional restriction).

"**Covered Business**" has the meaning ascribed to it in the amended and restated exempted limited partnership agreement of BRH Holdings, L.P., a Cayman Islands exempted limited partnership.

"**Disability**" shall refer to any physical or mental incapacity which prevents Executive from carrying out all or substantially all of his duties under this Agreement for any period of one hundred eighty (180) consecutive days or any aggregate period of eight (8) months in any twelve-month (12) period, as determined, in its sole discretion, by a majority of the members of the Governing Body, including a majority of the Continuing Principals who are members of the Governing Body (but for the sake of clarity, not including the Executive in respect of which the determination is being made).

"**Family Office**" means the organization responsible for the day-to-day administration and management of the Executive's financial and personal affairs, which may include, but is not limited to, wealth management, oversight of investments, tax planning, estate planning and philanthropic endeavors, and includes any entity which holds the personal investments of the Executive.

"**Group**" shall mean with respect to Executive, Executive and (i) Executive's spouse, (ii) a lineal descendant of Executive's parents, the spouse of any such descendant or a lineal descendent of any such spouse, (iii) a Charitable Institution solely controlled by Executive and other members of his Group, (iv) a trustee of a trust (whether *inter vivos* or testamentary), all of the current beneficiaries and presumptive remaindermen of which are one or more of Executive and Persons described in clauses (i) through (iii) of this definition, (v) a corporation, limited liability company or partnership, of which all or substantially all of the outstanding shares of capital stock or interests therein are owned by one or more of Executive and Persons described in clauses (i) through (iv) of this definition provided, that the equity not owned by Executive and Persons described in clauses (i) through (iv) of this definition is owned by current or former service providers of such corporation, limited liability company or partnership, (vi) an individual mandated under a qualified domestic relations order, or (vii) the executor, personal representative or administrator of the estate of such Executive or of the estate of any individual described in clauses (i), (ii) or (vi) above. For purposes of this definition, (x) "lineal descendants" shall not include individuals adopted after attaining the age of eighteen (18) years and such adopted individual's descendants; and (y) "presumptive remaindermen" shall refer to those Persons entitled to a share of a trust's assets if it were then to terminate. Executive shall never be a member of the Group of another Principal.

"**Manager**" means AGM Management, LLC, a Delaware limited liability company.

"**Shareholders Agreement**" means the Shareholders Agreement, dated as of July 13, 2007, by and among the Company, AP Professional Holdings, L.P., Leon D. Black, Marc J. Rowan, Joshua J. Harris, Black Family Partners, L.P. and MJR Foundation LLC.

"**Subsidiary**" means a subsidiary of the Company (or other referenced entity, as the case may be) as defined in Rule 405 promulgated under the Securities Act of 1933, as amended.

(c) Resignation as Officer or Director. Upon the termination of employment for any reason, Executive shall be deemed to have resigned each position (if any) that Executive then holds as an officer or director of the Company or any of its Subsidiaries or any Portfolio Company without any further act to be taken by Executive. Additionally, Executive shall execute and deliver to the Company promptly after the Company's written request, any request for a resignation in form and substance reasonably acceptable to Executive. For the sake of clarity, this provision shall not apply to any right Executive may have under the Agreement Among Principals to continue to serve as a member of the Executive Committee following Executive's retirement.

(d) Disability. The parties acknowledge that there may be a delay between the discovery of a condition that results in Executive's employment termination due to Disability, and the effective date of such termination. In such case, the Governing Body may temporarily appoint a Senior Professional to perform the functional responsibilities and duties of Executive until Disability definitively occurs or is determined not to have occurred; *provided*, *however*, (i) the Governing Body may so appoint a Senior Professional only if Executive is unable to perform his responsibilities and duties to the Company (or such successor thereto or such other entity controlled by the Company or its successor as may be Executive's employer at such time), or, as a matter of fiduciary duty, should be prohibited from performing his responsibilities and duties, and (ii) during such period Executive shall continue to serve on the Executive Committee unless otherwise prohibited from doing so pursuant to the Agreement Among Principals.

(e) Section 409A. To the extent required to avoid the imposition of tax under Section 409A of the Code ("**Section 409A**"), if Executive is a "specified employee" for purposes of Section 409A, amounts that would otherwise be payable under this Section 5 during the six-month (6) period immediately following the employment termination date shall instead be paid on the first (1st) business day after the date that is six (6) months following Executive's "separation from service" within the meaning of Section 409A, or, if earlier, the date of Executive's death.

6. RESTRICTIVE COVENANTS. The parties agree that the restrictive covenants set forth in Exhibit A hereto (the "**Restrictive Covenants**") are incorporated herein by reference and shall be deemed to be contained herein. Executive understands, acknowledges and agrees that the Restrictive Covenants apply (i) during his employment under this Agreement, during any period of employment by (x) the Company or (y) any Affiliate following the termination of this Agreement or the expiration of the Term, and (ii) as provided in Exhibit A hereto, during the periods specified following termination of his employment by the Company and by any Affiliate which may have employed him.

7. ASSIGNMENT. This Agreement, and all of the terms and conditions hereof, shall bind the Company and its successors and assigns and shall bind Executive and Executive's heirs, valid assigns, executors and administrators. No transfer or assignment of this Agreement shall release the Company from any obligation to Executive hereunder. Neither this Agreement, nor any of the Company's rights or obligations hereunder, may be assigned or are otherwise subject to hypothecation by Executive. The Company may assign the rights and obligations of the Company hereunder, in whole or in part, to any of the Company's Subsidiaries or Affiliates, or to any other successor or assign in connection with the sale of all or substantially all of the Company's assets or equity or in connection with any merger, acquisition and/or reorganization, provided the assignee assumes the obligations of the Company hereunder and provided further than any such assignment shall not release the Company from its obligations hereunder.

8. GENERAL.

(a) Notices. Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of one (1) business day following personal delivery (including personal delivery by e-mail or recognized overnight courier), or the third (3rd) business day after mailing by first class mail to the recipient at the address indicated below:

To the Company:

Apollo Global Management, LLC
9 West 57th Street
43rd Floor
New York, NY 10019
Attention: Chief Legal Officer

To Executive at the location set forth in the Company's records

or to such other address or to the attention of such other Person as the recipient party may have specified by prior written notice to the sending party.

(b) Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any Person or any circumstance, is found to be invalid or unenforceable in any jurisdiction, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

(c) Entire Agreement. This document, together with its attached exhibits, constitutes the final, complete, and exclusive embodiment of the entire agreement and understanding between the parties related to the subject matter hereof and supersedes and preempts any prior or contemporaneous understandings, agreements, or representations by or between the parties, written or oral. Notwithstanding the immediately preceding sentence, this Agreement does not supersede or preempt the Shareholders Agreement, the Agreement Among Principals, the Exchange Agreement, the exempted limited partnership agreement of AP Professional Holdings, L.P., the exempted limited partnership agreement of BRH Holdings, L.P., or any other agreement to which Executive became a party in connection with the Company's initial public offering.

(d) Counterparts. This Agreement may be executed on separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same agreement.

(e) Amendments. No amendments or other modifications to this Agreement may be made except by a writing signed by each party hereto. No amendment or waiver of this Agreement requires the consent of any individual, partnership, corporation or other entity not a party to this Agreement.

(f) Survivorship. The provisions of this Agreement necessary to carry out the intention of the parties as expressed herein (including, without limitation, the Restrictive Covenants provided in Section 6 hereof and Exhibit A hereto) shall survive the termination or expiration of the Term.

(g) Waiver. The waiver by either party of the other party's prompt and complete performance, or breach or violation, of any provision of this Agreement shall not operate nor be construed as a waiver of any subsequent breach or violation, and the failure by any party hereto to exercise any right or remedy which it or he may possess hereunder shall not operate nor be construed as a bar to the exercise of such right or remedy by such party upon the occurrence of any subsequent breach or violation. No waiver shall be deemed to have occurred unless set forth in a writing executed by or on behalf of the waiving party. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

(h) Captions. The captions of this Agreement are for convenience and reference only and in no way define, describe, extend or limit the scope or intent of this Agreement or the intent of any provision hereof.

(i) Construction. The parties acknowledge that this Agreement is the result of arm's-length negotiations between sophisticated parties, each afforded representation by legal counsel. Each and every provision of this Agreement shall be construed as though both parties participated equally in the drafting of the same, and any rule of construction that a document shall be construed against the drafting party shall not be applicable to this Agreement.

(j) Arbitration.

(i) Except as contemplated in Section 8(k) hereof, the parties hereto agree that any dispute, controversy or claim arising out of or relating to this Agreement, whether based on contract, tort, statute, or other legal or equitable theory (including, without limitation, any claim of fraud, intentional misconduct, misrepresentation or fraudulent inducement or any question of validity or effect of this Agreement including this clause) or the breach or termination hereof (the "**Dispute**"), shall be resolved in binding arbitration in accordance with the following provisions:

A. Such Dispute shall be resolved by binding arbitration to be conducted before JAMS in accordance with the provisions of JAMS' Comprehensive Arbitration Rules and Procedures as in effect at the time of the arbitration.

B. The arbitration shall be held before a panel of three arbitrators appointed by JAMS, in accordance with its rules, who are not Affiliates of any party to such arbitration and do not have any actual or reasonable potential for bias or conflict of interest with respect to any of the parties hereto, directly or indirectly, by virtue of any direct or indirect financial interest, family relationship or close friendship.

C. Such arbitration shall be held at such place as the arbitrators appointed by JAMS may determine within the County, City and State of New York, or such other location to which the parties hereto may agree.

D. The arbitrators shall have the authority, taking into account the parties' desire that any arbitration proceeding hereunder be reasonably expedited and efficient, to permit the parties hereto to conduct discovery. Any such discovery shall be (i) guided generally by but be no broader than permitted under the United States Federal Rules of Civil Procedure (the "**FRCP**"), and (ii) subject to the arbitrators and the parties hereto entering into a mutually acceptable confidentiality agreement.

E. The arbitrators shall have the authority to issue subpoenas for the attendance of witnesses and for the production of records and other evidence in connection with discovery and/or at any hearing and may administer oaths. Any such subpoena must be served in the manner for service of subpoenas under the FRCP and enforced in the manner for enforcement of subpoenas under the FRCP.

F. The arbitrators' decision and award in any such arbitration shall be made by majority vote and delivered within thirty (30) calendar days of the conclusion of the evidentiary hearings unless otherwise agreed to by the parties hereto. In addition, the arbitrators shall have the authority to award injunctive relief to any of the parties.

G. The arbitrators' decision shall be in writing and shall be as brief as possible and will include the basis for the arbitrators' decision. A record of the arbitration proceeding shall be kept.

H. Judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

I. The parties shall share equally all expenses of JAMS (including those of the arbitrators) incurred in connection with any arbitration; provided, however, the arbitrators may award to the prevailing party in such arbitration its or his reasonable expenses incurred (including reasonable legal fees and expenses) and its or his share of JAMS expenses in connection with such arbitration.

J. The parties hereto agree to participate in any arbitration in good faith.

(ii) If JAMS is unable or unwilling to commence arbitration with regard to any such Dispute within thirty (30) calendar days after the parties have met the requirements for commencement as set forth in Rule 5 of the JAMS Comprehensive Arbitration Rules and Procedures, then the Disputes shall be resolved by binding arbitration, in accordance with the International Arbitration Rules of the American Arbitration Association (the " **AAA**"), before a panel of three arbitrators who shall be selected jointly by the parties involved in such Dispute, or if the parties cannot agree on the selection of the arbitrators, shall be selected by the AAA (provided that any arbitrators selected by the AAA shall meet the requirements of Section 8(j)(i)(B) above). Any such arbitration shall be subject to the provisions of Section 8(j)(i)(C) through 8(j)(i)(J) above (as if the AAA were JAMS). If the AAA is unable or unwilling to commence such arbitration within thirty (30) calendar days after the parties have met the requirements for such commencement set forth in the aforementioned rules, then either party may seek resolution of such Dispute through litigation in accordance with Sections 8(k) and 8(l).

(iii) Except as may be necessary to enter judgment upon the award or to the extent required by applicable law, all claims, defenses and proceedings (including, without limiting the generality of the foregoing, the existence of the controversy and the fact that there is an arbitration proceeding) shall be treated in a confidential manner by the arbitrators, the parties and their counsel, and each of their agents, employees and all others acting on behalf of or in concert with them.

Without limiting the generality of the foregoing, no one shall divulge to any Person not directly involved in the arbitration the contents of the pleadings, papers, orders, hearings, trials, or awards in the arbitration, except as may be necessary to enter judgment upon an award or as required by applicable law. Any court proceedings relating to the arbitration hereunder, including, without limiting the generality of the foregoing, to prevent or compel arbitration; discovery; enforcement of a subpoena; or to confirm, correct, vacate or otherwise enforce an arbitration award, shall be filed under seal with the court, to the extent permitted by law.

(k) Governing Law; Equitable Remedies. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO CONFLICT OF LAWS PRINCIPLES THEREOF). The parties hereto agree that irreparable damage would occur in the event that any of the provisions of Section 6 or Exhibit A of this Agreement were not performed in accordance with its specific terms or was otherwise breached. It is accordingly agreed that the parties hereto shall be entitled to an injunction or injunctions and other equitable remedies to prevent breaches of Section 6 or Exhibit A of this Agreement and to enforce specifically the terms and provisions thereof in any of the Selected Courts (as defined below), this being in addition to any other remedy to which they are entitled at law or in equity. In such event, any requirements for the securing or posting of any bond with respect to such remedy are hereby waived by each of the parties hereto. Each party further agrees that, in the event of any action for an injunction or other equitable remedy in respect of such breach or enforcement of specific performance pursuant to this Section 8(k), it or he will not assert the defense that a remedy at law would be adequate.

(l) Consent to Jurisdiction. It is the desire and intent of the parties hereto that any disputes or controversies arising under or in connection with this Agreement be resolved pursuant to arbitration in accordance with Section 8(j); *provided*, *however*, that, to the extent that Section 8(j) is held to be invalid or unenforceable for any reason, and the result is that the parties hereto are precluded from resolving any claim arising under or in connection with this Agreement pursuant to the terms of Section 8(j) (after giving effect to the terms of Section 8(b)), the following provisions of this Section 8(l) shall govern the resolution of all disputes or controversies arising under this Agreement. With respect to any suit, action or proceeding ("**Proceeding**") arising out of or relating to this Agreement or any transaction contemplated hereby each of the parties hereto hereby irrevocably (i) submits to the exclusive jurisdiction of (A) the United States District Court for the Southern District of New York, or (B) in the event that such court lacks jurisdiction to hear the claim, the state courts of New York located in the borough of Manhattan, New York City (the "**Selected Courts**") and waives any objection to venue being laid in the Selected Courts whether based on the grounds of *forum non conveniens* or otherwise and hereby agrees not to commence any such Proceeding other than before one of the Selected Courts; *provided*, *however*, that a party may commence any Proceeding in a court other than a Selected Court solely for the purpose of enforcing an order or judgment issued by one of the Selected Courts or the arbitrators; (ii) consents to service of process in any Proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, or by recognized international express carrier or delivery service, to their respective addresses referred to in Section 8(a) hereof; *provided*, *however*, that nothing herein shall affect the right of any party hereto to serve process in any other manner permitted by law; and (iii) TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW THAT CANNOT BE WAIVED, WAIVES, AND COVENANTS THAT IT OR HE WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) ANY RIGHT TO TRIAL BY JURY IN ANY ACTION ARISING IN WHOLE OR IN PART UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AND AGREES THAT ANY OF THEM MAY FILE A COPY OF THIS PARAGRAPH WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY AND BARGAINED-FOR AGREEMENT AMONG THE PARTIES IRREVOCABLY TO WAIVE ITS OR HIS RIGHT TO TRIAL BY JURY IN ANY PROCEEDING WHATSOEVER BETWEEN THEM RELATING TO THIS AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS AND WILL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

(m) Third Party Beneficiaries. Except as expressly provided herein, nothing in this Agreement shall confer any rights or remedies upon any Person other than the parties hereto or any and all of Executive's heirs, successors, valid assigns, executors and administrators. In any provision of the Agreement which provides rights or remedies to, or permits the assignment of rights to, Affiliates or Subsidiaries of the Company, the terms "Affiliates" and "Subsidiaries" shall be construed to exclude any Fund or Portfolio Company.

(n) Indemnification.

(i) To the fullest extent permitted by law but subject to the limitations expressly provided in this Agreement, Executive and the Executive's Group (collectively, the "**Indemnified Parties**" and each individually an "**Indemnified Party**") shall be indemnified and held harmless by the Company and its direct and indirect consolidated Subsidiaries from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including reasonable legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all threatened, pending or completed third-party claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, and whether

formal or informal and including appeals, directly or indirectly, by reason of or arising from (A) Executive's actions or inactions in connection with the establishment, management, operations or serving on the board of any Covered Business, (B) Executive's actions or inactions with respect to his duties under this Agreement (including resulting from limitations on Executive's actions set forth in Exhibit A), and (C) Executive's actions or inactions with respect to any limited partnership agreement or similar governing document of any Covered Business or any member of the Apollo Operating Group or any direct or indirect Subsidiary, including, for the avoidance of doubt, to the extent related to any breach or alleged breach of this Agreement, any Fund Agreement or the AGM LLC Agreement, whether arising from acts or omissions to act as set forth in this section 8(n)(i) occurring before or after the Effective Date; *provided*, *however*, that the Indemnified Party shall not be indemnified and held harmless if there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter for which the Indemnified Party is seeking indemnification pursuant to this Section 8(n), Executive acted in bad faith or engaged in actual fraud or willful misconduct. For purposes of clarification, because a conveyance may be allegedly or actually void or voidable or deemed "fraudulent" pursuant to the provisions of Title 11 of the U.S. Code or any similar State or foreign statute does not render an Executive's conduct with respect to the conveyance non-indemnifiable, and an Indemnified Party will be entitled to indemnification with respect to such conveyances unless the Executive "acted in bad faith or engaged in actual fraud or willful misconduct" as provided for herein. Notwithstanding the preceding sentence, except as otherwise provided in Section 8(n)(ix), the Company shall be required to indemnify an Indemnified Party in connection with any action, suit or proceeding (or part thereof) commenced by an Indemnified Party only if the commencement of such action, suit or proceeding (or part thereof) by such Indemnified Party was authorized by the Company in its sole discretion.

(ii) To the fullest extent permitted by law, expenses (including reasonable legal fees and expenses) incurred by an Indemnified Party in appearing at, participating in or defending any indemnifiable claim, demand, action, suit or proceeding pursuant to Section 8(n) shall be advanced by the Company on a monthly basis prior to a final and non-appealable determination that the Indemnified Party is not entitled to be indemnified upon receipt by the Company of an undertaking by or on behalf of an Indemnified Party to repay such amount if it ultimately shall be determined that the Indemnified Party is not entitled to be indemnified pursuant to this Section 8(n). Notwithstanding the immediately preceding sentence, except as otherwise provided in Section 8(n)(ix), the Company shall be required to indemnify an Indemnified Party pursuant to the immediately preceding sentence in connection with any action, suit or proceeding (or part thereof) commenced by such Indemnified Party only if the commencement of such action, suit or proceeding (or part thereof) by the Indemnified Party was authorized by the Company in its sole discretion.

(iii) The indemnification provided by this Section 8(n) shall be in addition to any other rights to which the Indemnified Parties may be entitled under any agreement, as a matter of law, in equity or otherwise, both as to actions in Executive's capacity as Executive and as to actions in any other capacity, and shall continue as to the Indemnified Parties if Executive has ceased to serve in such capacity.

(iv) Any indemnification pursuant to this Section 8(n) shall be made only out of the assets of the Company and/or its valid assignees. In no event may the Indemnified Parties subject the members of the Company to personal liability by reason of the indemnification provisions set forth in this Agreement.

(v) No Indemnified Party shall be denied indemnification in whole or in part under this Section 8(n) because such Indemnified Party had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement, including, without limitation, Exhibit A, the Agreement Among Principals, the Limited Liability Company Agreement of the Company or the consent of the Governing Body.

(vi) The provisions of this Section 8(n) are for the benefit of the Indemnified Parties and their heirs, successors, valid assigns, executors and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(vii) Executive shall, in the performance of his duties, be fully protected in relying in good faith upon the records of the Company, its Affiliates and their respective direct or indirect Subsidiaries and on such information, opinions, reports or statements presented to any of the foregoing by any of the respective officers, directors or employees, or committees of the board, or by any other Person as to matters that Executive, as the case may be, reasonably believes are within such other Person's professional or expert competence.

(viii) No amendment, modification or repeal of this Section 8(n) or any provision hereof shall in any manner terminate, reduce or impair the right of the Indemnified Parties or any third party beneficiary to be indemnified by the Company, nor the obligations of the Company to indemnify the Indemnified Parties or any third party beneficiary under and in accordance with the provisions of this Section 8(n) as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or-in part, prior to such amendment, modification

or repeal, regardless of when such claims may arise or be asserted.

(ix) If a claim for indemnification (following the final disposition of the action, suit or proceeding for which indemnification is being sought) or advancement of expenses under this Section 8(n) is not paid in full within thirty (30) days after a written claim therefor by an Indemnified Party or any third party beneficiary has been received by the Company, such Indemnified Party or such third party beneficiary, as the case may be, may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expenses of prosecuting such claim, including reasonable attorneys' fees.

(o) Liability of Indemnified Persons. Notwithstanding anything to the contrary herein, no Indemnified Party shall be liable to the Company or any other Persons who have acquired interests in the Company's securities, for any losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising as a result of any act or omission of Executive, or for any breach of contract (including breach of this Agreement) or any breach of duties (including breach of fiduciary duties) whether arising hereunder, at law, in equity or otherwise, unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter in question, Executive acted in bad faith or engaged in actual fraud or willful misconduct. For purposes of clarification, because a conveyance may be allegedly or actually void or voidable or deemed "fraudulent" pursuant to the provisions of Title 11 of the U.S. Code or any similar State or foreign statute does not render an Executive's conduct with respect to the conveyance non-indemnifiable, and an Indemnified Party will be entitled to indemnification with respect to such conveyances unless the Executive "acted in bad faith or engaged in actual fraud or willful misconduct" as provided for herein. Any amendment, modification or repeal of this Section 8(o) or any provision hereof shall be prospective only and shall not in any way affect the limitations on the liability of an Indemnified Party under this Section 8(o) as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

(p) Legal Fees. The Company shall pay or reimburse Executive for all reasonable and documented legal fees and costs incurred by him in connection with the drafting and negotiation of this Agreement and any other agreement or policies directly or indirectly related to Executive's employment arrangement and his rights under Exhibit A.

[Signature page follows]

IN WITNESS WHEREOF AND INTENDING TO BE LEGALLY BOUND THEREBY, the parties hereto have executed and delivered this Agreement as of the year and date first above written.

APOLLO GLOBAL MANAGEMENT, LLC

By: AGM Management, LLC,
its Manager

By: BRH Holdings GP, Ltd.,
its Sole Member

By: /s/ John J. Suydam
Name: John J. Suydam
Title: Vice President

/s/ Leon D. Black
Leon D. Black

Exhibit A

Restrictive Covenants

Executive understands, acknowledges and agrees that, by virtue of his equity interest in the Company and/or its Affiliates, his previous services to the Company and its Affiliates, and his employment by the Company pursuant to this Agreement, directly or indirectly, he acquired, had access to, or was otherwise exposed to, and shall acquire, have access to or be otherwise exposed to confidential information of the Company and its Affiliates (the Confidential Information, as defined below) and he has met and developed relationships with, and will meet and develop relationships with, the Company's potential and existing financing sources, capital market intermediaries, investors, employees and consultants.

The Company and its Affiliates are engaged throughout the United States and the world in the business of raising, managing, investing the assets of and making investments in private equity funds, hedge funds, publicly traded alternative investment vehicles and other alternative asset investment vehicles (the "**Business**"). Executive acknowledges that (i) the Business is global in nature and Executive is among the limited number of individuals leading the Business, (ii) the Restrictive Covenants set forth in this Exhibit A are an essential part of this Agreement, (iii) he has been fully advised by counsel in connection with the negotiation of this Agreement and the Restrictive Covenants, (iv) he is familiar with the laws which govern the enforceability of restrictive covenants in the jurisdictions where the Business is carried on, and agrees that these Restrictive Covenants, including, without limitation, the non-competition covenant, are reasonable, valid and enforceable in the context of this Agreement, and (v) compliance with the Restrictive Covenants, including, without limitation, the non-competition covenant, will not create any hardship for Executive as he has independent means and sufficient income to be fully self-supporting without competing with the Company in the Business or violating any of the Restrictive Covenants.

A . Non-competition. Executive agrees that during the period of his employment with the Company (or any Affiliate) and during the Restricted Period (as defined below), Executive shall not, directly or indirectly, either as a principal, agent, employee, employer, consultant, partner, member, shareholder of a closely held corporation or shareholder in excess of three percent (3%) of a publicly traded corporation, corporate officer or director, or in any other individual or representative capacity, engage or otherwise participate in any manner or fashion in any business that is a Competing Business (as defined below), either in the United States or in any other place in the world where the Company or any of its Affiliates, successors or assigns engages in the Business. Notwithstanding anything to the contrary contained in this Clause A of this Exhibit A, (i) activities permitted by clause 1 (Services and Duties) of the Employment, Non-Competition and Non-Solicitation Agreement and (ii) investments described in Clause F of this Exhibit A, are permitted.

Solely for purposes of this Exhibit A: "**Competing Business**" means any alternative asset management business (other than the Business of the Company, its successors or assigns or Affiliates) Primarily for Third Party capital that advises, manages or invests the assets of and/or makes investments in private equity funds, hedge funds, collateralized debt obligation funds, business development corporations, special purpose acquisition companies or other alternative asset investment vehicles, or the Persons who manage, advise or own such investment vehicles. "**Primarily**" means with respect to more than fifty percent (50%) of the capital in question. "**Third Party**" means a Person other than Executive or any member of Executive's Group. "**Restricted Period**" means, the period commencing on the date hereof and terminating one (1) year following Executive's termination of employment.

B. Non-solicitation of Employees, Etc. Executive agrees that during the period of his employment with the Company (or any Affiliate) and during the Restricted Period, Executive shall not, directly or indirectly, (i) solicit or induce any officer, director, employee, agent or consultant of the Company or any of its successors, assigns or Affiliates to terminate his, her or its employment or other relationship with the Company or its successors, assigns or Affiliates for the purpose of associating with any Competing Business, or otherwise encourage any such Person to leave or sever his, her or its employment or other relationship with the Company or its successors, assigns or Affiliates, for any other reason, or (ii) hire any such individual who, at the time of hire, Executive knows left the employ of the Company or any of its Affiliates during the immediately preceding twelve (12) months. This provision shall not prohibit Executive from soliciting or hiring the Persons serving as his personal assistant or assistants at or prior to the time of his departure. For purposes of these Clauses B and C of this Exhibit A, "Affiliates" shall not include any Portfolio Company.

C . Non-solicitation of Investors, Etc. Executive agrees that during the period of his employment with the Company (or any Affiliate) and during the Restricted Period, Executive shall not, directly or indirectly, solicit or induce any investors, financing sources or capital market intermediaries of the Company or its successors, assigns or Affiliates to terminate (or diminish in any respect) his, her or its relationship with the Company or its successors, assigns or Affiliates. Nothing in this paragraph applies to those investors, financing sources, or capital market intermediaries who did not conduct business with the Company, or its successors, assigns or Affiliates during Executive's employment with, or the period in which Executive held, directly or indirectly, an ownership interest in, the Company or any Affiliate.

D . Confidentiality. Executive agrees to be bound by Section 5.8 ("**Confidential Information**") of the Agreement Among

Principals.

E . Disparaging Comments. Executive agrees that he shall not, directly or indirectly, make or ratify any statement, public or private, oral or written, to any Person that disparages, either professionally or personally, the Company or any of its Affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, members, managers, partners, agents, attorneys, insurers, employees, stockholders, representatives, assigns, and successors, past and present, and each of them. The Company agrees that it shall not, and it shall ensure that its Continuing Principals shall not, directly or indirectly, make or ratify any statement, public or private, oral or written, to any Person that disparages Executive, either professionally or personally. The obligations under this paragraph shall not apply to (i) disclosures compelled by applicable law or order of any court or (ii) any statements or disclosures reasonably necessary to be made directly in connection with any legal proceeding, arbitration or investigation, whether or not compelled (but subject to any confidentiality agreements or orders that may govern such proceeding, arbitration or investigation).

F. Code of Ethics, Family Offices and Personal Investing.

(1) In no event shall Executive make, or assist a member of his Group in making, any investment that violates or conflicts with the Company's then-current code of ethics (the "**Code of Ethics**") or any trading policies of the Company (it being understood that the terms and restrictions of any such policy may be more restrictive than required by applicable law). The Company will notify Executive promptly of any changes to the Code of Ethics or to any of its trading policies. As required by the Code of Ethics, all statements of holdings by the Family Office shall be provided to the Company compliance department ("**Company Compliance**") and all trades by the Family Office that are required to be pre-cleared under the Code of Ethics will be pre-cleared by Company Compliance, except as noted below.

(2) Transactions in the following by the Family Office shall be considered "fully-managed accounts" for purposes of Section 8.2.2 of the Code of Ethics (or any successor section) provided that a certificate is delivered to the Company's Chief Compliance Officer (the "**CCO**") on a quarterly basis from the relevant portfolio manager or the Chief Executive Officer, as applicable (the "Portfolio Manager") of Executive's Family Office and Executive stating that Executive continues to have no investment control, influence or discretion over such investments:

- Bank loans; and
- Equity securities of publicly traded companies with a market capitalization of more than $100 million and less than $10 billion so long as the investment will not result in the Family Office owning more than 3% of the outstanding publicly traded securities of any issuer.

Although the foregoing shall be considered "fully-managed accounts" under the Code of Ethics and thus do not require pre-clearance, the Executive shall nonetheless cause his Family Office to pre-clear with Company Compliance all transactions in equity securities in publicly traded companies with a market capitalization of more than $100 million and less than $10 billion (but not bank loans) to ensure that the Company is not in possession of material non-public information ("**MNPI**") concerning the issuer of the securities.

(3) The provision contained in Section 8.3 of the Code of Ethics which requires Company Compliance to consider whether a "transaction would usurp an opportunity that properly belongs to the Company's clients" is considered satisfied with respect to any investment (including anticipated follow-on investments) that is below the threshold size listed in the attached Schedule I for the type of investment listed (because these investments do not usurp the Company's client opportunities). For avoidance of doubt, such transactions would remain subject to pre-clearance by Company Compliance for MNPI or conflicts purposes.

(4) Investments in the following categories are unlikely to usurp an opportunity that properly belongs to the Company's clients and therefore, Company Compliance will endeavor to expedite any pre-clearance request with respect to these investments:

- Investments in sports teams, leagues or organizations (because these investments are not considered appropriate investments for the Company's clients); and
- Private investments that were introduced to the Family Office by persons other than Executive or sourced by the Family Office and not Executive so long as the Portfolio Manager of Executive's Family Office and Executive deliver a certificate in the form attached as Schedule 2 to the Company's CCO prior to making such investment stating that such investment was introduced to the Family Office by persons other than Executive or sourced by employees or other service providers of the Family Office and not Executive, that Executive was not aware of such investment prior to the Family Office being introduced to or sourcing such investment and that neither the Company nor its employees (including Executive) participated in sourcing such investment. For the avoidance of doubt, once the Family Office is introduced to or sources the investment, Executive may be involved in analyzing the investment and participating in the decision as to whether the Family Office should make such investment.

For the avoidance of doubt, the other factors to be considered in a pre-clearance decision (i.e., the restricted list, MNPI, etc.) remain applicable to the investments listed above in this paragraph F(4).

(5) Any request for pre-clearance to Company Compliance shall include information about anticipated follow-on investments with respect to the investment. If a follow-on investment is pre-cleared at the time of the original investment it shall not require another pre-clearance at the time of actual investment (although sales of such investment may be required to be pre-cleared as provided in the Code of Ethics). If a follow-on investment was not anticipated at the time of the original investment, Executive or his Family Office shall certify that such subsequent funding is required to protect the value of the existing investment and was not contemplated and pre-cleared at the time of the initial investment.

(6) As required by the Code of Ethics, when requesting pre-clearance, Executive's Family Office shall provide sufficient information such that the Company can make a decision but such Family Office will not be obligated to create an investment memorandum solely for pre-clearance purposes.

(7) Where possible, responses to pre-clearance requests shall be granted to Executive's Family Office within 48 hours of the request.

(8) Before agreeing to receive MNPI with respect to an investment, Company Compliance shall check its most recent statement of the Family Office's holdings, and if the receipt of the MNPI could cause the Family Office to restrict its investment, Company Compliance, if practicable, will provide notice to the Family Office that the Company may receive MNPI so that the Family Office has an opportunity to exit the position before the MNPI is received. If the Family Office chooses to exit the position, the Family Office shall request pre-clearance from Company Compliance and Company Compliance may or may not grant approval. Once Company Compliance has completed its internal decision-making about whether to accept MNPI (normally approximately 48 hours later) the Company shall notify the Family Office of its decision, and if the Family Office has not sold its position, it will be subject to restriction on sale.

G . Conflicts of Interest. Executive hereby agrees to promptly disclose to the Governing Body any potential conflict of interest involving Executive, his Group or his Family Office or the Company upon Executive obtaining actual knowledge of such conflict or potential conflict.

H . Director's Fees and Other Sources of Compensation from the Company. All directors' and other fees payable to Executive after July 13, 2012 or equity incentives granted to Executive after July 13, 2012 by a portfolio company shall be transferred to the Company or its designee without any additional consideration therefor. Other than the compensation set forth in this Agreement, Executive will not accept any compensation, director fees, other fees or equity interests from the Company or any of its Subsidiaries.

I. Continuing Obligations to the Company and its Subsidiaries. Commencing on the Effective Date, Executive will cooperate in all reasonable respects with the Company and its Subsidiaries in connection with any and all existing or future litigation, actions or proceedings (whether civil, criminal, administrative, regulatory or otherwise) brought by or against the Company or any of its Affiliates, to the extent the Company reasonably deems Executive's cooperation necessary. Executive shall be reimbursed for all out-of-pocket expenses incurred by him as a result of such cooperation.

J . Acknowledgement. Executive agrees and acknowledges that each Restrictive Covenant herein is reasonable as to duration, terms and geographical area and that the same protects the legitimate interests of the Company and its Affiliates, imposes no undue hardship on Executive, is not injurious to the public, and that any violation of any of these Restrictive Covenants shall be specifically enforceable in any court with jurisdiction upon short notice. Executive agrees and acknowledges that a portion of the compensation paid to Executive under this Agreement to which this Exhibit A is attached will be paid in consideration of the covenants contained in this Exhibit A, the sufficiency of which consideration is hereby acknowledged. If any provision of this Exhibit A as applied to Executive or to any circumstance is adjudged by a court to be invalid or unenforceable, the same shall in no way affect any other circumstance or the validity or enforceability of any other provision of this Exhibit A. If the scope of any such provision, or any part thereof, is too broad to permit enforcement of such provision to its full extent, Executive agrees that the court making such determination shall have the power to reduce the duration and/or area of such provision, and/or to delete specific words or phrases, to the extent necessary to permit enforcement, and, in its reduced form, such provision shall then be enforceable and shall be enforced. Executive agrees and acknowledges that the breach of this Exhibit A will cause irreparable injury to the Company and upon breach of any provision of this Exhibit A, the Company shall be entitled to injunctive relief, specific performance or other equitable relief; *provided*, *however*, that this shall in no way limit any other remedies which the Company may have (including, without limitation, the right to seek monetary damages). The Company shall not bring any claim or action for breach of any provision of this Exhibit A unless (i) it has provided written notice of such alleged claim and provided Executive with at least thirty (30) days to correct or cure the conduct in question and (ii) during such period, Executive has not corrected or cured such conduct. Each of the covenants in this Exhibit A shall be construed as an agreement independent of any other provisions in this Agreement to which it is attached, other than the consideration for such covenant provided in this Agreement.

Exhibit 10.12

APOLLO GLOBAL MANAGEMENT, LLC
EMPLOYMENT, NON-COMPETITION AND NON-SOLICITATION AGREEMENT

THIS EMPLOYMENT, NON-COMPETITION AND NON-SOLICITATION AGREEMENT (this " **Agreement**") is made and entered into as of January 4, 2017 (the "**Effective Date**"), by and between Apollo Global Management, LLC, a Delaware limited liability company (the "**Company**"), and Marc J. Rowan ("**Executive**"). Where the context permits, references to the "Company" shall include the Company and any successor of the Company. Capitalized terms used herein that are not defined in the paragraph in which they first appear are defined in Section 5(b) or in the Agreement Among Principals.

WITNESSETH:

WHEREAS, the Company desires to secure the continued services of Executive for the benefit of the Company and its Affiliates (as defined below) from and after the Effective Date hereof; and

WHEREAS, Executive desires to continue to provide such services.

NOW, THEREFORE, in consideration of the mutual promises, covenants and agreements herein contained, together with other good and valuable consideration the receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

1. SERVICES AND DUTIES. From and after the Effective Date, Executive shall be employed by the Company in the capacity of its Senior Managing Director. Executive shall be a full-time employee of the Company and shall dedicate substantially all of Executive's working time to the Company and its Affiliates and shall have no other employment and no other business ventures which either are undisclosed to the Company or conflict with Executive's duties under this Agreement. Executive will perform such duties as are required by the Company from time to time and normally associated with Executive's position, together with such additional duties, commensurate with Executive's positions with the Company and with its Affiliates, as may be assigned to Executive from time to time by the Governing Body. The "**Governing Body**" means AGM Management, LLC for so long as it is designated as the principal governing body of the Company pursuant to the Shareholders Agreement and thereafter, the Board. Notwithstanding the foregoing, nothing herein shall prohibit Executive from (i) subject to prior approval of the Governing Body, accepting directorships, roles equivalent to that of a non-executive chairman and roles that do not involve day-to-day operational involvement so long as in each case the role does not give rise to any conflicts of interest with the Company or its Affiliates and does not involve a Competing Business (defined below), (ii) accepting directorships, roles equivalent to that of a non-executive chairman and roles that do not involve day-to-day operational involvement so long as in each case the role does not give rise to any conflicts of interest with the Company or its Affiliates or involve a Competing Business and so long as the role is at a company that is an investment made by the Executive or a member of his Group (as defined below) in accordance with the requirements of the Code of Ethics and Clause F in Exhibit A, (iii) being actively involved in personal investing through the Family Office or otherwise so long as such involvement is consistent with the requirements of the Code of Ethics and Clause F in Exhibit A, (iv) engaging and being actively involved in charitable, cultural, educational and civic activities, so long as such outside interests do not interfere with the performance of Executive's duties hereunder, or (v) engaging in a business of the Apollo Operating Group or a member or Subsidiary thereof or of any Person in which a member or Subsidiary of the Apollo Operating Group holds an Investment in each case on behalf of the Apollo Operating Group.

2. TERM. Executive's employment under the terms and conditions of this Agreement will commence on the Effective Date. The term of this Agreement (the "**Term**") shall commence on the Effective Date and end on the third anniversary thereof. If the Term expires and Executive is employed by the Company thereafter, unless a new employment agreement has been entered into, such employment shall be "at-will." Notwithstanding the foregoing provisions of this Section 2, Executive will have the right to voluntarily terminate his employment with the Company at any time, any such termination being effective on the date on which a written notice thereof is delivered to the Company pursuant to Section 8(a) hereof.

3. COMPENSATION.

(a) Base Salary. In consideration of Executive's full and faithful satisfaction of Executive's duties under this Agreement, the Company agrees to pay to Executive a salary in the amount of one hundred thousand dollars ($100,000.00) per annum (the "**Base Salary**"), payable in such installments as the Company pays its similarly placed employees (but not less frequently than each calendar month), subject to usual and customary deductions for withholding taxes and similar charges, and customary employee contributions to the health, welfare and retirement programs in which Executive is enrolled from time to time.

(b) Withholding. All taxable compensation payable to Executive pursuant to this Section 3 or otherwise pursuant to this Agreement shall be subject to customary deductions for withholding taxes and such other excise or employment taxes as are

required under Federal law or the applicable law of any state or governmental body to be collected with respect to compensation paid by the Company to an employee.

4. BENEFITS AND EXPENSE REIMBURSEMENT.

(a) Retirement and Welfare Benefits. During the Term, Executive will be entitled to all the usual benefits offered to employees at Executive's level, including sick time and participation in the Company's medical, dental and insurance programs, subject to the applicable limitations and requirements imposed by the terms of such benefit plans, in each case in accordance with the terms of such plans as in effect from time to time. Nothing in this Section 4, however, shall require the Company to maintain any benefit plan or provide any type or level of benefits to its employees, including Executive.

(b) Vacation/Paid Time Off. Executive will be entitled to vacation and paid time off ("**PTO**") each year on the most favorable basis afforded to any employee pursuant to the Company's policies as in effect from time to time.

(c) Reimbursement of Expenses. The Company shall reimburse Executive for any expenses reasonably incurred by Executive in furtherance of Executive's duties hereunder, including travel, meals and accommodations, upon submission by Executive of vouchers or receipts and in compliance with such rules and policies relating thereto as the Company may from time to time adopt.

5. TERMINATION. Executive's employment shall be terminated at the earliest to occur of (i) the date on which the Governing Body delivers written notice that Executive is being terminated as a result of a Disability (as defined below), or (ii) the date of Executive's death. In addition, Executive's employment with the Company may be terminated (i) by the Company for Cause (as defined below), effective on the date on which a written notice to such effect is delivered to Executive; or (ii) by Executive at any time, effective on the date on which a written notice to such effect is delivered to the Company. For the avoidance of doubt, this Agreement does not address the consequences of termination of Executive's employment, if any, to the equity interests in the Company or its Affiliates held by Executive or members of his Group.

(a) Termination by the Company with Cause or by Reason of Death or Disability or a Termination by Executive. If Executive's employment with the Company is terminated by the Company with Cause or is terminated voluntarily by Executive or by reason of Executive's death or Disability, Executive shall not be entitled to any further compensation or benefits other than accrued but unpaid Base Salary (payable as provided in Section 3(a) hereof) and accrued and unused PTO pay through the date of such termination.

(b) Definitions. For purposes of this Agreement:

"**Affiliate**" means an affiliate of the Company (or other referenced entity, as the case may be) as defined in Rule 405 promulgated under the Securities Act of 1933, as amended.

"**Agreement Among Principals**" means the Agreement Among Principals, by and among Leon D. Black, Marc J. Rowan, Joshua J. Harris, Black Family Partners, L.P., MJR Foundation LLC, MJH Partners, L.P., AP Professional Holdings, L.P. and BRH Holdings, L.P., as may be amended, modified, supplemented or restated from time to time.

"**Cause**" means (i) a final, non-appealable conviction of or plea of *nolo contendere* to a felony prohibiting Executive from continuing to provide services as an investment professional to the Company due to legal restriction or physical confinement; or (ii) ceasing to be eligible to continue performing services as an investment professional on behalf of the Company or any of its material Subsidiaries (as defined below), in each case, pursuant to a final, non-appealable legal restriction (such as a final, non-appealable injunction, but expressly excluding a preliminary injunction or other provisional restriction).

"**Covered Business**" has the meaning ascribed to it in the amended and restated exempted limited partnership agreement of BRH Holdings, L.P., a Cayman Islands exempted limited partnership.

"**Disability**" shall refer to any physical or mental incapacity which prevents Executive from carrying out all or substantially all of his duties under this Agreement for any period of one hundred eighty (180) consecutive days or any aggregate period of eight (8) months in any twelve-month (12) period, as determined, in its sole discretion, by a majority of the members of the Governing Body, including a majority of the Continuing Principals who are members of the Governing Body (but for the sake of clarity, not including the Executive in respect of which the determination is being made).

"**Family Office**" means the organization responsible for the day-to-day administration and management of the Executive's financial and personal affairs, which may include, but is not limited to, wealth management, oversight of investments, tax planning, estate planning and philanthropic endeavors, and includes any entity which holds the personal investments of the Executive.

"**Group**" shall mean with respect to Executive, Executive and (i) Executive's spouse, (ii) a lineal descendant of Executive's

parents, the spouse of any such descendant or a lineal descendent of any such spouse, (iii) a Charitable Institution solely controlled by Executive and other members of his Group, (iv) a trustee of a trust (whether *inter vivos* or testamentary), all of the current beneficiaries and presumptive remaindermen of which are one or more of Executive and Persons described in clauses (i) through (iii) of this definition, (v) a corporation, limited liability company or partnership, of which all or substantially all of the outstanding shares of capital stock or interests therein are owned by one or more of Executive and Persons described in clauses (i) through (iv) of this definition provided, that the equity not owned by Executive and Persons described in clauses (i) through (iv) of this definition is owned by current or former service providers of such corporation, limited liability company or partnership, (vi) an individual mandated under a qualified domestic relations order, or (vii) the executor, personal representative or administrator of the estate of such Executive or of the estate of any individual described in clauses (i), (ii) or (vi) above. For purposes of this definition, (x) "lineal descendants" shall not include individuals adopted after attaining the age of eighteen (18) years and such adopted individual's descendants; and (y) "presumptive remaindermen" shall refer to those Persons entitled to a share of a trust's assets if it were then to terminate. Executive shall never be a member of the Group of another Principal.

"**Manager**" means AGM Management, LLC, a Delaware limited liability company.

"**Shareholders Agreement**" means the Shareholders Agreement, dated as of July 13, 2007, by and among the Company, AP Professional Holdings, L.P., Leon D. Black, Marc J. Rowan, Joshua J. Harris, Black Family Partners, L.P. and MJR Foundation LLC.

"**Subsidiary**" means a subsidiary of the Company (or other referenced entity, as the case may be) as defined in Rule 405 promulgated under the Securities Act of 1933, as amended.

(c) Resignation as Officer or Director. Upon the termination of employment for any reason, Executive shall be deemed to have resigned each position (if any) that Executive then holds as an officer or director of the Company or any of its Subsidiaries or any Portfolio Company without any further act to be taken by Executive. Additionally, Executive shall execute and deliver to the Company promptly after the Company's written request, any request for a resignation in form and substance reasonably acceptable to Executive. For the sake of clarity, this provision shall not apply to any right Executive may have under the Agreement Among Principals to continue to serve as a member of the Executive Committee following Executive's retirement.

(d) Disability. The parties acknowledge that there may be a delay between the discovery of a condition that results in Executive's employment termination due to Disability, and the effective date of such termination. In such case, the Governing Body may temporarily appoint a Senior Professional to perform the functional responsibilities and duties of Executive until Disability definitively occurs or is determined not to have occurred; *provided*, *however*, (i) the Governing Body may so appoint a Senior Professional only if Executive is unable to perform his responsibilities and duties to the Company (or such successor thereto or such other entity controlled by the Company or its successor as may be Executive's employer at such time), or, as a matter of fiduciary duty, should be prohibited from performing his responsibilities and duties, and (ii) during such period Executive shall continue to serve on the Executive Committee unless otherwise prohibited from doing so pursuant to the Agreement Among Principals.

(e) Section 409A. To the extent required to avoid the imposition of tax under Section 409A of the Code ("**Section 409A**"), if Executive is a "specified employee" for purposes of Section 409A, amounts that would otherwise be payable under this Section 5 during the six-month (6) period immediately following the employment termination date shall instead be paid on the first (1st) business day after the date that is six (6) months following Executive's "separation from service" within the meaning of Section 409A, or, if earlier, the date of Executive's death.

6. RESTRICTIVE COVENANTS. The parties agree that the restrictive covenants set forth in Exhibit A hereto (the "**Restrictive Covenants**") are incorporated herein by reference and shall be deemed to be contained herein. Executive understands, acknowledges and agrees that the Restrictive Covenants apply (i) during his employment under this Agreement, during any period of employment by (x) the Company or (y) any Affiliate following the termination of this Agreement or the expiration of the Term, and (ii) as provided in Exhibit A hereto, during the periods specified following termination of his employment by the Company and by any Affiliate which may have employed him.

7. ASSIGNMENT. This Agreement, and all of the terms and conditions hereof, shall bind the Company and its successors and assigns and shall bind Executive and Executive's heirs, valid assigns, executors and administrators. No transfer or assignment of this Agreement shall release the Company from any obligation to Executive hereunder. Neither this Agreement, nor any of the Company's rights or obligations hereunder, may be assigned or are otherwise subject to hypothecation by Executive. The Company may assign the rights and obligations of the Company hereunder, in whole or in part, to any of the Company's Subsidiaries or Affiliates, or to any other successor or assign in connection with the sale of all or substantially all of the Company's assets or equity or in connection with any merger, acquisition and/or reorganization, provided the assignee assumes the obligations of the Company hereunder and provided further than any such assignment shall not release the Company from its obligations hereunder.

8. GENERAL.

(a) Notices. Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of one (1) business day following personal delivery (including personal delivery by e-mail or recognized overnight courier), or the third (3rd) business day after mailing by first class mail to the recipient at the address indicated below:

To the Company:

Apollo Global Management, LLC
9 West 57th Street
43rd Floor
New York, NY 10019
Attention: Chief Legal Officer

To Executive at the location set forth in the Company's records

or to such other address or to the attention of such other Person as the recipient party may have specified by prior written notice to the sending party.

(b) Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any Person or any circumstance, is found to be invalid or unenforceable in any jurisdiction, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

(c) Entire Agreement. This document, together with its attached exhibits, constitutes the final, complete, and exclusive embodiment of the entire agreement and understanding between the parties related to the subject matter hereof and supersedes and preempts any prior or contemporaneous understandings, agreements, or representations by or between the parties, written or oral. Notwithstanding the immediately preceding sentence, this Agreement does not supersede or preempt the Shareholders Agreement, the Agreement Among Principals, the Exchange Agreement, the exempted limited partnership agreement of AP Professional Holdings, L.P., the exempted limited partnership agreement of BRH Holdings, L.P., or any other agreement to which Executive became a party in connection with the Company's initial public offering.

(d) Counterparts. This Agreement may be executed on separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same agreement.

(e) Amendments. No amendments or other modifications to this Agreement may be made except by a writing signed by each party hereto. No amendment or waiver of this Agreement requires the consent of any individual, partnership, corporation or other entity not a party to this Agreement.

(f) Survivorship. The provisions of this Agreement necessary to carry out the intention of the parties as expressed herein (including, without limitation, the Restrictive Covenants provided in Section 6 hereof and Exhibit A hereto) shall survive the termination or expiration of the Term.

(g) Waiver. The waiver by either party of the other party's prompt and complete performance, or breach or violation, of any provision of this Agreement shall not operate nor be construed as a waiver of any subsequent breach or violation, and the failure by any party hereto to exercise any right or remedy which it or he may possess hereunder shall not operate nor be construed as a bar to the exercise of such right or remedy by such party upon the occurrence of any subsequent breach or violation. No waiver shall be deemed to have occurred unless set forth in a writing executed by or on behalf of the waiving party. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

(h) Captions. The captions of this Agreement are for convenience and reference only and in no way define, describe, extend or limit the scope or intent of this Agreement or the intent of any provision hereof.

(i) Construction. The parties acknowledge that this Agreement is the result of arm's-length negotiations between sophisticated parties, each afforded representation by legal counsel. Each and every provision of this Agreement shall be construed as though both parties participated equally in the drafting of the same, and any rule of construction that a document shall be construed against the drafting party shall not be applicable to this Agreement.

(j) Arbitration.

(i) Except as contemplated in Section 8(k) hereof, the parties hereto agree that any dispute, controversy or claim arising out of or relating to this Agreement, whether based on contract, tort, statute, or other legal or equitable theory (including, without limitation, any claim of fraud, intentional misconduct, misrepresentation or fraudulent inducement or any question of validity or effect of this Agreement including this clause) or the breach or termination hereof (the "**Dispute**"), shall be resolved in binding arbitration in accordance with the following provisions:

A. Such Dispute shall be resolved by binding arbitration to be conducted before JAMS in accordance with the provisions of JAMS' Comprehensive Arbitration Rules and Procedures as in effect at the time of the arbitration.

B. The arbitration shall be held before a panel of three arbitrators appointed by JAMS, in accordance with its rules, who are not Affiliates of any party to such arbitration and do not have any actual or reasonable potential for bias or conflict of interest with respect to any of the parties hereto, directly or indirectly, by virtue of any direct or indirect financial interest, family relationship or close friendship.

C. Such arbitration shall be held at such place as the arbitrators appointed by JAMS may determine within the County, City and State of New York, or such other location to which the parties hereto may agree.

D. The arbitrators shall have the authority, taking into account the parties' desire that any arbitration proceeding hereunder be reasonably expedited and efficient, to permit the parties hereto to conduct discovery. Any such discovery shall be (i) guided generally by but be no broader than permitted under the United States Federal Rules of Civil Procedure (the "**FRCP**"), and (ii) subject to the arbitrators and the parties hereto entering into a mutually acceptable confidentiality agreement.

E. The arbitrators shall have the authority to issue subpoenas for the attendance of witnesses and for the production of records and other evidence in connection with discovery and/or at any hearing and may administer oaths. Any such subpoena must be served in the manner for service of subpoenas under the FRCP and enforced in the manner for enforcement of subpoenas under the FRCP.

F. The arbitrators' decision and award in any such arbitration shall be made by majority vote and delivered within thirty (30) calendar days of the conclusion of the evidentiary hearings unless otherwise agreed to by the parties hereto. In addition, the arbitrators shall have the authority to award injunctive relief to any of the parties.

G. The arbitrators' decision shall be in writing and shall be as brief as possible and will include the basis for the arbitrators' decision. A record of the arbitration proceeding shall be kept.

H. Judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

I. The parties shall share equally all expenses of JAMS (including those of the arbitrators) incurred in connection with any arbitration; provided, however, the arbitrators may award to the prevailing party in such arbitration its or his reasonable expenses incurred (including reasonable legal fees and expenses) and its or his share of JAMS expenses in connection with such arbitration.

J. The parties hereto agree to participate in any arbitration in good faith.

(ii) If JAMS is unable or unwilling to commence arbitration with regard to any such Dispute within thirty (30) calendar days after the parties have met the requirements for commencement as set forth in Rule 5 of the JAMS Comprehensive Arbitration Rules and Procedures, then the Disputes shall be resolved by binding arbitration, in accordance with the International Arbitration Rules of the American Arbitration Association (the " **AAA**"), before a panel of three arbitrators who shall be selected jointly by the parties involved in such Dispute, or if the parties cannot agree on the selection of the arbitrators, shall be selected by the AAA (provided that any arbitrators selected by the AAA shall meet the requirements of Section 8(j)(i)(B) above). Any such arbitration shall be subject to the provisions of Section 8(j)(i)(C) through 8(j)(i)(J) above (as if the AAA were JAMS). If the AAA is unable or unwilling to commence such arbitration within thirty (30) calendar days after the parties have met the requirements for such commencement set forth in the aforementioned rules, then either party may seek resolution of such Dispute through litigation in accordance with Sections 8(k) and 8(l).

(iii) Except as may be necessary to enter judgment upon the award or to the extent required by applicable law, all claims, defenses and proceedings (including, without limiting the generality of the foregoing, the existence of the controversy and the fact that there is an arbitration proceeding) shall be treated in a confidential manner by the arbitrators, the

parties and their counsel, and each of their agents, employees and all others acting on behalf of or in concert with them. Without limiting the generality of the foregoing, no one shall divulge to any Person not directly involved in the arbitration the contents of the pleadings, papers, orders, hearings, trials, or awards in the arbitration, except as may be necessary to enter judgment upon an award or as required by applicable law. Any court proceedings relating to the arbitration hereunder, including, without limiting the generality of the foregoing, to prevent or compel arbitration; discovery; enforcement of a subpoena; or to confirm, correct, vacate or otherwise enforce an arbitration award, shall be filed under seal with the court, to the extent permitted by law.

(k) Governing Law; Equitable Remedies. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO CONFLICT OF LAWS PRINCIPLES THEREOF). The parties hereto agree that irreparable damage would occur in the event that any of the provisions of Section 6 or Exhibit A of this Agreement were not performed in accordance with its specific terms or was otherwise breached. It is accordingly agreed that the parties hereto shall be entitled to an injunction or injunctions and other equitable remedies to prevent breaches of Section 6 or Exhibit A of this Agreement and to enforce specifically the terms and provisions thereof in any of the Selected Courts (as defined below), this being in addition to any other remedy to which they are entitled at law or in equity. In such event, any requirements for the securing or posting of any bond with respect to such remedy are hereby waived by each of the parties hereto. Each party further agrees that, in the event of any action for an injunction or other equitable remedy in respect of such breach or enforcement of specific performance pursuant to this Section 8(k), it or he will not assert the defense that a remedy at law would be adequate.

(l) Consent to Jurisdiction. It is the desire and intent of the parties hereto that any disputes or controversies arising under or in connection with this Agreement be resolved pursuant to arbitration in accordance with Section 8(j); *provided*, *however*, that, to the extent that Section 8(j) is held to be invalid or unenforceable for any reason, and the result is that the parties hereto are precluded from resolving any claim arising under or in connection with this Agreement pursuant to the terms of Section 8(j) (after giving effect to the terms of Section 8(b)), the following provisions of this Section 8(l) shall govern the resolution of all disputes or controversies arising under this Agreement. With respect to any suit, action or proceeding ("**Proceeding**") arising out of or relating to this Agreement or any transaction contemplated hereby each of the parties hereto hereby irrevocably (i) submits to the exclusive jurisdiction of (A) the United States District Court for the Southern District of New York, or (B) in the event that such court lacks jurisdiction to hear the claim, the state courts of New York located in the borough of Manhattan, New York City (the "**Selected Courts**") and waives any objection to venue being laid in the Selected Courts whether based on the grounds of f*orum non conveniens* or otherwise and hereby agrees not to commence any such Proceeding other than before one of the Selected Courts; *provided*, *however*, that a party may commence any Proceeding in a court other than a Selected Court solely for the purpose of enforcing an order or judgment issued by one of the Selected Courts or the arbitrators; (ii) consents to service of process in any Proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, or by recognized international express carrier or delivery service, to their respective addresses referred to in Section 8(a) hereof; *provided*, *however*, that nothing herein shall affect the right of any party hereto to serve process in any other manner permitted by law; and (iii) TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW THAT CANNOT BE WAIVED, WAIVES, AND COVENANTS THAT IT OR HE WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) ANY RIGHT TO TRIAL BY JURY IN ANY ACTION ARISING IN WHOLE OR IN PART UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AND AGREES THAT ANY OF THEM MAY FILE A COPY OF THIS PARAGRAPH WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY AND BARGAINED-FOR AGREEMENT AMONG THE PARTIES IRREVOCABLY TO WAIVE ITS OR HIS RIGHT TO TRIAL BY JURY IN ANY PROCEEDING WHATSOEVER BETWEEN THEM RELATING TO THIS AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS AND WILL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

(m) Third Party Beneficiaries. Except as expressly provided herein, nothing in this Agreement shall confer any rights or remedies upon any Person other than the parties hereto or any and all of Executive's heirs, successors, valid assigns, executors and administrators. In any provision of the Agreement which provides rights or remedies to, or permits the assignment of rights to, Affiliates or Subsidiaries of the Company, the terms "Affiliates" and "Subsidiaries" shall be construed to exclude any Fund or Portfolio Company.

(n) Indemnification.

(i) To the fullest extent permitted by law but subject to the limitations expressly provided in this Agreement, Executive and the Executive's Group (collectively, the "**Indemnified Parties**" and each individually an "**Indemnified Party**") shall be indemnified and held harmless by the Company and its direct and indirect consolidated Subsidiaries from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including reasonable legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all threatened, pending or completed

third-party claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, and whether formal or informal and including appeals, directly or indirectly, by reason of or arising from (A) Executive's actions or inactions in connection with the establishment, management, operations or serving on the board of any Covered Business, (B) Executive's actions or inactions with respect to his duties under this Agreement (including resulting from limitations on Executive's actions set forth in Exhibit A), and (C) Executive's actions or inactions with respect to any limited partnership agreement or similar governing document of any Covered Business or any member of the Apollo Operating Group or any direct or indirect Subsidiary, including, for the avoidance of doubt, to the extent related to any breach or alleged breach of this Agreement, any Fund Agreement or the AGM LLC Agreement, whether arising from acts or omissions to act as set forth in this section 8(n)(i) occurring before or after the Effective Date; *provided*, *however*, that the Indemnified Party shall not be indemnified and held harmless if there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter for which the Indemnified Party is seeking indemnification pursuant to this Section 8(n), Executive acted in bad faith or engaged in actual fraud or willful misconduct. For purposes of clarification, because a conveyance may be allegedly or actually void or voidable or deemed "fraudulent" pursuant to the provisions of Title 11 of the U.S. Code or any similar State or foreign statute does not render an Executive's conduct with respect to the conveyance non-indemnifiable, and an Indemnified Party will be entitled to indemnification with respect to such conveyances unless the Executive "acted in bad faith or engaged in actual fraud or willful misconduct" as provided for herein. Notwithstanding the preceding sentence, except as otherwise provided in Section 8(n)(ix), the Company shall be required to indemnify an Indemnified Party in connection with any action, suit or proceeding (or part thereof) commenced by an Indemnified Party only if the commencement of such action, suit or proceeding (or part thereof) by such Indemnified Party was authorized by the Company in its sole discretion.

(ii) To the fullest extent permitted by law, expenses (including reasonable legal fees and expenses) incurred by an Indemnified Party in appearing at, participating in or defending any indemnifiable claim, demand, action, suit or proceeding pursuant to Section 8(n) shall be advanced by the Company on a monthly basis prior to a final and non-appealable determination that the Indemnified Party is not entitled to be indemnified upon receipt by the Company of an undertaking by or on behalf of an Indemnified Party to repay such amount if it ultimately shall be determined that the Indemnified Party is not entitled to be indemnified pursuant to this Section 8(n). Notwithstanding the immediately preceding sentence, except as otherwise provided in Section 8(n)(ix), the Company shall be required to indemnify an Indemnified Party pursuant to the immediately preceding sentence in connection with any action, suit or proceeding (or part thereof) commenced by such Indemnified Party only if the commencement of such action, suit or proceeding (or part thereof) by the Indemnified Party was authorized by the Company in its sole discretion.

(iii) The indemnification provided by this Section 8(n) shall be in addition to any other rights to which the Indemnified Parties may be entitled under any agreement, as a matter of law, in equity or otherwise, both as to actions in Executive's capacity as Executive and as to actions in any other capacity, and shall continue as to the Indemnified Parties if Executive has ceased to serve in such capacity.

(iv) Any indemnification pursuant to this Section 8(n) shall be made only out of the assets of the Company and/or its valid assignees. In no event may the Indemnified Parties subject the members of the Company to personal liability by reason of the indemnification provisions set forth in this Agreement.

(v) No Indemnified Party shall be denied indemnification in whole or in part under this Section 8(n) because such Indemnified Party had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement, including, without limitation, Exhibit A, the Agreement Among Principals, the Limited Liability Company Agreement of the Company or the consent of the Governing Body.

(vi) The provisions of this Section 8(n) are for the benefit of the Indemnified Parties and their heirs, successors, valid assigns, executors and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(vii) Executive shall, in the performance of his duties, be fully protected in relying in good faith upon the records of the Company, its Affiliates and their respective direct or indirect Subsidiaries and on such information, opinions, reports or statements presented to any of the foregoing by any of the respective officers, directors or employees, or committees of the board, or by any other Person as to matters that Executive, as the case may be, reasonably believes are within such other Person's professional or expert competence.

(viii) No amendment, modification or repeal of this Section 8(n) or any provision hereof shall in any manner terminate, reduce or impair the right of the Indemnified Parties or any third party beneficiary to be indemnified by the Company, nor the obligations of the Company to indemnify the Indemnified Parties or any third party beneficiary under and in accordance with the provisions of this Section 8(n) as in effect immediately prior to such amendment, modification or repeal

with respect to claims arising from or relating to matters occurring, in whole or-in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

(ix) If a claim for indemnification (following the final disposition of the action, suit or proceeding for which indemnification is being sought) or advancement of expenses under this Section 8(n) is not paid in full within thirty (30) days after a written claim therefor by an Indemnified Party or any third party beneficiary has been received by the Company, such Indemnified Party or such third party beneficiary, as the case may be, may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expenses of prosecuting such claim, including reasonable attorneys' fees.

(o) Liability of Indemnified Persons. Notwithstanding anything to the contrary herein, no Indemnified Party shall be liable to the Company or any other Persons who have acquired interests in the Company's securities, for any losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising as a result of any act or omission of Executive, or for any breach of contract (including breach of this Agreement) or any breach of duties (including breach of fiduciary duties) whether arising hereunder, at law, in equity or otherwise, unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter in question, Executive acted in bad faith or engaged in actual fraud or willful misconduct. For purposes of clarification, because a conveyance may be allegedly or actually void or voidable or deemed "fraudulent" pursuant to the provisions of Title 11 of the U.S. Code or any similar State or foreign statute does not render an Executive's conduct with respect to the conveyance non-indemnifiable, and an Indemnified Party will be entitled to indemnification with respect to such conveyances unless the Executive "acted in bad faith or engaged in actual fraud or willful misconduct" as provided for herein. Any amendment, modification or repeal of this Section 8(o) or any provision hereof shall be prospective only and shall not in any way affect the limitations on the liability of an Indemnified Party under this Section 8(o) as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

(p) Legal Fees. The Company shall pay or reimburse Executive for all reasonable and documented legal fees and costs incurred by him in connection with the drafting and negotiation of this Agreement and any other agreement or policies directly or indirectly related to Executive's employment arrangement and his rights under Exhibit A.

[Signature page follows]

IN WITNESS WHEREOF AND INTENDING TO BE LEGALLY BOUND THEREBY, the parties hereto have executed and delivered this Agreement as of the year and date first above written.

APOLLO GLOBAL MANAGEMENT, LLC

By: AGM Management, LLC,
its Manager

By: BRH Holdings GP, Ltd.,
its Sole Member

By: /s/ John J. Suydam
Name: John J. Suydam
Title: Vice President

/s/ Marc J. Rowan
Marc J. Rowan

Exhibit A

Restrictive Covenants

Executive understands, acknowledges and agrees that, by virtue of his equity interest in the Company and/or its Affiliates, his previous services to the Company and its Affiliates, and his employment by the Company pursuant to this Agreement, directly or indirectly, he acquired, had access to, or was otherwise exposed to, and shall acquire, have access to or be otherwise exposed to confidential information of the Company and its Affiliates (the Confidential Information, as defined below) and he has met and developed relationships with, and will meet and develop relationships with, the Company's potential and existing financing sources, capital market intermediaries, investors, employees and consultants.

The Company and its Affiliates are engaged throughout the United States and the world in the business of raising, managing, investing the assets of and making investments in private equity funds, hedge funds, publicly traded alternative investment vehicles and other alternative asset investment vehicles (the "**Business**"). Executive acknowledges that (i) the Business is global in nature and Executive is among the limited number of individuals leading the Business, (ii) the Restrictive Covenants set forth in this Exhibit A are an essential part of this Agreement, (iii) he has been fully advised by counsel in connection with the negotiation of this Agreement and the Restrictive Covenants, (iv) he is familiar with the laws which govern the enforceability of restrictive covenants in the jurisdictions where the Business is carried on, and agrees that these Restrictive Covenants, including, without limitation, the non-competition covenant, are reasonable, valid and enforceable in the context of this Agreement, and (v) compliance with the Restrictive Covenants, including, without limitation, the non-competition covenant, will not create any hardship for Executive as he has independent means and sufficient income to be fully self-supporting without competing with the Company in the Business or violating any of the Restrictive Covenants.

A . Non-competition. Executive agrees that during the period of his employment with the Company (or any Affiliate) and during the Restricted Period (as defined below), Executive shall not, directly or indirectly, either as a principal, agent, employee, employer, consultant, partner, member, shareholder of a closely held corporation or shareholder in excess of three percent (3%) of a publicly traded corporation, corporate officer or director, or in any other individual or representative capacity, engage or otherwise participate in any manner or fashion in any business that is a Competing Business (as defined below), either in the United States or in any other place in the world where the Company or any of its Affiliates, successors or assigns engages in the Business. Notwithstanding anything to the contrary contained in this Clause A of this Exhibit A, (i) activities permitted by clause 1 (Services and Duties) of the Employment, Non-Competition and Non-Solicitation Agreement and (ii) investments described in Clause F of this Exhibit A, are permitted.

Solely for purposes of this Exhibit A: "**Competing Business**" means any alternative asset management business (other than the Business of the Company, its successors or assigns or Affiliates) Primarily for Third Party capital that advises, manages or invests the assets of and/or makes investments in private equity funds, hedge funds, collateralized debt obligation funds, business development corporations, special purpose acquisition companies or other alternative asset investment vehicles, or the Persons who manage, advise or own such investment vehicles. "**Primarily**" means with respect to more than fifty percent (50%) of the capital in question. "**Third Party**" means a Person other than Executive or any member of Executive's Group. "**Restricted Period**" means, the period commencing on the date hereof and terminating one (1) year following Executive's termination of employment.

B. Non-solicitation of Employees, Etc. Executive agrees that during the period of his employment with the Company (or any Affiliate) and during the Restricted Period, Executive shall not, directly or indirectly, (i) solicit or induce any officer, director, employee, agent or consultant of the Company or any of its successors, assigns or Affiliates to terminate his, her or its employment or other relationship with the Company or its successors, assigns or Affiliates for the purpose of associating with any Competing Business, or otherwise encourage any such Person to leave or sever his, her or its employment or other relationship with the Company or its successors, assigns or Affiliates, for any other reason, or (ii) hire any such individual who, at the time of hire, Executive knows left the employ of the Company or any of its Affiliates during the immediately preceding twelve (12) months. This provision shall not prohibit Executive from soliciting or hiring the Persons serving as his personal assistant or assistants at or prior to the time of his departure. For purposes of these Clauses B and C of this Exhibit A, "Affiliates" shall not include any Portfolio Company.

C . Non-solicitation of Investors, Etc. Executive agrees that during the period of his employment with the Company (or any Affiliate) and during the Restricted Period, Executive shall not, directly or indirectly, solicit or induce any investors, financing sources or capital market intermediaries of the Company or its successors, assigns or Affiliates to terminate (or diminish in any respect) his, her or its relationship with the Company or its successors, assigns or Affiliates. Nothing in this paragraph applies to those investors, financing sources, or capital market intermediaries who did not conduct business with the Company, or its successors, assigns or Affiliates during Executive's employment with, or the period in which Executive held, directly or indirectly, an ownership interest in, the Company or any Affiliate.

D . Confidentiality. Executive agrees to be bound by Section 5.8 ("**Confidential Information**") of the Agreement Among Principals.

E . Disparaging Comments. Executive agrees that he shall not, directly or indirectly, make or ratify any statement, public or private, oral or written, to any Person that disparages, either professionally or personally, the Company or any of its Affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, members, managers, partners, agents, attorneys, insurers, employees, stockholders, representatives, assigns, and successors, past and present, and each of them. The Company agrees that it shall not, and it shall ensure that its Continuing Principals shall not, directly or indirectly, make or ratify any statement, public or private, oral or written, to any Person that disparages Executive, either professionally or personally. The obligations under this paragraph shall not apply to (i) disclosures compelled by applicable law or order of any court or (ii) any statements or disclosures reasonably necessary to be made directly in connection with any legal proceeding, arbitration or investigation, whether or not compelled (but subject to any confidentiality agreements or orders that may govern such proceeding, arbitration or investigation).

F. Code of Ethics, Family Offices and Personal Investing.

(1) In no event shall Executive make, or assist a member of his Group in making, any investment that violates or conflicts with the Company's then-current code of ethics (the "**Code of Ethics**") or any trading policies of the Company (it being understood that the terms and restrictions of any such policy may be more restrictive than required by applicable law). The Company will notify Executive promptly of any changes to the Code of Ethics or to any of its trading policies. As required by the Code of Ethics, all statements of holdings by the Family Office shall be provided to the Company compliance department ("**Company Compliance**") and all trades by the Family Office that are required to be pre-cleared under the Code of Ethics will be pre-cleared by Company Compliance, except as noted below.

(2) Transactions in the following by the Family Office shall be considered "fully-managed accounts" for purposes of Section 8.2.2 of the Code of Ethics (or any successor section) provided that a certificate is delivered to the Company's Chief Compliance Officer (the "**CCO**") on a quarterly basis from the relevant portfolio manager or the Chief Executive Officer, as applicable (the "Portfolio Manager") of Executive's Family Office and Executive stating that Executive continues to have no investment control, influence or discretion over such investments:

- Bank loans; and
- Equity securities of publicly traded companies with a market capitalization of more than $100 million and less than $10 billion so long as the investment will not result in the Family Office owning more than 3% of the outstanding publicly traded securities of any issuer.

Although the foregoing shall be considered "fully-managed accounts" under the Code of Ethics and thus do not require pre-clearance, the Executive shall nonetheless cause his Family Office to pre-clear with Company Compliance all transactions in equity securities in publicly traded companies with a market capitalization of more than $100 million and less than $10 billion (but not bank loans) to ensure that the Company is not in possession of material non-public information ("**MNPI**") concerning the issuer of the securities.

(3) The provision contained in Section 8.3 of the Code of Ethics which requires Company Compliance to consider whether a "transaction would usurp an opportunity that properly belongs to the Company's clients" is considered satisfied with respect to any investment (including anticipated follow-on investments) that is below the threshold size listed in the attached Schedule I for the type of investment listed (because these investments do not usurp the Company's client opportunities). For avoidance of doubt, such transactions would remain subject to pre-clearance by Company Compliance for MNPI or conflicts purposes.

(4) Investments in the following categories are unlikely to usurp an opportunity that properly belongs to the Company's clients and therefore, Company Compliance will endeavor to expedite any pre-clearance request with respect to these investments:

- Investments in sports teams, leagues or organizations (because these investments are not considered appropriate investments for the Company's clients); and

- Private investments that were introduced to the Family Office by persons other than Executive or sourced by the Family Office and not Executive so long as the Portfolio Manager of Executive's Family Office and Executive deliver a certificate in the form attached as Schedule 2 to the Company's CCO prior to making such investment stating that such investment was introduced to the Family Office by persons other than Executive or sourced by employees or other service providers of the Family Office and not Executive, that Executive was not aware of such investment prior to the Family Office being introduced to or sourcing such investment and that neither the Company nor its employees (including Executive) participated in sourcing such investment. For the avoidance of doubt, once the Family Office is introduced to or sources the investment, Executive may be involved in analyzing the investment and participating in the decision as to whether the Family Office should make such investment.

For the avoidance of doubt, the other factors to be considered in a pre-clearance decision (i.e., the restricted list, MNPI, etc.) remain applicable to the investments listed above in this paragraph F(4).

(5) Any request for pre-clearance to Company Compliance shall include information about anticipated follow-on investments with respect to the investment. If a follow-on investment is pre-cleared at the time of the original investment it shall not require another pre-clearance at the time of actual investment (although sales of such investment may be required to be pre-cleared as provided in the Code of Ethics). If a follow-on investment was not anticipated at the time of the original investment, Executive or his Family Office shall certify that such subsequent funding is required to protect the value of the existing investment and was not contemplated and pre-cleared at the time of the initial investment.

(6) As required by the Code of Ethics, when requesting pre-clearance, Executive's Family Office shall provide sufficient information such that the Company can make a decision but such Family Office will not be obligated to create an investment memorandum solely for pre-clearance purposes.

(7) Where possible, responses to pre-clearance requests shall be granted to Executive's Family Office within 48 hours of the request.

(8) Before agreeing to receive MNPI with respect to an investment, Company Compliance shall check its most recent statement of the Family Office's holdings, and if the receipt of the MNPI could cause the Family Office to restrict its investment, Company Compliance, if practicable, will provide notice to the Family Office that the Company may receive MNPI so that the Family Office has an opportunity to exit the position before the MNPI is received. If the Family Office chooses to exit the position, the Family Office shall request pre-clearance from Company Compliance and Company Compliance may or may not grant approval. Once Company Compliance has completed its internal decision-making about whether to accept MNPI (normally approximately 48 hours later) the Company shall notify the Family Office of its decision, and if the Family Office has not sold its position, it will be subject to restriction on sale.

G . Conflicts of Interest. Executive hereby agrees to promptly disclose to the Governing Body any potential conflict of interest involving Executive, his Group or his Family Office or the Company upon Executive obtaining actual knowledge of such conflict or potential conflict.

H . Director's Fees and Other Sources of Compensation from the Company. All directors' and other fees payable to Executive after July 13, 2012 or equity incentives granted to Executive after July 13, 2012 by a portfolio company shall be transferred to the Company or its designee without any additional consideration therefor. Other than the compensation set forth in this Agreement, Executive will not accept any compensation, director fees, other fees or equity interests from the Company or any of its Subsidiaries.

I. Continuing Obligations to the Company and its Subsidiaries. Commencing on the Effective Date, Executive will cooperate in all reasonable respects with the Company and its Subsidiaries in connection with any and all existing or future litigation, actions or proceedings (whether civil, criminal, administrative, regulatory or otherwise) brought by or against the Company or any of its Affiliates, to the extent the Company reasonably deems Executive's cooperation necessary. Executive shall be reimbursed for all out-of-pocket expenses incurred by him as a result of such cooperation.

J . Acknowledgement. Executive agrees and acknowledges that each Restrictive Covenant herein is reasonable as to duration, terms and geographical area and that the same protects the legitimate interests of the Company and its Affiliates, imposes no undue hardship on Executive, is not injurious to the public, and that any violation of any of these Restrictive Covenants shall be specifically enforceable in any court with jurisdiction upon short notice. Executive agrees and acknowledges that a portion of the compensation paid to Executive under this Agreement to which this Exhibit A is attached will be paid in consideration of the covenants contained in this Exhibit A, the sufficiency of which consideration is hereby acknowledged. If any provision of this Exhibit A as applied to Executive or to any circumstance is adjudged by a court to be invalid or unenforceable, the same shall in no way affect any other circumstance or the validity or enforceability of any other provision of this Exhibit A. If the scope of any such provision, or any part thereof, is too broad to permit enforcement of such provision to its full extent, Executive agrees that the court making such

determination shall have the power to reduce the duration and/or area of such provision, and/or to delete specific words or phrases, to the extent necessary to permit enforcement, and, in its reduced form, such provision shall then be enforceable and shall be enforced. Executive agrees and acknowledges that the breach of this Exhibit A will cause irreparable injury to the Company and upon breach of any provision of this Exhibit A, the Company shall be entitled to injunctive relief, specific performance or other equitable relief; *provided*, *however*, that this shall in no way limit any other remedies which the Company may have (including, without limitation, the right to seek monetary damages). The Company shall not bring any claim or action for breach of any provision of this Exhibit A unless (i) it has provided written notice of such alleged claim and provided Executive with at least thirty (30) days to correct or cure the conduct in question and (ii) during such period, Executive has not corrected or cured such conduct. Each of the covenants in this Exhibit A shall be construed as an agreement independent of any other provisions in this Agreement to which it is attached, other than the consideration for such covenant provided in this Agreement.

Exhibit 10.13

APOLLO GLOBAL MANAGEMENT, LLC
EMPLOYMENT, NON-COMPETITION AND NON-SOLICITATION AGREEMENT

THIS EMPLOYMENT, NON-COMPETITION AND NON-SOLICITATION AGREEMENT (this " **Agreement**") is made and entered into as of January 4, 2017 (the "**Effective Date**"), by and between Apollo Global Management, LLC, a Delaware limited liability company (the "**Company**"), and Joshua J. Harris ("**Executive**"). Where the context permits, references to the "Company" shall include the Company and any successor of the Company. Capitalized terms used herein that are not defined in the paragraph in which they first appear are defined in Section 5(b) or in the Agreement Among Principals.

WITNESSETH:

WHEREAS, the Company desires to secure the continued services of Executive for the benefit of the Company and its Affiliates (as defined below) from and after the Effective Date hereof; and

WHEREAS, Executive desires to continue to provide such services.

NOW, THEREFORE, in consideration of the mutual promises, covenants and agreements herein contained, together with other good and valuable consideration the receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

1 . SERVICES AND DUTIES. From and after the Effective Date, Executive shall be employed by the Company in the capacity of its Senior Managing Director. Executive shall be a full-time employee of the Company and shall dedicate substantially all of Executive's working time to the Company and its Affiliates and shall have no other employment and no other business ventures which either are undisclosed to the Company or conflict with Executive's duties under this Agreement. Executive will perform such duties as are required by the Company from time to time and normally associated with Executive's position, together with such additional duties, commensurate with Executive's positions with the Company and with its Affiliates, as may be assigned to Executive from time to time by the Governing Body. The "**Governing Body**" means AGM Management, LLC for so long as it is designated as the principal governing body of the Company pursuant to the Shareholders Agreement and thereafter, the Board. Notwithstanding the foregoing, nothing herein shall prohibit Executive from (i) subject to prior approval of the Governing Body, accepting directorships, roles equivalent to that of a non-executive chairman and roles that do not involve day-to-day operational involvement so long as in each case the role does not give rise to any conflicts of interest with the Company or its Affiliates and does not involve a Competing Business (defined below), (ii) accepting directorships, roles equivalent to that of a non-executive chairman and roles that do not involve day-to-day operational involvement so long as in each case the role does not give rise to any conflicts of interest with the Company or its Affiliates or involve a Competing Business and so long as the role is at a company that is an investment made by the Executive or a member of his Group (as defined below) in accordance with the requirements of the Code of Ethics and Clause F in Exhibit A, (iii) being actively involved in personal investing through the Family Office or otherwise so long as such involvement is consistent with the requirements of the Code of Ethics and Clause F in Exhibit A, (iv) engaging and being actively involved in charitable, cultural, educational and civic activities, so long as such outside interests do not interfere with the performance of Executive's duties hereunder, or (v) engaging in a business of the Apollo Operating Group or a member or Subsidiary thereof or of any Person in which a member or Subsidiary of the Apollo Operating Group holds an Investment in each case on behalf of the Apollo Operating Group.

2. TERM. Executive's employment under the terms and conditions of this Agreement will commence on the Effective Date. The term of this Agreement (the "**Term**") shall commence on the Effective Date and end on the third anniversary thereof. If the Term expires and Executive is employed by the Company thereafter, unless a new employment agreement has been entered into, such employment shall be "at-will." Notwithstanding the foregoing provisions of this Section 2, Executive will have the right to voluntarily terminate his employment with the Company at any time, any such termination being effective on the date on which a written notice thereof is delivered to the Company pursuant to Section 8(a) hereof.

3. COMPENSATION.

(a) Base Salary. In consideration of Executive's full and faithful satisfaction of Executive's duties under this Agreement, the Company agrees to pay to Executive a salary in the amount of one hundred thousand dollars ($100,000.00) per annum (the "**Base Salary**"), payable in such installments as the Company pays its similarly placed employees (but not less frequently than each calendar month), subject to usual and customary deductions for withholding taxes and similar charges, and customary employee contributions to the health, welfare and retirement programs in which Executive is enrolled from time to time.

(b) Withholding. All taxable compensation payable to Executive pursuant to this Section 3 or otherwise pursuant to this Agreement shall be subject to customary deductions for withholding taxes and such other excise or employment taxes as are

required under Federal law or the applicable law of any state or governmental body to be collected with respect to compensation paid by the Company to an employee.

4. BENEFITS AND EXPENSE REIMBURSEMENT.

(a) Retirement and Welfare Benefits. During the Term, Executive will be entitled to all the usual benefits offered to employees at Executive's level, including sick time and participation in the Company's medical, dental and insurance programs, subject to the applicable limitations and requirements imposed by the terms of such benefit plans, in each case in accordance with the terms of such plans as in effect from time to time. Nothing in this Section 4, however, shall require the Company to maintain any benefit plan or provide any type or level of benefits to its employees, including Executive.

(b) Vacation/Paid Time Off. Executive will be entitled to vacation and paid time off ("**PTO**") each year on the most favorable basis afforded to any employee pursuant to the Company's policies as in effect from time to time.

(c) Reimbursement of Expenses. The Company shall reimburse Executive for any expenses reasonably incurred by Executive in furtherance of Executive's duties hereunder, including travel, meals and accommodations, upon submission by Executive of vouchers or receipts and in compliance with such rules and policies relating thereto as the Company may from time to time adopt.

5 . TERMINATION. Executive's employment shall be terminated at the earliest to occur of (i) the date on which the Governing Body delivers written notice that Executive is being terminated as a result of a Disability (as defined below), or (ii) the date of Executive's death. In addition, Executive's employment with the Company may be terminated (i) by the Company for Cause (as defined below), effective on the date on which a written notice to such effect is delivered to Executive; or (ii) by Executive at any time, effective on the date on which a written notice to such effect is delivered to the Company. For the avoidance of doubt, this Agreement does not address the consequences of termination of Executive's employment, if any, to the equity interests in the Company or its Affiliates held by Executive or members of his Group.

(a) Termination by the Company with Cause or by Reason of Death or Disability or a Termination by Executive. If Executive's employment with the Company is terminated by the Company with Cause or is terminated voluntarily by Executive or by reason of Executive's death or Disability, Executive shall not be entitled to any further compensation or benefits other than accrued but unpaid Base Salary (payable as provided in Section 3(a) hereof) and accrued and unused PTO pay through the date of such termination.

(b) Definitions. For purposes of this Agreement:

"**Affiliate**" means an affiliate of the Company (or other referenced entity, as the case may be) as defined in Rule 405 promulgated under the Securities Act of 1933, as amended.

"**Agreement Among Principals**" means the Agreement Among Principals, by and among Leon D. Black, Marc J. Rowan, Joshua J. Harris, Black Family Partners, L.P., MJR Foundation LLC, MJH Partners, L.P., AP Professional Holdings, L.P. and BRH Holdings, L.P., as may be amended, modified, supplemented or restated from time to time.

"**Cause**" means (i) a final, non-appealable conviction of or plea of *nolo contendere* to a felony prohibiting Executive from continuing to provide services as an investment professional to the Company due to legal restriction or physical confinement; or (ii) ceasing to be eligible to continue performing services as an investment professional on behalf of the Company or any of its material Subsidiaries (as defined below), in each case, pursuant to a final, non-appealable legal restriction (such as a final, non-appealable injunction, but expressly excluding a preliminary injunction or other provisional restriction).

"**Covered Business**" has the meaning ascribed to it in the amended and restated exempted limited partnership agreement of BRH Holdings, L.P., a Cayman Islands exempted limited partnership.

"**Disability**" shall refer to any physical or mental incapacity which prevents Executive from carrying out all or substantially all of his duties under this Agreement for any period of one hundred eighty (180) consecutive days or any aggregate period of eight (8) months in any twelve-month (12) period, as determined, in its sole discretion, by a majority of the members of the Governing Body, including a majority of the Continuing Principals who are members of the Governing Body (but for the sake of clarity, not including the Executive in respect of which the determination is being made).

"**Family Office**" means the organization responsible for the day-to-day administration and management of the Executive's financial and personal affairs, which may include, but is not limited to, wealth management, oversight of investments, tax planning, estate planning and philanthropic endeavors, and includes any entity which holds the personal investments of the Executive.

"**Group**" shall mean with respect to Executive, Executive and (i) Executive's spouse, (ii) a lineal descendant of Executive's

parents, the spouse of any such descendant or a lineal descendent of any such spouse, (iii) a Charitable Institution solely controlled by Executive and other members of his Group, (iv) a trustee of a trust (whether *inter vivos* or testamentary), all of the current beneficiaries and presumptive remaindermen of which are one or more of Executive and Persons described in clauses (i) through (iii) of this definition, (v) a corporation, limited liability company or partnership, of which all or substantially all of the outstanding shares of capital stock or interests therein are owned by one or more of Executive and Persons described in clauses (i) through (iv) of this definition provided, that the equity not owned by Executive and Persons described in clauses (i) through (iv) of this definition is owned by current or former service providers of such corporation, limited liability company or partnership, (vi) an individual mandated under a qualified domestic relations order, or (vii) the executor, personal representative or administrator of the estate of such Executive or of the estate of any individual described in clauses (i), (ii) or (vi) above. For purposes of this definition, (x) "lineal descendants" shall not include individuals adopted after attaining the age of eighteen (18) years and such adopted individual's descendants; and (y) "presumptive remaindermen" shall refer to those Persons entitled to a share of a trust's assets if it were then to terminate. Executive shall never be a member of the Group of another Principal.

"**Manager**" means AGM Management, LLC, a Delaware limited liability company.

"**Shareholders Agreement**" means the Shareholders Agreement, dated as of July 13, 2007, by and among the Company, AP Professional Holdings, L.P., Leon D. Black, Marc J. Rowan, Joshua J. Harris, Black Family Partners, L.P. and MJR Foundation LLC.

"**Subsidiary**" means a subsidiary of the Company (or other referenced entity, as the case may be) as defined in Rule 405 promulgated under the Securities Act of 1933, as amended.

(c) Resignation as Officer or Director. Upon the termination of employment for any reason, Executive shall be deemed to have resigned each position (if any) that Executive then holds as an officer or director of the Company or any of its Subsidiaries or any Portfolio Company without any further act to be taken by Executive. Additionally, Executive shall execute and deliver to the Company promptly after the Company's written request, any request for a resignation in form and substance reasonably acceptable to Executive. For the sake of clarity, this provision shall not apply to any right Executive may have under the Agreement Among Principals to continue to serve as a member of the Executive Committee following Executive's retirement.

(d) Disability. The parties acknowledge that there may be a delay between the discovery of a condition that results in Executive's employment termination due to Disability, and the effective date of such termination. In such case, the Governing Body may temporarily appoint a Senior Professional to perform the functional responsibilities and duties of Executive until Disability definitively occurs or is determined not to have occurred; *provided*, *however*, (i) the Governing Body may so appoint a Senior Professional only if Executive is unable to perform his responsibilities and duties to the Company (or such successor thereto or such other entity controlled by the Company or its successor as may be Executive's employer at such time), or, as a matter of fiduciary duty, should be prohibited from performing his responsibilities and duties, and (ii) during such period Executive shall continue to serve on the Executive Committee unless otherwise prohibited from doing so pursuant to the Agreement Among Principals.

(e) Section 409A. To the extent required to avoid the imposition of tax under Section 409A of the Code ("**Section 409A**"), if Executive is a "specified employee" for purposes of Section 409A, amounts that would otherwise be payable under this Section 5 during the six-month (6) period immediately following the employment termination date shall instead be paid on the first (1st) business day after the date that is six (6) months following Executive's "separation from service" within the meaning of Section 409A, or, if earlier, the date of Executive's death.

6. RESTRICTIVE COVENANTS. The parties agree that the restrictive covenants set forth in Exhibit A hereto (the "**Restrictive Covenants**") are incorporated herein by reference and shall be deemed to be contained herein. Executive understands, acknowledges and agrees that the Restrictive Covenants apply (i) during his employment under this Agreement, during any period of employment by (x) the Company or (y) any Affiliate following the termination of this Agreement or the expiration of the Term, and (ii) as provided in Exhibit A hereto, during the periods specified following termination of his employment by the Company and by any Affiliate which may have employed him.

7. ASSIGNMENT. This Agreement, and all of the terms and conditions hereof, shall bind the Company and its successors and assigns and shall bind Executive and Executive's heirs, valid assigns, executors and administrators. No transfer or assignment of this Agreement shall release the Company from any obligation to Executive hereunder. Neither this Agreement, nor any of the Company's rights or obligations hereunder, may be assigned or are otherwise subject to hypothecation by Executive. The Company may assign the rights and obligations of the Company hereunder, in whole or in part, to any of the Company's Subsidiaries or Affiliates, or to any other successor or assign in connection with the sale of all or substantially all of the Company's assets or equity or in connection with any merger, acquisition and/or reorganization, provided the assignee assumes the obligations of the Company hereunder and provided further than any such assignment shall not release the Company from its obligations hereunder.

8. GENERAL.

(a) Notices. Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of one (1) business day following personal delivery (including personal delivery by e-mail or recognized overnight courier), or the third (3rd) business day after mailing by first class mail to the recipient at the address indicated below:

To the Company:

Apollo Global Management, LLC
9 West 57th Street
43rd Floor
New York, NY 10019
Attention: Chief Legal Officer

To Executive at the location set forth in the Company's records

or to such other address or to the attention of such other Person as the recipient party may have specified by prior written notice to the sending party.

(b) Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any Person or any circumstance, is found to be invalid or unenforceable in any jurisdiction, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

(c) Entire Agreement. This document, together with its attached exhibits, constitutes the final, complete, and exclusive embodiment of the entire agreement and understanding between the parties related to the subject matter hereof and supersedes and preempts any prior or contemporaneous understandings, agreements, or representations by or between the parties, written or oral. Notwithstanding the immediately preceding sentence, this Agreement does not supersede or preempt the Shareholders Agreement, the Agreement Among Principals, the Exchange Agreement, the exempted limited partnership agreement of AP Professional Holdings, L.P., the exempted limited partnership agreement of BRH Holdings, L.P., or any other agreement to which Executive became a party in connection with the Company's initial public offering.

(d) Counterparts. This Agreement may be executed on separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same agreement.

(e) Amendments. No amendments or other modifications to this Agreement may be made except by a writing signed by each party hereto. No amendment or waiver of this Agreement requires the consent of any individual, partnership, corporation or other entity not a party to this Agreement.

(f) Survivorship. The provisions of this Agreement necessary to carry out the intention of the parties as expressed herein (including, without limitation, the Restrictive Covenants provided in Section 6 hereof and Exhibit A hereto) shall survive the termination or expiration of the Term.

(g) Waiver. The waiver by either party of the other party's prompt and complete performance, or breach or violation, of any provision of this Agreement shall not operate nor be construed as a waiver of any subsequent breach or violation, and the failure by any party hereto to exercise any right or remedy which it or he may possess hereunder shall not operate nor be construed as a bar to the exercise of such right or remedy by such party upon the occurrence of any subsequent breach or violation. No waiver shall be deemed to have occurred unless set forth in a writing executed by or on behalf of the waiving party. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

(h) Captions. The captions of this Agreement are for convenience and reference only and in no way define, describe, extend or limit the scope or intent of this Agreement or the intent of any provision hereof.

(i) Construction. The parties acknowledge that this Agreement is the result of arm's-length negotiations between sophisticated parties, each afforded representation by legal counsel. Each and every provision of this Agreement shall be construed as though both parties participated equally in the drafting of the same, and any rule of construction that a document shall be construed against the drafting party shall not be applicable to this Agreement.

(j) Arbitration.

(i) Except as contemplated in Section 8(k) hereof, the parties hereto agree that any dispute, controversy or claim arising out of or relating to this Agreement, whether based on contract, tort, statute, or other legal or equitable theory (including, without limitation, any claim of fraud, intentional misconduct, misrepresentation or fraudulent inducement or any question of validity or effect of this Agreement including this clause) or the breach or termination hereof (the "**Dispute**"), shall be resolved in binding arbitration in accordance with the following provisions:

A. Such Dispute shall be resolved by binding arbitration to be conducted before JAMS in accordance with the provisions of JAMS' Comprehensive Arbitration Rules and Procedures as in effect at the time of the arbitration.

B. The arbitration shall be held before a panel of three arbitrators appointed by JAMS, in accordance with its rules, who are not Affiliates of any party to such arbitration and do not have any actual or reasonable potential for bias or conflict of interest with respect to any of the parties hereto, directly or indirectly, by virtue of any direct or indirect financial interest, family relationship or close friendship.

C. Such arbitration shall be held at such place as the arbitrators appointed by JAMS may determine within the County, City and State of New York, or such other location to which the parties hereto may agree.

D. The arbitrators shall have the authority, taking into account the parties' desire that any arbitration proceeding hereunder be reasonably expedited and efficient, to permit the parties hereto to conduct discovery. Any such discovery shall be (i) guided generally by but be no broader than permitted under the United States Federal Rules of Civil Procedure (the "**FRCP**"), and (ii) subject to the arbitrators and the parties hereto entering into a mutually acceptable confidentiality agreement.

E. The arbitrators shall have the authority to issue subpoenas for the attendance of witnesses and for the production of records and other evidence in connection with discovery and/or at any hearing and may administer oaths. Any such subpoena must be served in the manner for service of subpoenas under the FRCP and enforced in the manner for enforcement of subpoenas under the FRCP.

F. The arbitrators' decision and award in any such arbitration shall be made by majority vote and delivered within thirty (30) calendar days of the conclusion of the evidentiary hearings unless otherwise agreed to by the parties hereto. In addition, the arbitrators shall have the authority to award injunctive relief to any of the parties.

G. The arbitrators' decision shall be in writing and shall be as brief as possible and will include the basis for the arbitrators' decision. A record of the arbitration proceeding shall be kept.

H. Judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

I. The parties shall share equally all expenses of JAMS (including those of the arbitrators) incurred in connection with any arbitration; provided, however, the arbitrators may award to the prevailing party in such arbitration its or his reasonable expenses incurred (including reasonable legal fees and expenses) and its or his share of JAMS expenses in connection with such arbitration.

J. The parties hereto agree to participate in any arbitration in good faith.

(ii) If JAMS is unable or unwilling to commence arbitration with regard to any such Dispute within thirty (30) calendar days after the parties have met the requirements for commencement as set forth in Rule 5 of the JAMS Comprehensive Arbitration Rules and Procedures, then the Disputes shall be resolved by binding arbitration, in accordance with the International Arbitration Rules of the American Arbitration Association (the " **AAA**"), before a panel of three arbitrators who shall be selected jointly by the parties involved in such Dispute, or if the parties cannot agree on the selection of the arbitrators, shall be selected by the AAA (provided that any arbitrators selected by the AAA shall meet the requirements of Section 8(j)(i)(B) above). Any such arbitration shall be subject to the provisions of Section 8(j)(i)(C) through 8(j)(i)(J) above (as if the AAA were JAMS). If the AAA is unable or unwilling to commence such arbitration within thirty (30) calendar days after the parties have met the requirements for such commencement set forth in the aforementioned rules, then either party may seek resolution of such Dispute through litigation in accordance with Sections 8(k) and 8(l).

(iii) Except as may be necessary to enter judgment upon the award or to the extent required by applicable law, all claims, defenses and proceedings (including, without limiting the generality of the foregoing, the existence of the controversy and the fact that there is an arbitration proceeding) shall be treated in a confidential manner by the arbitrators, the

parties and their counsel, and each of their agents, employees and all others acting on behalf of or in concert with them. Without limiting the generality of the foregoing, no one shall divulge to any Person not directly involved in the arbitration the contents of the pleadings, papers, orders, hearings, trials, or awards in the arbitration, except as may be necessary to enter judgment upon an award or as required by applicable law. Any court proceedings relating to the arbitration hereunder, including, without limiting the generality of the foregoing, to prevent or compel arbitration; discovery; enforcement of a subpoena; or to confirm, correct, vacate or otherwise enforce an arbitration award, shall be filed under seal with the court, to the extent permitted by law.

(k) Governing Law; Equitable Remedies. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO CONFLICT OF LAWS PRINCIPLES THEREOF). The parties hereto agree that irreparable damage would occur in the event that any of the provisions of Section 6 or Exhibit A of this Agreement were not performed in accordance with its specific terms or was otherwise breached. It is accordingly agreed that the parties hereto shall be entitled to an injunction or injunctions and other equitable remedies to prevent breaches of Section 6 or Exhibit A of this Agreement and to enforce specifically the terms and provisions thereof in any of the Selected Courts (as defined below), this being in addition to any other remedy to which they are entitled at law or in equity. In such event, any requirements for the securing or posting of any bond with respect to such remedy are hereby waived by each of the parties hereto. Each party further agrees that, in the event of any action for an injunction or other equitable remedy in respect of such breach or enforcement of specific performance pursuant to this Section 8(k), it or he will not assert the defense that a remedy at law would be adequate.

(l) Consent to Jurisdiction. It is the desire and intent of the parties hereto that any disputes or controversies arising under or in connection with this Agreement be resolved pursuant to arbitration in accordance with Section 8(j); *provided*, *however*, that, to the extent that Section 8(j) is held to be invalid or unenforceable for any reason, and the result is that the parties hereto are precluded from resolving any claim arising under or in connection with this Agreement pursuant to the terms of Section 8(j) (after giving effect to the terms of Section 8(b)), the following provisions of this Section 8(l) shall govern the resolution of all disputes or controversies arising under this Agreement. With respect to any suit, action or proceeding ("**Proceeding**") arising out of or relating to this Agreement or any transaction contemplated hereby each of the parties hereto hereby irrevocably (i) submits to the exclusive jurisdiction of (A) the United States District Court for the Southern District of New York, or (B) in the event that such court lacks jurisdiction to hear the claim, the state courts of New York located in the borough of Manhattan, New York City (the "**Selected Courts**") and waives any objection to venue being laid in the Selected Courts whether based on the grounds of f*orum non conveniens* or otherwise and hereby agrees not to commence any such Proceeding other than before one of the Selected Courts; *provided*, *however*, that a party may commence any Proceeding in a court other than a Selected Court solely for the purpose of enforcing an order or judgment issued by one of the Selected Courts or the arbitrators; (ii) consents to service of process in any Proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, or by recognized international express carrier or delivery service, to their respective addresses referred to in Section 8(a) hereof; *provided*, *however*, that nothing herein shall affect the right of any party hereto to serve process in any other manner permitted by law; and (iii) TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW THAT CANNOT BE WAIVED, WAIVES, AND COVENANTS THAT IT OR HE WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) ANY RIGHT TO TRIAL BY JURY IN ANY ACTION ARISING IN WHOLE OR IN PART UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AND AGREES THAT ANY OF THEM MAY FILE A COPY OF THIS PARAGRAPH WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY AND BARGAINED-FOR AGREEMENT AMONG THE PARTIES IRREVOCABLY TO WAIVE ITS OR HIS RIGHT TO TRIAL BY JURY IN ANY PROCEEDING WHATSOEVER BETWEEN THEM RELATING TO THIS AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS AND WILL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

(m) Third Party Beneficiaries. Except as expressly provided herein, nothing in this Agreement shall confer any rights or remedies upon any Person other than the parties hereto or any and all of Executive's heirs, successors, valid assigns, executors and administrators. In any provision of the Agreement which provides rights or remedies to, or permits the assignment of rights to, Affiliates or Subsidiaries of the Company, the terms "Affiliates" and "Subsidiaries" shall be construed to exclude any Fund or Portfolio Company.

(n) Indemnification.

(i) To the fullest extent permitted by law but subject to the limitations expressly provided in this Agreement, Executive and the Executive's Group (collectively, the "**Indemnified Parties**" and each individually an "**Indemnified Party**") shall be indemnified and held harmless by the Company and its direct and indirect consolidated Subsidiaries from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including reasonable legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all threatened, pending or completed

third-party claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, and whether formal or informal and including appeals, directly or indirectly, by reason of or arising from (A) Executive's actions or inactions in connection with the establishment, management, operations or serving on the board of any Covered Business, (B) Executive's actions or inactions with respect to his duties under this Agreement (including resulting from limitations on Executive's actions set forth in Exhibit A), and (C) Executive's actions or inactions with respect to any limited partnership agreement or similar governing document of any Covered Business or any member of the Apollo Operating Group or any direct or indirect Subsidiary, including, for the avoidance of doubt, to the extent related to any breach or alleged breach of this Agreement, any Fund Agreement or the AGM LLC Agreement, whether arising from acts or omissions to act as set forth in this section 8(n)(i) occurring before or after the Effective Date; *provided*, *however*, that the Indemnified Party shall not be indemnified and held harmless if there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter for which the Indemnified Party is seeking indemnification pursuant to this Section 8(n), Executive acted in bad faith or engaged in actual fraud or willful misconduct. For purposes of clarification, because a conveyance may be allegedly or actually void or voidable or deemed "fraudulent" pursuant to the provisions of Title 11 of the U.S. Code or any similar State or foreign statute does not render an Executive's conduct with respect to the conveyance non-indemnifiable, and an Indemnified Party will be entitled to indemnification with respect to such conveyances unless the Executive "acted in bad faith or engaged in actual fraud or willful misconduct" as provided for herein. Notwithstanding the preceding sentence, except as otherwise provided in Section 8(n)(ix), the Company shall be required to indemnify an Indemnified Party in connection with any action, suit or proceeding (or part thereof) commenced by an Indemnified Party only if the commencement of such action, suit or proceeding (or part thereof) by such Indemnified Party was authorized by the Company in its sole discretion.

(ii) To the fullest extent permitted by law, expenses (including reasonable legal fees and expenses) incurred by an Indemnified Party in appearing at, participating in or defending any indemnifiable claim, demand, action, suit or proceeding pursuant to Section 8(n) shall be advanced by the Company on a monthly basis prior to a final and non-appealable determination that the Indemnified Party is not entitled to be indemnified upon receipt by the Company of an undertaking by or on behalf of an Indemnified Party to repay such amount if it ultimately shall be determined that the Indemnified Party is not entitled to be indemnified pursuant to this Section 8(n). Notwithstanding the immediately preceding sentence, except as otherwise provided in Section 8(n)(ix), the Company shall be required to indemnify an Indemnified Party pursuant to the immediately preceding sentence in connection with any action, suit or proceeding (or part thereof) commenced by such Indemnified Party only if the commencement of such action, suit or proceeding (or part thereof) by the Indemnified Party was authorized by the Company in its sole discretion.

(iii) The indemnification provided by this Section 8(n) shall be in addition to any other rights to which the Indemnified Parties may be entitled under any agreement, as a matter of law, in equity or otherwise, both as to actions in Executive's capacity as Executive and as to actions in any other capacity, and shall continue as to the Indemnified Parties if Executive has ceased to serve in such capacity.

(iv) Any indemnification pursuant to this Section 8(n) shall be made only out of the assets of the Company and/or its valid assignees. In no event may the Indemnified Parties subject the members of the Company to personal liability by reason of the indemnification provisions set forth in this Agreement.

(v) No Indemnified Party shall be denied indemnification in whole or in part under this Section 8(n) because such Indemnified Party had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement, including, without limitation, Exhibit A, the Agreement Among Principals, the Limited Liability Company Agreement of the Company or the consent of the Governing Body.

(vi) The provisions of this Section 8(n) are for the benefit of the Indemnified Parties and their heirs, successors, valid assigns, executors and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(vii) Executive shall, in the performance of his duties, be fully protected in relying in good faith upon the records of the Company, its Affiliates and their respective direct or indirect Subsidiaries and on such information, opinions, reports or statements presented to any of the foregoing by any of the respective officers, directors or employees, or committees of the board, or by any other Person as to matters that Executive, as the case may be, reasonably believes are within such other Person's professional or expert competence.

(viii) No amendment, modification or repeal of this Section 8(n) or any provision hereof shall in any manner terminate, reduce or impair the right of the Indemnified Parties or any third party beneficiary to be indemnified by the Company, nor the obligations of the Company to indemnify the Indemnified Parties or any third party beneficiary under and in accordance with the provisions of this Section 8(n) as in effect immediately prior to such amendment, modification or repeal

with respect to claims arising from or relating to matters occurring, in whole or-in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

(ix) If a claim for indemnification (following the final disposition of the action, suit or proceeding for which indemnification is being sought) or advancement of expenses under this Section 8(n) is not paid in full within thirty (30) days after a written claim therefor by an Indemnified Party or any third party beneficiary has been received by the Company, such Indemnified Party or such third party beneficiary, as the case may be, may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expenses of prosecuting such claim, including reasonable attorneys' fees.

(o) Liability of Indemnified Persons. Notwithstanding anything to the contrary herein, no Indemnified Party shall be liable to the Company or any other Persons who have acquired interests in the Company's securities, for any losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising as a result of any act or omission of Executive, or for any breach of contract (including breach of this Agreement) or any breach of duties (including breach of fiduciary duties) whether arising hereunder, at law, in equity or otherwise, unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter in question, Executive acted in bad faith or engaged in actual fraud or willful misconduct. For purposes of clarification, because a conveyance may be allegedly or actually void or voidable or deemed "fraudulent" pursuant to the provisions of Title 11 of the U.S. Code or any similar State or foreign statute does not render an Executive's conduct with respect to the conveyance non-indemnifiable, and an Indemnified Party will be entitled to indemnification with respect to such conveyances unless the Executive "acted in bad faith or engaged in actual fraud or willful misconduct" as provided for herein. Any amendment, modification or repeal of this Section 8(o) or any provision hereof shall be prospective only and shall not in any way affect the limitations on the liability of an Indemnified Party under this Section 8(o) as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

(p) Legal Fees. The Company shall pay or reimburse Executive for all reasonable and documented legal fees and costs incurred by him in connection with the drafting and negotiation of this Agreement and any other agreement or policies directly or indirectly related to Executive's employment arrangement and his rights under Exhibit A.

[Signature page follows]

IN WITNESS WHEREOF AND INTENDING TO BE LEGALLY BOUND THEREBY, the parties hereto have executed and delivered this Agreement as of the year and date first above written.

APOLLO GLOBAL MANAGEMENT, LLC

By: AGM Management, LLC,
its Manager

By: BRH Holdings GP, Ltd.,
its Sole Member

By: /s/ John J. Suydam
Name: John J. Suydam
Title: Vice President

/s/ Joshua J. Harris
Joshua J. Harris

Exhibit A

Restrictive Covenants

Executive understands, acknowledges and agrees that, by virtue of his equity interest in the Company and/or its Affiliates, his previous services to the Company and its Affiliates, and his employment by the Company pursuant to this Agreement, directly or indirectly, he acquired, had access to, or was otherwise exposed to, and shall acquire, have access to or be otherwise exposed to confidential information of the Company and its Affiliates (the Confidential Information, as defined below) and he has met and developed relationships with, and will meet and develop relationships with, the Company's potential and existing financing sources, capital market intermediaries, investors, employees and consultants.

The Company and its Affiliates are engaged throughout the United States and the world in the business of raising, managing, investing the assets of and making investments in private equity funds, hedge funds, publicly traded alternative investment vehicles and other alternative asset investment vehicles (the "**Business**"). Executive acknowledges that (i) the Business is global in nature and Executive is among the limited number of individuals leading the Business, (ii) the Restrictive Covenants set forth in this Exhibit A are an essential part of this Agreement, (iii) he has been fully advised by counsel in connection with the negotiation of this Agreement and the Restrictive Covenants, (iv) he is familiar with the laws which govern the enforceability of restrictive covenants in the jurisdictions where the Business is carried on, and agrees that these Restrictive Covenants, including, without limitation, the non-competition covenant, are reasonable, valid and enforceable in the context of this Agreement, and (v) compliance with the Restrictive Covenants, including, without limitation, the non-competition covenant, will not create any hardship for Executive as he has independent means and sufficient income to be fully self-supporting without competing with the Company in the Business or violating any of the Restrictive Covenants.

A . Non-competition. Executive agrees that during the period of his employment with the Company (or any Affiliate) and during the Restricted Period (as defined below), Executive shall not, directly or indirectly, either as a principal, agent, employee, employer, consultant, partner, member, shareholder of a closely held corporation or shareholder in excess of three percent (3%) of a publicly traded corporation, corporate officer or director, or in any other individual or representative capacity, engage or otherwise participate in any manner or fashion in any business that is a Competing Business (as defined below), either in the United States or in any other place in the world where the Company or any of its Affiliates, successors or assigns engages in the Business. Notwithstanding anything to the contrary contained in this Clause A of this Exhibit A, (i) activities permitted by clause 1 (Services and Duties) of the Employment, Non-Competition and Non-Solicitation Agreement and (ii) investments described in Clause F of this Exhibit A, are permitted.

Solely for purposes of this Exhibit A: "**Competing Business**" means any alternative asset management business (other than the Business of the Company, its successors or assigns or Affiliates) Primarily for Third Party capital that advises, manages or invests the assets of and/or makes investments in private equity funds, hedge funds, collateralized debt obligation funds, business development corporations, special purpose acquisition companies or other alternative asset investment vehicles, or the Persons who manage, advise or own such investment vehicles. "**Primarily**" means with respect to more than fifty percent (50%) of the capital in question. "**Third Party**" means a Person other than Executive or any member of Executive's Group. "**Restricted Period**" means, the period commencing on the date hereof and terminating one (1) year following Executive's termination of employment.

B. Non-solicitation of Employees, Etc. Executive agrees that during the period of his employment with the Company (or any Affiliate) and during the Restricted Period, Executive shall not, directly or indirectly, (i) solicit or induce any officer, director, employee, agent or consultant of the Company or any of its successors, assigns or Affiliates to terminate his, her or its employment or other relationship with the Company or its successors, assigns or Affiliates for the purpose of associating with any Competing Business, or otherwise encourage any such Person to leave or sever his, her or its employment or other relationship with the Company or its successors, assigns or Affiliates, for any other reason, or (ii) hire any such individual who, at the time of hire, Executive knows left the employ of the Company or any of its Affiliates during the immediately preceding twelve (12) months. This provision shall not prohibit Executive from soliciting or hiring the Persons serving as his personal assistant or assistants at or prior to the time of his departure. For purposes of these Clauses B and C of this Exhibit A, "Affiliates" shall not include any Portfolio Company.

C . Non-solicitation of Investors, Etc. Executive agrees that during the period of his employment with the Company (or any Affiliate) and during the Restricted Period, Executive shall not, directly or indirectly, solicit or induce any investors, financing sources or capital market intermediaries of the Company or its successors, assigns or Affiliates to terminate (or diminish in any respect) his, her or its relationship with the Company or its successors, assigns or Affiliates. Nothing in this paragraph applies to those investors, financing sources, or capital market intermediaries who did not conduct business with the Company, or its successors, assigns or Affiliates during Executive's employment with, or the period in which Executive held, directly or indirectly, an ownership interest in, the Company or any Affiliate.

D . Confidentiality. Executive agrees to be bound by Section 5.8 ("**Confidential Information**") of the Agreement Among Principals.

E . Disparaging Comments. Executive agrees that he shall not, directly or indirectly, make or ratify any statement, public or private, oral or written, to any Person that disparages, either professionally or personally, the Company or any of its Affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, members, managers, partners, agents, attorneys, insurers, employees, stockholders, representatives, assigns, and successors, past and present, and each of them. The Company agrees that it shall not, and it shall ensure that its Continuing Principals shall not, directly or indirectly, make or ratify any statement, public or private, oral or written, to any Person that disparages Executive, either professionally or personally. The obligations under this paragraph shall not apply to (i) disclosures compelled by applicable law or order of any court or (ii) any statements or disclosures reasonably necessary to be made directly in connection with any legal proceeding, arbitration or investigation, whether or not compelled (but subject to any confidentiality agreements or orders that may govern such proceeding, arbitration or investigation).

F. Code of Ethics, Family Offices and Personal Investing.

(1) In no event shall Executive make, or assist a member of his Group in making, any investment that violates or conflicts with the Company's then-current code of ethics (the "**Code of Ethics**") or any trading policies of the Company (it being understood that the terms and restrictions of any such policy may be more restrictive than required by applicable law). The Company will notify Executive promptly of any changes to the Code of Ethics or to any of its trading policies. As required by the Code of Ethics, all statements of holdings by the Family Office shall be provided to the Company compliance department ("**Company Compliance**") and all trades by the Family Office that are required to be pre-cleared under the Code of Ethics will be pre-cleared by Company Compliance, except as noted below.

(2) Transactions in the following by the Family Office shall be considered "fully-managed accounts" for purposes of Section 8.2.2 of the Code of Ethics (or any successor section) provided that a certificate is delivered to the Company's Chief Compliance Officer (the "**CCO**") on a quarterly basis from the relevant portfolio manager or the Chief Executive Officer, as applicable (the "Portfolio Manager") of Executive's Family Office and Executive stating that Executive continues to have no investment control, influence or discretion over such investments:

- Bank loans; and
- Equity securities of publicly traded companies with a market capitalization of more than $100 million and less than $10 billion so long as the investment will not result in the Family Office owning more than 3% of the outstanding publicly traded securities of any issuer.

Although the foregoing shall be considered "fully-managed accounts" under the Code of Ethics and thus do not require pre-clearance, the Executive shall nonetheless cause his Family Office to pre-clear with Company Compliance all transactions in equity securities in publicly traded companies with a market capitalization of more than $100 million and less than $10 billion (but not bank loans) to ensure that the Company is not in possession of material non-public information ("**MNPI**") concerning the issuer of the securities.

(3) The provision contained in Section 8.3 of the Code of Ethics which requires Company Compliance to consider whether a "transaction would usurp an opportunity that properly belongs to the Company's clients" is considered satisfied with respect to any investment (including anticipated follow-on investments) that is below the threshold size listed in the attached Schedule I for the type of investment listed (because these investments do not usurp the Company's client opportunities). For avoidance of doubt, such transactions would remain subject to pre-clearance by Company Compliance for MNPI or conflicts purposes.

(4) Investments in the following categories are unlikely to usurp an opportunity that properly belongs to the Company's clients and therefore, Company Compliance will endeavor to expedite any pre-clearance request with respect to these investments:

- Investments in sports teams, leagues or organizations (because these investments are not considered appropriate investments for the Company's clients); and

- Private investments that were introduced to the Family Office by persons other than Executive or sourced by the Family Office and not Executive so long as the Portfolio Manager of Executive's Family Office and Executive deliver a certificate in the form attached as Schedule 2 to the Company's CCO prior to making such investment stating that such investment was introduced to the Family Office by persons other than Executive or sourced by employees or other service providers of the Family Office and not Executive, that Executive was not aware of such investment prior to the Family Office being introduced to or sourcing such investment and that neither the Company nor its employees (including Executive) participated in sourcing such investment. For the avoidance of doubt, once the Family Office is introduced to or sources the investment, Executive may be involved in analyzing the investment and participating in the decision as to whether the Family Office should make such investment.

For the avoidance of doubt, the other factors to be considered in a pre-clearance decision (i.e., the restricted list, MNPI, etc.) remain applicable to the investments listed above in this paragraph F(4).

(5) Any request for pre-clearance to Company Compliance shall include information about anticipated follow-on investments with respect to the investment. If a follow-on investment is pre-cleared at the time of the original investment it shall not require another pre-clearance at the time of actual investment (although sales of such investment may be required to be pre-cleared as provided in the Code of Ethics). If a follow-on investment was not anticipated at the time of the original investment, Executive or his Family Office shall certify that such subsequent funding is required to protect the value of the existing investment and was not contemplated and pre-cleared at the time of the initial investment.

(6) As required by the Code of Ethics, when requesting pre-clearance, Executive's Family Office shall provide sufficient information such that the Company can make a decision but such Family Office will not be obligated to create an investment memorandum solely for pre-clearance purposes.

(7) Where possible, responses to pre-clearance requests shall be granted to Executive's Family Office within 48 hours of the request.

(8) Before agreeing to receive MNPI with respect to an investment, Company Compliance shall check its most recent statement of the Family Office's holdings, and if the receipt of the MNPI could cause the Family Office to restrict its investment, Company Compliance, if practicable, will provide notice to the Family Office that the Company may receive MNPI so that the Family Office has an opportunity to exit the position before the MNPI is received. If the Family Office chooses to exit the position, the Family Office shall request pre-clearance from Company Compliance and Company Compliance may or may not grant approval. Once Company Compliance has completed its internal decision-making about whether to accept MNPI (normally approximately 48 hours later) the Company shall notify the Family Office of its decision, and if the Family Office has not sold its position, it will be subject to restriction on sale.

G . Conflicts of Interest. Executive hereby agrees to promptly disclose to the Governing Body any potential conflict of interest involving Executive, his Group or his Family Office or the Company upon Executive obtaining actual knowledge of such conflict or potential conflict.

H . Director's Fees and Other Sources of Compensation from the Company. All directors' and other fees payable to Executive after July 13, 2012 or equity incentives granted to Executive after July 13, 2012 by a portfolio company shall be transferred to the Company or its designee without any additional consideration therefor. Other than the compensation set forth in this Agreement, Executive will not accept any compensation, director fees, other fees or equity interests from the Company or any of its Subsidiaries.

I. Continuing Obligations to the Company and its Subsidiaries. Commencing on the Effective Date, Executive will cooperate in all reasonable respects with the Company and its Subsidiaries in connection with any and all existing or future litigation, actions or proceedings (whether civil, criminal, administrative, regulatory or otherwise) brought by or against the Company or any of its Affiliates, to the extent the Company reasonably deems Executive's cooperation necessary. Executive shall be reimbursed for all out-of-pocket expenses incurred by him as a result of such cooperation.

J . Acknowledgement. Executive agrees and acknowledges that each Restrictive Covenant herein is reasonable as to duration, terms and geographical area and that the same protects the legitimate interests of the Company and its Affiliates, imposes no undue hardship on Executive, is not injurious to the public, and that any violation of any of these Restrictive Covenants shall be specifically enforceable in any court with jurisdiction upon short notice. Executive agrees and acknowledges that a portion of the compensation paid to Executive under this Agreement to which this Exhibit A is attached will be paid in consideration of the covenants contained in this Exhibit A, the sufficiency of which consideration is hereby acknowledged. If any provision of this Exhibit A as applied to Executive or to any circumstance is adjudged by a court to be invalid or unenforceable, the same shall in no way affect any other circumstance or the validity or enforceability of any other provision of this Exhibit A. If the scope of any such provision, or any part thereof, is too broad to permit enforcement of such provision to its full extent, Executive agrees that the court making such

determination shall have the power to reduce the duration and/or area of such provision, and/or to delete specific words or phrases, to the extent necessary to permit enforcement, and, in its reduced form, such provision shall then be enforceable and shall be enforced. Executive agrees and acknowledges that the breach of this Exhibit A will cause irreparable injury to the Company and upon breach of any provision of this Exhibit A, the Company shall be entitled to injunctive relief, specific performance or other equitable relief; *provided*, *however*, that this shall in no way limit any other remedies which the Company may have (including, without limitation, the right to seek monetary damages). The Company shall not bring any claim or action for breach of any provision of this Exhibit A unless (i) it has provided written notice of such alleged claim and provided Executive with at least thirty (30) days to correct or cure the conduct in question and (ii) during such period, Executive has not corrected or cured such conduct. Each of the covenants in this Exhibit A shall be construed as an agreement independent of any other provisions in this Agreement to which it is attached, other than the consideration for such covenant provided in this Agreement.

Exhibit 21.1

LIST OF SUBSIDIARIES

Entity Name	Jurisdiction of Organization
2012 CMBS-I GP LLC	Delaware
2012 CMBS-I Management LLC	Delaware
2012 CMBS-II GP LLC	Delaware
2012 CMBS-II Management LLC	Delaware
2012 CMBS-III GP LLC	Delaware
2012 CMBS-III Management LLC	Delaware
A/A Investor I, LLC	Delaware
A/A Capital Management, LLC	Delaware
A-A Mortgage Opportunities Corp.	Delaware
AAA Associates (Co-Invest VII), L.P.	Cayman Islands
AAA Associates (Co-Invest VII GP), Ltd.	Cayman Islands
AAA Associates, L.P.	Guernsey
AAA Guernsey Limited	Guernsey
AAA Holdings GP Limited	Guernsey
AAA Holdings, L.P.	Guernsey
AAA Life Re Carry, L.P.	Cayman Islands
AAA MIP Limited	Guernsey
AAM GP Ltd.	Cayman Islands
ACC Advisors A/B, LLC	Delaware
ACC Advisors C, LLC	Delaware
ACC Advisors D, LLC	Delaware
ACC Management, LLC	Delaware
ACREFI Management, LLC	Delaware
AEM GP, LLC	Delaware
AES Advisors II GP, LLC	Delaware
AES Advisors II, L.P.	Cayman Islands
AES Co-Investors II, LLC	Delaware
AGM Incentive Pool, L.P.	Cayman Islands
AGM India Advisors Private Limited	India
AGM Marketing Pool, L.P.	Cayman Islands
AGRE - CRE Debt Manager, LLC	Delaware
AGRE - DCB, LLC	Delaware
AGRE Asia Pacific Legacy Management, LLC	Delaware
AGRE Asia Pacific Real Estate Advisors GP, Ltd.	Cayman Islands
AGRE Asia Pacific Management, LLC	Delaware
AGRE Asia Pacific Real Estate Advisors, L.P.	Cayman Islands
AGRE CMBS GP II LLC	Delaware
AGRE CMBS GP LLC	Delaware
AGRE CMBS Management II LLC	Delaware
AGRE CMBS Management LLC	Delaware
AGRE Debt Fund I GP, Ltd.	Cayman Islands
AGRE Europe Co-Invest Advisors, L.P.	Marshall Islands
AGRE Europe Co-Invest Advisors GP, LLC	Marshall Islands
AGRE Europe Co-Invest Management, L.P.	Marshall Islands
AGRE Europe Co-Invest Management GP, LLC	Marshall Islands
AGRE Europe Legacy Management, LLC	Delaware
AGRE Europe Management, LLC	Delaware
AGRE GP Holdings, LLC	Delaware
AGRE Hong Kong Management, LLC	Delaware
AGRE NA Legacy Management, LLC	Delaware

AGRE NA Management, LLC	Delaware
AGRE U.S. Real Estate Advisors Cayman, Ltd.	Cayman Islands
AGRE U.S. Real Estate Advisors, L.P.	Delaware
AGRE U.S. Real Estate Advisors GP, LLC	Delaware
AGRE - E Legacy Management, LLC	Delaware
AGRE - E2 Legacy Management, LLC	Delaware
AHL 2014 Investor GP, Ltd.	Cayman Islands
AIF III Management, LLC	Delaware
AIF V Management, LLC	Delaware
AIF VI Management, LLC	Delaware
AIF VI Management Pool Investors, L.P.	Delaware
AIF VII Management, LLC	Delaware
AIF VIII Management, LLC	Delaware
AIM Pool Investors, L.P.	Delaware
AION Co-Investors (D) Ltd	Mauritius
ALME Loan Funding II Limited	Ireland
ALME Loan Funding III Limited	Ireland
AMH Holdings (Cayman), L.P.	Cayman Islands
AMH Holdings GP, Ltd.	Cayman Islands
AMI (Holdings), LLC	Delaware
AMI (Luxembourg) S.a r.l.	Luxembourg
Apollo ANRP Advisors (APO DC-GP), LLC	Delaware
ANRP EPE GenPar, Ltd.	Cayman Islands
ANRP II GenPar, Ltd.	Cayman Islands
ANRP Talos GenPar, Ltd.	Cayman Islands
Apollo A-N Credit Co-Investors (FC-D), L.P.	Delaware
Apollo A-N Credit Management, LLC	Delaware
AP AOP VII Transfer Holdco, LLC	Delaware
Apollo Credit Short Opportunities Advisors LLC	Delaware
Apollo Credit Short Opportunities Management, LLC	Delaware
Apollo Senior Loan Fund Co-Investors (D), L.P.	Delaware
Apollo Total Return ERISA Advisors GP LLC	Delaware
Apollo Total Return ERISA Advisors, L.P.	Delaware
Apollo Total Return Co-Investors (D) GP LLC	Delaware
Apollo Total Return Co-Investors (D) LP	Delaware
AP Transport LLC	Delaware
AP TSL Funding, LLC	Delaware
Apollo USREF Co-Investors II (D), LLC	Delaware
Apollo Credit Income Co-Investors (D) LLC	Delaware
APH HFA Holdings GP, Ltd	Cayman Islands
APH HFA Holdings, L.P.	Cayman Islands
APH Holdings (DC), L.P.	Cayman Islands
APH Holdings (FC), L.P.	Cayman Islands
APH Holdings, L.P.	Cayman Islands
APH I (Sub I), Ltd.	Cayman Islands
APH III (Sub I), Ltd.	Cayman Islands
Apollo Achilles Co-Invest GP, LLC	Anguilla
Apollo Executive Carry VII (NR APO DC), L.P.	Delaware
Apollo Executive Carry VII (NR APO FC), L.P.	Cayman Islands
APO Corp.	Delaware
APO (FC II), LLC	Anguilla
APO (FC), LLC	Anguilla
Apollo Advisors VIII (APO FC), L.P.	Cayman Islands
Apollo Advisors VIII (APO FC-GP), Ltd.	Cayman Islands

Apollo Alternative Credit Absolute Return Advisors LLC	Delaware
Apollo Alternative Credit Absolute Return Management LLC	Delaware
Apollo Alternative Credit Long Short Management LLC	Delaware
Apollo Alternative Credit Long Short Advisors LLC	Delaware
Apollo A-N Credit Advisors (APO FC Delaware), L.P.	Delaware
Apollo A-N Credit Advisors (APO FC-GP), LLC	Delaware
Apollo ANRP Advisors II (APO DC), L.P.	Delaware
Apollo ANRP Advisors II (APO DC-GP), LLC	Delaware
Apollo ANRP Capital Management II, LLC	Delaware
Apollo ANRP Co-Investors II (DC-D), L.P.	Delaware
Apollo Asia Real Estate Management, LLC	Delaware
APO Asset Co., LLC	Delaware
Apollo Centre Street Advisors (APO DC-GP), LLC	Delaware
Apollo CIP European SMAs & CLOs, L.P.	Cayman Islands
Apollo Co-Investors VIII (FC-D), L.P.	Cayman Islands
Apollo Credit Opportunity Advisors III (APO FC) GP LLC	Delaware
Apollo Credit Opportunity Co-Investors III (FC-D) LLC	Delaware
Apollo Emerging Markets Debt Advisors LP	Cayman Islands
Apollo Emerging Markets Debt Co-Investors (D) LP	Delaware
Apollo Emerging Markets Debt Advisors GP LLC	Delaware
Apollo Emerging Markets Debt Management LLC	Delaware
Apollo Emerging Markets Debt Co-Investors (D) GP LLC	Delaware
Apollo Energy Opportunity Advisors GP LLC	Delaware
Apollo Energy Opportunity Advisors LP	Delaware
Apollo Energy Opportunity Co-Investors (D) LLC	Delaware
Apollo Energy Opportunity Management LLC	Delaware
Apollo Energy Yield Co-Investors (D) LLC	Delaware
Apollo European Long Short Advisors GP, LLC	Delaware
Apollo European Long Short Advisors, L.P.	Cayman Islands
Apollo European Long Short Management, LLC	Delaware
Apollo HK TMS Investment Holdings GP, LLC	Delaware
Apollo HK TMS Investment Holdings Management, LLC	Delaware
Apollo Lincoln Fixed Income Advisors (APO DC), L.P.	Delaware
Apollo Lincoln Fixed Income Management, LLC	Delaware
Apollo Lincoln Fixed Income Advisors (APO DC-GP), LLC	Delaware
Apollo Lincoln Private Credit Advisors (APO DC-GP), LLC	Delaware
Apollo Lincoln Private Credit Advisors (APO DC), L.P.	Delaware
Apollo Lincoln Private Credit Co-Investors (DC-D), L.P.	Delaware
Apollo Lincoln Private Credit Management, LLC	Delaware
Apollo MidCap Holdings (Cayman) II, L.P.	Cayman Islands
Apollo MidCap Holdings (Cayman) II GP, Ltd.	Cayman Islands
Apollo MidCap FinCo Feeder GP LLC	Delaware
Apollo Structured Credit Recovery Advisors III (APO DC) LLC	Delaware
Apollo Structured Credit Recovery Advisors III LLC	Delaware
Apollo Structured Credit Recovery Management III LLC	Delaware
Apollo Tactical Value SPN Advisors (APO DC), L.P.	Cayman Islands
Apollo Tactical Value SPN Co-Investors (DC-D), L.P.	Anguilla
Apollo Tactical Value SPN Management, LLC	Delaware
Apollo Tactical Value SPN Capital Management (APO DC-GP), LLC	Anguilla
Apollo Total Return Enhanced Advisors GP LLC	Delaware
Apollo Total Return Enhanced Management LLC	Delaware
Apollo Total Return Enhanced Advisors LP	Cayman Islands
Apollo Union Street Capital Management, LLC	Delaware
Apollo Union Street Co-Investors (D), L.P.	Delaware

Apollo Capital Management VII, LLC	Delaware
Apollo Administration GP Ltd.	Cayman Islands
Apollo Advisors V (EH Cayman), L.P.	Cayman Islands
Apollo Advisors VI (APO DC-GP), LLC	Delaware
Apollo Advisors VI (APO FC-GP), LLC	Anguilla
Apollo Advisors VII (APO DC-GP), LLC	Delaware
Apollo Advisors VII (APO FC-GP), LLC	Anguilla
Apollo Advisors VIII (APO DC), L.P.	Delaware
Apollo Advisors VIII (APO DC-GP), LLC	Delaware
Apollo Advisors (MHE), LLC	Delaware
Apollo Advisors IV, L.P.	Delaware
Apollo Advisors V (EH), LLC	Anguilla
Apollo Advisors V, L.P.	Delaware
Apollo Advisors VI (APO DC), L.P.	Delaware
Apollo Advisors VI (APO FC), L.P.	Cayman Islands
Apollo Advisors VI (EH), L.P.	Cayman Islands
Apollo Advisors VI (EH-GP), Ltd.	Cayman Islands
Apollo Advisors VI, L.P.	Delaware
Apollo Advisors VII (APO DC), L.P.	Delaware
Apollo Advisors VII (APO FC), L.P.	Cayman Islands
Apollo Advisors VII (EH), L.P.	Cayman Islands
Apollo Advisors VII, L.P.	Delaware
Apollo Advisors VIII (EH), L.P.	Cayman Islands
Apollo Advisors VIII, L.P.	Delaware
Apollo Advisors (Mauritius) Ltd.	Mauritius
Apollo Advisors VII (EH-GP), Ltd.	Cayman Islands
Apollo AGRE APREF Co-Investors (D), L.P.	Cayman Islands
Apollo AGRE Prime Co-Investors (D), LLC	Anguilla
Apollo AGRE USREF Co-Investors (B), LLC	Delaware
Apollo AIE II Co-Investors (B), L.P.	Cayman Islands
Apollo AION Capital Partners GP, LLC	Delaware
Apollo AION Capital Partners, L.P.	Cayman Islands
Apollo ALS Holdings II GP, LLC	Delaware
Apollo ALST GenPar, Ltd.	Cayman Islands
Apollo ALST Voteco, LLC	Delaware
Apollo Alteri Investments Advisors, L.P.	Cayman Islands
Apollo Alteri Investments Management, Ltd.	Cayman Islands
Apollo Alternative Assets GP Limited	Cayman Islands
Apollo Alternative Assets, L.P.	Cayman Islands
Apollo Anguilla B LLC	Anguilla
Apollo ANRP Advisors (IH), L.P.	Cayman Islands
Apollo ANRP Advisors (IH-GP), LLC	Anguilla
Apollo ANRP Advisors (APO DC), L.P.	Delaware
Apollo ANRP Advisors (APO FC), L.P.	Cayman Islands
Apollo ANRP Advisors (APO FC-GP), LLC	Anguilla
Apollo ANRP Advisors II, L.P.	Delaware
Apollo ANRP Advisors, L.P.	Delaware
Apollo ANRP Capital Management, LLC	Delaware
Apollo ANRP Co-Investors (DC-D), L.P.	Delaware
Apollo ANRP Co-Investors (FC-D), LP	Anguilla
Apollo ANRP Co-Investors (IH-D), LP	Anguilla
Apollo ANRP Co-Investors II (D), L.P.	Delaware
Apollo ANRP Co-Investors (D), L.P.	Delaware
Apollo ANRP Fund Administration, LLC	Delaware

Apollo APC Advisors, L.P.	Cayman Islands
Apollo APC Capital Management, LLC	Anguilla
Apollo APC Management GP, LLC	Delaware
Apollo APC Management, L.P.	Delaware
Apollo Arrowhead Management, LLC	Delaware
Apollo Asia Administration, LLC	Delaware
Apollo Asia Advisors, L.P.	Delaware
Apollo Asia Capital Management, LLC	Delaware
Apollo Asia Management GP, LLC	Delaware
Apollo Asia Management, L.P.	Delaware
Apollo Asian Infrastructure Management, LLC	Delaware
Apollo ASPL Management, LLC	Delaware
Apollo Athlon GenPar, Ltd.	Cayman Islands
Apollo BSL Management, LLC	Delaware
Apollo Capital Credit Management, LLC	Delaware
Apollo Capital Management GP, LLC	Delaware
Apollo Capital Management IV, Inc.	Delaware
Apollo Capital Management, L.P.	Delaware
Apollo Capital Management V, Inc.	Delaware
Apollo Capital Management VI, LLC	Delaware
Apollo Capital Management VIII, LLC	Delaware
Apollo Centre Street Advisors (APO DC), L.P.	Delaware
Apollo Centre Street Management, LLC	Delaware
Apollo Centre Street Co-Investors (DC-D), L.P.	Delaware
Apollo CIP GenPar, Ltd.	Cayman Islands
Apollo CIP Global SMAs, L.P.	Cayman Islands
Apollo CIP Hedge Funds, L.P.	Cayman Islands
Apollo CIP Partner Pool, L.P.	Cayman Islands
Apollo CIP Professionals, L.P.	Delaware
Apollo CIP Structured Credit, L.P.	Cayman Islands
Apollo CIP US SMAs, L.P.	Cayman Islands
Apollo CKE GP, LLC	Delaware
Apollo Commodities Partners Fund Administration, LLC	Delaware
Apollo COF I Capital Management, LLC	Delaware
Apollo COF II Capital Management, LLC	Delaware
Apollo COF Investor, LLC	Delaware
Apollo Co-Investment Capital Management, LLC	Delaware
Apollo Co-Investors VI (DC-D), L.P.	Delaware
Apollo Co-Investors VI (EH-D), LP	Anguilla
Apollo Co-Investors VI (FC-D), LP	Anguilla
Apollo Co-Investors VII (DC-D), L.P.	Delaware
Apollo Co-Investors VII (EH-D), LP	Anguilla
Apollo Co-Investors VII (FC-D), L.P.	Anguilla
Apollo Co-Investors VII (NR D), L.P.	Delaware
Apollo Co-Investors VII (NR EH-D), LP	Anguilla
Apollo Co-Investors VII (NR FC-D), LP	Anguilla
Apollo Co-Investors VII (NR DC-D), L.P.	Delaware
Apollo Co-Investors VIII (DC-D), L.P.	Delaware
Apollo Co-Investment Management, LLC	Delaware
Apollo Co-Investors VIII (EH-D), L.P.	Cayman Islands
Apollo Co-Investors Manager, LLC	Delaware
Apollo Co-Investors VI (D), L.P.	Delaware
Apollo Co-Investors VIII (D), L.P.	Delaware
Apollo Co-Investors VII (D), L.P.	Delaware

Apollo Commodities Management GP, LLC	Delaware
Apollo Commodities Management, L.P	Delaware
Apollo Commodities Management, L.P., with respect to Series I	Delaware
Apollo Consumer Credit Advisors, LLC	Delaware
Apollo Consumer Credit Fund, L.P.	Delaware
Apollo Consumer Credit Master Fund, L.P.	Delaware
Apollo Credit Liquidity CM Executive Carry, L.P.	Delaware
Apollo Credit Management (European Senior Debt), LLC	Delaware
Apollo Credit Management (Senior Loans) II, LLC	Delaware
Apollo Credit Management (Senior Loans), LLC	Delaware
Apollo Credit Opportunity Advisors III (APO FC) LP	Delaware
Apollo Credit Opportunity Management, LLC	Delaware
Apollo Credit Short Opportunities Co-Investors (D), LLC	Delaware
Apollo Credit Liquidity Capital Management, LLC	Delaware
Apollo Credit Liquidity Investor, LLC	Delaware
Apollo Credit Liquidity Advisors, L.P.	Delaware
Apollo Credit Advisors I, LLC	Delaware
Apollo Credit Advisors II, LLC	Delaware
Apollo Credit Advisors III, LLC	Delaware
Apollo Credit Income Management LLC	Delaware
Apollo Credit Liquidity Management, L.P.	Delaware
Apollo Credit Liquidity Management GP, LLC	Delaware
Apollo Credit Management, LLC	Delaware
Apollo Credit Management (CLO), LLC	Delaware
Apollo Credit Opportunity Advisors I, L.P.	Delaware
Apollo Credit Opportunity Advisors II, L.P.	Delaware
Apollo Credit Opportunity Advisors III LP	Delaware
Apollo Credit Opportunity Management III LLC	Delaware
Apollo Credit Senior Loan Fund, L.P.	Delaware
Apollo Credit Opportunity Advisors III GP LLC	Delaware
Apollo Credit Opportunity CM Executive Carry I, L.P.	Delaware
Apollo Credit Opportunity CM Executive Carry II, L.P.	Delaware
Apollo Emerging Markets Fixed Income Strategies Advisors GP, LLC	Delaware
Apollo Emerging Markets Fixed Income Strategies Advisors, L.P.	Cayman Islands
Apollo Emerging Markets Fixed Income Strategies Management, LLC	Delaware
Apollo Emerging Markets, LLC	Delaware
Apollo Energy Yield Advisors LLC	Delaware
Apollo Energy Yield Management LLC	Delaware
Apollo EPF Administration, Limited	Cayman Islands
Apollo EPF Advisors II, L.P.	Cayman Islands
Apollo EPF Advisors, L.P.	Cayman Islands
Apollo EPF Capital Management, Limited	Cayman Islands
Apollo EPF Co-Investors II (D), L.P.	Cayman Islands
Apollo EPF Co-Investors (B), L.P.	Cayman Islands
Apollo EPF II Capital Management, LLC	Marshall Islands
Apollo EPF Management GP, LLC	Delaware
Apollo EPF Management II, L.P.	Delaware
Apollo EPF Management, L.P.	Delaware
Apollo EPF Management II GP, LLC	Delaware
Apollo Europe Co-Investors III (D), LLC	Delaware
Apollo European Senior Debt Advisors, LLC	Delaware
Apollo European Senior Debt Management, LLC	Delaware
Apollo European Credit Co-Investors, LLC	Delaware
Apollo Europe Advisors III, L.P.	Cayman Islands

Apollo Europe Advisors, L.P.	Cayman Islands
Apollo Europe Capital Management, Ltd.	Cayman Islands
Apollo Europe Capital Management III, LLC	Delaware
Apollo Europe Management III, LLC	Delaware
Apollo Europe Management, L.P.	Delaware
Apollo European Credit Advisors, L.P.	Cayman Islands
Apollo European Credit Advisors GP, LLC	Delaware
Apollo European Credit Management, L.P.	Delaware
Apollo European Credit Management GP, LLC	Delaware
Apollo European Strategic Advisors GP, LLC	Delaware
Apollo European Strategic Advisors, L.P.	Cayman Islands
Apollo European Strategic Management GP, LLC	Delaware
Apollo European Strategic Management, L.P.	Delaware
Apollo European Strategic Co-Investors, LLC	Delaware
Apollo Executive Carry VII (NR), L.P.	Delaware
Apollo Executive Carry VII (NR EH), L.P.	Cayman Islands
Apollo Franklin Advisors (APO DC), L.P.	Delaware
Apollo Franklin Management, LLC	Delaware
Apollo Fund Administration VII, LLC	Delaware
Apollo Fund Administration V, L.L.C.	Delaware
Apollo Fund Administration VI, LLC	Delaware
Apollo Fund Administration IV, L.L.C.	Delaware
Apollo Fund Administration VIII, LLC	Delaware
Apollo Gaucho GenPar, Ltd	Cayman Islands
Apollo Global Funding, LLC	Delaware
Apollo Global Management, LLC	Delaware
Apollo Global Real Estate Management GP, LLC	Delaware
Apollo Global Real Estate Management, L.P.	Delaware
Apollo Global Securities, LLC	Delaware
Apollo GSS GP Limited	Guernsey
Apollo Hercules Advisors GP, LLC	Delaware
Apollo Hercules Advisors, L.P.	Cayman Islands
Apollo Hercules Co-Investors (D), LLC	Delaware
Apollo Hercules Management, LLC	Delaware
Apollo Incubator Advisors, LLC	Delaware
Apollo Incubator Management, LLC	Delaware
Apollo India Credit Opportunity Management, LLC	Delaware
Apollo International Management, L.P.	Delaware
Apollo International Management GP, LLC	Delaware
Apollo International Management (Canada) ULC	British Columbia
Apollo Investment Consulting LLC	Delaware
Apollo Investment Management, L.P.	Delaware
Apollo Investment Administration, LLC	Delaware
Apollo Jupiter Resources Co-Invest GP, LLC	Delaware
Apollo Laminates Agent, LLC	Delaware
Apollo Life Asset Ltd.	Cayman Islands
Apollo Longevity, LLC	Delaware
Apollo Management Advisors GmbH	Germany
Apollo Management Asia Pacific Limited	Hong Kong
Apollo Management GP, LLC	Delaware
Apollo Management III, L.P.	Delaware
Apollo Management IV, L.P.	Delaware
Apollo Management (UK) VI, LLC	Delaware
Apollo Management V, L.P.	Delaware

Apollo Management VI, L.P.	Delaware
Apollo Management VII, L.P.	Delaware
Apollo Management VIII, L.P.	Delaware
Apollo Management (AOP) VIII, LLC	Delaware
Apollo Management (UK), L.L.C.	Delaware
Apollo Maritime Management, LLC	Delaware
Apollo Management Advisors Espana, S.L.U.	Spain
Apollo Management Holdings, L.P.	Delaware
Apollo Management Holdings GP, LLC	Delaware
Apollo Management International LLP	England and Wales
Apollo Management Singapore Pte Ltd.	Singapore
Apollo Management (AOP) VII, LLC	Delaware
Apollo Management (Germany) VI, LLC	Delaware
Apollo Management, L.P.	Delaware
Apollo MidCap Holdings (Cayman) GP, Ltd.	Cayman Islands
Apollo MidCap Holdings (Cayman), L.P.	Cayman Islands
Apollo Master Fund Feeder Management, LLC	Delaware
Apollo Master Fund Feeder Advisors, L.P.	Delaware
Apollo Master Fund Administration, LLC	Delaware
Apollo NA Management II, LLC	Delaware
Apollo Palmetto Advisors, L.P.	Delaware
Apollo Palmetto Athene Advisors, L.P.	Delaware
Apollo Palmetto Athene Management, LLC	Delaware
Apollo Palmetto HFA Advisors, L.P.	Delaware
Apollo Palmetto Management, LLC	Delaware
Apollo Parallel Partners Administration, LLC	Delaware
Apollo PE VIII Director, LLC	Anguilla
Apollo Principal Holdings VI GP, LLC	Delaware
Apollo Principal Holdings VII GP, Ltd.	Cayman Islands
Apollo Principal Holdings VIII GP, Ltd.	Cayman Islands
Apollo Principal Holdings X GP, Ltd.	Cayman Islands
Apollo Principal Holdings VIII, L.P.	Cayman Islands
Apollo Principal Holdings V GP, LLC	Delaware
Apollo Principal Holdings IV GP, Ltd.	Cayman Islands
Apollo Principal Holdings I GP, LLC	Delaware
Apollo Principal Holdings II, L.P.	Delaware
Apollo Principal Holdings III, L.P.	Cayman Islands
Apollo Principal Holdings X, L.P.	Cayman Islands
Apollo Principal Holdings I, L.P.	Delaware
Apollo Principal Holdings V, L.P.	Delaware
Apollo Principal Holdings IV, L.P.	Cayman Islands
Apollo Principal Holdings III GP, Ltd.	Cayman Islands
Apollo Principal Holdings IX GP, Ltd.	Cayman Islands
Apollo Principal Holdings IX, L.P.	Cayman Islands
Apollo Principal Holdings II GP, LLC	Delaware
Apollo Resolution Servicing, L.P.	Delaware
Apollo Resolution Servicing GP, LLC	Delaware
Apollo Rose GP, L.P.	Cayman Islands
Apollo Royalties Management, LLC	Delaware
Apollo SK Strategic Advisors GP, L.P.	Cayman Islands
Apollo SK Strategic Advisors, LLC	Anguilla
Apollo SK Strategic Management, LLC	Delaware
Apollo SOMA Advisors, L.P.	Delaware
Apollo SOMA Capital Management, LLC	Delaware

Apollo SOMA II Advisors, L.P.	Cayman Islands
Apollo SPN Advisors (APO DC), L.P.	Cayman Islands
Apollo SPN Advisors (APO FC), L.P.	Cayman Islands
Apollo SPN Advisors, L.P.	Cayman Islands
Apollo SPN Capital Management (APO DC-GP), LLC	Anguilla
Apollo SPN Capital Management, LLC	Anguilla
Apollo SPN Co-Investors (D), L.P.	Anguilla
Apollo SPN Co-Investors (DC-D), L.P.	Anguilla
Apollo SPN Co-Investors (FC-D), L.P.	Anguilla
Apollo SPN Management, LLC	Delaware
Apollo ST Capital LLC	Delaware
Apollo ST CLO Holdings GP, LLC	Delaware
Apollo ST Credit Partners GP LLC	Delaware
Apollo ST Debt Advisors LLC	Delaware
Apollo ST Fund Management LLC	Delaware
Apollo ST Operating LP	Delaware
Apollo ST Credit Strategies GP LLC	Delaware
Apollo Strategic Advisors, L.P.	Cayman Islands
Apollo Strategic Capital Management, LLC	Delaware
Apollo Strategic Management, L.P.	Delaware
Apollo Strategic Management GP, LLC	Delaware
Apollo SVF Administration, LLC	Delaware
Apollo SVF Advisors, L.P.	Delaware
Apollo SVF Capital Management, LLC	Delaware
Apollo SVF Management, L.P.	Delaware
Apollo SVF Management GP, LLC	Delaware
Apollo Talos GenPar, Ltd.	Cayman Islands
Apollo Total Return Advisors GP LLC	Delaware
Apollo Total Return Advisors LP	Cayman Islands
Apollo Total Return Management LLC	Delaware
Apollo U.S. Real Estate Advisors II, L.P	Delaware
Apollo U.S. Real Estate Advisors GP II, LLC	Delaware
Apollo Union Street Advisors, L.P.	Cayman Islands
Apollo Union Street Management, LLC	Delaware
Apollo Value Administration, LLC	Delaware
Apollo Value Advisors, L.P.	Delaware
Apollo Value Capital Management, LLC	Delaware
Apollo Value Management GP, LLC	Delaware
Apollo Value Management, L.P.	Delaware
Apollo Verwaltungs V GmbH	Germany
Apollo VII TXU Administration, LLC	Delaware
Apollo VIII GenPar, Ltd.	Cayman Islands
Apollo Zeus Strategic Advisors, LLC	Delaware
Apollo Zeus Strategic Advisors, L.P.	Cayman Islands
Apollo Zeus Strategic Management, LLC	Delaware
Apollo Zohar Advisors LLC	Delaware
Apollo/Artus Management, LLC	Delaware
Apollo Advisors VIII (EH-GP), Ltd.	Cayman Islands
Apollo Credit Income Advisors LLC	Delaware
Apollo Credit Opportunity Co-Investors III (D) LLC	Delaware
Apollo EPF Co-Investors II (Euro), L.P.	Cayman Islands
Apollo Franklin Advisors (APO DC-GP), LLC	Delaware
Apollo Franklin Co-Investors (DC-D), L.P.	Delaware
Apollo Principal Holdings VI, L.P.	Delaware

Apollo Principal Holdings VII, L.P.	Cayman Islands
Apollo SK Strategic Co-Investors (DC-D), LLC	Marshall Islands
Apollo SPN Capital Management (APO FC-GP), LLC	Anguilla
Apollo ST Structured Credit Recovery Partners II GP LLC	Delaware
Apollo Structured Credit Recovery Co-Investors III (D), LLC	Delaware
Apollo Zeus Strategic Co-Investors (DC-D), LLC	Delaware
ARM Manager, LLC	Delaware
Athene Asset Management, L.P. (Delaware-see CYM entity)	Cayman Islands
Athene Investment Analytics LLC	Delaware
Athene Mortgage Opportunities GP, LLC	Delaware
August Global Management, LLC	Florida
Blue Bird GP, Ltd.	Cayman Islands
Bond3 GP, Ltd.	Cayman Islands
CAI Strategic European Real Estate Advisors GP, LLC	Marshall Islands
CAI Strategic European Real Estate Advisors, L.P.	Marshall Islands
Champ GP, LLC	Delaware
Champ II Luxembourg Holdings S.a r.l.	Luxembourg
Champ L.P.	Cayman Islands
Champ Luxembourg Holdings S.a r.l.	Luxembourg
CMP Apollo LLC	Delaware
CPI Asia G-Fdr General Partner GmbH	Germany
CPI Capital Partners Europe GP Ltd.	Cayman Islands
CPI Capital Partners Asia Pacific GP Ltd.	Cayman Islands
CPI CCP EU-T Scots GP Ltd.	Scotland
CPI European Carried Interest, L.P.	Delaware
CPI European Fund GP LLC	Delaware
CPI NA Cayman Fund GP L.P.	Cayman Islands
CPI NA Fund GP LP	Delaware
CPI NA GP LLC	Delaware
CPI NA WT Fund GP LP	Delaware
Cyclone Royalties, LLC	Delaware
Delaware Rose GP, L.L.C.	Delaware
EPE Acquisition Holdings, LLC	Delaware
EPF II Team Carry Plan, L.P.	Marshall Islands
Financial Credit II Capital Management, LLC	Delaware
Financial Credit Investment Advisors II, L.P.	Cayman Islands
Financial Credit Investment II Manager, LLC	Delaware
Financial Credit I Capital Management, LLC	Delaware
Financial Credit Investment Advisors I, L.P.	Cayman Islands
Financial Credit Investment I Manager, LLC	Delaware
Green Bird GP, Ltd.	Cayman Islands
Greenhouse Holdings, Ltd.	Cayman Islands
GSAM Apollo Holdings, LLC	Delaware
Gulf Stream Asset Management LLC	North Carolina
Harvest Holdings, LLC	Marshall Islands
Insight Solutions GP, LLC	Delaware
Karpos Investments, LLC	Marshall Islands
Lapithus EPF II Team Carry Plan, L.P.	Marshall Islands
LeverageSource Management, LLC	Delaware
London Prime Apartments Guernsey Limited	Guernsey
Ohio Haverly Finance Company GP, LLC	Delaware
Ohio Haverly Finance Company, L.P.	Delaware
Red Bird GP, Ltd.	Cayman Islands
RWNIH-ALL Advisors, LLC	Delaware

Smart & Final Holdco LLC	Delaware
ST Holdings GP, LLC	Delaware
ST Management Holdings, LLC	Delaware
Stanhope Life Advisors, L.P.	Cayman Islands
Stone Tower Europe LLC	Delaware
Stone Tower Europe Limited	Ireland
VC GP C, LLC	Delaware
VC GP, LLC	Delaware
Venator Investment Management Consulting (Shanghai) Limited	China
Venator Real Estate Capital Partners (Hong Kong) Limited	Hong Kong
Verso Paper Investments Management LLC	Delaware
Apollo CIP Global SMAs (FC), L.P.	Cayman Islands
Apollo BCSSS Management, LLC	Delaware
Apollo Asia Real Estate Advisors GP, LLC	Delaware
Financial Credit III Capital Management, LLC	Delaware
Financial Credit Investment III Manager, LLC	Delaware
Financial Credit Investment Advisors III, L.P.	Cayman Islands
Apollo Moultrie Capital Management, LLC	Delaware
Apollo Moultrie Credit Fund Advisors, L.P	Delaware
Apollo Moultrie Credit Fund Management, LLC	Delaware
Apollo Principal Holdings XI, LLC	Anguilla
AAME UK CM, LLC	Anguilla
Apollo Belenos Management LLC	Delaware
Apollo Alternative Credit Long Short Fund L.P.	Delaware
Apollo Asset Management Europe LLP	England and Wales
Prime Security Services GP, LLC	Delaware
Apollo Asset Management Europe PC LLP	England and Wales
Apollo Asia Real Estate Advisors, L.P.	Cayman Islands
Apollo Thunder Advisors GP, Ltd.	Cayman Islands
Apollo Thunder Advisors, L.P.	Cayman Islands
Apollo Thunder Co-Investors (D), LLC	Delaware
Apollo Thunder Management, LLC	Delaware
Apollo RRI Management LLC	Delaware
APO MidCap B Holdings, LLC	Delaware
Apollo MidCap B Intermediate Holdings, L.P.	Cayman Islands
Apollo Kings Alley Credit Advisors, L.P.	Delaware
Apollo Kings Alley Credit Capital Management, LLC	Delaware
Apollo Kings Alley Credit Co-Investors (D), L.P.	Delaware
Apollo Kings Alley Credit Fund Management, LLC	Delaware
Apollo Special Situations Advisors, L.P.	Delaware
Apollo Special Situations Advisors GP, LLC	Delaware
Apollo Special Situations Management, LLC	Delaware
Apollo Special Situations Management, L.P.	Delaware
Apollo Special Situations Co-Investors (D), L.P.	Delaware
AP VIII Prime Security Services Management, LLC	Delaware
Apollo Asia Real Estate Co-Investors (FC-D), Ltd.	Cayman Islands
Apollo Investment Management Europe LLP	England and Wales
APO UK (FC), Limited	England and Wales
Apollo SA Management, LLC	Delaware
Apollo EPF III Capital Management, LLC	Delaware
Apollo EPF Management III, LLC	Delaware
Apollo EPF Advisors III, L.P.	Cayman Islands
EPE Debt Co-Investors GP, LLC	Delaware
Apollo Capital Efficient Management, LLC	Delaware

Apollo Accord Advisors, LLC	Delaware
Apollo Accord Management, LLC	Delaware
AP Special Sits Lowell Holdings GP, LLC	Delaware
Apollo Investment Consulting Europe Ltd.	England and Wales
CTM Aircraft Investors GP, Ltd.	Cayman Islands
Apollo Socrates Co-Invest GP, LLC	Delaware
AP Dakota Co-Invest GP, LLC	Delaware
Apollo Special Situations Advisors (IH-GP), Ltd.	Cayman Islands
Apollo Special Situations Advisors (IH), L.P.	Cayman Islands
Lowell GP, LLC	Delaware
Apollo Special Situations Co-Investors (IH-D), L.P.	Cayman Islands
Apollo Energy Opportunity Advisors (APO DC) GP LLC	Delaware
Apollo Energy Opportunity Advisors (APO DC) LP	Delaware
Apollo Energy Opportunity Co-Investors (DC-D) LLC	Delaware
Apollo ANRP Advisors II (IH-GP), LLC	Cayman Islands
Apollo ANRP Co-Investors II (IH-D), L.P.	Cayman Islands
AP Inception Co-Invest GP, LLC	Delaware
Apollo Hercules AIV Advisors GP, LLC	Delaware
Apollo Hercules AIV Co-Investors (D), LLC	Delaware
Apollo Jupiter Resources Co-Invest GP, ULC	British Columbia
AP ARX Co-Invest GP, LLC	Cayman Islands
Apollo Atlas Advisors (APO FC-GP), LLC	Cayman Islands
Apollo Atlas Advisors (APO FC), L.P.	Cayman Islands
Apollo Atlas Management, LLC	Delaware
Apollo Tower Credit Advisors, LLC	Delaware
Apollo Tower Credit Co-Investors (DE FC-D), L.P.	Delaware
Apollo Tower Credit Management, LLC	Delaware
Apollo EPF Co-Investors III (D), L.P.	Cayman Islands
Apollo CIP Hedge Funds (FC), L.P.	Cayman Islands
Apollo Accord Co-Investors (D), L.P.	Delaware
Apollo Asia Sprint Co-Investment Advisors, L.P.	Cayman Islands
Apollo Capital Management IX, LLC	Delaware
Apollo Advisors IX, L.P.	Delaware
AIF IX Management, LLC	Delaware
Apollo Management IX, L.P.	Delaware
Apollo Fund Administration IX, LLC	Delaware
Apollo Co-Investors IX (D), L.P.	Delaware
Apollo ANRP Advisors II (IH), L.P.	Cayman Islands
Apollo Global Carry Pool GP, LLC	Delaware
Apollo Global Carry Pool GP, LLC with respect to Series I	Delaware
Apollo Global Carry Pool GP, LLC with respect to Series A	Delaware
Apollo Global Carry Pool GP, LLC with respect to Series I (FC)	Delaware
Apollo Global Carry Pool GP, LLC with respect to Series I (DC)	Delaware
Apollo Global Carry Pool Aggregator, L.P.	Delaware
Apollo Global Carry Pool Intermediate, L.P.	Cayman Islands
Apollo Global Carry Pool Intermediate (DC), L.P.	Cayman Islands
Apollo Global Carry Pool Intermediate (FC), L.P.	Cayman Islands
Apollo EPF III (Lux Euro B GP) S.a.r.l.	Luxembourg
Redding Ridge Advisors, LLC	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our report, dated February 13, 2017, relating to the consolidated financial statements of Apollo Global Management, LLC and subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2016:

- Registration Statement No. 333-211226 on Form S-3ASR
- Registration Statement No. 333-211225 on Form S-3ASR
- Registration Statement No. 333-188417 on Form S-3ASR
- Registration Statement No. 333-211227 on Form S-8

/s/ Deloitte & Touche LLP
New York, New York
February 13, 2017

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Leon Black, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2016 of Apollo Global Management, LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 13, 2017

/s/ Leon Black

Leon Black
Chief Executive Officer

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Martin Kelly, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2016 of Apollo Global Management, LLC
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 13, 2017

/s/ Martin Kelly

Martin Kelly

Chief Financial Officer

Exhibit 32.1

Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Apollo Global Management, LLC (the "Company") on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leon Black, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 13, 2017

/s/ Leon Black

Leon Black
Chief Executive Officer

* The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Apollo Global Management, LLC (the "Company") on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Martin Kelly, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 13, 2017

/s/ Martin Kelly
Martin Kelly
Chief Financial Officer

* The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017 OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _ TO _

Commission File Number: 001-35107

APOLLO GLOBAL MANAGEMENT, LLC
(Exact name of Registrant as specified in its charter)

Delaware	**20-8880053**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

9 West 57th Street, 43rd Floor
New York, New York 10019
(Address of principal executive offices) (Zip Code)
(212) 515-3200
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 2, 2017 there were 193,540,853 Class A shares and 1 Class B share outstanding.

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Forward-Looking Statements

This quarterly report may contain forward-looking statements that are within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements include, but are not limited to, discussions related to Apollo's expectations regarding the performance of its business, liquidity and capital resources and the other non-historical statements in the discussion and analysis. These forward-looking statements are based on management's beliefs, as well as assumptions made by, and information currently available to, management. When used in this quarterly report, the words "believe," "anticipate," "estimate," "expect," "intend" and similar expressions are intended to identify forward-looking statements. Although management believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. These statements are subject to certain risks, uncertainties and assumptions, including risks relating to our dependence on certain key personnel, our ability to raise new private equity, credit or real assets funds, market conditions generally, our ability to manage our growth, fund performance, changes in our regulatory environment and tax status, the variability of our revenues, net income and cash flow, our use of leverage to finance our businesses and investments by our funds and litigation risks, among others. We believe these factors include but are not limited to those described under the section entitled "Risk Factors" in the Company's
Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (the "SEC") on February 13, 2017 (the "2016 Annual Report"); as such factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC's website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other filings. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by applicable law.

Terms Used in This Report

In this quarterly report, references to "Apollo," "we," "us," "our" and the "Company" refer collectively to Apollo Global Management, LLC, a Delaware limited liability company, and its subsidiaries, including the Apollo Operating Group and all of its subsidiaries, or as the context may otherwise require;

"AMH" refers to Apollo Management Holdings, L.P., a Delaware limited partnership, that is an indirect subsidiary of Apollo Global Management, LLC;

"Apollo funds", "our funds" and references to the "funds" we manage, refer to the funds (including the parallel funds and alternative investment vehicles of such funds), partnerships, accounts, including strategic investment accounts or "SIAs," alternative asset companies and other entities for which subsidiaries of the Apollo Operating Group provide investment management or advisory services;

"Apollo Operating Group" refers to (i) the limited partnerships through which our Managing Partners currently operate our businesses and (ii) one or more limited partnerships formed for the purpose of, among other activities, holding certain of our gains or losses on our principal investments in the funds, which we refer to as our "principal investments";

"Assets Under Management", or "AUM", refers to the assets of the funds, partnerships and accounts to which we provide investment management, advisory, or certain other investment-related services, including, without limitation, capital that such funds, partnerships and accounts have the right to call from investors pursuant to capital commitments. Our AUM equals the sum of:

(i) the fair value of the investments of the private equity funds, partnerships and accounts we manage or advise plus the capital that such funds, partnerships and accounts are entitled to call from investors pursuant to capital commitments;

(ii) the net asset value, or "NAV," of the credit funds, partnerships and accounts for which we provide investment management or advisory services, other than certain collateralized loan obligations ("CLOs") and collateralized debt obligations ("CDOs"), which have a fee-generating basis other than the mark-to-market value of the underlying assets, plus used or available leverage and/or capital commitments;

(iii) the gross asset value or net asset value of the real assets funds, partnerships and accounts we manage, and the structured portfolio company investments of the funds, partnerships and accounts we manage or advise, which includes the leverage used by such structured portfolio company investments;

(iv) the incremental value associated with the reinsurance investments of the portfolio company assets we manage or advise; and

(v) the fair value of any other assets that we manage or advise for the funds, partnerships and accounts to which we provide investment management, advisory, or certain other investment-related services, plus unused credit facilities, including capital commitments to such funds, partnerships and accounts for investments that may require pre-qualification or other conditions before investment plus any other capital commitments to such funds, partnerships and accounts available for investment that are not otherwise included in the clauses above.

Our AUM measure includes Assets Under Management for which we charge either nominal or zero fees. Our AUM measure also includes assets for which we do not have investment discretion, including certain assets for which we earn only investment-related service fees, rather than management or advisory fees. Our definition of AUM is not based on any definition of Assets Under Management contained in our operating agreement or in any of our Apollo fund management agreements. We consider multiple factors for determining what should be included in our definition of AUM. Such factors include but are not limited to (1) our ability to influence the investment decisions for existing and available assets; (2) our ability to generate income from the underlying assets in our funds; and (3) the AUM measures that we use internally or believe are used by other investment managers. Given the differences in the investment strategies and structures among other alternative investment managers, our calculation of AUM may differ from the calculations employed by other investment managers and, as a result, this measure may not be directly comparable to similar measures presented by other investment managers. Our calculation also differs from the manner in which our affiliates registered with the SEC report "Regulatory Assets Under Management" on Form ADV and Form PF in various ways;

"Fee-Generating AUM" consists of assets of the funds, partnerships and accounts to which we provide investment management, advisory, or certain other investment-related services and on which we earn management fees, monitoring fees or other investment-related fees pursuant to management or other fee agreements on a basis that varies among the Apollo funds, partnerships and accounts. Management fees are normally based on "net asset value," "gross assets," "adjusted par asset value," "adjusted cost of all unrealized portfolio investments," "capital commitments," "adjusted assets," "stockholders' equity," "invested capital" or "capital contributions," each as defined in the applicable management agreement. Monitoring fees, also referred to as advisory fees, with respect to the structured portfolio company investments of the funds, partnerships and accounts we manage or advise, are generally based on the total value of such structured portfolio company investments, which normally includes leverage, less any portion of such total value that is already considered in Fee-Generating AUM;

"Non-Fee-Generating AUM" refers to AUM that does not produce management fees or monitoring fees. This measure generally includes the following:

(i) fair value above invested capital for those funds that earn management fees based on invested capital;

(ii) net asset values related to general partner and co-investment interests;

(iii) unused credit facilities;

(iv) available commitments on those funds that generate management fees on invested capital;

(v) structured portfolio company investments that do not generate monitoring fees; and

(vi) the difference between gross asset and net asset value for those funds that earn management fees based on net asset value.

"Carry-Eligible AUM" refers to the AUM that may eventually produce carried interest income. All funds for which we are entitled to receive a carried interest income allocation are included in Carry-Eligible AUM, which consists of the following:

(i) "Carry-Generating AUM", which refers to invested capital of the funds, partnerships and accounts we manage, advise, or to which we provide certain other investment-related services, that is currently above its hurdle rate or preferred return, and profit of such funds, partnerships and accounts is being allocated to the general partner in accordance with the applicable limited partnership agreements or other governing agreements;

(ii) "AUM Not Currently Generating Carry", which refers to invested capital of the funds, partnerships and accounts we manage, advise, or to which we provide certain other investment-related services, that is currently below its hurdle rate or preferred return; and

(iii) “Uninvested Carry-Eligible AUM”, which refers to capital of the funds, partnerships and accounts we manage, advise, or to which we provide certain other investment-related services, that is available for investment or reinvestment subject to the provisions of applicable limited partnership agreements or other governing agreements, which capital is not currently part of the NAV or fair value of investments that may eventually produce carried interest income allocable to the general partner.

“AUM with Future Management Fee Potential” refers to the committed uninvested capital portion of total AUM not currently earning management fees. The amount depends on the specific terms and conditions of each fund;

We use AUM as a performance measure of our funds’ investment activities, as well as to monitor fund size in relation to professional resource and infrastructure needs. Non-Fee-Generating AUM includes assets on which we could earn carried interest income;

“Advisory” refers to certain assets advised by Apollo Asset Management Europe PC LLP, a wholly-owned subsidiary of Apollo Asset Management Europe LLP (collectively, “AAME”). The AAME entities are subsidiaries of Apollo. Until AAME receives full authorization by the UK Financial Conduct Authority (“FCA”), references to AAME in this report mean AAME and Apollo Management International LLP, an existing FCA authorized and regulated subsidiary of Apollo in the United Kingdom;

“capital deployed” or “deployment” is the aggregate amount of capital that has been invested during a given period (which may, in certain cases, include leverage) by (i) our drawdown funds, (ii) SIAs that have a defined maturity date and (iii) funds and SIAs in our real assets debt strategy;

“carried interest”, “carried interest income” and “incentive income” refer to interests granted to Apollo by an Apollo fund that entitle Apollo to receive allocations, distributions or fees which are based on the performance of such fund or its underlying investments;

“Contributing Partners” refer to those of our partners and their related parties (other than our Managing Partners) who indirectly beneficially own (through Holdings) Apollo Operating Group units;

“drawdown” refers to commitment-based funds and certain SIAs in which investors make a commitment to provide capital at the formation of such funds and SIAs and deliver capital when called as investment opportunities become available. It includes assets of Athene Holding Ltd. (“Athene Holding”) and its subsidiaries (collectively “Athene”) managed by Athene Asset Management, L.P. (“Athene Asset Management” or “AAM”) that are invested in commitment-based funds;

“gross IRR” of a private equity fund represents the cumulative investment-related cash flows (i) for a given investment for the fund or funds which made such investment, and (ii) for a given fund, in the relevant fund itself (and not any one investor in the fund), in each case, on the basis of the actual timing of investment inflows and outflows (for unrealized investments assuming disposition on September 30, 2017 or other date specified) aggregated on a gross basis quarterly, and the return is annualized and compounded before management fees, carried interest and certain other fund expenses (including interest incurred by the fund itself) and measures the returns on the fund’s investments as a whole without regard to whether all of the returns would, if distributed, be payable to the fund’s investors. In addition, gross IRRs at the fund level will differ from those at the individual investor level as a result of, among other factors, timing of investor-level inflows and outflows. Gross IRR does not represent the return to any fund investor;

“gross IRR” of a credit fund represents the annualized return of a fund based on the actual timing of all cumulative fund cash flows before management fees, carried interest income allocated to the general partner and certain other fund expenses. Calculations may include certain investors that do not pay fees. The terminal value is the net asset value as of the reporting date. Non-U.S. dollar denominated (“USD”) fund cash flows and residual values are converted to USD using the spot rate as of the reporting date. In addition, gross IRRs at the fund level will differ from those at the individual investor level as a result of, among other factors, timing of investor-level inflows and outflows. Gross IRR does not represent the return to any fund investor;

“gross IRR” of a real assets fund represents the cumulative investment-related cash flows in the fund itself (and not any one investor in the fund), on the basis of the actual timing of cash inflows and outflows (for unrealized investments assuming disposition on September 30, 2017 or other date specified) starting on the date that each investment closes, and the return is annualized and compounded before management fees, carried interest, and certain other fund expenses (including interest incurred by the fund itself) and measures the returns on the fund’s investments as a whole without regard to whether all of the returns would, if distributed, be payable to the fund’s investors. Non-USD fund cash flows and residual values are converted to USD using the spot rate as of the reporting date. In addition, gross IRRs at the fund level will differ from those at the individual investor level as a result of, among other factors, timing of investor-level inflows and outflows. Gross IRR does not represent the return to any fund investor;

"gross return" of a credit or real assets fund is the monthly or quarterly time-weighted return that is equal to the percentage change in the value of a fund's portfolio, adjusted for all contributions and withdrawals (cash flows) before the effects of management fees, incentive fees allocated to the general partner, or other fees and expenses. Returns of Athene sub-advised portfolios and CLOs represent the gross returns on invested assets, which exclude cash. Returns over multiple periods are calculated by geometrically linking each period's return over time;

"Holdings" means AP Professional Holdings, L.P., a Cayman Islands exempted limited partnership through which our Managing Partners and Contributing Partners indirectly beneficially own their interests in the Apollo Operating Group units;

"inflows" represents (i) at the individual segment level, subscriptions, commitments, and other increases in available capital, such as acquisitions or leverage, net of inter-segment transfers, and (ii) on an aggregate basis, the sum of inflows across the private equity, credit and real assets segments;

"liquid/performing" includes CLOs and other performing credit vehicles, hedge fund style credit funds, structured credit funds and SIAs, as well as sub-advised managed accounts owned by or related to Athene. Certain commitment-based SIAs are included as the underlying assets are liquid;

"Managing Partners" refer to Messrs. Leon Black, Joshua Harris and Marc Rowan collectively and, when used in reference to holdings of interests in Apollo or Holdings, includes certain related parties of such individuals;

"net IRR" of a private equity fund means the gross IRR applicable to a fund, including returns for related parties which may not pay fees or carried interest, net of management fees, certain fund expenses (including interest incurred or earned by the fund itself) and realized carried interest all offset to the extent of interest income, and measures returns at the fund level on amounts that, if distributed, would be paid to investors of the fund. To the extent that a fund exceeds all requirements detailed within the applicable fund agreement, the estimated unrealized value is adjusted such that a percentage of up to 20.0% of the unrealized gain is allocated to the general partner of such fund, thereby reducing the balance attributable to fund investors. In addition, net IRR at the fund level will differ from that at the individual investor level as a result of, among other factors, timing of investor-level inflows and outflows. Net IRR does not represent the return to any fund investor;

"net IRR" of a credit fund represents the annualized return of a fund after management fees, carried interest income allocated to the general partner and certain other fund expenses, calculated on investors that pay such fees. The terminal value is the net asset value as of the reporting date. Non-USD fund cash flows and residual values are converted to USD using the spot rate as of the reporting date. In addition, net IRR at the fund level will differ from that at the individual investor level as a result of, among other factors, timing of investor-level inflows and outflows. Net IRR does not represent the return to any fund investor;

"net IRR" of a real assets fund represents the cumulative cash flows in the fund (and not any one investor in the fund), on the basis of the actual timing of cash inflows received from and outflows paid to investors of the fund (assuming the ending net asset value as of September 30, 2017 or other date specified is paid to investors), excluding certain non-fee and non-carry bearing parties, and the return is annualized and compounded after management fees, carried interest, and certain other expenses (including interest incurred by the fund itself) and measures the returns to investors of the fund as a whole. Non-USD fund cash flows and residual values are converted to USD using the spot rate as of the reporting date. In addition, net IRR at the fund level will differ from that at the individual investor level as a result of, among other factors, timing of investor-level inflows and outflows. Net IRR does not represent the return to any fund investor;

"net return" of a credit or real assets fund represents the gross return after management fees, incentive fees allocated to the general partner, or other fees and expenses. Returns of Athene sub-advised portfolios and CLOs represent the gross or net returns on invested assets, which exclude cash. Returns over multiple periods are calculated by geometrically linking each period's return over time;

"our manager" means AGM Management, LLC, a Delaware limited liability company that is controlled by our Managing Partners;

"permanent capital vehicles" refers to (a) assets that are owned by or related to Athene ("ATH") or AGER Bermuda Holding Ltd. ("AGER"), (b) assets that are owned by or related to MidCap FinCo Designated Activity Company ("MidCap") and managed by Apollo, (c) assets of publicly traded vehicles managed by Apollo such as Apollo Investment Corporation ("AINV"), Apollo Commercial Real Estate Finance, Inc. ("ARI"), Apollo Tactical Income Fund Inc. ("AIF"), and Apollo Senior Floating Rate Fund Inc. ("AFT"), in each case that do not have redemption provisions or a requirement to return capital to investors upon exiting the investments made with such capital, except as required by applicable law and (d) a non-traded business development company from which Apollo earns certain investment-related service fees. The investment management agreements of AINV, AIF and AFT have one year terms, are reviewed annually and remain in effect only if approved by the boards of directors of such companies or by the affirmative vote of the holders of a majority of the outstanding voting shares of such companies, including in either case, approval by a majority of the directors who are not "interested persons" as defined in the Investment Company Act of 1940. In

addition, the investment management agreements of AINV, AIF and AFT may be terminated in certain circumstances upon 60 days' written notice. The investment management agreement of ARI has a one year term and is reviewed annually by ARI's board of directors and may be terminated under certain circumstances by an affirmative vote of at least two-thirds of ARI's independent directors. The investment management or advisory arrangements between MidCap and Apollo and Athene and Apollo, may also be terminated under certain circumstances. The agreement pursuant to which Apollo earns certain investment-related service fees from a non-traded business development company may be terminated under certain limited circumstances;

"private equity fund appreciation (depreciation)" refers to gain (loss) and income for the traditional private equity funds (as defined below), Apollo Natural Resources Partners, L.P. ("ANRP I"), Apollo Natural Resources Partners II, L.P. ("ANRP II"), Apollo Special Situations Fund, L.P. and AION Capital Partners Limited ("AION") for the periods presented on a total return basis before giving effect to fees and expenses. The performance percentage is determined by dividing (a) the change in the fair value of investments over the period presented, minus the change in invested capital over the period presented, plus the realized value for the period presented, by (b) the beginning unrealized value for the period presented plus the change in invested capital for the period presented. Returns over multiple periods are calculated by geometrically linking each period's return over time;

"private equity investments" refer to (i) direct or indirect investments in existing and future private equity funds managed or sponsored by Apollo, (ii) direct or indirect co-investments with existing and future private equity funds managed or sponsored by Apollo, (iii) direct or indirect investments in securities which are not immediately capable of resale in a public market that Apollo identifies but does not pursue through its private equity funds, and (iv) investments of the type described in (i) through (iii) above made by Apollo funds;

"Realized Value" refers to all cash investment proceeds received by the relevant Apollo fund, including interest and dividends, but does not give effect to management fees, expenses, incentive compensation or carried interest to be paid by such Apollo fund;

"Remaining Cost" represents the initial investment of the fund in a portfolio investment, reduced for any return of capital distributed to date on such portfolio investment;

"Strategic Investor" refers to the California Public Employees' Retirement System, or "CalPERS";

"Total Invested Capital" refers to the aggregate cash invested by the relevant Apollo fund and includes capitalized costs relating to investment activities, if any, but does not give effect to cash pending investment or available for reserves;

"Total Value" represents the sum of the total Realized Value and Unrealized Value of investments;

"traditional private equity funds" refers to Apollo Investment Fund I, L.P. ("Fund I"), AIF II, L.P. ("Fund II"), a mirrored investment account established to mirror Fund I and Fund II for investments in debt securities ("MIA"), Apollo Investment Fund III, L.P. (together with its parallel funds, "Fund III"), Apollo Investment Fund IV, L.P. (together with its parallel fund, "Fund IV"), Apollo Investment Fund V, L.P. (together with its parallel funds and alternative investment vehicles, "Fund V"), Apollo Investment Fund VI, L.P. (together with its parallel funds and alternative investment vehicles, "Fund VI"), Apollo Investment Fund VII, L.P. (together with its parallel funds and alternative investment vehicles, "Fund VII"), Apollo Investment Fund VIII, L.P. (together with its parallel funds and alternative investment vehicles, "Fund VIII") and Apollo Investment Fund IX, L.P. (together with its parallel funds and alternative investment vehicles, "Fund IX");

"Unrealized Value" refers to the fair value consistent with valuations determined in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), for investments not yet realized and may include pay in kind, accrued interest and dividends receivable, if any. In addition, amounts include committed and funded amounts for certain investments; and

"Vintage Year" refers to the year in which a fund's final capital raise occurred, or, for certain funds, the year in which a fund's investment period commences as per its governing agreements.

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PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

APOLLO GLOBAL MANAGEMENT, LLC
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)
AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(dollars in thousands, except share data)

	As of September 30, 2017	As of December 31, 2016
Assets:		
Cash and cash equivalents	$ 930,848	$ 806,329
Cash and cash equivalents held at consolidated funds	10,195	7,335
Restricted cash	4,165	4,680
U.S. Treasury securities, at fair value	198,900	-
Investments	1,708,064	1,494,744
Assets of consolidated variable interest entities:		
Cash and cash equivalents	44,226	41,318
Investments, at fair value	1,170,550	913,827
Other assets	63,723	46,666
Carried interest receivable	1,577,984	1,257,105
Due from related parties	287,352	254,853
Deferred tax assets	591,754	572,263
Other assets	164,588	118,860
Goodwill	88,852	88,852
Intangible assets, net	19,153	22,721
Total Assets	**$ 6,860,354**	**$ 5,629,553**
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	$ 79,062	$ 57,465
Accrued compensation and benefits	144,664	52,754
Deferred revenue	155,081	174,893
Due to related parties	643,401	638,126
Profit sharing payable	710,873	550,148
Debt	1,361,044	1,352,447
Liabilities of consolidated variable interest entities:		
Debt, at fair value	972,632	786,545
Other liabilities	85,403	68,034
Other liabilities	116,211	81,613
Total Liabilities	**4,268,371**	**3,762,025**
Commitments and Contingencies (see note 14)		
Shareholders' Equity:		
Apollo Global Management, LLC shareholders' equity:		
Preferred shares (11,000,000 and 0 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	264,398	-
Class A shares, no par value, unlimited shares authorized, 193,540,853 and 185,460,294 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	-	-
Class B shares, no par value, unlimited shares authorized, 1 share issued and outstanding at September 30, 2017 and December 31, 2016	-	-
Additional paid in capital	1,627,767	1,830,025
Accumulated deficit	(560,613)	(986,186)
Accumulated other comprehensive loss	(2,061)	(8,723)
Total Apollo Global Management, LLC shareholders' equity	1,329,491	835,116
Non-Controlling Interests in consolidated entities	149,736	90,063
Non-Controlling Interests in Apollo Operating Group	1,112,756	942,349
Total Shareholders' Equity	**2,591,983**	**1,867,528**
Total Liabilities and Shareholders' Equity	**$ 6,860,354**	**$ 5,629,553**

See accompanying notes to condensed consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(dollars in thousands, except share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Management fees from related parties	$ 301,443	$ 274,313	$ 852,291	$ 775,171
Advisory and transaction fees from related parties, net	16,209	29,801	54,905	102,699
Carried interest income from related parties	346,580	199,617	833,459	407,134
Total Revenues	664,232	503,731	1,740,655	1,285,004
Expenses:				
Compensation and benefits:				
Salary, bonus and benefits	108,853	92,591	316,011	290,013
Equity-based compensation	24,485	26,163	70,332	74,203
Profit sharing expense	137,296	90,152	339,679	179,767
Total Compensation and Benefits	270,634	208,906	726,022	543,983
Interest expense	13,303	12,832	39,497	30,505
General, administrative and other	68,149	58,566	189,918	187,285
Placement fees	5,397	1,953	12,560	5,781
Total Expenses	357,483	282,257	967,997	767,554
Other Income:				
Net gains from investment activities	68,932	17,746	102,936	50,287
Net gains from investment activities of consolidated variable interest entities	845	800	11,085	2,817
Income from equity method investments	47,488	23,213	102,877	64,356
Interest income	1,504	1,192	2,929	3,073
Other income (loss), net	25,387	(40)	44,776	485
Total Other Income	144,156	42,911	264,603	121,018
Income before income tax provision	450,905	264,385	1,037,261	638,468
Income tax provision	(16,542)	(29,667)	(54,926)	(62,508)
Net Income	434,363	234,718	982,335	575,960
Net income attributable to Non-Controlling Interests	(231,411)	(140,099)	(542,507)	(340,077)
Net Income Attributable to Apollo Global Management, LLC	202,952	94,619	439,828	235,883
Net income attributable to Preferred Shareholders	(4,383)	-	(9,155)	-
Net Income Attributable to Apollo Global Management, LLC Class A Shareholders	$ 198,569	$ 94,619	$ 430,673	$ 235,883
Distributions Declared per Class A Share	$ 0.52	$ 0.37	$ 1.46	$ 0.90
Net Income Per Class A Share:				
Net Income Available to Class A Share - Basic	$ 1.00	$ 0.50	$ 2.19	$ 1.24
Net Income Available to Class A Share - Diluted	$ 1.00	$ 0.50	$ 2.19	$ 1.24
Weighted Average Number of Class A Shares Outstanding - Basic	192,882,082	184,438,515	190,014,240	183,602,982
Weighted Average Number of Class A Shares Outstanding - Diluted	192,882,082	184,438,515	190,014,240	183,602,982

See accompanying notes to condensed consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(dollars in thousands, except share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net Income	**$ 434,363**	**$ 234,718**	**$ 982,335**	**$ 575,960**
Other Comprehensive Income, net of tax:				
Currency translation adjustments, net of tax	5,643	1,144	14,583	3,103
Net gain from change in fair value of cash flow hedge instruments, net of tax	27	26	78	79
Net income on available-for-sale securities	290	900	189	450
Total Other Comprehensive Income, net of tax	5,960	2,070	14,850	3,632
Comprehensive Income	**440,323**	**236,788**	**997,185**	**579,592**
Comprehensive Income attributable to Non-Controlling Interests	(236,410)	(140,644)	(550,695)	(341,539)
Comprehensive Income Attributable to Apollo Global Management, LLC	**$ 203,913**	**$ 96,144**	**$ 446,490**	**$ 238,053**

See accompanying notes to condensed consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(dollars in thousands, except share data)

	Apollo Global Management, LLC Shareholders									
	Class A Shares	Class B Shares	Preferred Shares	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Apollo Global Management, LLC Shareholders' Equity	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Apollo Operating Group	Total Shareholders' Equity
Balance at January 1, 2016	**181,078,937**	**1**	**$ -**	**$2,005,509**	**$(1,348,384)**	**$ (7,620)**	**$ 649,505**	**$ 86,561**	**$ 652,915**	**$ 1,388,981**
Dilution impact of issuance of Class A shares	-	-	-	340	-	-	340	-	-	340
Capital increase related to equity-based compensation	-	-	-	53,910	-	-	53,910	-	-	53,910
Capital contributions	-	-	-	-	-	-	-	12,933	-	12,933
Distributions	-	-	-	(172,095)	-	-	(172,095)	(10,555)	(194,371)	(377,021)
Payments related to issuances of Class A shares for equity-based awards	4,245,086	-	-	41	(35,297)	-	(35,256)	-	-	(35,256)
Repurchase of Class A Shares	(954,447)	-	-	(12,902)	-	-	(12,902)	-	-	(12,902)
Exchange of AOG Units for Class A shares	374,223	-	-	1,539	-	-	1,539	-	(1,251)	288
Net income	-	-	-	-	235,883	-	235,883	3,891	336,186	575,960
Currency translation adjustments, net of tax	-	-	-	-	-	1,683	1,683	1,670	(250)	3,103
Net gain from change in fair value of cash flow hedge instruments	-	-	-	-	-	37	37	-	42	79
Net loss on available-for-sale securities	-	-	-	-	-	450	450	-	-	450
Balance at September 30, 2016	**184,743,799**	**1**	**$ -**	**$1,876,342**	**$(1,147,798)**	**$ (5,450)**	**$ 723,094**	**$ 94,500**	**$ 793,271**	**$ 1,610,865**
Balance at January 1, 2017	**185,460,294**	**1**	**$ -**	**$1,830,025**	**$ (986,186)**	**$ (8,723)**	**$ 835,116**	**$ 90,063**	**$ 942,349**	**$ 1,867,528**
Adoption of new accounting guidance	-	-	-	-	22,901	-	22,901	-	-	22,901
Dilution impact of issuance of Class A shares	-	-	-	(295)	-	-	(295)	-	-	(295)
Equity issued in connection with Preferred shares offering	-	-	264,398	-	-	-	264,398	-	-	264,398
Capital increase related to equity-based compensation	-	-	-	52,442	-	-	52,442	-	-	52,442
Capital contributions	-	-	-	-	-	-	-	43,758	-	43,758
Distributions	-	-	(9,155)	(288,726)	-	-	(297,881)	(4,570)	(329,172)	(631,623)
Payments related to issuances of Class A shares for equity-based awards	2,096,389	-	-	-	(28,001)	-	(28,001)	-	-	(28,001)
Repurchase of Class A shares	(233,248)	-	-	(6,903)	-	-	(6,903)	-	-	(6,903)
Exchange of AOG Units for Class A shares	6,217,418	-	-	41,224	-	-	41,224	-	(30,631)	10,593
Net income	-	-	9,155	-	430,673	-	439,828	8,967	533,540	982,335
Currency translation adjustments, net of tax	-	-	-	-	-	6,436	6,436	11,518	(3,371)	14,583
Net gain from change in fair value of cash flow hedge instruments	-	-	-	-	-	37	37	-	41	78
Net income on available-for-sale securities	-	-	-	-	-	189	189	-	-	189
Balance at September 30, 2017	**193,540,853**	**1**	**$ 264,398**	**$1,627,767**	**$ (560,613)**	**$ (2,061)**	**$ 1,329,491**	**$ 149,736**	**$1,112,756**	**$ 2,591,983**

See accompanying notes to condensed consolidated financial statements.

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APOLLO GLOBAL MANAGEMENT, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(dollars in thousands, except share data)

	For the Nine Months Ended September 30,	
	2017	**2016**
Cash Flows from Operating Activities:		
Net income	$ 982,335	$ 575,960
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity-based compensation	70,332	74,203
Depreciation and amortization	15,241	14,139
Unrealized gains from investment activities	(107,803)	(50,084)
Income from equity method investments	(102,877)	(64,356)
Change in fair value of contingent obligations	4,619	11,736
Deferred taxes, net	49,817	52,184
Other non-cash amounts included in net income, net	1,310	(10,766)
Cash flows due to changes in operating assets and liabilities:		
Carried interest receivable	(325,786)	(348,815)
Due from related parties	(47,536)	(49,863)
Accounts payable and accrued expenses	21,597	24,306
Accrued compensation and benefits	91,910	65,602
Deferred revenue	(17,285)	29,168
Due to related parties	(12,776)	68,726
Profit sharing payable	179,703	168,741
Other assets and other liabilities, net	(14,409)	(8,082)
Cash distributions of earnings from equity method investments	41,335	17,079
Satisfaction of contingent obligation	(23,597)	(10,096)
Apollo Fund and VIE related:		
Net realized and unrealized (gains) losses from investing activities and debt	(10,111)	621
Change in cash held at consolidated variable interest entities	2,157	4,139
Purchases of investments	(517,652)	(396,810)
Proceeds from sale of investments	385,035	422,922
Changes in other assets and other liabilities, net	1,925	(17,483)
Net Cash Provided by Operating Activities	**$ 667,484**	**$ 573,171**
Cash Flows from Investing Activities:		
Purchases of fixed assets	$ (5,929)	$ (4,921)
Purchase of investments	(14,774)	(44,530)
Purchase of U.S. Treasury securities	(198,868)	-
Cash contributions to equity method investments	(116,233)	(188,572)
Cash distributions from equity method investments	80,360	68,685
Issuance of related party loans	(5,834)	(3,906)
Repayment of related party loans	17,700	-
Other investing activities	(626)	919
Net Cash Used in Investing Activities	**$ (244,204)**	**$ (172,325)**
Cash Flows from Financing Activities:		
Issuance of Preferred shares (net of issuance costs)	$ 264,398	$ -
Distributions to Preferred Shareholders	(9,155)	-
Principal repayments of debt	(30)	(200,000)
Issuance of debt	-	532,706
Satisfaction of tax receivable agreement	(17,895)	-
Purchase of Class A shares	(18,463)	(13,003)
Payments related to issuances of Class A shares for RSUs	(28,001)	(35,297)
Distributions paid	(288,726)	(172,095)
Distributions paid to Non-Controlling Interests in Apollo Operating Group	(329,172)	(194,371)
Other financing activities	(2,949)	(11,926)
Apollo Fund and VIE related:		
Issuance of debt	534,595	-

Principal repayment of debt		(442,640)		-
Distributions paid to Non-Controlling Interests in consolidated entities		(347)		(4,133)
Contributions from Non-Controlling Interests in consolidated entities		42,484		12,897
Net Cash Used in Financing Activities	**$**	**(295,901)**	**$**	**(85,222)**
Net Increase in Cash and Cash Equivalents		127,379		315,624
Cash and Cash Equivalents, Beginning of Period		813,664		617,322
Cash and Cash Equivalents, End of Period	**$**	**941,043**	**$**	**932,946**
Supplemental Disclosure of Cash Flow Information:				
Interest paid	$	32,207	$	20,045
Interest paid by consolidated variable interest entities		9,026		13,911
Income taxes paid		8,070		5,806
Supplemental Disclosure of Non-Cash Investing Activities:				
Non-cash contributions to equity method investments	$	-	$	1,231
Non-cash distributions from equity method investments		(26,167)		(4,496)
Non-cash purchases of other investments, at fair value		25,091		-
Supplemental Disclosure of Non-Cash Financing Activities:				
Capital increases related to equity-based compensation	$	52,442	$	53,910
Other non-cash financing activities		(296)		364
Adjustments related to exchange of Apollo Operating Group units:				
Deferred tax assets	$	46,539	$	1,807
Due to affiliates		(35,946)		(1,519)
Additional paid in capital		(10,593)		(288)
Non-Controlling Interest in Apollo Operating Group		30,631		1,251

See accompanying notes to condensed consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

1. ORGANIZATION

Apollo Global Management, LLC ("AGM", together with its consolidated subsidiaries, the "Company" or "Apollo") is a global alternative investment manager whose predecessor was founded in 1990. Its primary business is to raise, invest and manage private equity, credit and real assets funds as well as strategic investment accounts, on behalf of pension, endowment and sovereign wealth funds, as well as other institutional and individual investors. For these investment management services, Apollo receives management fees generally related to the amount of assets managed, transaction and advisory fees and carried interest income related to the performance of the respective funds that it manages. Apollo has three primary business segments:

- ***Private equity***-primarily invests in control equity and related debt instruments, convertible securities and distressed debt investments;
- ***Credit***-primarily invests in non-control corporate and structured debt instruments including performing, stressed and distressed investments across the capital structure; and
- ***Real assets***-primarily invests in real estate equity for the acquisition and recapitalization of real estate assets, portfolios, platforms and operating companies, and real estate debt including first mortgage and mezzanine loans, preferred equity and commercial mortgage backed securities.

Organization of the Company

The Company was formed as a Delaware limited liability company on July 3, 2007 and completed a reorganization of its predecessor businesses on July 13, 2007 (the "2007 Reorganization"). The Company is managed and operated by its manager, AGM Management, LLC, which in turn is indirectly wholly-owned and controlled by Leon Black, Joshua Harris and Marc Rowan, its Managing Partners.

As of September 30, 2017, the Company owned, through six intermediate holding companies that include APO Corp., a Delaware corporation that is a domestic corporation for U.S. federal income tax purposes, APO Asset Co., LLC, a Delaware limited liability company that is a disregarded entity for U.S. federal income tax purposes, APO (FC), LLC, an Anguilla limited liability company that is treated as a corporation for U.S. federal income tax purposes, APO (FC II), LLC, an Anguilla limited liability company that is treated as a corporation for U.S. federal income tax purposes, APO UK (FC), Limited, a United Kingdom incorporated company that is treated as a corporation for U.S. federal income tax purposes, and APO (FC III), LLC, a Cayman Islands limited liability company (collectively, the "Intermediate Holding Companies"), 48.1% of the economic interests of, and operated and controlled all of the businesses and affairs of, the Apollo Operating Group through its wholly-owned subsidiaries.

AP Professional Holdings, L.P., a Cayman Islands exempted limited partnership ("Holdings"), is the entity through which the Managing Partners and certain of the Company's other partners (the "Contributing Partners") indirectly beneficially own interests in each of the partnerships that comprise the Apollo Operating Group ("AOG Units"). As of September 30, 2017, Holdings owned the remaining 51.9% of the economic interests in the Apollo Operating Group. The Company consolidates the financial results of the Apollo Operating Group and its consolidated subsidiaries. Holdings' ownership interest in the Apollo Operating Group is reflected as a Non-Controlling Interest in the accompanying condensed consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with U.S. GAAP for interim financial information and instructions to the Quarterly Report on Form 10-Q. The condensed consolidated financial statements and these notes are unaudited and exclude some of the disclosures required in annual financial statements. Management believes it has made all necessary adjustments (consisting only of normal recurring items) so that the condensed consolidated financial statements are presented fairly and that estimates made in preparing its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated financial statements should be read in conjunction with the annual financial statements included in the 2016 Annual Report.

The condensed consolidated financial statements include the accounts of the Company, its wholly-owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities ("VIEs") and for which the

Company is considered the primary beneficiary, and certain entities which are not considered VIEs but which the Company controls through a majority voting interest.

Intercompany accounts and transactions, if any, have been eliminated upon consolidation.

Certain reclassifications, when applicable, have been made to the prior period's condensed consolidated financial statements and notes to conform to the current period's presentation and are disclosed accordingly.

Consolidation

The types of entities with which Apollo is involved generally include subsidiaries (e.g., general partners and management companies related to the funds the Company manages), entities that have all the attributes of an investment company (e.g., funds) and securitization vehicles (e.g., CLOs). Each of these entities is assessed for consolidation on a case by case basis depending on the specific facts and circumstances surrounding that entity.

Pursuant to the consolidation guidance, the Company first evaluates whether it holds a variable interest in an entity. Fees that are customary and commensurate with the level of services provided, and where the Company does not hold other economic interests in the entity that would absorb more than an insignificant amount of the expected losses or returns of the entity, would not be considered a variable interest. Apollo factors in all economic interests including proportionate interests through related parties, to determine if such interests are considered a variable interest. As Apollo's interests in many of these entities are solely through market rate fees and/or insignificant indirect interests through related parties, Apollo is not considered to have a variable interest in many of these entities and no further consolidation analysis is performed. For entities where the Company has determined that it does hold a variable interest, the Company performs an assessment to determine whether each of those entities qualify as a VIE.

The determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and therefore certain of Apollo's funds may qualify as VIEs under the variable interest model whereas others may qualify as voting interest entities ("VOEs") under the voting interest model. The granting of substantive kick-out rights is a key consideration in determining whether a limited partnership or similar entity is a VIE and whether or not that entity should be consolidated.

Under the variable interest model, Apollo consolidates those entities where it is determined that the Company is the primary beneficiary of the entity. The Company is determined to be the primary beneficiary when it has a controlling financial interest in the VIE, which is defined as possessing both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Apollo determines whether it is the primary beneficiary of a VIE at the time it becomes initially involved with the VIE and reconsiders that conclusion continuously. Investments and redemptions (either by Apollo, related parties of Apollo or third parties) or amendments to the governing documents of the respective entity may affect an entity's status as a VIE or the determination of the primary beneficiary.

Assets and liabilities of the consolidated VIEs are primarily shown in separate sections within the condensed consolidated statements of financial condition. Changes in the fair value of the consolidated VIEs' assets and liabilities and related interest, dividend and other income and expenses are presented within net gains from investment activities of consolidated variable interest entities in the condensed consolidated statements of operations. The portion attributable to Non-Controlling Interests is reported within net income attributable to Non-Controlling Interests in the condensed consolidated statements of operations. For additional disclosures regarding VIEs, see note 4.

Under the voting interest model, Apollo consolidates those entities it controls through a majority voting interest. Apollo does not consolidate those VOEs in which substantive kick-out rights have been granted to the unrelated investors to either dissolve the fund or remove the general partner.

Fair Value of Financial Instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

Except for the Company's debt obligations (as described in note 9), Apollo's financial instruments are recorded at fair value or at amounts whose carrying values approximate fair value. See "Investments, at Fair Value" below. While Apollo's valuations of portfolio investments are based on assumptions that Apollo believes are reasonable under the circumstances, the actual realized gains or losses will depend on, among other factors, future operating results, the value of the assets and market conditions at the

time of disposition, any related transaction costs and the timing and manner of sale, all of which may ultimately differ significantly from the assumptions on which the valuations were based. Financial instruments' carrying values generally approximate fair value because of the short-term nature of those instruments or variable interest rates related to the borrowings.

Fair Value Hierarchy

U.S. GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

Level I - Quoted prices are available in active markets for identical financial instruments as of the reporting date. The types of financial instruments included in Level I include listed equities and debt. The Company does not adjust the quoted price for these financial instruments, even in situations where the Company holds a large position and the sale of such position would likely deviate from the quoted price.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments that are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives where the fair value is based on observable inputs. These financial instruments exhibit higher levels of liquid market observability as compared to Level III financial instruments.

Level III - Pricing inputs are unobservable for the financial instrument and includes situations where there is little observable market activity for the financial instrument. The inputs into the determination of fair value may require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partner interests in corporate private equity and real assets funds, opportunistic credit funds, distressed debt and non-investment grade residual interests in securitizations and CDOs and CLOs where the fair value is based on observable inputs as well as unobservable inputs.

When a security is valued based on broker quotes, the Company subjects those quotes to various criteria in making the determination as to whether a particular financial instrument would qualify for classification as Level II or Level III. These criteria include, but are not limited to, the number and quality of the broker quotes, the standard deviations of the observed broker quotes, and the percentage deviation from independent pricing services.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument when the fair value is based on unobservable inputs.

Transfers between levels of the fair value hierarchy are recognized as of the end of the reporting period.

Private Equity Investments

The value of liquid investments in Apollo's private equity funds, where the primary market is an exchange (whether foreign or domestic) is determined using period end market prices. Such prices are generally based on the close price on the date of determination.

Valuation approaches used to estimate the fair value of investments in Apollo's private equity funds that are less liquid include the market approach and the income approach. The market approach provides an indication of fair value based on a comparison of the subject company to comparable publicly traded companies and transactions in the industry. The market approach is driven more by current market conditions, including actual trading levels of similar companies and, to the extent available, actual

transaction data of similar companies. Judgment is required by management when assessing which companies are similar to the subject company being valued. Consideration may also be given to such factors as the Company's historical and projected financial data, valuations given to comparable companies, the size and scope of the Company's operations, the Company's strengths, weaknesses, expectations relating to the market's receptivity to an offering of the Company's securities, applicable restrictions on transfer, industry and market information and assumptions, general economic and market conditions and other factors deemed relevant. The income approach provides an indication of fair value based on the present value of cash flows that a business or security is expected to generate in the future. The most widely used methodology in the income approach is a discounted cash flow method. Inherent in the discounted cash flow method are assumptions of expected results, the determination of a terminal value and a calculated discount rate.

Credit Investments

The majority of investments in Apollo's credit funds are valued based on quoted market prices and valuation models. Quoted market prices are valued based on the average of the "bid" and the "ask" quotes provided by multiple brokers wherever possible without any adjustments. Apollo will designate certain brokers to use to value specific securities. In order to determine the designated brokers, Apollo considers the following: (i) brokers with which Apollo has previously transacted, (ii) the underwriter of the security and (iii) active brokers indicating executable quotes. In addition, when valuing a security based on broker quotes wherever possible Apollo tests the standard deviation amongst the quotes received and the variance between the concluded fair value and the value provided by a pricing service. When broker quotes are not available Apollo considers the use of pricing service quotes or other sources to mark a position. When relying on a pricing service as a primary source, Apollo (i) analyzes how the price has moved over the measurement period, (ii) reviews the number of brokers included in the pricing service's population and (iii) validates the valuation levels with Apollo's pricing team and traders.

Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value utilizing a model based approach to determine fair value. Valuation approaches used to estimate the fair value of illiquid credit investments also may include the market approach and the income approach, as previously described above. The valuation approaches used consider, as applicable, market risks, credit risks, counterparty risks and foreign currency risks.

Real Assets Investments

The estimated fair value of commercial mortgage-backed securities ("CMBS") in Apollo's real assets funds is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. Broker quotes are only indicative of fair value and may not necessarily represent what the funds would receive in an actual trade for the applicable instrument. Additionally, the loans held-for-investment are stated at the principal amount outstanding, net of deferred loan fees and costs for certain investments. The loans in Apollo's real assets funds are evaluated for possible impairment on a quarterly basis. For Apollo's real assets funds, valuations of non-marketable underlying investments are determined using methods that include, but are not limited to (i) discounted cash flow estimates or comparable analysis prepared internally, (ii) third party appraisals or valuations by qualified real estate appraisers and (iii) contractual sales value of investments/properties subject to bona fide purchase contracts. Methods (i) and (ii) also incorporate consideration of the use of the income, cost, or sales comparison approaches of estimating property values.

Certain of the private equity, credit, and real assets funds may also enter into foreign currency exchange contracts, total return swap contracts, credit default swap contracts, and other derivative contracts, which may include options, caps, collars and floors. Foreign currency exchange contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. If securities are held at the end of this period, the changes in value are recorded in income as unrealized. Realized gains or losses are recognized when contracts are settled. Total return swap and credit default swap contracts are recorded at fair value as an asset or liability with changes in fair value recorded as unrealized appreciation or depreciation. Realized gains or losses are recognized at the termination of the contract based on the difference between the close-out price of the total return or credit default swap contract and the original contract price. Forward contracts are valued based on market rates obtained from counterparties or prices obtained from recognized financial data service providers.

Valuation Process

On a quarterly basis, Apollo utilizes valuation committees consisting of members from senior management, to review and approve the valuation results related to the investments of the funds it manages. For certain publicly traded vehicles managed by the Company, a review is performed by an independent board of directors. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management

identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Financial Instruments held by Consolidated VIEs

The Company measures both the financial assets and financial liabilities of the consolidated CLOs in its condensed consolidated financial statements using the fair value of the financial assets of the consolidated CLOs, which are more observable than the fair value of the financial liabilities of the consolidated CLOs. As a result, the financial assets of the consolidated CLOs are measured at fair value and the financial liabilities are measured in consolidation as: (i) the sum of the fair value of the financial assets and the carrying value of any non-financial assets that are incidental to the operations of the CLOs less (ii) the sum of the fair value of any beneficial interests retained by the Company (other than those that represent compensation for services) and the Company's carrying value of any beneficial interests that represent compensation for services. The resulting amount is allocated to the individual financial liabilities (other than the beneficial interest retained by the Company) using a reasonable and consistent methodology. Under the measurement alternative, net income (loss) attributable to Apollo Global Management, LLC reflects the Company's own economic interests in the consolidated CLOs including (i) changes in the fair value of the beneficial interests retained by the Company and (ii) beneficial interests that represent compensation for collateral management services.

The consolidated VIEs hold investments that could be traded over-the-counter. Investments in securities that are traded on a securities exchange or comparable over-the-counter quotation systems are valued based on the last reported sale price at that date. If no sales of such investments are reported on such date, and in the case of over-the-counter securities or other investments for which the last sale date is not available, valuations are based on independent market quotations obtained from market participants, recognized pricing services or other sources deemed relevant, and the prices are based on the average of the "bid" and "ask" prices, or at ascertainable prices at the close of business on such day. Market quotations are generally based on valuation pricing models or market transactions of similar securities adjusted for security-specific factors such as relative capital structure priority and interest and yield risks, among other factors. When market quotations are not available, a model based approach is used to determine fair value.

As previously noted, the Company measures the debt obligations of the consolidated CLOs on the basis of the fair value of the financial assets of the consolidated CLOs.

Fair Value Option

Apollo has elected the fair value option for the Company's investment in Athene Holding, the assets and liabilities of certain of its consolidated VIEs (including CLOs), the Company's U.S. Treasury securities with original maturities greater than three months when purchased, and certain of the Company's other investments. Such election is irrevocable and is applied to financial instruments on an individual basis at initial recognition. Apollo has applied the fair value option for certain corporate loans, other investments and debt obligations held by the consolidated VIEs that otherwise would not have been carried at fair value. See notes 3, 4, and 5 for further disclosure on the investments in Athene Holding and financial instruments of the consolidated VIEs and other investments for which the fair value option has been elected.

Cash and Cash Equivalents

Apollo considers all highly liquid short-term investments with original maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents include money market funds and U.S. treasury securities with original maturities of three months or less when purchased. Interest income from cash and cash equivalents is recorded in interest income in the condensed consolidated statements of operations. The carrying values of the money market funds and U.S. treasury securities of $428.1 million as of September 30, 2017, which approximate their fair values due to their short-term nature and are categorized as Level I within the fair value hierarchy. Substantially all of the Company's cash on deposit is in interest bearing accounts with major financial institutions and exceed insured limits.

U.S. Treasury securities, at fair value

U.S. Treasury securities, at fair value includes U.S. Treasury bills with original maturities greater than three months when purchased. These securities are recorded at fair value. Interest income on such securities is separately presented from the overall change in fair value and is recognized in interest income in the condensed consolidated statements of operations. Any

remaining change in fair value of such securities, that is not recognized as interest income, is recognized in net gains from investment activities in the condensed consolidated statements of operations.

Investments, at Fair Value

Investments, at fair value represent investments of the consolidated funds, investments of the consolidated VIEs and certain financial instruments for which the fair value option has been elected.

The unrealized gains and losses resulting from changes in the fair value of the consolidated VIEs are reflected as net gains from investment activities of consolidated variable interest entities in the condensed consolidated statements of operations.

Net gains from investment activities in the condensed consolidated statements of operations include both realized gains and losses and the change in unrealized gains and losses in the Company's investments, at fair value between the opening reporting date and the closing reporting date.

Equity Method Investments

For investments in entities over which the Company exercises significant influence but which do not meet the requirements for consolidation and for which the Company has not elected the fair value option, the Company uses the equity method of accounting, whereby the Company records its share of the underlying income or loss of such entities. The Company's share of the underlying net income or loss of such entities is recorded in income from equity method investments in the condensed consolidated statements of operations. The carrying amounts of equity method investments are recorded in investments in the condensed consolidated statements of financial condition. As the underlying entities that the Company manages and invests in are, for U.S. GAAP purposes, primarily investment companies which reflect their investments at estimated fair value, the carrying value of the Company's equity method investments in such entities approximates fair value.

Revenues

Revenues are reported in three separate categories that include (i) advisory and transaction fees from related parties, net, which relate to the investments of the funds the Company manages and may include individual monitoring agreements the Company has with the portfolio companies and debt investment vehicles of the private equity funds and credit funds it manages; (ii) management fees from related parties, which are based on committed capital, invested capital, net asset value, gross assets or as otherwise defined in the respective agreements; and (iii) carried interest income from related parties, which is normally based on the performance of the funds the Company manages that are subject to preferred return.

Management Fees from Related Parties-Management fees for private equity, credit, and real assets funds are recognized in the period during which the related services are performed in accordance with the contractual terms of the related agreement, and are generally based upon (1) a percentage of the capital committed during the commitment period, and thereafter based on the remaining invested capital of unrealized investments, or (2) net asset value, gross assets or as otherwise defined in the respective agreements. Included in management fees are certain expense reimbursements where the Company is considered the principal under the agreements and is required to record the expense and related reimbursement revenue on a gross basis.

Advisory and Transaction Fees from Related Parties, Net-Advisory and transaction fees, including directors' fees, are recognized when the underlying services rendered are substantially completed in accordance with the terms of the transaction and advisory agreements. Additionally, during the normal course of business, the Company incurs certain costs related to certain transactions that are not consummated ("broken deal costs"). These costs (e.g., research costs, due diligence costs, professional fees, legal fees and other related items) are determined to be broken deal costs upon management's decision to no longer pursue the transaction. In accordance with the related fund agreement, in the event the deal is deemed broken, all of the costs are reimbursed by the funds and then included as a component of the calculation of the Management Fee Offset (described below). If a deal is successfully completed, Apollo is reimbursed by the fund or fund's portfolio company for all costs incurred and no offset is generated. As the Company acts as an agent for the funds it manages, any transaction costs incurred and paid by the Company on behalf of the respective funds relating to successful or broken deals are recorded net on the Company's condensed consolidated statements of operations, and any receivable from the respective funds is recorded in due from related parties on the condensed consolidated statements of financial condition.

Advisory and transaction fees from related parties, net, also includes underwriting fees. Underwriting fees include gains, losses and fees, net of syndicate expenses, arising from securities offerings in which one of the Company's subsidiaries participates in the underwriter syndicate. Underwriting fees are recognized at the time the underwriting is completed and the

APOLLO GLOBAL MANAGEMENT, LLC
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(dollars in thousands, except share data, except where noted)

income is reasonably assured and are included in the condensed consolidated statements of operations. Underwriting fees recognized but not received are recorded in other assets on the condensed consolidated statements of financial condition.

As a result of providing advisory services to certain private equity and credit portfolio companies, Apollo is generally entitled to receive fees for transactions related to the acquisition, in certain cases, and disposition of portfolio companies as well as ongoing monitoring of portfolio company operations and directors' fees. The amounts due from portfolio companies are recorded in due from related parties, which is discussed further in note 13. Under the terms of the limited partnership agreements for certain funds, the management fee payable by the funds may be subject to a reduction based on a certain percentage of such advisory and transaction fees, net of applicable broken deal costs ("Management Fee Offset"). Advisory and transaction fees from related parties are presented net of the Management Fee Offset in the condensed consolidated statements of operations.

Carried Interest Income from Related Parties-Apollo is entitled to an incentive return that can normally amount to as much as 20% of the total returns on a fund's capital, depending upon performance. Performance fees are assessed as a percentage of the investment performance of the funds. The carried interest income from related parties for any period is based upon an assumed liquidation of the fund's net assets on the reporting date, and distribution of the net proceeds in accordance with the fund's income allocation provisions. Carried interest receivable is presented separately in the condensed consolidated statements of financial condition. The carried interest income from related parties may be subject to reversal to the extent that the carried interest income recorded exceeds the amount due to the general partner based on a fund's cumulative investment returns. When applicable, the accrual for potential repayment of previously received carried interest income, which is a component of due to related parties, represents all amounts previously distributed to the general partner that would need to be repaid to the Apollo funds if these funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual general partner obligation, however, would not become payable or realized until the end of a fund's life.

Carried interest income from related parties also includes a quarterly performance fee on the pre-incentive fee net investment income ("AINV Part I Fees") of AINV. For purposes of the AINV Part I Fees, the net investment income of AINV includes interest income, dividend income and certain other income but excludes any realized and unrealized capital gains or losses. Such AINV Part I Fees are paid quarterly and are not subject to repayment.

Deferred Revenue-Apollo earns management fees subject to the Management Fee Offset (described above). When advisory and transaction fees are earned by the management company, the Management Fee Offset reduces the management fee obligation of the fund. When the Company receives cash for advisory and transaction fees, a certain percentage of such advisory and/or transaction fees, as applicable, is allocated as a credit to reduce future management fees, otherwise payable by such fund. Such credit is recorded as deferred revenue in the condensed consolidated statements of financial condition. A portion of any excess advisory and transaction fees may be required to be returned to the limited partners of certain funds upon such fund's liquidation. As the management fees earned by the Company are presented on a gross basis, any Management Fee Offsets calculated are presented as a reduction to advisory and transaction fees from related parties in the condensed consolidated statements of operations.

Additionally, Apollo earns advisory fees pursuant to the terms of the advisory agreements with certain of the portfolio companies that are owned by the funds Apollo manages. When Apollo receives a payment from a portfolio company that exceeds the advisory fees earned at that point in time, the excess payment is recorded as deferred revenue in the condensed consolidated statements of financial condition. The advisory agreements with the portfolio companies vary in duration and the associated fees are received monthly, quarterly or annually. Deferred revenue is reversed and recognized as revenue over the period that the agreed upon services are performed.

Under the terms of the funds' partnership agreements, Apollo is normally required to bear organizational expenses over a set dollar amount and placement fees or costs in connection with the offering and sale of interests in the funds it manages to investors. The placement fees are payable to placement agents, who are independent third parties that assist in identifying potential investors, securing commitments to invest from such potential investors, preparing or revising offering and marketing materials, developing strategies for attempting to secure investments by potential investors and/or providing feedback and insight regarding issues and concerns of potential investors, when a limited partner either commits or funds a commitment to a fund. In certain instances the placement fees are paid over a period of time. Based on the management agreements with the funds, Apollo considers placement fees and organizational costs paid in determining if cash has been received in excess of the management fees earned. Placement fees and organizational costs are normally the obligation of Apollo but can be paid for by the funds. When these costs are paid by the fund, the resulting obligations are included within deferred revenue. The deferred revenue balance will also be reduced during future periods when management fees are earned but not paid.

Compensation and Benefits

401(k) Savings Plan

The Company sponsors a 401(k) savings plan (the "401(k) Plan") whereby U.S.-based employees are entitled to participate in the 401(k) Plan based upon satisfying certain eligibility requirements. Effective January 1, 2017, the Company matches 50% of eligible annual employee contributions up to 3% of the eligible employees' annual compensation. Matching contributions vest after three years of service.

Profit Sharing

Profit sharing expense and profit sharing payable primarily consist of a portion of carried interest earned from certain funds that is allocated to employees, former employees and Contributing Partners. Profit sharing amounts are recognized on an accrued basis as the related carried interest income is earned. Accordingly, profit sharing amounts can be reversed during periods when there is a decline in carried interest income that was previously recognized.

Profit sharing amounts are generally not paid until the related carried interest is distributed to the general partner upon realization of the fund's investments. Under certain profit sharing arrangements, a portion of the carried interest distributed to the general partner is allocated by issuance of restricted shares, rather than cash to employees. Prior to distribution of the carried interest to the general partner, the Company records the value of the restricted shares expected to be granted in other assets and other liabilities within the condensed consolidated statements of financial condition. Upon distribution of the carried interest to the general partner, the general partner expects to purchase the Class A restricted shares on behalf of employees and simultaneously grant those shares to the employee. Such shares are recorded as equity-based compensation expense over the relevant service period.

Additionally, profit sharing amounts previously distributed may be subject to clawback from employees, former employees and Contributing Partners. When applicable, the accrual for potential clawback of previously distributed profit sharing amounts, which is a component of due from related parties on the condensed consolidated statements of financial condition, represents all amounts previously distributed to employees, former employees and Contributing Partners that would need to be returned to the general partner if the Apollo funds were to be liquidated based on the fair value of the underlying funds' investments as of the reporting date. The actual general partner receivable, however, would not become realized until the end of a fund's life.

Profit sharing payable also includes contingent consideration obligations that were recognized in connection with certain Apollo acquisitions. Changes in the fair value of the contingent consideration obligations are reflected in the Company's condensed consolidated statements of operations as profit sharing expense.

The Company has a performance based incentive arrangement for certain Apollo partners and employees designed to more closely align compensation on an annual basis with the overall realized performance of the Company. This arrangement enables certain partners and employees to earn discretionary compensation based on carried interest realizations earned by the Company in a given year, which amounts are reflected in profit sharing expense in the accompanying condensed consolidated financial statements.

General, Administrative and Other

General, administrative and other primarily includes professional fees, occupancy, depreciation and amortization, travel, information technology, and administration expenses. For the three and nine months ended September 30, 2016, the presentation of professional fees, occupancy, and depreciation and amortization was combined with general, administrative and other on the condensed consolidated statements of operations to conform to the current presentation.

Use of Estimates

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Apollo's most significant estimates include goodwill, intangible assets, income taxes, carried interest income from related parties, contingent consideration obligation related to an acquisition, non-cash compensation, and fair value of investments and debt. Actual results could differ materially from those estimates.

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Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance to establish a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity's revenue across industries, transactions, and geographies. The new guidance requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services (i.e., the transaction price). When determining the transaction price under the new guidance, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved. The new guidance also requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The new guidance will apply to all entities. In August 2015, the FASB issued its final standard formally amending the effective date of the new revenue recognition guidance. The amended guidance defers the effective date of the new guidance to interim reporting periods within annual reporting periods beginning after December 15, 2017.

Upon adoption, the guidance currently applied by the Company in which it recognizes carried interest income on an assumed liquidation basis at each reporting date will no longer be permitted. The Company expects the recognition of carried interest income from incentive fees, which are a form of variable consideration, to be deferred until such fees are probable to not be significantly reversed. Incentive fees are carried interest income that is not a capital allocation to the general partner or investment manager.

Carried interest income that is a capital allocation to the general partner or investment manager, represents the remaining portion of carried interest income on the Company's consolidated statements of operations. The determination of which carried interests are considered capital allocations is primarily based on the terms of the agreement. In connection with the adoption of the new revenue guidance, the Company will apply a new accounting policy for its carried interest income that is a capital allocation. The Company intends to account for such carried interest income as a financial instrument under the equity method of accounting. The pattern and amount of recognition under the new policy is not expected to differ materially from the Company's existing recognition for such fees. Such carried interest income will be reported as a separate line item within revenue (i.e., separate from incentive fees). As capital allocation related carried interest income and the related general partner investment are considered to be a single unit of account under the Company's new accounting policy, the equity method income associated with the general partner interests will be combined with the associated carried interest income and reported within revenue.

The Company is currently in the process of implementing the new revenue guidance and is continuing to evaluate the effect this guidance will have on other revenue streams, including management fees and advisory and transaction fees, as well as any principal versus agent considerations for reporting revenue gross versus net. The Company will adopt the new revenue recognition guidance effective January 1, 2018.

In February 2016, the FASB issued guidance that amends the accounting for leases. The amended guidance requires recognition of a lease asset and a lease liability by lessees for leases classified as operating leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from existing guidance and accounting applied by a lessor is largely unchanged from existing guidance. The amended guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2018. Early application is permitted for all entities.

The Company expects its total assets and total liabilities on its condensed consolidated statements of financial condition to increase upon adoption of this guidance as a result of recording a lease asset and lease liability related to our operating leases. The Company is continuing to evaluate the impact that this guidance will have on its condensed consolidated financial statements. The Company expects to adopt the new leasing guidance on January 1, 2019.

In March 2016, the FASB issued amended guidance on stock compensation. The amendments are intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for excess tax benefits, forfeitures, and cash flows. The amended guidance requires that all excess tax benefits and deficiencies related to share-based payment transactions be recognized through the income tax provision (benefit) in the condensed consolidated statement of operations. Further, the amended guidance permits an entity to make an accounting policy election either to estimate the number of forfeitures expected to occur or to account for forfeitures when they occur. The amended guidance also requires excess tax benefits related to share-based payment transactions to be presented as operating activities and employee taxes paid to be presented as financing activities in the condensed consolidated statement of cash flows. The amended guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. The Company adopted the guidance during the first quarter of 2017.

Amendments relating to the recognition of excess tax benefits in the condensed consolidated statements of operations and impacts to the condensed consolidated statements of cash flows have been applied prospectively, with the exception of a $22.9 million cumulative effect adjustment, as of January 1, 2017, to deferred tax assets with a corresponding decrease to accumulated deficit relating to previously unrecognized excess tax benefits.

For forfeitures, the Company made an accounting policy election to no longer estimate forfeitures in determining the number of equity-based awards that are expected to vest. Under the Company's new policy, forfeitures are accounted for when they occur. Any adjustments have been reflected prospectively as of January 1, 2017.

In August 2016, the FASB issued guidance intended to reduce diversity in practice in how certain cash receipts and payments are classified in the statements of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company early adopted the guidance during the first quarter of 2017. Adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

In October 2016, the FASB issued guidance that amends the consolidation guidance issued in February 2015. Under the amended guidance a decision maker will need to consider only its proportionate indirect interest in a VIE that is held through a related party under common control. Under the originally issued guidance, a decision maker treats the interest of the related party under common control in the VIE as if the decision maker held the interest itself. The amended guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. The Company adopted the guidance during the first quarter of 2017. Adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

In November 2016, the FASB issued guidance to reduce diversity in practice in the classification and presentation of changes in restricted cash on the statements of cash flows. The new guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. Entities will also be required to reconcile such total to amounts on the Company's condensed consolidated statements of financial condition and disclose the nature of the restrictions. The guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The Company is in the process of evaluating the impact that this guidance will have on its condensed consolidated financial statements.

3. INVESTMENTS

The following table represents Apollo's investments:

	As of September 30, 2017	As of December 31, 2016
Investments, at fair value	$ 852,350	$ 708,080
Equity method investments	855,714	786,664
Total Investments	$ 1,708,064	$ 1,494,744

Investments, at Fair Value

Investments, at fair value, consist of investments for which the fair value option has been elected and include the Company's investment in Athene Holding, investments held by the Company's consolidated funds, investments in debt of unconsolidated CLOs, and other investments held by the Company. See note 5 for further discussion regarding investments, at fair value.

Net Gains from Investment Activities

The following table presents the realized and net change in unrealized gains on investments, at fair value for the three and nine months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Realized gains on sales of investments	$ 162	$ 472	$ 14	$ 375
Net change in unrealized gains due to changes in fair value[1]	68,770	17,274	102,922	49,912
Net gains from investment activities	$ 68,932	$ 17,746	$ 102,936	$ 50,287

(1) Primarily relates to the Company's investment in Athene Holding. See note 5 for further information regarding the Company's investment in Athene Holding.

Equity Method Investments

Apollo's equity method investments include its investments in the private equity, credit and real assets funds it manages, which are not consolidated, but in which the Company exerts significant influence. Apollo's share of net income generated by these investments is recorded within income from equity method investments in the condensed consolidated statements of operations.

Equity method investments as of September 30, 2017 and December 31, 2016 consisted of the following:

	Equity Held as of	
	September 30, 2017 [5]	December 31, 2016 [5]
Private Equity[1][2]	$ 495,409	$ 428,581
Credit[1][3]	330,918	327,012
Real Assets	29,387	31,071
Total equity method investments[4]	$ 855,714	$ 786,664

(1) As of September 30, 2017, equity method investments include Fund VIII (Private Equity) and MidCap (Credit) of $340.3 million and $79.9 million, respectively, representing an ownership percentage of 2.2% and 4.3%, respectively. As of December 31, 2016, equity method investments include Fund VIII (Private Equity) and MidCap (Credit) of $260.9 million and $79.5 million, respectively, representing an ownership percentage of 2.2% and 4.3%, respectively.
(2) The equity method investment in AP Alternative Assets, L.P. ("AAA") was $51.8 million and $66.8 million as of September 30, 2017 and December 31, 2016, respectively. The value of the Company's investment in AAA was $51.9 million and $64.9 million based on the quoted market price as of September 30, 2017 and December 31, 2016, respectively.
(3) The equity method investment in AINV was $56.6 million and $58.6 million as of September 30, 2017 and December 31, 2016, respectively. The value of the Company's investment in AINV was $54.3 million and $52.1 million based on the quoted market price as of September 30, 2017 and December 31, 2016, respectively.
(4) Certain funds invest across multiple segments. The presentation in the table above is based on the classification of the majority of such funds' investments.
(5) Some amounts are included a quarter in arrears.

As of September 30, 2017 and for the three and nine months ended September 30, 2017, no equity method investment held by Apollo met the significance criteria as defined by the SEC. Although the following disclosure is not required by the significance criteria for the three and nine months ended September 30, 2017, the Company chose to continue to include this information as it was disclosed in its 2016 Annual Report. The following table presents summarized financial information of Athene Holding for the three and nine months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017 (1)	2016	2017 (1)	2016
	(in millions)			
Statements of Operations				
Revenues	$ 1,763	$ 1,272	$ 4,448	$ 3,039
Expenses	1,426	1,234	3,320	2,708
Income before income tax provision (benefit)	337	38	1,128	331
Income tax provision (benefit)	11	(88)	54	(73)
Net income available to Athene Holding common shareholders	$ 326	$ 126	$ 1,074	$ 404

(1) The financial statement information for the three and nine months ended September 30, 2017 is presented a quarter in arrears and is comprised of the financial information for the three and nine months ended June 30, 2017, which represents the latest available financial information as of the date of this report.

4. VARIABLE INTEREST ENTITIES

As described in note 2, the Company consolidates entities that are VIEs for which the Company has been designated as the primary beneficiary. There is no recourse to the Company for the consolidated VIEs' liabilities.

Consolidated Variable Interest Entities

Apollo has consolidated VIEs in accordance with the policy described in note 2. Through its role as investment manager of these VIEs, the Company determined that Apollo has the power to direct the activities that most significantly impact the economic performance of these VIEs. Additionally, Apollo determined that its interests, both directly and indirectly from these VIEs, represent rights to returns that could potentially be significant to such VIEs. As a result, Apollo determined that it is the primary beneficiary and therefore should consolidate the VIEs.

Consolidated CLOs

Certain CLOs are consolidated by Apollo as the Company is considered to hold a controlling financial interest through direct and indirect interests in these CLOs exclusive of management and performance based fees received. Through its role as collateral manager of these VIEs, the Company determined that Apollo has the power to direct the activities that most significantly impact the economic performance of these VIEs. These CLOs were formed for the sole purpose of issuing collateralized notes to investors. The assets of these VIEs are primarily comprised of senior secured loans and the liabilities are primarily comprised of debt.

The assets of these consolidated CLOs are not available to creditors of the Company. In addition, the investors in these consolidated CLOs have no recourse against the assets of the Company. The Company measures both the financial assets and the financial liabilities of the CLOs using the fair value of the financial assets as further described in note 2. The Company has elected the fair value option for financial instruments held by its consolidated CLOs, which includes investments in loans and corporate bonds, as well as debt obligations and contingent obligations held by such consolidated CLOs. Other assets include amounts due from brokers and interest receivables. Other liabilities include payables for securities purchased, which represent open trades within the consolidated VIEs and primarily relate to corporate loans that are expected to settle within the next 60 days. From time to time, Apollo makes investments in certain consolidated CLOs denominated in foreign currencies. As of September 30, 2017 and December 31, 2016, the Company held investments of $46.6 million and $41.3 million, respectively, in consolidated foreign currency denominated CLOs, which eliminate in consolidation.

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Net Gains from Investment Activities of Consolidated Variable Interest Entities

The following table presents net gains from investment activities of the consolidated VIEs for the three and nine months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017 [1]	2016 [1]	2017 [1]	2016 [1]
Net gains (losses) from investment activities	$ (272)	$ 9,466	$ 9,244	$ 7,341
Net gains (losses) from debt	635	(7,745)	3,319	(9,182)
Interest and other income	9,977	11,404	26,420	34,913
Interest and other expenses	(9,495)	(12,325)	(27,898)	(30,255)
Net gains from investment activities of consolidated variable interest entities	$ 845	$ 800	$ 11,085	$ 2,817

(1) Amounts reflect consolidation eliminations.

Senior Secured Notes, Subordinated Notes and Secured Borrowings-Included within debt are amounts due to third-party institutions by the consolidated VIEs. The following table summarizes the principal provisions of the debt of the consolidated VIEs as of September 30, 2017 and December 31, 2016:

	As of September 30, 2017			As of December 31, 2016		
	Principal Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Principal Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes[2][3]	$ 794,748	1.68%	12.4	$ 704,976	1.83%	12.3
Subordinated Notes[2][3]	98,602	N/A [1]	22.7	87,794	N/A [1]	19.2
Secured Borrowings[4]	90,461	3.00%	9.5	-	N/A	N/A
Total	$ 983,811			$ 792,770		

(1) The subordinated notes do not have contractual interest rates but instead receive distributions from the excess cash flows of the VIEs.
(2) The fair value of Senior Secured Notes, Subordinated Notes and Secured Borrowings as of September 30, 2017 and December 31, 2016 was $972.6 million and $786.5 million, respectively.
(3) The debt at fair value of the consolidated VIEs is collateralized by assets of the consolidated VIEs and assets of one vehicle may not be used to satisfy the liabilities of another vehicle. As of September 30, 2017 and December 31, 2016, the fair value of the assets of the consolidated VIEs was $1,278.5 million and $1,001.8 million, respectively. This collateral consisted of cash and cash equivalents, investments, at fair value, and other assets.
(4) Secured borrowings consist of a consolidated VIE’s obligation through a repurchase agreement redeemable at maturity with a third party lender. The fair value of the secured borrowings as of September 30, 2017 was $90.5 million.

The consolidated VIEs’ debt obligations contain various customary loan covenants. As of September 30, 2017, the Company was not aware of any instances of non-compliance with any of these covenants.

Variable Interest Entities Which are Not Consolidated

The Company holds variable interests in certain VIEs which are not consolidated, as it has been determined that Apollo is not the primary beneficiary.

The following table presents the carrying amounts of the assets and liabilities of the VIEs for which Apollo has concluded that it holds a significant variable interest, but that it is not the primary beneficiary as of September 30, 2017 and December 31, 2016. In addition, the table presents the maximum exposure to losses relating to these VIEs.

	As of September 30, 2017	As of December 31, 2016
Assets:		
Cash	$ 334,339	$ 231,922
Investments	7,389,027	7,253,872
Receivables	68,390	37,541
Total Assets	**$ 7,791,756**	**$ 7,523,335**
Liabilities:		
Debt and other payables	$ 3,089,584	$ 2,818,459
Total Liabilities	**$ 3,089,584**	**$ 2,818,459**
Apollo Exposure[1]	**$ 282,240**	**$ 272,191**

(1) Represents Apollo's direct investment in those entities in which Apollo holds a significant variable interest and certain other investments. Additionally, cumulative carried interest income is subject to reversal in the event of future losses. The maximum amount of future reversal of carried interest income from all of Apollo's funds, including those entities in which Apollo holds a significant variable interest, was $3.6 billion and $2.9 billion as of September 30, 2017 and December 31, 2016, respectively, as discussed in note 14.

5. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following tables summarize the Company's financial assets and financial liabilities recorded at fair value by fair value hierarchy level as of September 30, 2017 and December 31, 2016.

	As of September 30, 2017				
	Level I[1]	Level II[1]	Level III	Total	Cost
Assets					
U.S. Treasury securities, at fair value	$ 198,900	$ -	$ -	$ 198,900	$ 198,868
Investments, at fair value:					
Investments of consolidated Apollo funds	1,077	237	664	1,978	1,827
Other investments	-	-	64,726	64,726	62,464
Investment in Athene Holding[2]	-	785,646	-	785,646	387,526
Total investments, at fair value	1,077	785,883	65,390	852,350 [7]	451,817
Investments of VIEs, at fair value[3]	-	1,029,599	135,577	1,165,176	
Investments of VIEs, valued using NAV	-	-	-	5,374	
Total investments of VIEs, at fair value	-	1,029,599	135,577	1,170,550	
Derivative assets	-	439	-	439	
Total Assets	$ 199,977	$ 1,815,921	$ 200,967	$ 2,222,239	
Liabilities					
Liabilities of consolidated Apollo funds	$ 21	$ 596	$ -	$ 617	
Liabilities of VIEs, at fair value[3][5]	-	972,632	12,416	985,048	
Contingent consideration obligations[6]	-	-	87,300	87,300	
Derivative liabilities[4]	-	1,439	-	1,439	
Total Liabilities	$ 21	$ 974,667	$ 99,716	$ 1,074,404	

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	As of December 31, 2016				
	Level I(1)	Level II(1)	Level III	Total	Cost
Assets					
Investments, at fair value:					
Investments of consolidated Apollo funds	$ 3,336	$ 1,475	$ 567	$ 5,378	$ 5,463
Other investments	-	-	45,154	45,154	47,690
Investment in Athene Holding(2)	-	657,548	-	657,548	387,526
Total investments, at fair value	3,336	659,023	45,721	708,080 (7)	440,679
Investments of VIEs, at fair value(3)	-	816,167	92,474	908,641	
Investments of VIEs, valued using NAV	-	-	-	5,186	
Total investments of VIEs, at fair value	-	816,167	92,474	913,827	
Derivative assets	-	1,360	-	1,360	
Total Assets	$ 3,336	$ 1,476,550	$ 138,195	$ 1,623,267	
Liabilities					
Liabilities of VIEs, at fair value(3)(5)	$ -	$ 786,545	$ 11,055	$ 797,600	
Contingent consideration obligations(6)	-	-	106,282	106,282	
Derivative liabilities(4)	-	1,167	-	1,167	
Total Liabilities	$ -	$ 787,712	$ 117,337	$ 905,049	

(1) All Level I and Level II assets and liabilities were valued using third party pricing, with the exception of the investment in Athene Holding.
(2) See note 13 for further disclosure regarding the investment in Athene Holding.
(3) See note 4 for further disclosure regarding VIEs.
(4) Derivative liabilities are presented as a component of Other liabilities in the condensed consolidated statements of financial condition.
(5) Other liabilities include contingent obligations classified as Level III.
(6) See note 14 for further disclosure regarding contingent consideration obligations.
(7) See note 3 to our condensed consolidated financial statements for further detail regarding our investments at fair value and reconciliation to the condensed consolidated statements of financial condition.

There were no transfers of financial assets or liabilities between Level I and Level II for the three and nine months ended September 30, 2017 and 2016.

The following tables summarize the changes in fair value in financial assets measured at fair value for which Level III inputs have been used to determine fair value for the three months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30, 2017			
	Investments of Consolidated Apollo Funds	Other Investments	Investments of Consolidated VIEs	Total
Balance, Beginning of Period	$ 624	$ 53,098	$ 170,666	$ 224,388
Purchases	-	10,075	21,729	31,804
Sales of investments/distributions	-	-	(21,119)	(21,119)
Net realized gains	-	-	154	154
Changes in net unrealized gains	40	18	1,791	1,849
Cumulative translation adjustment	-	1,535	3,145	4,680
Transfer out of Level III	-	-	(40,789)	(40,789)
Balance, End of Period	$ 664	$ 64,726	$ 135,577	$ 200,967
Change in net unrealized gains included in net gains from investment activities related to investments still held at reporting date	$ 40	$ 18	$ -	$ 58
Change in net unrealized gains included in net gains from investment activities of consolidated VIEs related to investments still held at reporting date	-	-	1,330	1,330

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	For the Three Months Ended September 30, 2016				
	Investments of Consolidated Apollo Funds	Other Investments	Investment in Athene Holding	Investments of Consolidated VIEs	Total
Balance, Beginning of Period	$ 2,853	$ 44,753	$ 542,437	$ 112,690	$ 702,733
Purchases	-	334	-	11,040	11,374
Sale of investments/distributions	(1,361)	-	-	(11,204)	(12,565)
Net realized gains	15	-	-	86	101
Changes in net unrealized gains (losses)	107	939	16,392	(215)	17,223
Cumulative translation adjustment	-	206	-	1,004	1,210
Transfer into Level III[(1)]	-	-	-	8,755	8,755
Transfer out of Level III[(1)]	(1,293)	-	-	(15,622)	(16,915)
Balance, End of Period	$ 321	$ 46,232	$ 558,829	$ 106,534	$ 711,916
Change in net unrealized gains included in net gains from investment activities related to investments still held at reporting date	$ 51	$ 939	$ 16,392	$ -	$ 17,382
Change in net unrealized losses included in net gains from investment activities of consolidated VIEs related to investments still held at reporting date	-	-	-	(358)	(358)

(1) Transfers between Level II and III were a result of subjecting the broker quotes on these financial assets to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes and the percentage deviation from independent pricing services.

The following tables summarize the changes in fair value in financial assets measured at fair value for which Level III inputs have been used to determine fair value for the nine months ended September 30, 2017 and 2016:

	For the Nine Months Ended September 30, 2017			
	Investments of Consolidated Apollo Funds	Other Investments	Investments of Consolidated VIEs	Total
Balance, Beginning of Period	$ 567	$ 45,154	$ 92,474	$ 138,195
Purchases	-	14,774	107,969	122,743
Sale of investments/distributions	(8)	-	(53,920)	(53,928)
Net realized gains (losses)	(14)	-	340	326
Changes in net unrealized gains (losses)	59	(386)	9,600	9,273
Cumulative translation adjustment	-	5,184	10,334	15,518
Transfer into Level III[(1)]	60	-	9,569	9,629
Transfer out of Level III[(1)]	-	-	(40,789)	(40,789)
Balance, End of Period	$ 664	$ 64,726	$ 135,577	$ 200,967
Change in net unrealized gains (losses) included in net gains from investment activities related to investments still held at reporting date	$ 45	$ (386)	$ -	$ (341)
Change in net unrealized gains included in net gains from investment activities of consolidated VIEs related to investments still held at reporting date	-	-	9,351	9,351

(1) Transfers between Level II and III were a result of subjecting the broker quotes on these financial assets to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes and the percentage deviation from independent pricing services.

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	For the Nine Months Ended September 30, 2016				
	Investments of Consolidated Apollo Funds	Other Investments	Investment in Athene Holding	Investments of Consolidated VIEs	Total
Balance, Beginning of Period	$ 1,634	$ 434	$ 510,099	$ 100,941	$ 613,108
Purchases	1,382	44,530	-	60,832	106,744
Sale of investments/distributions	(1,803)	-	-	(54,496)	(56,299)
Net realized gains (losses)	(96)	-	-	3,132	3,036
Changes in net unrealized gains (losses)	224	528	48,730	(2,629)	46,853
Cumulative translation adjustment	-	740	-	2,469	3,209
Transfer into Level III[(1)]	1,495	-	-	30,173	31,668
Transfer out of Level III[(1)]	(2,515)	-	-	(33,888)	(36,403)
Balance, End of Period	$ 321	$ 46,232	$ 558,829	$ 106,534	$ 711,916
Change in net unrealized gains included in net gains from investment activities related to investments still held at reporting date	$ 56	$ 528	$ 48,730	$ -	$ 49,314
Change in net unrealized gains included in net gains from investment activities of consolidated VIEs related to investments still held at reporting date	-	-	-	441	441

(1) Transfers between Level II and III were a result of subjecting the broker quotes on these financial assets to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes and the percentage deviation from independent pricing services.

The following table summarizes the changes in fair value in financial liabilities measured at fair value for which Level III inputs have been used to determine fair value for the three months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,					
	2017			2016		
	Liabilities of Consolidated VIEs	Contingent Consideration Obligations	Total	Liabilities of Consolidated VIEs	Contingent Consideration Obligations	Total
Balance, Beginning of Period	$ 12,007	$ 86,900	$ 98,907	$ 11,671	$ 70,967	$ 82,638
Payments/extinguishment	-	(6,776)	(6,776)	-	(3,109)	(3,109)
Changes in net unrealized losses[(1)]	409	7,176	7,585	136	13,361	13,497
Balance, End of Period	$ 12,416	$ 87,300	$ 99,716	$ 11,807	$ 81,219	$ 93,026
Change in net unrealized gains included in net gains from investment activities of consolidated VIEs related to liabilities still held at reporting date	$ 409	$ -	$ 409	$ 136	$ -	$ 136

(1) Changes in fair value of contingent consideration obligations are recorded in profit sharing expense in the condensed consolidated statements of operations.

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The following table summarizes the changes in fair value in financial liabilities measured at fair value for which Level III inputs have been used to determine fair value for the nine months ended September 30, 2017 and 2016:

	For the Nine Months Ended September 30,						
	2017				2016		
	Liabilities of Consolidated Apollo Funds	Liabilities of Consolidated VIEs	Contingent Consideration Obligations	Total	Liabilities of Consolidated VIEs	Contingent Consideration Obligations	Total
Balance, Beginning of Period	$ -	$ 11,055	$ 106,282	$ 117,337	$ 11,411	$ 79,579	$ 90,990
Additions	97	-	-	97	-	-	-
Payments/extinguishment	(94)	-	(23,597)	(23,691)	-	(10,096)	(10,096)
Net realized gains	(10)	-	-	(10)	-	-	-
Changes in net unrealized losses[1]	7	1,361	4,615	5,983	396	11,736	12,132
Balance, End of Period	$ -	$ 12,416	$ 87,300	$ 99,716	$ 11,807	$ 81,219	$ 93,026
Change in net unrealized gains included in net gains from investment activities of consolidated VIEs related to liabilities still held at reporting date	$ -	$ 1,361	$ -	$ 1,361	$ 396	$ -	$ 396

(1) Changes in fair value of contingent consideration obligations are recorded in profit sharing expense in the condensed consolidated statements of operations.

The following tables summarize the quantitative inputs and assumptions used for financial assets and liabilities categorized as Level III under the fair value hierarchy as of September 30, 2017 and December 31, 2016:

	As of September 30, 2017				
	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average
Financial Assets					
Investments of consolidated Apollo funds	$ 664	Third party pricing[1]	N/A	N/A	N/A
Investments in other	47,602	Third party pricing[1]	N/A	N/A	N/A
	17,124	Other	N/A	N/A	N/A
Investments of consolidated VIEs:					
Corporate loans/bonds/CLO notes	13,548	Third party pricing[1]	N/A	N/A	N/A
Equity securities	122,029	Book value multiple	Book value multiple	0.76x	0.76x
		Discounted cash flow	Discount rate	12.8%	12.8%
Total investments of consolidated VIEs	135,577				
Total Financial Assets	$ 200,967				
Financial Liabilities					
Liabilities of consolidated VIEs	12,416	Other	N/A	N/A	N/A
Contingent consideration obligation	87,300	Discounted cash flow	Discount rate	17.3%	17.3%
Total Financial Liabilities	$ 99,716				

(1) These securities are valued primarily using unadjusted broker quotes.

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	As of December 31, 2016				
	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average
Financial Assets					
Investments of consolidated Apollo funds	$ 567	Third party pricing[1]	N/A	N/A	N/A
Investments in other	45,154	Third party pricing[1]	N/A	N/A	N/A
Investments of consolidated VIEs:					
Bank debt term loans	4,701	Third party pricing[1]	N/A	N/A	N/A
Corporate loans/bonds/CLO notes	15,496	Third party pricing[1]	N/A	N/A	N/A
Equity securities	72,277	Transaction	N/A	N/A	N/A
Total investments of consolidated VIEs	92,474				
Total Financial Assets	$ 138,195				
Financial Liabilities					
Liabilities of consolidated VIEs	$ 11,055	Other	N/A	N/A	N/A
Contingent consideration obligation	106,282	Discounted cash flow	Discount rate	13.0% - 17.3%	17.2%
Total Financial Liabilities	$ 117,337				

(1) These securities are valued primarily using unadjusted broker quotes.

Investment in Athene Holding

As of September 30, 2017 and December 31, 2016 the fair value of Apollo's investment in Athene Holding was estimated using the closing market price of Athene Holding shares of $53.84 and $47.99, respectively, less a discount due to a lack of marketability ("DLOM") of 7.0% and 9.5%, respectively, as applicable. The DLOM was derived based on the average remaining lock up restrictions on the shares of Athene Holding held by Apollo (14.3 months and 23.3 months as of September 30, 2017 and December 31, 2016, respectively) and the estimated volatility in such shares of Athene Holding. Due to the limited trading history in Athene Holding shares, the historical share price volatility of a representative set of Athene Holding's publicly traded insurance peers was calculated over a period equivalent to the remaining average lock up on the shares of Athene Holding held by Apollo and used as a proxy to estimate the projected volatility in Athene Holding's shares. The fair value of Apollo's investment in Athene Holding as of September 30, 2017 and December 31, 2016 after the application of the DLOM was estimated at a price of $50.19 and $43.43 per share, respectively.

As of December 31, 2016, Apollo changed the valuation method used to value the opportunistic investment in Athene Holding from the U.S. GAAP book value multiple approach to the use of the closing market price of shares of Athene Holding, adjusted for a DLOM in order to reflect the post IPO sales restriction on such shares of Athene Holding. The DLOM is calculated based on the remaining length of such sales restrictions and the estimated market price volatility of the associated shares.

Investments of Consolidated Apollo Funds

The Company is the sole investor in the Apollo Senior Loan Fund, L.P. and Apollo Alternative Credit Long Short Fund L.P. and therefore consolidates the assets and liabilities of these funds. These funds invest in U.S. denominated senior secured loans, senior secured bonds and other income generating fixed-income investments. Amounts related to these consolidated funds are primarily presented in net gains from investment activities on the condensed consolidated statements of operations and in investments in the condensed consolidated statements of financial condition.

Other Investments

Other investments primarily consists of Apollo's investments in debt of unconsolidated CLOs. The change in the fair value related to these investments is presented in net gains from investment activities on the condensed consolidated statements of operations.

Consolidated VIEs

Investments

As of September 30, 2017, the significant unobservable inputs used in the fair value measurement of the equity securities include the discount rate applied and the book value multiples applied in the valuation models. These unobservable

inputs in isolation can cause significant increases or decreases in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of an investment; conversely decreases in the discount rate can significantly increase the fair value of an investment. The discount rate is determined based on the market rates an investor would expect for a similar investment with similar risks. When a comparable multiple model is used to determine fair value, the comparable multiples are generally multiplied by the underlying companies' earnings before interest, taxes, depreciation and amortization ("EBITDA") to establish the total enterprise value of the company. The comparable multiple is determined based on the implied trading multiple of public industry peers.

Liabilities

As of September 30, 2017 and December 31, 2016, the debt obligations of the consolidated CLOs were measured on the basis of the fair value of the financial assets of the CLOs as the financial assets were determined to be more observable and, as a result, categorized as Level II in the fair value hierarchy.

Contingent Consideration Obligations

The significant unobservable input used in the fair value measurement of the contingent consideration obligations is the discount rate applied in the valuation models. This input in isolation can cause significant increases or decreases in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of the contingent consideration obligations; conversely, a decrease in the discount rate can significantly increase the fair value of the contingent consideration obligations. The discount rate was based on the hypothetical cost of equity in connection with the acquisition of Stone Tower Capital, LLC (together with its related management companies, "Stone Tower"). See note 14 for further discussion of the contingent consideration obligations.

6. CARRIED INTEREST RECEIVABLE

Carried interest receivable from private equity, credit and real assets funds consisted of the following:

	As of September 30, 2017	As of December 31, 2016
Private Equity	$ 1,128,460	$ 798,465
Credit	413,990	426,114
Real Assets	35,534	32,526
Total carried interest receivable	$ 1,577,984	$ 1,257,105

The table below provides a roll-forward of the carried interest receivable balance for the nine months ended September 30, 2017:

	Private Equity	Credit	Real Assets	Total
Carried interest receivable, January 1, 2017	$ 798,465	$ 426,114	$ 32,526	$ 1,257,105
Change in fair value of funds	651,808	165,987	10,585	828,380
Fund distributions to the Company	(321,813)	(178,111)	(7,577)	(507,501)
Carried interest receivable, September 30, 2017	$ 1,128,460	$ 413,990	$ 35,534	$ 1,577,984

The change in fair value of funds excludes the reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. The general partner obligation is recognized based upon a hypothetical liquidation of a fund's net assets as of the reporting date. The actual determination and any required payment of any such general partner obligation would not take place until the final disposition of a fund's investments based on the contractual termination of the fund or as otherwise set forth in the respective limited partnership agreement of the fund. See note 13 for further disclosure regarding the general partner obligation.

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The timing of the payment of carried interest due to the general partner or investment manager varies depending on the terms of the applicable fund agreements. Generally, carried interest with respect to the private equity funds and certain credit and real assets funds is payable and is distributed to the fund's general partner upon realization of an investment if the fund's cumulative returns are in excess of the preferred return. For most credit funds, carried interest is payable based on realizations after the end of the relevant fund's fiscal year or fiscal quarter, subject to certain return thresholds, or "high water marks," having been achieved.

7. PROFIT SHARING PAYABLE

Profit sharing payable consisted of the following:

	As of September 30, 2017	As of December 31, 2016
Private Equity	$ 427,456	$ 268,170
Credit	269,233	268,855
Real Assets	14,184	13,123
Total profit sharing payable	$ 710,873	$ 550,148

The table below provides a roll-forward of the profit sharing payable balance for the nine months ended September 30, 2017:

	Private Equity	Credit	Real Assets	Total
Profit sharing payable, January 1, 2017	$ 268,170	$ 268,855	$ 13,123	$ 550,148
Profit sharing expense(1)(2)	266,881	73,909	3,680	344,470
Payments/other	(107,595)	(73,531)	(2,619)	(183,745)
Profit sharing payable, September 30, 2017	$ 427,456	$ 269,233	$ 14,184	$ 710,873

(1) Includes (i) changes in amounts payable to employees and former employees entitled to a share of carried interest income in Apollo's funds and (ii) changes to the fair value of the contingent consideration obligations recognized in connection with certain Apollo acquisitions. See notes 5 and 14 for further disclosure regarding the contingent consideration obligations.

(2) The Company has recorded a receivable from the Contributing Partners, certain employees and former employees for the potential return of profit sharing distributions that would be due if certain funds were liquidated in the amount of $43.9 million and $39.3 million as of September 30, 2017 and December 31, 2016, respectively. Profit sharing expense excludes the potential return of these profit sharing distributions. See note 13 for further discussion regarding the potential return of profit sharing distributions.

8. INCOME TAXES

The Company is treated as a partnership for income tax purposes and is therefore not subject to U.S. federal, state and local income taxes. Certain consolidated entities are, or are treated as, corporations for U.S. and non-U.S. tax purposes and therefore subject to U.S. federal, state, and local corporate income tax. Certain other subsidiaries of the Company are subject to New York City Unincorporated Business Tax ("NYC UBT") attributable to the Company's operations apportioned to New York City. In addition, certain non-U.S. subsidiaries of the Company are subject to income taxes in their local jurisdictions.

The Company's income tax provision totaled $16.5 million and $29.7 million for the three months ended September 30, 2017 and 2016, respectively, and $54.9 million and $62.5 million for the nine months ended September 30, 2017 and 2016, respectively. The Company's effective tax rate was approximately 3.7% and 11.2% for the three months ended September 30, 2017 and 2016, respectively, and 5.3% and 9.8% for the nine months ended September 30, 2017 and 2016, respectively.

Under U.S. GAAP, a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. Based upon the Company's review of its federal, state, local and foreign income tax returns and tax filing positions, the Company determined that no unrecognized tax benefits for uncertain tax positions were required to be recorded. In addition, the Company does not believe that it has any tax positions for which it is reasonably possible that it will be required to record significant amounts of unrecognized tax benefits within the next twelve months.

The Company's primary jurisdictions in which it operates are the United States, New York State, New York City, California and the United Kingdom. There are no unremitted earnings with respect to the United Kingdom and other foreign entities

due to the flow-through nature of these entities. In the normal course of business, the Company is subject to examination by federal and certain state, local and foreign tax authorities. With a few exceptions, as of September 30, 2017, the Company's U.S. federal, state, local and foreign income tax returns for the years 2013 through 2016 are open under the general statute of limitations provisions and therefore subject to examination. Currently, the Internal Revenue Service is examining the tax return of certain subsidiaries for the 2011 and 2012 tax years. The State and City of New York are examining certain subsidiaries' tax returns for tax years 2011 to 2013.

The Company has recorded a deferred tax asset for the future amortization of tax basis intangibles as a result of the 2007 Reorganization. The Company recorded additional deferred tax assets as a result of the step-up in tax basis of intangibles from subsequent exchanges of AOG Units for Class A shares. A related tax receivable agreement liability was recorded in due to related parties in the condensed consolidated statements of financial condition for the expected payments under the tax receivable agreement entered into by and among APO Corp., the Managing Partners, the Contributing Partners, and other parties thereto (as amended, the "tax receivable agreement") (see note 13). The increases in the deferred tax asset less the related liability resulted in increases to additional paid in capital which were recorded in the condensed consolidated statements of changes in shareholders' equity for the nine months ended September 30, 2017 and 2016. The amortization period for these tax basis intangibles is 15 years and the deferred tax assets will reverse over the same period.

Pursuant to an exchange agreement between Apollo, Holdings and the other parties thereto (as amended, the "Exchange Agreement"), the holders of the AOG Units (and certain permitted transferees thereof) may, upon notice and subject to the applicable vesting and minimum retained ownership requirements, transfer restrictions and other terms of the Exchange Agreement, exchange their AOG Units for the Company's Class A shares on a one-for-one basis a limited number of times each year, subject to customary conversion rate adjustments for splits, distributions and reclassifications. Pursuant to the Exchange Agreement, a holder of AOG Units must simultaneously exchange one partnership unit in each of the Apollo Operating Group partnerships to effectuate an exchange for one Class A share. As a holder exchanges its AOG Units, the Company's indirect interest in the Apollo Operating Group is correspondingly increased.

The table below presents the impact to the deferred tax asset, tax receivable agreement liability and additional paid in capital related to the exchange of AOG Units for Class A shares during the nine months ended September 30, 2017 and 2016.

Exchange of AOG Units for Class A shares	Increase in Deferred Tax Asset	Increase in Tax Receivable Agreement Liability	Increase to Additional Paid In Capital
For the Nine Months Ended September 30, 2017	$ 46,539	$ 35,946	$ 10,593
For the Nine Months Ended September 30, 2016	$ 1,807	$ 1,519	$ 288

9. DEBT

Debt consisted of the following:

	As of September 30, 2017			As of December 31, 2016		
	Outstanding Balance	Fair Value	Annualized Weighted Average Interest Rate	Outstanding Balance	Fair Value	Annualized Weighted Average Interest Rate
2013 AMH Credit Facilities - Term Facility[(1)]	$ 299,627	$ 298,875 [(3)]	2.28%	$ 299,543	$ 298,500 [(3)]	1.82%
2024 Senior Notes[(1)]	495,697	510,604 [(4)]	4.00	495,208	498,336 [(4)]	4.00
2026 Senior Notes[(1)]	495,550	519,618 [(4)]	4.40	495,165	497,923 [(4)]	4.40
2014 AMI Term Facility I[(2)]	16,199	16,199 [(3)]	2.00	14,449	14,449 [(3)]	2.00
2014 AMI Term Facility II[(2)]	18,283	18,283 [(3)]	1.75	16,306	16,306 [(3)]	1.75
2016 AMI Term Facility I[(2)]	20,050	20,050 [(3)]	1.75	17,852	17,852 [(3)]	1.75
2016 AMI Term Facility II[(2)]	15,638	15,638 [(3)]	2.00	13,924	13,924 [(3)]	2.00
Total Debt	$ 1,361,044	$ 1,399,267		$ 1,352,447	$ 1,357,290	

(1) Includes impact of any amortization of note discount, as applicable. Outstanding balance is presented net of unamortized debt issuance costs, which are presented in the following table:

	As of September 30, 2017		As of December 31, 2016	
2013 AMH Credit Facilities - Term Facility	$	373	$	457
2024 Senior Notes	$	3,637	$	4,051
2026 Senior Notes	$	4,069	$	4,420

(2) Apollo Management International LLP ("AMI"), a subsidiary of the Company, entered into the following five year credit agreements and proceeds from the borrowings were used to fund the Company's investment in European CLOs it manages:

Facility	Date	Loan Amount	
2014 AMI Term Facility I	July 3, 2014	€	13,686
2014 AMI Term Facility II	December 9, 2014	€	15,475
2016 AMI Term Facility I	January 18, 2016	€	16,970
2016 AMI Term Facility II	June 22, 2016	€	13,236

(3) Fair value is based on obtained broker quotes and these notes would be classified as a Level III liability within the fair value hierarchy based on the number and quality of broker quotes obtained, the standard deviations of the observed broker quotes and the percentage deviation from independent pricing services. For instances where broker quotes are not available, a discounted cash flow method is used to obtain a fair value.

(4) Fair value is based on obtained broker quotes and these notes would be classified as a Level II liability within the fair value hierarchy based on the number and quality of broker quotes obtained, the standard deviations of the observed broker quotes and the percentage deviation from independent pricing services.

2013 AMH Credit Facilities-On December 18, 2013, AMH and its subsidiaries and certain other subsidiaries of the Company (collectively, the "Borrowers") entered into new credit facilities (the "2013 AMH Credit Facilities") with JPMorgan Chase Bank, N.A. The 2013 AMH Credit Facilities provide for (i) a term loan facility to AMH (the "Term Facility") that includes $750 million of the term loan from third-party lenders and $271.7 million of the term loan held by a subsidiary of the Company and (ii) a $500 million revolving credit facility (the "Revolver Facility"), in each case, with an original maturity date of January 18, 2019. On March 11, 2016, the maturity date of both the Term Facility and the Revolver Facility was extended by two years to January 18, 2021. The extension was determined to be a modification of the 2013 AMH Credit Facilities in accordance with U.S. GAAP.

Interest on the borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus an applicable margin, and undrawn revolving commitments bear a commitment fee. In connection with the issuance of the 2024 Senior Notes and the 2026 Senior Notes (as defined below), $250 million of the proceeds and $200 million of the proceeds, respectively, were used to repay a portion of the Term Facility outstanding with third party lenders at par. The interest rate on the $300 million Term Facility as of September 30, 2017 was 2.45% and the commitment fee as of September 30, 2017 on the $500 million undrawn Revolver Facility was 0.125%. The $300 million carrying value of debt that is recorded on the condensed consolidated statements of financial condition at September 30, 2017 is the amount for which the Company is obligated to settle the 2013 AMH Credit Facilities.

As of September 30, 2017, the 2013 AMH Credit Facilities were guaranteed by AMH and its subsidiaries, Apollo Management, L.P., Apollo Capital Management, L.P., Apollo International Management, L.P., AAA Holdings, L.P., Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P., Apollo Principal Holdings X, L.P., Apollo Principal Holdings XI, LLC, Apollo Principal Holdings XII, L.P., ST Holdings GP, LLC and ST Management Holdings, LLC. The 2013 AMH Credit Facilities contain affirmative and negative covenants which limit the ability of the Borrowers, the guarantors and certain of their subsidiaries to, among other things, incur indebtedness and create liens. Additionally, the 2013 AMH Credit Facilities contain financial covenants which require the Borrowers and their subsidiaries to maintain (1) at least $40 billion of Fee-Generating Assets Under Management and (2) a maximum total net leverage ratio of not more than 4.00 to 1.00 (subject to customary equity cure rights). The 2013 AMH Credit Facilities also contain customary events of default, including events of default arising from non-payment, material misrepresentations, breaches of covenants, cross default to material indebtedness, bankruptcy and changes in control of the Company.

Borrowings under the Revolver Facility may be used for working capital and general corporate purposes, including, without limitation, permitted acquisitions. In addition, the Borrowers may incur incremental facilities in respect of the Revolver Facility and the Term Facility in an aggregate amount not to exceed $500 million plus additional amounts so long as the Borrowers are in compliance with a net leverage ratio not to exceed 3.75 to 1.00. As of September 30, 2017 and December 31, 2016, the Revolver Facility was undrawn.

2024 Senior Notes-On May 30, 2014, AMH issued $500 million in aggregate principal amount of its 4.000% Senior Notes due 2024 (the "2024 Senior Notes"), at an issue price of 99.722% of par. Interest on the 2024 Senior Notes is payable semi-annually in arrears on May 30 and November 30 of each year. The 2024 Senior Notes will mature on May 30, 2024. The discount will be amortized into interest expense on the condensed consolidated statements of operations over the term of the 2024 Senior Notes. The face amount of $500 million related to the 2024 Senior Notes is the amount for which the Company is obligated to settle the 2024 Senior Notes.

2026 Senior Notes-On May 27, 2016, AMH issued $500 million in aggregate principal amount of its 4.400% Senior Notes due 2026 (the "2026 Senior Notes"), at an issue price of 99.912% of par. Interest on the 2026 Senior Notes is payable semi-annually in arrears on May 27 and November 27 of each year. The 2026 Senior Notes will mature on May 27, 2026. The discount will be amortized into interest expense on the condensed consolidated statements of operations over the term of the 2026 Senior Notes. The face amount of $500 million related to the 2026 Senior Notes is the amount for which the Company is obligated to settle the 2026 Senior Notes.

As of September 30, 2017, the 2026 Senior Notes and the 2024 Senior Notes were guaranteed by Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P., Apollo Principal Holdings X, L.P., Apollo Principal Holdings XI, LLC, Apollo Principal Holdings XII, L.P., AMH Holdings (Cayman), L.P. and any other entity that is required to become a guarantor of the notes under the terms of the indentures governing the 2026 Senior Notes and the 2024 Senior Notes (the "Indentures"). The Indentures include covenants that restrict the ability of AMH and, as applicable, the guarantors to incur indebtedness secured by liens on voting stock or profit participating equity interests of their respective subsidiaries or merge, consolidate or sell, transfer or lease assets. The Indentures also provide for customary events of default.

The following table presents the interest expense incurred related to the Company's debt for the three and nine months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest Expense:(1)				
2013 AMH Term Facility	$ 2,150	$ 1,696	$ 6,109	$ 6,408
2024 Senior Notes	5,163	5,192	15,489	15,572
2026 Senior Notes	5,628	5,630	16,885	7,744
AMI Term Facilities	362	314	1,014	781
Total Interest Expense	$ 13,303	$ 12,832	$ 39,497	$ 30,505

(1) Debt issuance costs incurred in connection with the Term Facility, the 2024 Senior Notes and the 2026 Senior Notes are amortized into interest expense over the term of the debt arrangement.

10. NET INCOME PER CLASS A SHARE

U.S. GAAP requires use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating security as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for distributions declared on all classes of securities to arrive at undistributed earnings. During periods of undistributed losses, the undistributed loss is allocated to a participating security only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity.

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The remaining undistributed earnings are allocated to Class A shares and participating securities to the extent that each security shares in earnings as if all of the earnings for the period had been distributed. Earnings or losses allocated to each class of security are then divided by the applicable number of shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes all outstanding Class A shares and includes the number of additional Class A shares that would have been outstanding if the dilutive Class A shares had been issued. The numerator is adjusted for any changes in income or loss that would result if the dilutive Class A shares were issued.

The table below presents basic and diluted net income per Class A share using the two-class method for the three and nine months ended September 30, 2017 and 2016:

	Basic and Diluted			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net income attributable to Apollo Global Management, LLC Class A Shareholders	$ 198,569	$ 94,619	$ 430,673	$ 235,883
Distributions declared on Class A shares[1]	(100,641)	(68,356)	(279,307)	(165,802)
Distributions on participating securities[2]	(3,265)	(2,404)	(9,419)	(6,293)
Earnings allocable to participating securities	(3,218) [3]	(849)	(5,129)	(2,637)
Undistributed income attributable to Class A shareholders: Basic and Diluted	$ 91,445	$ 23,010	$ 136,818	$ 61,151
Denominator:				
Weighted average number of Class A shares outstanding: Basic and Diluted	192,882,082	184,438,515	190,014,240	183,602,982
Net Income per Class A Share: Basic and Diluted[4]				
Distributed Income	$ 0.52	$ 0.37	$ 1.46	$ 0.90
Undistributed Income	0.48	0.13	0.73	0.34
Net Income per Class A Share: Basic and Diluted	$ 1.00	$ 0.50	$ 2.19	$ 1.24

(1) See note 12 for information regarding the quarterly distributions declared and paid during 2017 and 2016.
(2) Participating securities consist of vested and unvested RSUs that have rights to distributions and unvested restricted shares.
(3) No allocation of undistributed losses was made to the participating securities as the holders do not have a contractual obligation to share in the losses of the Company with Class A shareholders.
(4) For the three and nine months ended September 30, 2017 and 2016, all of the classes of securities were determined to be anti-dilutive.

The Company has granted RSUs that provide the right to receive, subject to vesting, Class A shares of Apollo Global Management, LLC, pursuant to the Company's 2007 Omnibus Equity Incentive Plan (the "2007 Equity Plan"). Certain RSU grants to employees provide the right to receive distribution equivalents on vested RSUs on an equal basis any time a distribution is declared. The Company refers to these RSU grants as "Plan Grants." For certain Plan Grants, distribution equivalents are paid in January of the calendar year next following the calendar year in which a distribution on Class A shares was declared. In addition, certain RSU grants to employees provide that both vested and unvested RSUs participate in distribution equivalents on an equal basis with the Class A shareholders any time a distribution is declared. The Company refers to these as "Bonus Grants."

Any distribution equivalent paid to an employee will not be returned to the Company upon forfeiture of the award by the employee. Vested and unvested RSUs that are entitled to non-forfeitable distribution equivalents qualify as participating securities and are included in the Company's basic and diluted earnings per share computations using the two-class method. The holder of an RSU participating security would have a contractual obligation to share in the losses of the entity if the holder is obligated to fund the losses of the issuing entity or if the contractual principal or mandatory redemption amount of the participating security is reduced as a result of losses incurred by the issuing entity. Because the RSU participating securities do not have a mandatory redemption amount and the holders of the participating securities are not obligated to fund losses, neither the vested RSUs nor the unvested RSUs are subject to any contractual obligation to share in losses of the Company.

Holders of AOG Units are subject to the transfer restrictions set forth in the agreements with the respective holders, and may a limited number of times each year, upon notice (subject to the terms of the Exchange Agreement), exchange their AOG

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Units for Class A shares on a one-for-one basis. An AOG Unit holder must exchange one unit in each of the Apollo Operating Group partnerships to effectuate an exchange for one Class A share.

Apollo Global Management, LLC has one Class B share outstanding, which is held by BRH Holdings GP, Ltd. ("BRH"). The voting power of the Class B share is reduced on a one vote per one AOG Unit basis in the event of an exchange of AOG Units for Class A shares, as discussed above. The Class B share has no net income (loss) per share as it does not participate in Apollo's earnings (losses) or distributions. The Class B share has no distribution or liquidation rights. The Class B share has voting rights on a pari passu basis with the Class A shares. The Class B share represented 54.3% and 60.7% of the total voting power of the Company's shares entitled to vote as of September 30, 2017 and 2016, respectively.

The following table summarizes the anti-dilutive securities for the three and nine months ended September 30, 2017 and 2016, respectively.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Weighted average vested RSUs	210,642	873,973	554,881	1,780,166
Weighted average unvested RSUs	6,196,601	5,867,075	6,334,220	6,054,283
Weighted average unexercised options	210,420	222,920	214,587	222,920
Weighted average AOG Units outstanding	209,522,593	215,869,166	212,224,998	216,034,309
Weighted average unvested restricted shares	400,606	67,101	240,411	85,388

11. EQUITY-BASED COMPENSATION

Equity-based awards granted to employees as compensation are measured based on the grant date fair value of the award. Equity-based awards that do not require future service (i.e., vested awards) are expensed immediately. Equity-based employee awards that require future service are expensed over the relevant service period. Equity-based awards granted to non-employees for services provided to related parties are remeasured to fair value at the end of each reporting period and expensed over the relevant service period.

RSUs

The Company grants RSUs under the 2007 Equity Plan. These grants are accounted for as a grant of equity awards in accordance with U.S. GAAP. The fair value of all grants is based on the grant date fair value, which considers the public share price of the Company's Class A shares subject to certain discounts, as applicable. The following table summarizes the weighted average discounts for Plan Grants and Bonus Grants for the three and nine months ended September 30, 2017 and 2016.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Plan Grants:				
Discount for the lack of distributions until vested(1)	12.9%	8.2%	12.0%	10.1%
Marketability discount for transfer restrictions(2)	4.0%	5.8%	3.5%	5.8%
Bonus Grants:				
Marketability discount for transfer restrictions(2)	2.3%	3.0%	2.3%	3.4%

(1) Based on the present value of a growing annuity calculation.
(2) Based on the Finnerty Model calculation.

The estimated total grant date fair value is charged to compensation expense on a straight-line basis over the vesting period, which for Plan Grants is generally up to six years, with the first installment vesting one year after grant and quarterly vesting thereafter, and for Bonus Grants is generally annual vesting over three years. The fair value of grants made during the nine months ended September 30, 2017 and 2016 was $32.3 million and $2.8 million, respectively.

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In addition, the Company provides for the vesting of RSUs when certain performance metrics have been achieved. In accordance with U.S. GAAP, equity-based compensation expense is recognized only when certain performance metrics are met or deemed probable. Accordingly, for the three and nine months ended September 30, 2017, no equity-based compensation expense was recognized relating to these RSUs.

The following table presents the forfeiture rate and equity-based compensation expense recognized for the three and nine months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Actual forfeiture rate	2.3%	2.7%	9.3%	6.6%
Equity-based compensation	$ 17,106	$ 16,724	$ 50,807	$ 52,564

The following table summarizes RSU activity for the nine months ended September 30, 2017:

	Unvested	Weighted Average Grant Date Fair Value	Vested	Total Number of RSUs Outstanding
Balance at January 1, 2017	9,391,566	$ 15.80	2,752,455	12,144,021 (1)
Granted	1,519,021	21.29	-	1,519,021
Forfeited	(1,016,156)	17.80	-	(1,016,156)
Issued	-	18.29	(3,285,664)	(3,285,664)
Vested	(859,553)	17.29	859,553	-
Balance at September 30, 2017	9,034,878 (2)	$ 16.36	326,344	9,361,222 (1)

(1) Amount excludes RSUs which have vested and have been issued in the form of Class A shares.
(2) RSUs were expected to vest over the weighted average period of 2.1 years.

Restricted Share Awards-Athene Holding

The Company has granted Athene Holding restricted share awards to certain employees of the Company. Separately, Athene Holding has also granted restricted share awards to certain employees of the Company. Both awards are collectively referred to as the “AHL Awards”. Certain of the AHL Awards function similarly to options as they are exchangeable for Class A shares of Athene Holding upon payment of a conversion price and the satisfaction of certain other conditions. The awards granted are either subject to time-based vesting conditions that generally vest over three to five years or vest upon achieving certain metrics, such as attainment of certain rates of return and realized cash received by certain investors in Athene Holding upon sale of their shares.

The Company records the AHL Awards in other assets and other liabilities in the condensed consolidated statements of financial condition. The fair value of the asset is amortized through equity-based compensation over the vesting period. The fair value of the liability is remeasured each period with any changes in fair value recorded in compensation expense in the condensed consolidated statements of operations. For AHL Awards granted by Athene Holding, compensation expense related to amortization of the asset is offset, with certain limited exceptions, by related management fees earned by the Company from Athene.

The grant date fair value of the AHL Awards is based on the share price of Athene Holding, less discounts for transfer restrictions. The AHL Awards that function similarly to options were valued using a multiple-scenario model, which considers the price volatility of the underlying share price of Athene Holding, time to expiration and the risk-free rate, while the other awards were valued using the share price of Athene Holding less any discounts for transfer restrictions.

The following table summarizes the management fees, equity-based compensation expense and actual forfeiture rates for the AHL Awards for the three and nine months ended September 30, 2017 and 2016:

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Management fees	$ 2,393	$ 4,015	$ 4,531	$ 9,179
Equity-based compensation	$ 3,528	$ 4,093	$ 6,983	$ 9,441
Actual forfeiture rate	-%	0.4%	-%	0.8%

Equity-Based Compensation Allocation

Equity-based compensation is allocated based on ownership interests. Therefore, the amortization of equity-based compensation is allocated to shareholders' equity attributable to Apollo Global Management, LLC and the Non-Controlling Interests, which results in a difference in the amounts charged to equity-based compensation expense and the amounts credited to shareholders' equity attributable to Apollo Global Management, LLC in the Company's condensed consolidated financial statements.

Below is a reconciliation of the equity-based compensation allocated to Apollo Global Management, LLC for the nine months ended September 30, 2017 and 2016:

	For the Nine Months Ended September 30, 2017			
	Total Amount	Non-Controlling Interest % in Apollo Operating Group	Allocated to Non-Controlling Interest in Apollo Operating Group[1]	Allocated to Apollo Global Management, LLC
RSUs, share options and restricted share awards	$ 54,901	-%	$ -	$ 54,901
AHL Awards	6,983	51.9	3,624	3,359
Other equity-based compensation awards	8,448	51.9	4,385	4,063
Total equity-based compensation	$ 70,332		8,009	62,323
Less other equity-based compensation awards[2]			(8,009)	(9,881)
Capital increase related to equity-based compensation			$ -	$ 52,442

	For the Nine Months Ended September 30, 2016			
	Total Amount	Non-Controlling Interest % in Apollo Operating Group	Allocated to Non-Controlling Interest in Apollo Operating Group[1]	Allocated to Apollo Global Management, LLC
RSUs, share options and restricted share awards	$ 55,260	-%	$ -	$ 55,260
AHL Awards	9,441	53.9	5,093	4,348
Other equity-based compensation awards	9,502	53.9	5,127	4,375
Total equity-based compensation	$ 74,203		10,220	63,983
Less other equity-based compensation awards[2]			(10,220)	(10,073)
Capital increase related to equity-based compensation			$ -	$ 53,910

(1) Calculated based on average ownership percentage for the period considering Class A share issuances during the period.
(2) Includes equity-based compensation reimbursable by certain funds and distributions related to forfeited RSUs.

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12. EQUITY

Class A Shares

Class A shares represent limited liability company interests in the Company. Holders of Class A shares are entitled to participate in distributions from the Company on a pro rata basis. Class A shareholders do not elect the Company's manager or the manager's executive committee and have only limited voting rights.

Issuance of Class A Shares

During the nine months ended September 30, 2017 and 2016, the Company issued Class A shares in settlement of vested RSUs. The Company has generally allowed holders of vested RSUs and exercised share options to settle their tax liabilities by reducing the number of Class A shares issued to them, which the Company refers to as "net share settlement." Additionally, the Company has generally allowed holders of share options to settle their exercise price by reducing the number of Class A shares issued to them at the time of exercise by an amount sufficient to cover the exercise price. The net share settlement results in a liability for the Company and a corresponding accumulated deficit adjustment.

The table below summarizes the reduction of Class A shares to be issued to employees in connection with net share settlements under the 2007 Equity Plan and issuances of Class A shares in settlement of vested RSUs and share options for the nine months ended September 30, 2017 and 2016:

	For the Nine Months Ended September 30,	
	2017	2016
Reduction of Class A shares issued(1)	1,196,549	2,407,275
Class A shares issued	2,097,249	4,246,760
Gross value of shares(2)	$ 76,803	$ 96,437

(1) Cash paid for tax liabilities associated with net share settlement was $28.0 million and $35.3 million for the nine months ended September 30, 2017 and 2016, respectively.
(2) Based on the closing price of a Class A share at the time of issuance.

Share Repurchase Plan

In February 2016, Apollo adopted a plan to repurchase up to $250 million in the aggregate of its Class A shares, including up to $150 million in the aggregate of its outstanding Class A shares through a share repurchase program and up to $100 million through net share settlement of equity-based awards granted under the 2007 Equity Plan. During the nine months ended September 30, 2017, the Company repurchased and canceled 233,248 Class A shares for $6.9 million. During the nine months ended September 30, 2016, the Company repurchased and canceled 954,447 Class A shares for $12.9 million.

Preferred Share Issuance

On March 7, 2017, Apollo issued 11,000,000 6.375% Series A Preferred shares (the "Preferred shares") for gross proceeds of $275.0 million, or $264.4 million net of issuance costs. When, as and if declared by the manager of Apollo, distributions on the Preferred shares will be payable quarterly on March 15, June 15, September 15 and December 15 of each year, beginning on June 15, 2017, at a rate per annum equal to 6.375%. Distributions on the Preferred shares are discretionary and non-cumulative.

Subject to certain exceptions, unless distributions have been declared and paid or declared and set apart for payment on the Preferred shares for a quarterly distribution period, during the remainder of that distribution period, Apollo may not declare or pay or set apart payment for distributions on any Class A shares and any other equity securities that the Company may issue in the future ranking, as to the payment of distributions, junior to the Preferred shares ("Junior Shares") and Apollo may not repurchase any Junior Shares. These restrictions are not applicable during the initial distribution period, which is the period from March 7, 2017, the original issue date, to but excluding June 15, 2017.

The Preferred shares may be redeemed at Apollo's option, in whole or in part, at any time on or after March 15, 2022 at a price of $25.00 per Preferred share, plus declared and unpaid distributions to, but excluding, the redemption date, without

payment of any undeclared distributions. Holders of Preferred shares will have no right to require the redemption of the Preferred shares and there is no maturity date.

If a certain change of control event or a certain tax redemption event occurs prior to March 15, 2022, the Preferred shares may be redeemed at Apollo's option, in whole but not in part, upon at least 30 days' notice, within 60 days of the occurrence of such change of control event or such tax redemption event, as applicable, at a price of $25.25 per Preferred share, plus declared and unpaid distributions to, but excluding, the redemption date, without payment of any undeclared distributions. If (i) a change of control event occurs (whether before, on or after March 15, 2022) and (ii) Apollo does not give notice prior to the 31st day following the change of control event to redeem all the outstanding Preferred shares, the distribution rate per annum on the Preferred shares will increase by 5.00%, beginning on the 31st day following such change of control event.

The Preferred shares are not convertible into Class A shares and have no voting rights, except in limited circumstances as provided in the Company's limited liability company agreement. In connection with the issuance of the Preferred shares, certain Apollo Operating Group entities issued for the benefit of Apollo a series of preferred units with economic terms that mirror those of the Preferred shares.

On August 2, 2017, Apollo declared a cash distribution of $0.398438 per Series A Preferred share. The distributions on the Series A Preferred shares were $4.4 million and $9.2 million for the three and nine months ended September 30, 2017, respectively.

Distributions

In addition to other distributions such as payments pursuant to the tax receivable agreement, the table below presents information regarding the quarterly distributions which were made at the sole discretion of the manager of the Company during 2017 and 2016 (in millions, except per share data):

Distribution Declaration Date	Distribution per Class A Share	Distribution Payment Date	Distribution to Class A Shareholders	Distribution to Non-Controlling Interest Holders in the Apollo Operating Group	Total Distributions from Apollo Operating Group	Distribution Equivalents on Participating Securities
February 3, 2016	$ 0.28	February 29, 2016	$ 51.4	$ 60.5	$ 111.9	$ 2.1
May 6, 2016	0.25	May 31, 2016	46.0	54.0	100.0	1.8
August 3, 2016	0.37	August 31, 2016	68.4	79.9	148.3	2.4
October 28, 2016	0.35	November 30, 2016	64.9	75.4	140.3	2.1
For the year ended December 31, 2016	$ 1.25		$ 230.7	$ 269.8	$ 500.5	$ 8.4
February 3, 2017	$ 0.45	February 28, 2017	$ 84.2	$ 97.0	$ 181.2	$ 2.9
April 13, 2017[(1)]	-	April 13, 2017	-	20.5	20.5	-
April 28, 2017	0.49	May 31, 2017	94.5	102.9	197.4	3.3
August 2, 2017	0.52	August 31, 2017	100.6	108.8	209.4	3.2
For the nine months ended September 30, 2017	$ 1.46		$ 279.3	$ 329.2	$ 608.5	$ 9.4

(1) On April 13, 2017, the Company made a $0.10 per AOG Unit pro rata distribution to the Non-Controlling Interest holders in the Apollo Operating Group in connection with a payment made under the tax receivable agreement. See note 13 for more information regarding the tax receivable agreement.

Non-Controlling Interests

The table below presents equity interests in Apollo's consolidated, but not wholly-owned, subsidiaries and funds. Net income and comprehensive income attributable to Non-Controlling Interests consisted of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss) attributable to Non-Controlling Interests in consolidated entities:				
Interest in management companies and a co-investment vehicle[1]	$ 1,637	$ 260	$ 3,264	$ 4,804
Other consolidated entities	(589)	(482)	5,703	(913)
Net income (loss) attributable to Non-Controlling Interests in consolidated entities	$ 1,048	$ (222)	$ 8,967	$ 3,891
Net income attributable to Non-Controlling Interests in the Apollo Operating Group:				
Net income	$ 434,363	$ 234,718	$ 982,335	$ 575,960
Net (income) loss attributable to Non-Controlling Interests in consolidated entities	(1,048)	222	(8,967)	(3,891)
Net income after Non-Controlling Interests in consolidated entities	433,315	234,940	973,368	572,069
Adjustments:				
Income tax provision[2]	16,542	29,667	54,926	62,508
NYC UBT and foreign tax benefit[3]	(2,595)	(4,419)	(7,014)	(11,715)
Net income in non-Apollo Operating Group entities	16	66	18	85
Net income attributable to Preferred Shareholders	(4,383)	-	(9,155)	-
Total adjustments	9,580	25,314	38,775	50,878
Net income after adjustments	442,895	260,254	1,012,143	622,947
Weighted average ownership percentage of Apollo Operating Group	52.0%	53.9%	52.7%	54.0%
Net income attributable to Non-Controlling Interests in Apollo Operating Group	$ 230,363	$ 140,321	$ 533,540	$ 336,186
Net Income attributable to Non-Controlling Interests	$ 231,411	$ 140,099	$ 542,507	$ 340,077
Other comprehensive income attributable to Non-Controlling Interests	4,999	545	8,188	1,462
Comprehensive Income Attributable to Non-Controlling Interests	$ 236,410	$ 140,644	$ 550,695	$ 341,539

(1) Reflects the remaining interest held by certain individuals who receive an allocation of income from certain of the credit funds managed by Apollo.
(2) Reflects all taxes recorded in our condensed consolidated statements of operations. Of this amount, U.S. federal, state, and local corporate income taxes attributable to APO Corp. are added back to income of the Apollo Operating Group before calculating Non-Controlling Interests as the income allocable to the Apollo Operating Group is not subject to such taxes.
(3) Reflects NYC UBT and foreign taxes that are attributable to the Apollo Operating Group and its subsidiaries related to its operations in the U.S. as partnerships and in non-U.S. jurisdictions as corporations. As such, these amounts are considered in the income attributable to the Apollo Operating Group.

13. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED ENTITIES

Management fees, transaction and advisory fees and reimbursable expenses from the funds the Company manages and their portfolio companies are included in due from related parties in the condensed consolidated statements of financial condition. The Company also typically facilitates the payment of certain operating costs incurred by the funds that it manages as well as their related parties. These costs are normally reimbursed by such funds and are included in due from related parties.

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Due from related parties and due to related parties are comprised of the following:

	As of September 30, 2017	As of December 31, 2016
Due from Related Parties:		
Due from private equity funds	$ 17,883	$ 19,089
Due from portfolio companies	40,028	34,339
Due from credit funds	136,856	112,516
Due from Contributing Partners, employees and former employees	66,344	72,305
Due from real assets funds	26,241	16,604
Total Due from Related Parties	$ 287,352	$ 254,853
Due to Related Parties:		
Due to Managing Partners and Contributing Partners	$ 524,593	$ 506,542
Due to private equity funds	43,059	56,880
Due to credit funds	75,463	66,859
Due to real assets funds	286	281
Distributions payable to employees	-	7,564
Total Due to Related Parties	$ 643,401	$ 638,126

Tax Receivable Agreement and Other

Subject to certain restrictions, each of the Managing Partners and Contributing Partners has the right to exchange their vested AOG Units for the Company's Class A shares. Certain Apollo Operating Group entities have made an election under Section 754 of the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), which will result in an adjustment to the tax basis of the assets owned by the Apollo Operating Group at the time of the exchange. These exchanges will result in increases in tax deductions that will reduce the amount of tax that APO Corp. will otherwise be required to pay in the future.

The tax receivable agreement provides for the payment to the Managing Partners and Contributing Partners of 85% of the amount of cash savings, if any, in U.S. federal, state, local and foreign income taxes that APO Corp. would realize as a result of the increases in tax basis of assets that resulted from the 2007 Reorganization and exchanges of AOG Units for Class A shares. APO Corp. retains the benefit from the remaining 15% of actual cash tax savings. If the Company does not make the required annual payment on a timely basis as outlined in the tax receivable agreement, interest is accrued on the balance until the payment date. These payments are expected to occur approximately over the next 15 years.

In April 2017, Apollo made a $17.9 million cash payment pursuant to the tax receivable agreement resulting from the realized tax benefit for the 2016 tax year. Additionally, in connection with this payment, the Company made a corresponding pro rata distribution of $20.5 million ($0.10 per AOG Unit) to the Non-Controlling Interest holders in the Apollo Operating Group.

Due from Contributing Partners, Employees and Former Employees

As of September 30, 2017 and December 31, 2016, due from Contributing Partners, Employees and Former Employees includes various amounts due to the Company including employee loans and return of profit sharing distributions. As of September 30, 2017 and December 31, 2016, the balance included interest-bearing employee loans receivable of $15.3 million and $26.1 million, respectively. The outstanding principal amount of the loans as well as all accrued and unpaid interest is required to be repaid at the earlier of the eighth anniversary of the date of the relevant loan or at the date of the relevant employee's resignation from the Company.

The Company recorded a receivable from the Contributing Partners and certain employees and former employees for the potential return of profit sharing distributions that would be due if certain funds were liquidated as of September 30, 2017 and December 31, 2016 of $43.9 million and $39.3 million, respectively.

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Indemnity

Carried interest income from certain funds that the Company manages can be distributed to the Company on a current basis, but is subject to repayment by the subsidiary of the Apollo Operating Group that acts as general partner of the fund in the event that certain specified return thresholds are not ultimately achieved. The Managing Partners, Contributing Partners and certain other investment professionals have personally guaranteed, subject to certain limitations, the obligation of these subsidiaries in respect of this general partner obligation. Such guarantees are several and not joint and are limited to a particular Managing Partner's or Contributing Partner's distributions. Pursuant to an existing shareholders agreement, the Company has agreed to indemnify each of the Company's Managing Partners and certain Contributing Partners against all amounts that they pay pursuant to any of these personal guarantees in favor of certain funds that the Company manages (including costs and expenses related to investigating the basis for or objecting to any claims made in respect of the guarantees) for all interests that the Company's Managing Partners and Contributing Partners have contributed or sold to the Apollo Operating Group.

Accordingly, in the event that the Company's Managing Partners, Contributing Partners and certain investment professionals are required to pay amounts in connection with a general partner obligation for the return of previously made distributions, the Company will be obligated to reimburse the Company's Managing Partners and certain Contributing Partners for the indemnifiable percentage of amounts that they are required to pay even though the Company did not receive the certain distribution to which that general partner obligation related. The Company recorded an indemnification liability of $10.2 million and $5.9 million, respectively, as of September 30, 2017 and December 31, 2016.

Due to Private Equity Funds

Based upon a hypothetical liquidation of certain of the private equity funds the Company manages, as of September 30, 2017 and December 31, 2016, the Company has recorded a general partner obligation to return previously distributed carried interest income, which represents amounts due to these funds. There was a general partner obligation to return previously distributed carried interest income of $42.2 million and $56.0 million accrued as of September 30, 2017 and December 31, 2016, respectively. The actual determination and any required payment of a general partner obligation would not take place until the final disposition of the fund's investments based on contractual termination of the fund or as otherwise set forth in the respective limited partnership agreement or other governing document of the fund.

Due to Credit Funds

Based upon a hypothetical liquidation of certain of the credit funds the Company manages, as of September 30, 2017 and December 31, 2016, the Company has recorded a general partner obligation to return previously distributed carried interest income, which represents amounts due to these funds. As such, there was a general partner obligation to return previously distributed carried interest income of $69.3 million and $60.6 million accrued as of September 30, 2017 and December 31, 2016, respectively. The actual determination and any required payment of a general partner obligation would not take place until the final disposition of the fund's investments based on contractual termination of the fund or as otherwise set forth in the respective limited partnership agreement or other governing document of the fund.

Athene

Athene Holding was founded in 2009 to capitalize on favorable market conditions in the dislocated life insurance sector. Athene Holding, through its subsidiaries, is a leading retirement services company that issues, reinsures and acquires retirement savings products designed for the increasing number of individuals and institutions seeking to fund retirement needs. The products and services offered by Athene include fixed and fixed indexed annuity products; reinsurance services offered to third-party annuity providers; and institutional products, such as funding agreements. Athene Holding became an effective registrant under the Exchange Act on December 9, 2016. Athene Holding currently trades on the New York Stock Exchange (NYSE) under the symbol "ATH".

The Company provides asset management and advisory services to Athene, including asset allocation services, direct asset management services, asset and liability matching management, mergers and acquisitions, asset diligence hedging and other asset management services.

The Company, through its consolidated subsidiary Athene Asset Management, or AAM, earns 0.40% per year on all assets that it manages in accounts owned by Athene in the U.S. and Bermuda or in accounts supporting reinsurance ceded to U.S. and Bermuda subsidiaries of Athene Holding by third-party insurers (the "Athene North American Accounts") up to $65.846 billion

(the level of assets in the Athene North American Accounts as of December 31, 2016) and 0.30% per year on all assets in excess of $65.846 billion, respectively, subject to certain discounts and exceptions.

The Company, through its consolidated subsidiary, AAME, provides investment advisory services to Athene with respect to its German group companies. Such German group companies are currently subsidiaries of AGER, a strategic platform established to acquire or reinsure blocks of insurance business in the German and broader European life insurance market. Apollo receives a gross advisory fee of 0.10% per annum on the assets of Athene's German group companies that it advises, with certain limited exceptions.

The Company, through AAM, provides sub-advisory services with respect to a portion of the assets in the Athene North American Accounts. In addition, Apollo, through AAME, sub-advises certain assets of a German subsidiary of Athene (such assets, together with the assets of Athene's other German group companies collectively, the "Athene European Accounts").

From time to time, Athene also invests in funds and investment vehicles that Apollo manages. The Company refers to such assets which are invested directly as "Athene Assets Directly Invested."

The Company broadly refers to "Athene Sub-Advised" AUM as those assets in the Athene North American Accounts which the Company explicitly sub-advises as well as Athene Assets Directly Invested. The Company broadly refers to "AGER Sub-Advised" AUM as those assets in the Athene European Accounts which the Company explicitly sub-advises as well as those assets in the Athene European Accounts which are invested directly in funds and investment vehicles Apollo manages.

With limited exceptions, the sub-advisory fee arrangements between the Company and Athene and the fee arrangements with respect to Athene Assets Directly Invested are presented in the following table:

	As of September 30, 2017
Athene North American Accounts sub-advised by AAM[1]:	
Assets up to $10.0 billion	0.40%
Assets between $10.0 billion to $12.4 billion	0.35%
Assets between $12.4 billion to $16.0 billion	0.40%
Assets in excess of $16.0 billion	0.35%
Athene European Accounts sub-advised by AAME	0.35%
Athene Assets Directly Invested[2]	0% to 1.75%

(1) The sub-advisory fees with respect to the assets in the Athene North American Accounts are in addition to the fee earned by the Company described above.
(2) With respect to Athene Assets Directly Invested, Apollo earns carried interest of 0% to 20% in addition to the fees presented above. The fees set forth above with respect to the Athene Assets Directly Invested, and the carried interest that Apollo earns on such assets, are in addition to the fees described above, with certain limited exceptions.

Apollo, as general partner of AAA Investments, is generally entitled to a carried interest equal to 20% of the realized returns (net of related expenses, including borrowing costs) on the investments of AAA Investments, except that Apollo is not entitled to receive any carried interest with respect to the shares of Athene Holding that were acquired (and not in satisfaction of prior commitments to buy such shares) by AAA Investments in the contribution of certain assets by AAA to Athene in October 2012. Apollo may elect to receive payment of carried interest receivable from AAA Investments in cash or in common shares of Athene Holding (valued at the fair market value); and if Apollo elects to receive payment of such carried interest in cash, then common shares of Athene Holding shall be distributed to Apollo and immediately sold by Apollo to pay for such carried interest in cash. The following table presents the carried interest income earned from AAA Investments:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Carried interest income from AAA Investments, net[1]	$ 14.5	$ 5.5	$ 27.0	$ 16.5

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(1) Net of related profit sharing expense.

The following table presents the revenues earned in aggregate from Athene and AGER:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Revenues earned in aggregate from Athene and AGER, net[1]	$ 181.0	$ 111.7	$ 434.2	$ 322.6

(1) Consisting of management fees, sub-advisory fees, carried interest income from Athene and AGER (net of related profit sharing expense) and changes in the market value of the Athene Holding shares owned directly by Apollo. These amounts exclude the deferred revenue recognized as management fees associated with the vesting of AHL Awards granted to employees of Apollo as further described in note 11.

The following table presents carried interest receivable and profit sharing payable from AAA Investments:

	As of September 30, 2017	As of December 31, 2016
Carried interest receivable	$ 187,106	$ 229,829
Profit sharing payable	53,689	80,579

The Company's economic ownership interest in Athene Holding is comprised of the following:

	As of September 30, 2017 [1]	As of December 31, 2016 [1]
Indirect interest in Athene Holding:		
Interest in AAA	2.2%	2.2%
Plus: Interest in AAA Investments	0.1%	0.1%
Total Interest in AAA and AAA Investments	2.3%	2.3%
Multiplied by: AAA Investments' interest in Athene Holding	26.2%	39.4%
Indirect interest in Athene Holding	0.5%	0.9%
Plus: Direct interest in Athene Holding	8.3%	8.0%
Total interest in Athene Holding	8.8%	8.9%

(1) Ownership interest percentages are based on approximate share count as of the reporting date.

AAA Investments Credit Agreement

On April 30, 2015, Apollo entered into a revolving credit agreement with AAA Investments ("AAA Investments Credit Agreement"). Under the terms of the AAA Investments Credit Agreement, the Company shall make available to AAA Investments one or more advances at the discretion of AAA Investments in the aggregate amount not to exceed a balance of $10.0 million at an applicable rate of LIBOR plus 1.5%. The Company receives an annual commitment fee of 0.125% on the unused portion of the loan. As of September 30, 2017 and December 31, 2016, $4.0 million had been advanced by the Company and remained outstanding on the AAA Investments Credit Agreement.

Regulated Entities

Apollo Global Securities, LLC ("AGS") is a registered broker dealer with the SEC and is a member of the Financial Industry Regulatory Authority, subject to the minimum net capital requirements of the SEC. AGS was in compliance with these requirements at September 30, 2017. From time to time, this entity is involved in transactions with related parties of Apollo, including portfolio companies of the funds Apollo manages, whereby AGS earns underwriting and transaction fees for its services.

Other Transactions

The Company recognized $6.2 million of other income in the condensed consolidated statement of operations from the assignment of a CLO collateral management agreement to a related party during the three months ended September 30, 2017.

14. COMMITMENTS AND CONTINGENCIES

Investment Commitments-As a limited partner, general partner and manager of the Apollo funds, Apollo had unfunded capital commitments as of September 30, 2017 and December 31, 2016 of $1.5 billion and $0.6 billion, respectively.

Debt Covenants-Apollo's debt obligations contain various customary loan covenants. As of September 30, 2017, the Company was not aware of any instances of non-compliance with the financial covenants contained in the documents governing the Company's debt obligations.

Guarantees-Apollo entered into an agreement to guarantee 20% of a consolidated VIE's outstanding secured borrowings of $90.5 million with a third party lending institution. The amount guaranteed by Apollo as of September 30, 2017 was $18.1 million.

Litigation and Contingencies-Apollo is, from time to time, party to various legal actions arising in the ordinary course of business including claims and lawsuits, reviews, investigations or proceedings by governmental and self-regulatory agencies regarding its business.

Various state attorneys general and federal and state agencies have initiated industry-wide investigations into the use of placement agents in connection with the solicitation of investments, particularly with respect to investments by public pension funds. Certain affiliates of Apollo have received subpoenas and other requests for information from various government regulatory agencies and investors in Apollo's funds, seeking information regarding the use of placement agents. California Public Employees' Retirement System ("CalPERS") announced on October 14, 2009, that it had initiated a special review of placement agents and related issues. The report of the CalPERS' Special Review was issued on March 14, 2011. That report does not allege any wrongdoing on the part of Apollo or its affiliates. Apollo is continuing to cooperate with all such investigations and other reviews. In addition, on May 6, 2010, the California Attorney General filed a civil complaint against Alfred Villalobos and his company, Arvco Capital Research, LLC ("Arvco") (a placement agent that Apollo has used) and Federico Buenrostro Jr., the former CEO of CalPERS, alleging conduct in violation of certain California laws in connection with CalPERS's purchase of securities in various funds managed by Apollo and another asset manager. Apollo is not a party to the civil lawsuit and the lawsuit does not allege any misconduct on the part of Apollo. Likewise, on April 23, 2012, the SEC filed a lawsuit alleging securities fraud on the part of Arvco, as well as Messrs. Buenrostro and Villalobos, in connection with their activities concerning certain CalPERS investments in funds managed by Apollo. This lawsuit also does not allege wrongdoing on the part of Apollo, and alleges that Apollo was defrauded by Arvco, Villalobos, and Buenrostro. On March 14, 2013, the United States Department of Justice unsealed an indictment against Messrs. Villalobos and Buenrostro alleging, among other crimes, fraud in connection with those same activities; again, Apollo is not accused of any wrongdoing and in fact is alleged to have been defrauded by the defendants. The criminal action was set for trial in a San Francisco federal court in July 2014, but was put on hold after Mr. Buenrostro pleaded guilty on July 11, 2014. As part of Mr. Buenrostro's plea agreement, he admitted to taking cash and other bribes from Mr. Villalobos in exchange for several improprieties, including attempting to influence CalPERS' investing decisions and improperly preparing disclosure letters to satisfy Apollo's requirements. There is no suggestion that Apollo was aware that Mr. Buenrostro had signed the letters with a corrupt motive. The government has indicated that they will file new charges against Mr. Villalobos incorporating Mr. Buenrostro's admissions. On August 7, 2014, the government filed a superseding indictment against Mr. Villalobos asserting additional charges. Trial had been scheduled for February 23, 2015, but Mr. Villalobos passed away on January 13, 2015. Additionally, on April 15, 2013, Mr. Villalobos, Arvco and related entities (the "Arvco Debtors") brought a civil action in the United States Bankruptcy Court for the District of Nevada (the "Bankruptcy Court") against Apollo. The action is related to the ongoing bankruptcy proceedings of the Arvco Debtors. This action alleges that Arvco served as a placement agent for Apollo in connection with several funds associated with Apollo, and seeks to recover purported fees the Arvco Debtors claim Apollo has not paid them for a portion of Arvco's placement agent services. In addition, the Arvco Debtors allege that Apollo has interfered with the Arvco Debtors' commercial relationships with third parties, purportedly causing the Arvco Debtors to lose business and to incur fees and expenses in the defense of various investigations and litigations. The Arvco Debtors also seek compensation from Apollo for these alleged lost profits and fees and expenses. The Arvco Debtors' complaint asserts various theories of recovery under the Bankruptcy Code and common law. Apollo denies the merit of all of the Arvco Debtors' claims and will vigorously contest them. The Bankruptcy Court had stayed this action pending the result in the criminal case against Mr. Villalobos but lifted the stay on May 1, 2015; in light of Mr. Villalobos's death, the criminal case was dismissed. On August 25, 2016, Christina Lovato, in her capacity as the

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Chapter 7 Trustee for the Arvco Debtors, filed an amended complaint. On March 20, 2017, the court granted Apollo's motion to dismiss the equitable claims asserted in the amended complaint, leaving just two breach of contract claims remaining. On October 20, 2017, Apollo moved for summary judgment as to the trustee's remaining claims and a counterclaim by Apollo that seeks indemnification for attorneys' fees and expenses. No estimate of possible loss, if any, can be made at this time.

On June 18, 2014, BOKF N.A. (the "First Lien Trustee"), the successor indenture trustee under the indenture governing the First Lien Notes issued by Momentive Performance Materials, Inc. ("Momentive"), commenced a lawsuit in the Supreme Court for the State of New York, New York County against AGM and members of an ad hoc group of Second Lien Noteholders (including, but not limited to, Euro VI (BC) S.a.r.l.). The First Lien Trustee amended its complaint on July 2, 2014 (the "First Lien Intercreditor Action"). In the First Lien Intercreditor Action, the First Lien Trustee seeks, among other things, a declaration that the defendants violated an intercreditor agreement entered into between holders of the First Lien Notes and holders of the second lien notes. On July 16, 2014, the successor indenture trustee under the indenture governing the 1.5 Lien Notes (the "1.5 Lien Trustee," and, together with the First Lien Trustee, the "Indenture Trustees") filed an action in the Supreme Court of the State of New York, New York County that is substantially similar to the First Lien Intercreditor Action (the "1.5 Lien Intercreditor Action," and, together with the First Lien Intercreditor Action, the "Intercreditor Actions"). AGM subsequently removed the Intercreditor Actions to federal district court, and the Intercreditor Actions were automatically referred to the Bankruptcy Court adjudicating the Momentive chapter 11 bankruptcy cases. The Indenture Trustees then filed motions with the Bankruptcy Court to remand the Intercreditor Actions back to the state court (the "Remand Motions"). On September 9, 2014, the Bankruptcy Court denied the Remand Motions. On August 15, 2014, the defendants in the Intercreditor Actions (including AGM) filed a motion to dismiss the 1.5 Lien Intercreditor Action and a motion for judgment on the pleadings in the First Lien Intercreditor Action (the "Dismissal Motions"). On September 30, 2014, the Bankruptcy Court granted the Dismissal Motions. In its order granting the Dismissal Motions, the Bankruptcy Court gave the Indenture Trustees until mid-November 2014 to move to amend some, but not all, of the claims alleged in their respective complaints. On November 14, 2014, the Indenture Trustees moved to amend their respective complaints pursuant to the Bankruptcy Court's order (the "Motions to Amend"). On January 9, 2015, the defendants filed their oppositions to the Motions to Amend. On January 16, 2015, the Bankruptcy Court denied the Motions to Amend (the "Dismissal Order"), but gave the Indenture Trustees until March 2, 2015 to seek to amend their respective complaints. On March 2, 2015, the First Lien Trustee filed a motion seeking to amend its complaint. On April 10, 2015, the defendants, including AGM and Euro VI (BC) S.a.r.l., filed an opposition to the First Lien Trustee's motion to amend. Instead of moving again to amend its complaint, the 1.5 Lien Trustee chose to appeal the Dismissal Order (the "1.5 Lien Appeal"). On March 30, 2015, the 1.5 Lien Trustee filed its Statement of Issues and Designation of Record on Appeal. On March 31, 2015, because the legal issues presented in the 1.5 Lien Appeal are substantially similar to those presented in the First Lien Intercreditor Action, the parties in the 1.5 Lien Appeal submitted a joint stipulation and proposed order to the District Court staying the briefing schedule on the 1.5 Lien Appeal pending the outcome of the First Lien Trustee's most recent motion to amend. On April 13, 2015, the Defendants filed their Counter-Designation of the Record on Appeal in the 1.5 Lien Appeal. On May 8, 2015, the Bankruptcy Court denied the motion to amend filed on March 2, 2015 by the First Lien Trustee. On May 27, 2015, the First Lien Trustee filed a notice of appeal from the orders of the Bankruptcy Court dismissing the First Lien Intercreditor Action and denying the First Lien Trustee's motions to amend (the "First Lien Appeal"). On June 2, 2015, the First Lien Trustee filed its Statement of Issues and Designation of Record on Appeal. On June 24, 2015, the defendants filed their Counter-Designation of the Record on Appeal in the First Lien Appeal. On July 31, 2015, the 1.5 Lien Trustee sent a letter to the federal district court hearing the 1.5 Lien Appeal asking the court to consolidate the 1.5 Lien Appeal with the First Lien Appeal which had been assigned to a different judge (the "Consolidation Request"). On April 8, 2016, the court granted the Consolidation Request. On May 20, 2016, the Indenture Trustees filed their opening appellate brief. The Appellees filed their response brief on July 14, 2016, and the Indenture Trustees filed their reply brief on August 5, 2016. On October 2, 2017, the court stayed the Intercreditor Actions pending a decision by the U.S. Court of Appeals for the Second Circuit in an appeal concerning the Momentive chapter 11 bankruptcy cases. On October 20, 2017, the Second Circuit issued its ruling in the appeal concerning the Momentive chapter 11 bankruptcy cases, but no further proceedings have been held in the Intercreditor Actions. Apollo is unable at this time to assess a potential risk of loss. In addition, Apollo does not believe that AGM is a proper defendant in these actions.

As at September 30, 2017, there still were several pending actions concerning transactions related to Caesars Entertainment Corporation ("Caesars Entertainment"), Caesars Entertainment Operating Company, Inc. ("CEOC") and certain of their respective subsidiaries. However, on October 6, 2017 all of the conditions precedent to the effectiveness of the Plan (as defined below in A.) were fulfilled and the Plan became effective. As a result, the cases referred to below in B., C., D., F., G. and H. have been dismissed with prejudice (the case referred to below in E. had previously been dismissed) and the release of claims running in favor of the Apollo Released Parties (as defined below in A.) have become effective. The descriptions of the cases set forth below are as at September 30, 2017 and are subject to this post-September 30, 2017 update.

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A. In re: Caesars Entertainment Operating Company, Inc. bankruptcy proceedings, No. 15-01145 (N.D. Ill. Bankr.) (the "Illinois Bankruptcy Action"). On January 17, 2017, an order was entered in the Illinois Bankruptcy Action confirming a plan of reorganization for CEOC and its debtor subsidiaries (the "Plan") which, inter alia, grants broad releases to Apollo and others. The Plan is likely to become effective in the third quarter of 2017 after the conditions to its effectiveness have been satisfied. On the effective date of the Plan (the "Plan Effective Date"), the Apollo Released Parties (as defined below) will be released from the claims in the WSFS Action, the UMB Action, the Trilogy Action, the Danner Action, the BOKF Action, the UMB SDNY Action, the Wilmington Trust Action and the CEOC Action (each as defined below).

- Background: On January 12, 2015, three holders of CEOC second lien notes filed an involuntary bankruptcy petition against CEOC in the United States Bankruptcy Court for the District of Delaware (the "Delaware Bankruptcy Action"). On January 15, 2015, CEOC and certain of its affiliates (collectively the "Debtors") filed the Illinois Bankruptcy Action under Chapter 11 in the Northern District of Illinois. On February 2, 2015, the court in the Delaware Bankruptcy Action ordered that all bankruptcy proceedings relating to the Debtors should take place in the Illinois Bankruptcy Action. The Illinois Bankruptcy Court held an evidentiary hearing to determine whether the Debtors' petition date was January 12, 2015 or January 15, 2015; this motion has not yet been ruled on by the Illinois Bankruptcy Court, and pursuant to the Plan this motion will be dismissed as moot. Certain of the Debtors' creditors indicated in filings with the Illinois Bankruptcy Court that an investigation into certain acts and transactions that predated the Debtors' bankruptcy filing could lead to claims against a number of parties, including AGM and certain of its affiliates. No such claims were brought by the Debtors' prepetition creditors against Apollo in the Illinois Bankruptcy Action. On May 13, 2016, the Official Committee of Second Priority Noteholders (the "Second Lien Noteholders Committee") filed a motion seeking an Order granting it standing to commence, prosecute and settle claims on behalf of the Debtors' estates (the "Standing Motion"). The proposed complaint filed with the Standing Motion names Apollo and many others as defendants (see also "H" below). On or about September 27, 2016, Caesars Entertainment and the Debtors announced that they had received confirmations from representatives of the Debtors' major creditor groups of those groups' support for a term sheet that describes the key economic terms of a proposed consensual chapter 11 plan for the Debtors. On October 4, 2016, the Debtors filed the Third Amended Joint Plan of Reorganization which subsequently was amended and became the Plan. As part of the Plan, and in connection with the merger between Caesars Entertainment and Caesars Acquisition Company ("CAC"), funds managed by Apollo will not retain any of their equity interests in the merged Caesars Entertainment on account of their pre-merger Caesars Entertainment shares. Such equity interests would, instead, be for the benefit of CEOC's creditors. Funds managed by Apollo will, however, retain their equity interests in the merged Caesars Entertainment on account of their CAC shares. The voting deadline on the Plan was November 21, 2016, and approximately 90% in dollar amount of the Debtors' creditors voted in favor of the Plan. On October 17, 2016, the Bankruptcy Court granted the Debtors' requested injunction of the WSFS, Trilogy, Danner, UMB, Wilmington Trust and BOKF Actions (defined below "B", "C", "D", "F" and "G") (the "105 Injunction") through the first omnibus hearing after Plan confirmation, and by order dated January 26, 2017 the 105 Injunction was extended to, inter alia, the Plan Effective Date. At the confirmation hearing, no creditor presented any objection to the Plan. As noted above, the Plan was confirmed by the Illinois Bankruptcy Court and will become effective after the conditions to its effectiveness have been satisfied. The Plan provides several parties, including, AGM and certain of its affiliates (collectively referred to as the "Apollo Released Parties") with a release of claims that the Debtors and the Debtors' creditors have or may have against any or all of the Apollo Released Parties, including those described below in the WSFS Action, the Trilogy Action, the Danner Action, the UMB Action, the BOKF Action, the Wilmington Trust Action and the CEOC Action.

B. Wilmington Savings Fund Society, FSB v. Caesars Entertainment Corp. et al., No. 10004-CVG (Del. Ch.) (the "WSFS Action"). On August 4, 2014, Wilmington Savings Fund Society, FSB ("WSFS"), as trustee for certain CEOC second-lien notes, sued Caesars Entertainment, CEOC, other Caesars Entertainment-affiliated entities, and certain of Caesars Entertainment's directors, including Marc Rowan, Eric Press, David Sambur (each an Apollo Partner) and Jeffrey Benjamin (a consultant to Apollo), in Delaware's Court of Chancery (the "Delaware Court"). WSFS (i) asserts claims (against some or all of the defendants) for fraudulent conveyance, breach of fiduciary duty, breach of contract, corporate waste, and aiding and abetting related to certain transactions among CEOC and certain of its subsidiaries and Caesars Entertainment and certain of its affiliates, and (ii) requests (among other things) that the Delaware Court unwind the challenged transactions and award damages. WSFS served a subpoena for documents on Apollo on September 11, 2014, but Apollo's response was stayed during the pendency of motions to dismiss under a September 23, 2014 stipulated order. On March 18, 2015, the Delaware Court denied Defendants' motion to dismiss. Apollo served responses and objections to WSFS'

subpoena on March 25, 2015. Caesars Entertainment answered the complaint on April 1, 2015. During the pendency of CEOC's bankruptcy proceedings, the WSFS Action has been automatically stayed with respect to CEOC. WSFS additionally advised the Illinois Bankruptcy Court that, during CEOC's bankruptcy proceedings, WSFS would only pursue claims in the WSFS Action relating to whether Caesars Entertainment remains liable on a guarantee of certain of CEOC's second priority notes. On July 17, 2015, WSFS served supplemental subpoenas to several entities affiliated with AGM, and AGM and these entities have substantially completed their production of non-privileged documents responsive to those subpoenas. On March 11, 2016, WSFS filed a motion for partial summary judgment (the "Summary Judgment Motion") on its breach of contract claim against Caesars Entertainment. On April 25, 2016, Caesars Entertainment filed a joint Cross-Motion for Partial Summary Judgment and answering brief in opposition to WSFS' Summary Judgment Motion (the "Cross-Motion"). WSFS filed its joint reply and opposition to Caesars Entertainment's Cross-Motion on May 25, 2016, and Caesars Entertainment filed a reply to WSFS' opposition on June 9, 2016. On June 15, 2016, the Illinois Bankruptcy Court issued a temporary restraining order and preliminary injunction pursuant to Section 105(a) of the Bankruptcy Code enjoining the plaintiffs in the WSFS Action from prosecuting actions against Caesars Entertainment until August 29, 2016. On October 17, 2016, the Illinois Bankruptcy Court granted the 105 Injunction staying the WSFS Action initially through the first omnibus hearing after Plan confirmation, and now through, inter alia, the Plan Effective Date. Pursuant to the Plan, the Apollo Released Parties will be released from all claims relating to the WSFS Action. As aforementioned, the Plan was confirmed by an order dated January 17, 2017.

C. Trilogy Portfolio Company, L.L.C., et al. v. Caesars Entertainment Corp., et al., No. 14-cv-7091 (S.D.N.Y.) (the "Trilogy Action"). On September 3, 2014, institutional investors allegedly holding approximately $137 million in CEOC unsecured senior notes sued CEOC and Caesars Entertainment in federal court in New York (the "New York Court") for breach of contract and the implied covenant of good faith, Trust Indenture Act ("TIA") violations, and a declaratory judgment challenging the August 2014 private financing transaction in which a portion of outstanding senior unsecured notes were purchased by Caesars Entertainment, and a majority of the noteholders agreed to amend the indenture to terminate Caesars Entertainment's guarantee of the notes and modify certain restrictions on CEOC's ability to sell assets. Caesars Entertainment and CEOC filed a motion to dismiss on November 12, 2014. On January 15, 2015, the New York Court granted the motion with respect to a TIA claim by Trilogy but otherwise denied the motion. On January 30, 2015, plaintiffs filed an amended complaint seeking relief against Caesars Entertainment only, and Caesars Entertainment answered on February 12, 2015. On October 2, 2014, a related putative class action complaint was filed on behalf of the holders of these notes captioned Danner v. Caesars Entertainment Corp., et al., No. 14-cv-7973 (S.D.N.Y.) (the "Danner Action"), against Caesars Entertainment alleging claims similar to those in the Trilogy Action. On February 19, 2015, plaintiffs filed an amended complaint, and Caesars Entertainment answered the amended complaint on February 25, 2015. In March 2015, each of Trilogy and Danner served subpoenas for documents on Apollo. Apollo produced responsive, non-privileged documents in response to those subpoenas. In July 2015, Trilogy and Danner served subpoenas for depositions on Apollo and those depositions were completed on September 22, 2015. On October 23, 2015, Trilogy and Danner filed motions for partial summary judgment, related to TIA and breach of contract claims. On December 29, 2015, the New York Court denied the motions for partial summary judgment. On March 23, 2016, the judge presiding over the Trilogy and Danner Actions announced that she was retiring from the bench effective April 28, 2016. A new judge was assigned to preside over the Trilogy and Danner Actions (in addition to the BOKF, UMB SDNY and Wilmington Trust Actions, defined below). On April 6, 2016, the parties agreed to a renewed summary judgment schedule for the Trilogy, Danner, BOKF, UMB SDNY (as defined below) and Wilmington Trust Actions. The moving parties submitted their briefs to the New York Court on May 10, 2016. Opposition briefs were filed on May 31, 2016. Reply briefs were filed on June 14, 2016. On June 15, 2016, the Illinois Bankruptcy Court issued a temporary restraining order and preliminary injunction pursuant to Section 105(a) of the Bankruptcy Code, enjoining the plaintiffs in the Trilogy and Danner Actions from prosecuting actions against Caesars Entertainment until August 29, 2016. On October 17, 2016, the Illinois Bankruptcy Court granted the 105 Injunction, staying the Trilogy and Danner Actions initially through the first omnibus hearing after Plan confirmation and now by order dated January 26, 2017 through, inter alia, the Plan Effective Date. Pursuant to the Plan, the Apollo Released Parties will be released from all claims relating to the Trilogy and Danner Actions. As aforementioned, the Plan was confirmed by an order dated January 17, 2017.

D. UMB Bank v. Caesars Entertainment Corporation, et al., No. 10393 (Del. Ch.) (the "UMB Action"). On November 25, 2014, UMB Bank, as trustee for certain CEOC notes, sued Caesars Entertainment, CEOC, other Caesars Entertainment-affiliated entities and certain of Caesars Entertainment's directors, including Marc Rowan, Eric Press, David Sambur (each an Apollo Partner) and Jeffrey Benjamin (an Apollo consultant), in the Delaware Court. The UMB Action alleges claims for actual and constructive fraudulent conveyance and transfer, insider preferences, illegal dividends, breach of contract, intentional interference with contractual relations, breach of fiduciary duty, aiding and abetting breach of fiduciary

duty, usurpation of corporate opportunities, and unjust enrichment. The UMB Action seeks appointment of a receiver for CEOC, a constructive trust and other relief. The UMB Action has been assigned to the same judge overseeing the WSFS Action. The UMB Action has effectively been stayed since April 7, 2016, and on October 17, 2016, the Illinois Bankruptcy Court granted the 105 Injunction staying the UMB Action initially through the first omnibus hearing after Plan confirmation and now by order dated January 26, 2017 through, inter alia, the Plan Effective Date. Pursuant to the Plan, the Apollo Released Parties will be released from all claims relating to the UMB Action. As aforementioned, the Plan was confirmed by an order dated January 17, 2017.

E. Koskie v. Caesars Acquisition Company, et al., No. A-14-711712-C (Clark Cnty Nev. Dist. Ct.) (the “Koskie Action”). On December 30, 2014, Nicholas Koskie brought a shareholder class action on behalf of shareholders of Caesars Acquisition Company (“CAC”) against CAC, Caesars Entertainment, and members of CAC’s Board of Directors, including Marc Rowan and David Sambur (each an Apollo partner). The lawsuit challenges CAC’s and Caesars Entertainment’s plan to merge, alleging that the proposed transaction will not give CAC shareholders fair value. Koskie asserts claims for breach of fiduciary duty relating to the director defendants’ interrelationships with the entities involved the proposed transaction. The case has been dismissed for failure to prosecute, and the time granted to the plaintiff to refile has passed without there being any refiling.

F. BOKF, N.A. v. Caesars Entertainment Corporation, No. 15-156 (S.D.N.Y) (the “BOKF Action”). On March 3, 2015, BOKF, N.A., as trustee for certain CEOC notes, sued Caesars Entertainment in the New York Court. The lawsuit alleges claims for breach of contract, intentional interference with contractual relations and a declaratory judgment, and seeks to enforce Caesars Entertainment’s guarantee of certain CEOC notes. The BOKF Action has been assigned to the same judge in the New York Court as the Trilogy and Danner Actions. On March 25, 2015, Caesars Entertainment filed an answer to the complaint. On May 19, 2015, BOKF sent the New York Court a letter requesting permission to file a partial summary judgment motion on Counts II and V of its complaint, related to the validity and enforceability of Caesars Entertainment’s guarantee of certain notes issued by CEOC and alleged violations of the Trust Indenture Act, 15 U.S.C. §§ 76aaa, et seq. The Trilogy and Danner plaintiffs did not join BOKF’s request to file for partial summary judgment. On May 28, 2015, the New York Court granted BOKF permission to move for partial summary judgment. On June 15, 2015, another related complaint captioned UMB Bank, N.A. v. Caesars Entertainment Corp., et al., No. 15-cv-4634 (S.D.N.Y.) (the “UMB SDNY Action”) was filed by UMB Bank, N.A., solely in its capacity as Indenture Trustee of certain first lien notes (“UMB”), against Caesars Entertainment alleging claims similar to those alleged in the BOKF, Trilogy and Danner Actions. On June 16, 2015, UMB sent a letter to the New York Court requesting permission to file a partial summary judgment motion on the same schedule with BOKF. On June 26, 2015, BOKF and UMB filed partial summary judgment motions (the “Partial Summary Judgment Motions”). On July 24, 2015, Caesars Entertainment filed its opposition to the Partial Summary Judgment Motions, and on August 7, 2015, BOKF and UMB filed reply briefs in further support of the Partial Summary Judgment Motions. On August 27, 2015, the New York Court denied the Partial Summary Judgment Motions and certified its opinion for an interlocutory appeal to the United States Court of Appeals for the Second Circuit. On December 22, 2015, the Second Circuit declined to hear the interlocutory appeal. Separately, on November 20, 2015, BOKF and UMB filed a second set of motions for partial summary judgment, on the issue of the disputed contract interpretation related to indenture release provisions. On January 5, 2016 the New York Court denied these motions. At a hearing on February 22, 2016, the New York Court bifurcated the trial in the BOKF and UMB SDNY Actions and scheduled the trial on the breach of contract and TIA claims to begin on March 14, 2016. The New York Court ordered a separate trial on the claims for breach of the covenant of good faith and fair dealing and tortious interference with contract to begin at a later date to be determined. On February 26, 2016, the Illinois Bankruptcy Court granted the stay request as to the BOKF Action until May 9, 2016, resulting in a stay of the trial on the breach of contract and TIA claims in the BOKF and UMB SDNY Actions. On February 24, 2016, Caesars Entertainment filed a motion for partial summary judgment to dispose of the claims for (1) breach of the implied covenant of good faith and fair dealing brought by BOKF and UMB, and (2) intentional interference with contractual relations brought by BOKF. The moving parties submitted their briefs on May 10, 2016. Opposition briefs were filed on May 31, 2016. Reply briefs were filed on June 14, 2016. On June 15, 2016, the Illinois Bankruptcy Court issued a temporary restraining order and preliminary injunction pursuant to Section 105(a) of the Bankruptcy Code, enjoining the plaintiffs in the BOKF Action from prosecuting actions against Caesars Entertainment until August 29, 2016. On October 17, 2016, after several motions and appeals relating to extending the stay past August 29, 2016, the Illinois Bankruptcy Court granted the 105 Injunction staying the BOKF Action initially through the first omnibus hearing after Plan confirmation and now by order dated January 26, 2017 through, inter alia, the Plan Effective Date. Pursuant to the Plan, the Apollo Released Parties will be released from all claims relating to the BOKF Action. As aforementioned, the Plan was confirmed by an order dated January 17, 2017.

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G. Wilmington Trust, National Association v. Caesars Entertainment Corporation, No. 15-cv-08280 (S.D.N.Y.) (the "Wilmington Trust Action"). On October 20, 2015, Wilmington Trust, N.A., solely in its capacity as Indenture Trustee for the 10.75% Notes due 2016 ("Wilmington Trust"), sued Caesars Entertainment in the New York Court alleging claims similar to those alleged in the BOKF, UMB, Trilogy, and Danner Actions. The parties cross-moved for partial summary judgment on the same schedule as the Trilogy Action. Caesars Entertainment argued that its actions did not violate the TIA and that its guarantee of the 10.75% Notes was automatically released under a certain clause contained in the indenture governing the 10.75% Notes. Wilmington Trust argued that Caesars Entertainment's actions constituted an improper out-of-court reorganization under the TIA and that Caesars Entertainment's guarantee was not released because the necessary conditions precedent did not occur. Although the temporary restraining order and preliminary injunction issued by the Illinois Bankruptcy Court did not apply to the Wilmington Trust Action, on July 6, 2016, Wilmington Trust and Caesars Entertainment filed a stipulation staying the Wilmington Trust Action until August 29, 2016. The New York Court scheduled oral argument for August 30, 2016. A motion was made by CEOC and the other Debtors to the Illinois Bankruptcy Court to extend the stay beyond August 29, 2016, which motion was denied. On October 17, 2016, the Illinois Bankruptcy Court granted the 105 Injunction staying the Wilmington Trust Action initially through the first omnibus hearing after Plan confirmation and now by order dated January 26, 2017 through, inter alia, the Plan Effective Date. Pursuant to the Plan, the Apollo Released Parties will be released from all claims relating to the Wilmington Trust Action. As aforementioned, the Plan was confirmed by an order dated January 17, 2017.

H. CEOC v. Caesars Entertainment et al., Illinois Bankruptcy Court (the "CEOC Action"). On or about August 9, 2016, CEOC and certain of the other Debtors commenced a "placeholder" lawsuit against Caesars Entertainment, AGM, Caesars Entertainment directors (including Messrs. Rowan, Sambur, Press and Benjamin) and certain of its officers, and many others to, inter alia, prevent the statute of limitations from running respecting any claim owned by a Debtor's estate. This lawsuit basically asserts the claims identified in the Examiner's Report and has been stayed by an order of the Bankruptcy Court. Pursuant to the Plan, the Apollo Released Parties will be released from all claims relating to the CEOC Action. As aforementioned, the Plan was confirmed by an order dated January 17, 2017.

Apollo believes that the claims in the WSFS Action, the UMB Action, the Trilogy Action, the Danner Action, the Koskie Action, the BOKF Action, the UMB SDNY Action, the Wilmington Trust Action and the CEOC Action are without merit. For this reason, and because the confirmed Plan has not become effective yet, no reasonable estimate of possible loss, if any, can be made at this time.

The Bankruptcy Court administering the CEOC bankruptcy proceedings appointed an examiner (the "Examiner") to report on certain transactions engaged in by CEOC and certain of its subsidiaries. The Examiner issued his report on March 16, 2016. The Examiner's report states that potential claims may exist against "Apollo" and persons affiliated with it relating to certain transactions that occurred in the years preceding CEOC's bankruptcy filing, principally relating to Bankruptcy Code fraudulent conveyance claims as well as aiding and abetting claims. Apollo and persons affiliated with it deny any wrongdoing and deny any liability in connection with such transactions, and if any new claim is asserted against any of them, such claim will be vigorously contested.

Following the January 16, 2014 announcement that CEC Entertainment, Inc. ("CEC") had entered into a merger agreement with certain entities affiliated with Apollo (the "Merger Agreement"), four putative shareholder class actions were filed in the District Court of Shawnee County, Kansas on behalf of purported stockholders of CEC against, among others, CEC, its directors and Apollo and certain of its affiliates, which include Queso Holdings Inc., Q Merger Sub Inc., Apollo Management VIII, L.P., and AP VIII Queso Holdings, L.P. The first purported class action, which is captioned Hilary Coyne v. Richard M. Frank et al., Case No. 14C57, was filed on January 21, 2014 (the "Coyne Action"). The second purported class action, which was captioned John Solak v. CEC Entertainment, Inc. et al., Civil Action No. 14C55, was filed on January 22, 2014 (the "Solak Action"). The Solak Action was dismissed for lack of prosecution on October 14, 2014. The third purported class action, which is captioned Irene Dixon v. CEC Entertainment, Inc. et al., Case No. 14C81, was filed on January 24, 2014 and additionally names as defendants Apollo Management VIII, L.P. and AP VIII Queso Holdings, L.P. (the "Dixon Action"). The fourth purported class action, which is captioned Louisiana Municipal Public Employees' Retirement System v. Frank, et al., Case No. 14C97, was filed on January 31, 2014 (the "LMPERS Action") (together with the Coyne and Dixon Actions, the "Shareholder Actions"). A fifth purported class action, which was captioned McCullough v. Frank, et al., Case No. CC-14-00622-B, was filed in the County Court of Dallas County, Texas on February 7, 2014. This action was dismissed for want of prosecution on May 21, 2014. Each of the Shareholder Actions alleges, among other things, that CEC's directors breached their fiduciary duties to CEC's stockholders in connection with their consideration and approval of the Merger Agreement, including by agreeing to an inadequate price, agreeing to impermissible deal protection devices, and filing materially deficient disclosures regarding the transaction. Each of the Shareholder Actions

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further alleges that Apollo and certain of its affiliates aided and abetted those alleged breaches. As filed, the Shareholder Actions seek, among other things, rescission of the various transactions associated with the merger, damages and attorneys' and experts' fees and costs. On February 7, 2014 and February 11, 2014, the plaintiffs in the Shareholder Actions pursued a consolidated action for damages after the transaction closed. Thereafter, the Shareholder Actions were consolidated under the caption In re CEC Entertainment, Inc. Stockholder Litigation, Case No. 14C57, and the parties engaged in limited discovery. On July 21, 2015, a consolidated class action complaint was brought by Twin City Pipe Trades Pension Trust in the Shareholder Actions that did not name as defendants Apollo, Queso Holdings Inc., Q Merger Sub Inc., Apollo Management VIII, L.P., or AP VIII Queso Holdings, L.P., continued to assert claims against CEC and its former directors, and added The Goldman Sachs Group Inc. ("Goldman Sachs") as a defendant. The consolidated complaint alleges, among other things, that CEC's former directors breached their fiduciary duties to CEC's stockholders by conducting a deficient sales process, agreeing to impermissible deal protection devices, and filing materially deficient disclosures regarding the transaction. It further alleges that two members of the board who also served as the senior managers of CEC had material conflicts of interest and that Goldman Sachs aided and abetted the board's breaches as a result of various conflicts of interest facing the bank. The consolidated complaint seeks, among other things, to recover damages, attorneys' fees and costs. On October 22, 2015, the parties to the consolidated action moved to dismiss the complaint. On March 1, 2017, the special master appointed by the Kansas court to oversee pre-trial proceedings recommended that the Kansas court grant defendants' motions to dismiss the complaint. On March 30, 2017, plaintiff moved for leave to amend the consolidated complaint. The proposed amended consolidated complaint does not name as defendants CEC or its former directors, and purports to substitute Goldman, Sachs & Co. in place of the Goldman Sachs Group Inc. on the claim for aiding and abetting breach of fiduciary duty. On June 1, 2017, the Court granted the parties' joint motion to dismiss all claims against CEC and the former directors, and dismissed the former CEC directors from the action. Although Apollo cannot predict the ultimate outcome of the consolidated action, and therefore no reasonable estimate of possible loss, if any, can be made at this time, Apollo believes that such action is without merit.

After the announcement of the execution of the Agreement and Plan of Merger among Apollo Commercial Real Estate Finance, Inc., Apollo Residential Mortgage, Inc. and Arrow Merger Sub, Inc. ("Merger Sub"), two putative class action lawsuits challenging the proposed merger, captioned Aivasian v. Apollo Residential Mortgage, Inc., et al., No. 24-C-16-001532, and Wiener v. Apollo Residential Mortgage, Inc., et al., No. 24-C-16-001837, were filed in the Circuit Court for Baltimore City. A putative class and derivative lawsuit was later filed in the same Court, captioned Crago v. Apollo Residential Mortgage, Inc., et al., No. 24-C-16-002610. Following a hearing on May 6, 2016, the Court entered orders among other things, consolidating the three actions under the caption In Re Apollo Residential Mortgage, Inc. Shareholder Litigation, Case No.: 24-C-16-002610. The plaintiffs have designated the Crago complaint as the operative complaint. The operative complaint includes both direct and derivative claims, names as defendants AGM, AMTG, the board of directors of AMTG (the "AMTG Board"), ARI, Merger Sub and Athene Holding and alleges, among other things, that the members of the AMTG Board breached their fiduciary duties to AMTG's stockholders and that the other defendants aided and abetted such fiduciary breaches. The operative complaint further alleges, among other things, that the proposed merger involves inadequate consideration, was the result of an inadequate and conflicted sales process, and includes unreasonable deal protection devices that purportedly preclude competing offers. It also alleges that the transactions with Athene Holding are unfair and that the registration statement on Form S-4 filed with the SEC on April 6, 2016 contains materially misleading disclosures and omits certain material information. The operative complaint seeks, among other things, certification of the proposed class, declaratory relief, preliminary and permanent injunctive relief, including enjoining or rescinding the merger, unspecified damages, and an award of other unspecified attorneys' and other fees and costs. On May 6, 2016, counsel for the plaintiffs filed with the Court a stipulation seeking the appointment of interim co-lead counsel, which stipulation was approved by the Court on June 9, 2016. Defendants' motions to dismiss were fully briefed on October 31, 2016, and oral argument was held on December 8, 2016. On August 14, 2017, the Court granted the defendants' motions and issued an opinion dismissing the operative complaint in its entirety with prejudice. The time to appeal the order dismissing the lawsuit has expired, and no appeals have been filed.

On March 4, 2016, the Public Employees Retirement System of Mississippi filed a putative securities class action against Sprouts Farmers Market, Inc. ("SFM"), several SFM directors (including Andrew Jhawar, an Apollo partner), AP Sprouts Holdings, LLC and AP Sprouts Holdings (Overseas), L.P. (the "AP Entities"), which are controlled by entities managed by Apollo affiliates, and two underwriters of a March 2015 secondary offering of SFM common stock. The AP Entities sold SFM common stock in the March 2015 secondary offering. The complaint, filed in Arizona Superior Court and captioned Public Employees Retirement System of Mississippi v. Sprouts Farmers Market, Inc. (CV2016-050480), alleges that SFM filed a materially misleading registration statement for the secondary offering that incorporated alleged misrepresentations in SFM's 2014 annual report regarding SFM's business prospects, and failed to disclose alleged accelerating produce deflation. The two causes of action against the AP Entities are for alleged violations of Sections 11 and 15 of the Securities Act of 1933. Plaintiff seeks, among other things, compensatory damages for alleged losses sustained from a decline in SFM's stock price. Defendants removed the case to United

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States District Court for the District of Arizona, but the court granted plaintiff's motion to remand the case to state court, which the defendants have appealed. Meanwhile, defendants moved to dismiss the action in state court, but the court denied that motion and the case is proceeding to discovery. Because this action is in its early stages, no reasonable estimate of possible loss, if any, can be made at this time.

Between February 25 and March 23, 2016, plaintiffs filed five putative class actions in the Superior Court of Maricopa County, Arizona, on behalf of purported stockholders of Apollo Education Group, Inc. ("AEG") asserting claims for breaches of fiduciary duties and aiding and abetting the alleged breaches in connection with a proposed acquisition of AEG. The defendants include, among others, AEG, members of AEG's board of directors, AGM, Fund VIII, and certain subsidiaries of funds managed by Apollo. On April 12, 2016, the Court consolidated all the actions under the following caption: In re Apollo Education Group, Inc. Shareholder Litigation, Lead Case No. CV2016-001905 (Ariz. Super. Ct.). Shortly thereafter, the parties informed the Court that they had entered into a memorandum of understanding for a settlement that would, among other things, (i) provide for the dismissal with prejudice on the merits and release of any and all claims by the proposed class against the Defendants; and (ii) recognize that the pendency of the suit was, in part, a factor in the decision by the purchasers of AEG to increase the price offered to acquire all of the outstanding shares of AEG's common stock from $9.50 per share to $10.00 per share. On April 10, 2017, the parties filed settlement papers for the Court's review following the consummation of the merger agreement on February 1, 2017, the completion by plaintiffs of three confirmatory discovery depositions on February 27, 2017, and the execution of a stipulation of settlement by the parties. On October 6, 2017, the Court entered an Order and Final Judgment in which it (i) decreed that the class notice had been provided to the proposed class pursuant to and in the manner directed by the Order for Notice and Hearing entered on May 23, 2017 and June 29, 2017, (ii) certified the non-opt-out settlement class, and (iii) fully and finally approved the settlement in all respects, including the dismissal of the action with prejudice in full and final discharge of any and all claims by the class against the defendants. The Order and Final Judgment further provides for the agreed upon award of $2.1 million to plaintiffs' counsel for fees and expenses and that amount has in fact been paid by Apollo Education Group.

On June 20, 2016 Banca Carige S.p.A. ("Carige") commenced a lawsuit in the Court of Genoa (Italy) (No. 8965/2016), against its former Chairman, its former Chief Executive Officer, AGM and certain entities (the "Apollo Entities") organized and owned by investment funds managed by affiliates of AGM. The complaint alleges that AGM and the Apollo Entities (i) aided and abetted breaches of fiduciary duty to Carige allegedly committed by Carige's former Chairman and former CEO in connection with the sale to the Apollo Entities of Carige subsidiaries engaged in the insurance business; and (ii) took wrongful actions aimed at weakening Banca Carige's financial condition supposedly to facilitate an eventual acquisition of Carige. The causes of action are based in tort under Italian law. Carige purportedly seeks damages of €450 million in connection with the sale of the insurance businesses and €800 million for other losses. The first hearings were held on May 17, 2017 and on June 14, 2017. Based on the allegations made in the complaint, Apollo believes that there is no merit to Carige's claims. Additionally, as the case is in its early stages, no reasonable estimate of possible loss, if any, can be made at this time.

On December 12, 2016, the CORE Litigation Trust (the "Trust"), which was created under the Chapter 11 reorganization plan for CORE Media and other affiliated entities, including CORE Entertainment, Inc. ("CORE"), approved by the Southern District of New York Bankruptcy Court on September 22, 2016, commenced an action in California Superior Court for Los Angeles County, captioned Core Litigation Trust v. Apollo Global Management, LLC, et al., Case No. BC 643732, which was removed to the United States District Court for the Central District of California on February 3, 2017. On April 5, 2017, the C.D. Cal. District Court granted Defendants' motion to transfer the case to the Southern District of New York ("SDNY") and denied the Trust's motion to remand the action to California state court, without prejudice to the Trust refiling its remand motion in the SDNY. On April 20, 2017, the SDNY District Court referred the case to the SDNY Bankruptcy Court. On July 17, 2017, the SDNY Bankruptcy Court granted the Trust's motion for mandatory abstention and remanded the case to Los Angeles County Superior Court. On October 3, 2017, the Los Angeles County Superior Court granted defendants' motion to stay all proceedings in the California state court action on forum non conveniens grounds in favor of litigating the case in New York state court. The Trust has not yet filed an action in New York state court. The Trust's complaint asserts claims for inducing the breach of and tortiously interfering with $360 million in loans under the 2011 loan agreements entered into between CORE and certain First and Second Lien Lenders (the "Lenders"), who assigned their loan-agreement claims to the Trust as part of CORE's Chapter 11 plan of reorganization. The complaint names as defendants: (i) AGM, (ii) Apollo Global Securities, LLC, (iii) other AGM subsidiaries, (iv) the funds managed by Apollo that were the beneficial owners of CORE Media (the "CORE Funds"), (v) certain affiliated-entities through which the CORE Funds owned their beneficial interest in CORE Media, (vi) Twenty-First Century Fox, Inc. ("Fox") and certain Fox affiliates, and (vii) Endemol USA Holding, Inc. ("Endemol") and certain Endemol-affiliated entities. The Trust alleges that defendants' participation in certain transactions related to CORE, including the December 12, 2014 formation of the joint venture through which the CORE Funds and Fox beneficially owned CORE Media and Endemol Shine, induced CORE to breach the loan agreements and tortiously interfered with CORE's performance of its obligations under the loan agreements. The Trust seeks unspecified

compensatory and punitive damages. Apollo believes these claims are without merit. Because this action is in its early stages, no reasonable estimate of possible loss, if any, can be made at this time.

In December 2016, the Company received a subpoena from the SEC principally concerning the Company's disclosure of IRR calculations for certain private equity funds, costs associated with a European service provider, and certain personnel changes. These topics generally track matters with which the Company is familiar and has previously examined. The Company is fully cooperating with the SEC in this matter.

On August 3, 2017, a putative class action was commenced in the United States District Court for the Middle District of Florida against AGM, Gareth Turner (an Apollo Partner) and Mark Beith (a former Apollo Principal) by Michael McEvoy on behalf of a class of current and former employees of subsidiaries of CEVA Group, LLC (“CEVA Group”) who purchased restricted Class A shares in CEVA Investment Limited (“CIL”), the former parent company of CEVA Group. The complaint alleges that the defendants breached fiduciary duties to and defrauded the plaintiffs by inducing them to purchase shares in CIL and subsequently participating in a debt restructuring of CEVA Group in which shareholders of CIL did not receive a recovery. The complaint purports to seek damages in excess of €14 million. On October 18, 2017, the bankruptcy trustee for CIL filed a motion in the Bankruptcy Court for the Southern District of New York to prevent Mr. McEvoy and his counsel from continuing to prosecute the Florida action on the basis that the relevant claims belong to the CIL bankruptcy estate. The Bankruptcy Court has not yet ruled on the motion. Based on the allegations in the complaint, Apollo believes that there is no merit to the claims. Additionally, as the case is in its early stages, no reasonable estimate of possible loss, if any, can be made at this time.

Between July 25 and August 15, 2017, plaintiffs filed three purported stockholder class actions in the Nevada state and federal court against ClubCorp Holdings Inc. (“ClubCorp”), the directors of ClubCorp, and AGM, in connection with the proposed acquisition of ClubCorp. The cases in the District Court for Clark County, Nevada were originally captioned Meng v. ClubCorp Holdings, Inc., et al., No. A-17-758912-B (“Meng”); Baum v. Affeldt, et al., No. A-17-759227-C (“Baum”); and Solak v. Affeldt, et al., No. A-17-759987-B (“Solak”). On August 16, 2017, the Meng and Baum actions were consolidated with two other similar actions that did not name AGM as a defendant. The consolidated action is captioned In re ClubCorp Holdings Shareholder Litigation, Case No. A-17-758912-B (“In re ClubCorp”). On September 21, 2017, the Solak action was consolidated into In re ClubCorp. On October 12, 2017, plaintiffs in In re ClubCorp filed a consolidated amended complaint. The complaint purports to assert claims against the directors of ClubCorp for allegedly breaching their fiduciary duties of loyalty, due care, good faith, and candor owed to the plaintiff and the public stockholders of ClubCorp. The complaint includes allegations that the directors, among other things, agreed to a transaction at an unreasonably low price, failed to take the necessary steps to maximize stockholder value, gave preferential severance benefits to certain executives, agreed to preclusive deal protection provisions, and included materially incomplete and misleading information in the proxy statement recommending that stockholders vote in favor of the acquisition. The complaint also purports to assert a claim against AGM for aiding and abetting the directors’ purported breach of fiduciary duty. Because this action is in the early stages, no reasonable estimate of possible loss, if any, can be made.

Commitments and Contingencies-Apollo leases office space and certain office equipment under various lease and sublease arrangements, which expire on various dates through 2025. As these leases expire, it can be expected that in the normal course of business, they will be renewed or replaced. Certain lease agreements contain renewal options, rent escalation provisions based on certain costs incurred by the landlord or other inducements provided by the landlord. Rent expense is accrued to recognize lease escalation provisions and inducements provided by the landlord, if any, on a straight-line basis over the lease term and renewal periods where applicable. Apollo has entered into various operating lease service agreements in respect of certain assets.

As of September 30, 2017, the approximate aggregate minimum future payments required for operating leases were as follows:

	Remaining 2017	2018	2019	2020	2021	Thereafter	Total
Aggregate minimum future payments	$ 9,266	$ 34,643	$ 33,702	$ 15,563	$ 6,055	$ 13,313	$ 112,542

The Company received $19.0 million in proceeds in connection with the early termination of a lease during the three months ended September 30, 2017 which was recorded in other income (loss), net on the condensed consolidated statements of operations.

Expenses related to non-cancellable contractual obligations for premises, equipment, auto and other assets were $8.5 million and $10.0 million for the three months ended September 30, 2017 and 2016, respectively, and $28.3 million and $30.1 million for the nine months ended September 30, 2017 and 2016, respectively.

Other long-term obligations relate to payments with respect to certain consulting agreements entered into by Apollo Investment Consulting LLC, a subsidiary of Apollo, as well as long-term service contracts. A significant portion of these costs are reimbursable by funds or portfolio companies. As of September 30, 2017, fixed and determinable payments due in connection with these obligations were as follows:

	Remaining 2017	2018	2019	2020	2021	Thereafter	Total
Other long-term obligations	$ 8,291	$ 12,413	$ 3,525	$ 1,956	$ 1,956	$ 1,611	$ 29,752

Contingent Obligations**-**Carried interest income with respect to private equity funds and certain credit and real assets funds is subject to reversal in the event of future losses to the extent of the cumulative carried interest recognized in income to date. If all of the existing investments became worthless, the amount of cumulative revenues that have been recognized by Apollo through September 30, 2017 and that would be reversed approximates $3.6 billion. Management views the possibility of all of the investments becoming worthless as remote. Carried interest income is affected by changes in the fair values of the underlying investments in the funds that Apollo manages. Valuations, on an unrealized basis, can be significantly affected by a variety of external factors including, but not limited to, bond yields and industry trading multiples. Movements in these items can affect valuations quarter to quarter even if the underlying business fundamentals remain stable.

Additionally, at the end of the life of certain funds that the Company manages, there could be a payment due to a fund by the Company if the Company, as general partner, has received more carried interest income than was ultimately earned. The general partner obligation amount, if any, will depend on final realized values of investments at the end of the life of each fund or as otherwise set forth in the respective limited partnership agreement of the fund. See note 13 to our condensed consolidated financial statements for further details regarding the general partner obligation.

Certain funds may not generate carried interest income as a result of unrealized and realized losses that are recognized in the current and prior reporting period. In certain cases, carried interest income will not be generated until additional unrealized and realized gains occur. Any appreciation would first cover the deductions for invested capital, unreturned organizational expenses, operating expenses, management fees and priority returns based on the terms of the respective fund agreements.

One of the Company's subsidiaries, AGS, provides underwriting commitments in connection with securities offerings to the portfolio companies of the funds Apollo manages. As of September 30, 2017, there were no underwriting commitments outstanding related to such offerings.

As of September 30, 2017, one of the Company's subsidiaries had unfunded contingent commitments of $29.8 million, to facilitate fundings at closing by lead arrangers for syndicated term loans issued by portfolio companies of funds managed by Apollo. The commitments expired on November 2, 2017 and were not funded.

Contingent Consideration**-**In connection with the acquisition of Stone Tower in April 2012, the Company agreed to pay the former owners of Stone Tower a specified percentage of any future carried interest income earned from certain of the Stone Tower funds, CLOs, and strategic investment accounts. This contingent consideration liability was determined based on the present value of estimated future carried interest payments, and is recorded in profit sharing payable in the condensed consolidated statements of financial condition. The fair value of the remaining contingent obligation was $87.3 million and $106.3 million as of September 30, 2017 and December 31, 2016, respectively.

The contingent consideration obligations will be remeasured to fair value at each reporting period until the obligations are satisfied and are characterized as Level III liabilities. The changes in the fair value of the contingent consideration obligations is reflected in profit sharing expense in the condensed consolidated statements of operations. See note 5 for further information regarding fair value measurements.

15. SEGMENT REPORTING

Apollo conducts its business primarily in the United States and substantially all of its revenues are generated domestically. Apollo's business is conducted through three reportable segments: private equity, credit and real assets. Segment

information is utilized by our Managing Partners, who operate collectively as our chief operating decision maker, to assess performance and to allocate resources. These segments were established based on the nature of investment activities in each underlying fund, including the specific type of investment made and the level of control over the investment.

The performance is measured by the Company's chief operating decision maker on an unconsolidated basis because management makes operating decisions and assesses the performance of each of Apollo's business segments based on financial and operating metrics and data that exclude the effects of consolidation of any of the affiliated funds.

Economic Income

Economic Income, or "EI", is a key performance measure used by management in evaluating the performance of Apollo's private equity, credit and real assets segments. Management believes the components of EI, such as the amount of management fees, advisory and transaction fees and carried interest income, are indicative of the Company's performance. Management uses EI in making key operating decisions such as the following:

- Decisions related to the allocation of resources such as staffing decisions including hiring and locations for deployment of the new hires;
- Decisions related to capital deployment such as providing capital to facilitate growth for the business and/or to facilitate expansion into new businesses; and
- Decisions relating to expenses, such as determining annual discretionary bonuses and equity-based compensation awards to its employees. With respect to compensation, management seeks to align the interests of certain professionals and selected other individuals with those of the investors in such funds and those of the Company's shareholders by providing such individuals a profit sharing interest in the carried interest income earned in relation to the funds. To achieve that objective, a certain amount of compensation is based on the Company's performance and growth for the year.

EI is a measure of profitability and has certain limitations in that it does not take into account certain items included under U.S. GAAP. EI represents segment income before income tax provision excluding transaction-related charges arising from the 2007 private placement, and any acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions. In addition, segment data excludes non-cash revenue and expense related to equity awards granted by unconsolidated related parties to employees of the Company, compensation and administrative related expense reimbursements, as well as the assets, liabilities and operating results of the funds and VIEs that are included in the condensed consolidated financial statements.

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The following tables present financial data for Apollo's reportable segments as of and for the three months ended September 30, 2017 and 2016. Prior period financial data has been updated to conform to the current presentation.

	As of and for the Three Months Ended September 30, 2017			
	Private Equity Segment	Credit Segment	Real Assets Segment	Total Reportable Segments
Revenues:				
Management fees from related parties	$ 76,079	$ 187,885	$ 18,470	$ 282,434
Advisory and transaction fees from related parties, net	10,572	4,219	1,418	16,209
Carried interest income (loss) from related parties:				
Unrealized[(1)]	286,589	4,179	(5,169)	285,599
Realized	21,859	32,131	6,985	60,975
Total carried interest income from related parties	308,448	36,310	1,816	346,574
Total Revenues[(2)]	395,099	228,414	21,704	645,217
Expenses:				
Compensation and benefits:				
Salary, bonus and benefits	31,467	59,027	10,513	101,007
Equity-based compensation	6,335	9,925	798	17,058
Profit sharing expense:				
Unrealized	96,992	2,266	(4,812)	94,446
Realized	17,394	14,643	3,636	35,673
Realized: Equity-based[(3)]	808	518	-	1,326
Total profit sharing expense	115,194	17,427	(1,176)	131,445
Total compensation and benefits	152,996	86,379	10,135	249,510
Non-compensation expenses:				
General, administrative and other	19,699	35,709	5,520	60,928
Placement fees	2,257	3,140	-	5,397
Total non-compensation expenses	21,956	38,849	5,520	66,325
Total Expenses[(2)]	174,952	125,228	15,655	315,835
Other Income:				
Income (loss) from equity method investments	39,875	8,222	(83)	48,014
Net gains from investment activities	7,959	60,570	-	68,529
Net interest loss	(4,374)	(5,972)	(1,163)	(11,509)
Other income, net	7,344	16,318	2,044	25,706
Total Other Income[(2)]	50,804	79,138	798	130,740
Non-Controlling Interests	-	(1,751)	-	(1,751)
Economic Income[(2)]	$ 270,951	$ 180,573	$ 6,847	$ 458,371
Total Assets[(2)]	$ 2,660,333	$ 2,772,296	$ 226,273	$ 5,658,902

(1) Included in unrealized carried interest income (loss) from related parties for three months ended September 30, 2017 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 13 for further details regarding the general partner obligation.

(2) Refer below for a reconciliation of total revenues, total expenses, other income and total assets for Apollo's total reportable segments to total consolidated revenues, total consolidated expenses, total consolidated other income and total assets.

(3) Relates to amortization of restricted share awards granted under certain profit sharing arrangements (see note 2). The following table presents the related unamortized deferred equity-based compensation recorded in other assets, as well as liabilities for restricted share awards expected to be granted recorded in other liabilities, both within the condensed consolidated statements of financial condition:

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APOLLO GLOBAL MANAGEMENT, LLC
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(dollars in thousands, except share data, except where noted)

	As of September 30, 2017	As of December 31, 2016
Unamortized deferred equity-based compensation	$ 90,289	$ 42,619
Liabilities for restricted share awards expected to be granted	80,283	40,472

	For the Three Months Ended September 30, 2016			
	Private Equity Segment	Credit Segment	Real Assets Segment	Total Reportable Segments
Revenues:				
Management fees from related parties	$ 91,545	$ 151,386	$ 15,554	$ 258,485
Advisory and transaction fees from related parties, net	26,601	2,612	1,038	30,251
Carried interest income from related parties:				
Unrealized(1)	75,019	91,502	963	167,484
Realized	9,844	20,500	5,499	35,843
Total carried interest income from related parties	84,863	112,002	6,462	203,327
Total Revenues(2)	203,009	266,000	23,054	492,063
Expenses:				
Compensation and benefits:				
Salary, bonus and benefits	32,532	45,143	9,129	86,804
Equity-based compensation	6,645	8,834	675	16,154
Profit sharing expense:				
Unrealized	19,234	36,809	432	56,475
Realized	7,266	8,988	4,062	20,316
Total profit sharing expense	26,500	45,797	4,494	76,791
Total compensation and benefits	65,677	99,774	14,298	179,749
Non-compensation expenses:				
General, administrative and other	18,118	29,161	4,674	51,953
Placement fees	330	723	-	1,053
Total non-compensation expenses	18,448	29,884	4,674	53,006
Total Expenses(2)	84,125	129,658	18,972	232,755
Other Income (Loss):				
Income from equity method investments	14,384	8,036	499	22,919
Net gains from investment activities	1,191	16,171	-	17,362
Net interest loss	(4,188)	(6,172)	(1,168)	(11,528)
Other income (loss), net	103	(4,977)	(29)	(4,903)
Total Other Income (Loss)(2)	11,490	13,058	(698)	23,850
Non-Controlling Interests	-	(510)	-	(510)
Economic Income(2)	130,374	148,890	3,384	282,648

(1) Included in unrealized carried interest income from related parties for the three months ended September 30, 2016 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 13 for further details regarding the general partner obligation.

(2) Refer below for a reconciliation of total revenues, total expenses and other income for Apollo's total reportable segments to total consolidated revenues, total consolidated expenses and total consolidated other income.

APOLLO GLOBAL MANAGEMENT, LLC
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(dollars in thousands, except share data, except where noted)

The following table reconciles total consolidated revenues to total revenues for Apollo's reportable segments for the three months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,	
	2017	2016
Total Consolidated Revenues	$ 664,232	$ 503,731
Equity awards granted by unconsolidated related parties and reimbursable expenses[(1)]	(19,832)	(18,217)
Adjustments related to consolidated funds and VIEs[(1)]	817	937
Other[(1)]	-	5,612
Total Reportable Segments Revenues	$ 645,217	$ 492,063

(1) Represents advisory fees, management fees and carried interest income earned from consolidated VIEs which are eliminated in consolidation. Includes non-cash revenues related to equity awards granted by unconsolidated related parties to employees of the Company and certain compensation and administrative related expense reimbursements.

The following table reconciles total consolidated expenses to total expenses for Apollo's reportable segments for the three months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,	
	2017	2016
Total Consolidated Expenses	$ 357,483	$ 282,257
Equity awards granted by unconsolidated related parties and reimbursable expenses[(1)]	(19,832)	(19,688)
Transaction-related compensation charges[(1)]	(7,543)	(14,276)
Reclassification of interest expenses	(13,302)	(12,832)
Amortization of transaction-related intangibles[(1)]	(971)	(2,212)
Other[(1)]	-	(494)
Total Reportable Segments Expenses	$ 315,835	$ 232,755

(1) Represents the addition of expenses of consolidated funds and VIEs, transaction-related charges, non-cash expenses related to equity awards granted by unconsolidated related parties to employees of the Company and certain compensation and administrative expenses. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions.

The following table reconciles total consolidated other income to total other income for Apollo's reportable segments for the three months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,	
	2017	2016
Total Consolidated Other Income	$ 144,156	$ 42,911
Reclassification of interest expense	(13,302)	(12,832)
Adjustments related to consolidated funds and VIEs[(1)]	(227)	(533)
Other	113	(5,696)
Total Reportable Segments Other Income	$ 130,740	$ 23,850

(1) Represents the addition of other income of consolidated funds and VIEs.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONDENSED CONSOLIDATED
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(dollars in thousands, except share data, except where noted)

The following table presents the reconciliation of income before income tax provision reported in the condensed consolidated statements of operations to Economic Income for the three months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,	
	2017	**2016**
Income before income tax provision	$ 450,905	$ 264,385
Adjustments:		
Net (income) loss attributable to Non-Controlling Interests in consolidated entities	(1,048)	222
Transaction-related charges, net[1]	8,514	18,041
Total consolidation adjustments and other	7,466	18,263
Economic Income	$ 458,371	$ 282,648

(1) Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions. Equity-based compensation adjustment includes non-cash revenues and expenses related to equity awards granted by unconsolidated related parties to employees of the Company.

APOLLO GLOBAL MANAGEMENT, LLC
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(dollars in thousands, except share data, except where noted)

The following tables present financial data for Apollo's reportable segments as of and for the nine months ended September 30, 2017 and 2016. Prior period financial data has been updated to conform to the current presentation.

	As of and for the Nine Months Ended September 30, 2017			
	Private Equity Segment	Credit Segment	Real Assets Segment	Total Reportable Segments
Revenues:				
Management fees from related parties	$ 230,752	$ 516,083	$ 54,560	$ 801,395
Advisory and transaction fees from related parties, net	41,646	10,484	2,775	54,905
Carried interest income (loss) from related parties:				
Unrealized[1]	351,836	37,422	(1,639)	387,619
Realized	313,817	120,186	12,224	446,227
Total carried interest income from related parties	665,653	157,608	10,585	833,846
Total Revenues[2]	938,051	684,175	67,920	1,690,146
Expenses:				
Compensation and benefits:				
Salary, bonus and benefits	93,230	173,153	27,905	294,288
Equity-based compensation	21,134	28,255	1,980	51,369
Profit sharing expense:				
Unrealized	117,025	17,408	(2,848)	131,585
Realized	145,783	51,168	6,528	203,479
Realized: Equity-based	1,270	1,387	-	2,657
Total profit sharing expense	264,078	69,963	3,680	337,721
Total compensation and benefits	378,442	271,371	33,565	683,378
Non-compensation expenses:				
General, administrative and other	53,676	99,559	15,299	168,534
Placement fees	3,732	8,828	-	12,560
Total non-compensation expenses	57,408	108,387	15,299	181,094
Total Expenses[2]	435,850	379,758	48,864	864,472
Other Income:				
Income from equity method investments	81,951	20,561	1,935	104,447
Net gains from investment activities	11,255	91,365	-	102,620
Net interest loss	(12,952)	(18,978)	(3,634)	(35,564)
Other income, net	25,915	16,888	2,347	45,150
Total Other Income[2]	106,169	109,836	648	216,653
Non-Controlling Interests	-	(3,244)	-	(3,244)
Economic Income[2]	$ 608,370	$ 411,009	$ 19,704	$ 1,039,083
Total Assets[2]	$ 2,660,333	$ 2,772,296	$ 226,273	$ 5,658,902

(1) Included in unrealized carried interest income (loss) from related parties for the nine months ended September 30, 2017 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 13 for further details regarding the general partner obligation.

(2) Refer below for a reconciliation of total revenues, total expenses, other income and total assets for Apollo's total reportable segments to total consolidated revenues, total consolidated expenses, total consolidated other income (loss) and total assets.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

	For the Nine Months Ended September 30, 2016			
	Private Equity Segment	Credit Segment	Real Assets Segment	Total Reportable Segments
Revenues:				
Management fees from related parties	$ 242,981	$ 445,149	$ 42,921	$ 731,051
Advisory and transaction fees from related parties, net	87,615	10,058	5,476	103,149
Carried interest income (loss) from related parties:				
Unrealized[(1)]	136,529	150,720	(4,151)	283,098
Realized	10,110	105,698	11,938	127,746
Total carried interest income from related parties	146,639	256,418	7,787	410,844
Total Revenues[(2)]	477,235	711,625	56,184	1,245,044
Expenses:				
Compensation and benefits:				
Salary, bonus and benefits	96,170	151,464	26,062	273,696
Equity-based compensation	20,795	25,694	2,107	48,596
Profit sharing expense:				
Unrealized	29,403	61,626	(1,400)	89,629
Realized	7,398	62,764	8,240	78,402
Total profit sharing expense	36,801	124,390	6,840	168,031
Total compensation and benefits	153,766	301,548	35,009	490,323
Non-compensation expenses:				
General, administrative and other	54,400	95,193	16,239	165,832
Placement fees	2,409	2,113	21	4,543
Total non-compensation expenses	56,809	97,306	16,260	170,375
Total Expenses[(2)]	210,575	398,854	51,269	660,698
Other Income (Loss):				
Income from equity method investments	40,311	21,824	1,631	63,766
Net gains from investment activities	3,542	45,819	-	49,361
Net interest loss	(9,868)	(14,542)	(2,895)	(27,305)
Other income (loss), net	320	(5,512)	(14)	(5,206)
Total Other Income (Loss)[(2)]	34,305	47,589	(1,278)	80,616
Non-Controlling Interests	-	(5,070)	-	(5,070)
Economic Income[(2)]	$ 300,965	$ 355,290	$ 3,637	$ 659,892

(1) Included in unrealized carried interest income (loss) from related parties for the nine months ended September 30, 2016 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 13 for further details regarding the general partner obligation.

(2) Refer below for a reconciliation of total revenues, total expenses and other income for Apollo's total reportable segments to total consolidated revenues, total consolidated expenses and total consolidated other income (loss).

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONDENSED CONSOLIDATED
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(dollars in thousands, except share data, except where noted)

The following table reconciles total consolidated revenues to total revenues for Apollo's reportable segments for the nine months ended September 30, 2017 and 2016:

	For the Nine Months Ended September 30,	
	2017	2016
Total Consolidated Revenues	$ 1,740,655	$ 1,285,004
Equity awards granted by unconsolidated related parties and reimbursable expenses[1]	(53,234)	(51,275)
Adjustments related to consolidated funds and VIEs[1]	2,725	2,800
Other[1]	-	8,515
Total Reportable Segments Revenues	$ 1,690,146	$ 1,245,044

(1) Represents advisory fees, management fees and carried interest income earned from consolidated VIEs which are eliminated in consolidation. Includes non-cash revenues related to equity awards granted by unconsolidated related parties to employees of the Company and certain compensation and administrative related expense reimbursements.

The following table reconciles total consolidated expenses to total expenses for Apollo's reportable segments for the nine months ended September 30, 2017 and 2016:

	For the Nine Months Ended September 30,	
	2017	2016
Total Consolidated Expenses	$ 967,997	$ 767,554
Equity awards granted by unconsolidated related parties and reimbursable expenses[1]	(53,234)	(52,980)
Transaction-related compensation charges[1]	(6,409)	(16,799)
Reclassification of interest expenses	(39,496)	(30,505)
Amortization of transaction-related intangibles[1]	(4,381)	(6,608)
Other[1]	(5)	36
Total Reportable Segments Expenses	$ 864,472	$ 660,698

(1) Represents the addition of expenses of consolidated funds and VIEs, transaction-related charges, non-cash expenses related to equity awards granted by unconsolidated related parties to employees of the Company and certain compensation and administrative expenses. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions.

The following table reconciles total consolidated other income to total other income for Apollo's reportable segments for the nine months ended September 30, 2017 and 2016:

	For the Nine Months Ended September 30,	
	2017	2016
Total Consolidated Other Income	$ 264,603	$ 121,018
Reclassification of interest expense	(39,496)	(30,505)
Adjustments related to consolidated funds and VIEs[1]	(8,433)	(2,077)
Other	(21)	(7,820)
Total Reportable Segments Other Income	$ 216,653	$ 80,616

(1) Represents the addition of other income of consolidated funds and VIEs.

The following table presents the reconciliation of income before income tax provision reported in the condensed consolidated statements of operations to Economic Income for the nine months ended September 30, 2017 and 2016:

	For the Nine Months Ended September 30,	
	2017	2016
Income before income tax provision	$ 1,037,261	$ 638,468
Adjustments:		
Net income attributable to Non-Controlling Interests in consolidated entities	(8,967)	(3,891)
Transaction-related charges, net[1]	10,789	25,315
Total consolidation adjustments and other	1,822	21,424
Economic Income	$ 1,039,083	$ 659,892

(1) Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions. Equity-based compensation adjustment includes non-cash revenues and expenses related to equity awards granted by unconsolidated related parties to employees of the Company.

The following table presents the reconciliation of Apollo's total reportable segment assets to total assets as of September 30, 2017 and December 31, 2016:

	As of September 30, 2017	As of December 31, 2016
Total reportable segment assets	$ 5,658,902	$ 4,694,643
Adjustments[1]	1,201,452	934,910
Total assets	$ 6,860,354	$ 5,629,553

(1) Represents the addition of assets of consolidated funds and VIEs and consolidation elimination adjustments.

16. SUBSEQUENT EVENTS

On November 1, 2017, the Company declared a cash distribution of $0.39 per Class A share, which will be paid on November 30, 2017 to holders of record on November 21, 2017.

On November 1, 2017, the Company declared a cash distribution of $0.398438 per Preferred share, which will be paid on December 15, 2017 to holders of record on December 1, 2017.

ITEM 1A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION

APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATING STATEMENTS OF FINANCIAL CONDITION (Unaudited)
(dollars in thousands, except share data)

	As of September 30, 2017			
	Apollo Global Management, LLC and Consolidated Subsidiaries	Consolidated Funds and VIEs	Eliminations	Consolidated
Assets:				
Cash and cash equivalents	$ 930,848	$ -	$ -	$ 930,848
Cash and cash equivalents held at consolidated funds	-	10,195	-	10,195
Restricted cash	4,165	-	-	4,165
U.S. Treasury securities, at fair value	198,900	-	-	198,900
Investments	1,792,228	1,978	(86,142)	1,708,064
Assets of consolidated variable interest entities:				
Cash and cash equivalents	-	44,226	-	44,226
Investments, at fair value	-	1,170,867	(317)	1,170,550
Other assets	-	63,723	-	63,723
Carried interest receivable	1,580,158	-	(2,174)	1,577,984
Due from related parties	288,154	-	(802)	287,352
Deferred tax assets	591,754	-	-	591,754
Other assets	164,690	14	(116)	164,588
Goodwill	88,852	-	-	88,852
Intangible assets, net	19,153	-	-	19,153
Total Assets	**$ 5,658,902**	**$ 1,291,003**	**$ (89,551)**	**$ 6,860,354**
Liabilities and Shareholders' Equity				
Liabilities:				
Accounts payable and accrued expenses	$ 79,062	$ -	$ -	$ 79,062
Accrued compensation and benefits	144,664	-	-	144,664
Deferred revenue	155,081	-	-	155,081
Due to related parties	643,401	-	-	643,401
Profit sharing payable	710,873	-	-	710,873
Debt	1,361,044	-	-	1,361,044
Liabilities of consolidated variable interest entities:				
Debt, at fair value	-	1,019,270	(46,638)	972,632
Other liabilities	-	85,520	(117)	85,403
Due to related parties	-	2,977	(2,977)	-
Other liabilities	115,586	625	-	116,211
Total Liabilities	**3,209,711**	**1,108,392**	**(49,732)**	**4,268,371**
Shareholders' Equity:				
Apollo Global Management, LLC shareholders' equity:				
Preferred shares	264,398	-	-	264,398
Additional paid in capital	1,627,767	-	-	1,627,767
Accumulated deficit	(560,616)	19,307	(19,304)	(560,613)
Accumulated other comprehensive loss	(2,234)	(647)	820	(2,061)
Total Apollo Global Management, LLC shareholders' equity	1,329,315	18,660	(18,484)	1,329,491
Non-Controlling Interests in consolidated entities	7,120	163,951	(21,335)	149,736
Non-Controlling Interests in Apollo Operating Group	1,112,756	-	-	1,112,756
Total Shareholders' Equity	**2,449,191**	**182,611**	**(39,819)**	**2,591,983**
Total Liabilities and Shareholders' Equity	**$ 5,658,902**	**$ 1,291,003**	**$ (89,551)**	**$ 6,860,354**

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APOLLO GLOBAL MANAGEMENT, LLC
CONSOLIDATING STATEMENTS OF FINANCIAL CONDITION (Unaudited)
(dollars in thousands, except share data)

	As of December 31, 2016			
	Apollo Global Management, LLC and Consolidated Subsidiaries	Consolidated Funds and VIEs	Eliminations	Consolidated
Assets:				
Cash and cash equivalents	$ 806,329	$ -	$ -	$ 806,329
Cash and cash equivalents held at consolidated funds	-	7,335	-	7,335
Restricted cash	4,680	-	-	4,680
Investments	1,567,388	5,378	(78,022)	1,494,744
Assets of consolidated variable interest entities:				
Cash and cash equivalents	-	41,318	-	41,318
Investments, at fair value	-	914,110	(283)	913,827
Other assets	-	46,666	-	46,666
Carried interest receivable	1,258,887	-	(1,782)	1,257,105
Due from related parties	255,342	-	(489)	254,853
Deferred tax assets	572,263	-	-	572,263
Other assets	118,181	768	(89)	118,860
Goodwill	88,852	-	-	88,852
Intangible assets, net	22,721	-	-	22,721
Total Assets	**$ 4,694,643**	**$ 1,015,575**	**$ (80,665)**	**$ 5,629,553**
Liabilities and Shareholders' Equity				
Liabilities:				
Accounts payable and accrued expenses	$ 57,465	$ -	$ -	$ 57,465
Accrued compensation and benefits	52,754	-	-	52,754
Deferred revenue	174,893	-	-	174,893
Due to related parties	638,126	-	-	638,126
Profit sharing payable	550,148	-	-	550,148
Debt	1,352,447	-	-	1,352,447
Liabilities of consolidated variable interest entities:				
Debt, at fair value	-	827,854	(41,309)	786,545
Other liabilities	-	68,123	(89)	68,034
Due to related parties	-	2,271	(2,271)	-
Other liabilities	81,568	45	-	81,613
Total Liabilities	**2,907,401**	**898,293**	**(43,669)**	**3,762,025**
Shareholders' Equity:				
Apollo Global Management, LLC shareholders' equity:				
Additional paid in capital	1,830,025	-	-	1,830,025
Accumulated deficit	(986,187)	16,131	(16,130)	(986,186)
Accumulated other comprehensive loss	(5,750)	(3,029)	56	(8,723)
Total Apollo Global Management, LLC shareholders' equity	838,088	13,102	(16,074)	835,116
Non-Controlling Interests in consolidated entities	6,805	104,180	(20,922)	90,063
Non-Controlling Interests in Apollo Operating Group	942,349	-	-	942,349
Total Shareholders' Equity	**1,787,242**	**117,282**	**(36,996)**	**1,867,528**
Total Liabilities and Shareholders' Equity	**$ 4,694,643**	**$ 1,015,575**	**$ (80,665)**	**$ 5,629,553**

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Apollo Global Management, LLC's condensed consolidated financial statements and the related notes included within this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. Actual results and the timing of events may differ significantly from those expressed or implied in such forward-looking statements due to a number of factors, including those included in the section entitled "Risk Factors" in our Form 10-K for the year ended December 31, 2016 filed with the SEC on February 13, 2017 (the "2016 Annual Report"). The highlights listed below have had significant effects on many items within our condensed consolidated financial statements and affect the comparison of the current period's activity with those of prior periods.

General

Our Businesses

Founded in 1990, Apollo is a leading global alternative investment manager. We are a contrarian, value-oriented investment manager in private equity, credit and real assets with significant distressed expertise and a flexible mandate in the majority of our funds which enables our funds to invest opportunistically across a company's capital structure. We raise, invest and manage funds on behalf of some of the world's most prominent pension, endowment and sovereign wealth funds as well as other institutional and individual investors. Apollo is led by our Managing Partners, Leon Black, Joshua Harris and Marc Rowan, who have worked together for more than 30 years and lead a team of 1,024 employees, including 381 investment professionals, as of September 30, 2017.

Apollo conducts its business primarily in the United States and substantially all of its revenues are generated domestically. These businesses are conducted through the following three reportable segments:

(i) ***Private equity***-primarily invests in control equity and related debt instruments, convertible securities and distressed debt instruments;

(ii) ***Credit***-primarily invests in non-control corporate and structured debt instruments including performing, stressed and distressed instruments across the capital structure; and

(iii) ***Real assets***-primarily invests in real estate equity for the acquisition and recapitalization of real estate assets, portfolios, platforms and operating companies, and real estate debt including first mortgage and mezzanine loans, preferred equity and commercial mortgage backed securities.

These business segments are differentiated based on the varying investment strategies. The performance is measured by management on an unconsolidated basis because management makes operating decisions and assesses the performance of each of Apollo's business segments based on financial and operating metrics and data that exclude the effects of consolidation of any of the managed funds.

Our financial results vary since carried interest, which generally constitutes a large portion of the income we receive from the funds that we manage, as well as the transaction and advisory fees that we receive, can vary significantly from quarter to quarter and year to year. As a result, we emphasize long-term financial growth and profitability to manage our business.

In addition, the growth in our Fee-Generating AUM during the last year has primarily been in our credit segment. The average management fee rate for these new credit products is at market rates for such products and in certain cases is below our historical rates. Also, due to the complexity of these new product offerings, the Company has incurred and will continue to incur additional costs associated with managing these products. To date, these additional costs have been offset by realized economies of scale and ongoing cost management.

As of September 30, 2017, we had total AUM of $241.6 billion across all of our businesses. More than 90% of our total AUM was in funds with a contractual life at inception of seven years or more, and 41% of such AUM was in permanent capital vehicles. As of September 30, 2017, Fund IX commitments totaled $24.7 billion. On December 31, 2013, Fund VIII held a final closing raising a total of $17.5 billion in third-party capital and approximately $880 million of additional capital from Apollo and affiliated investors, and as of September 30, 2017, Fund VIII had $6.8 billion of uncalled commitments remaining. Additionally, Fund VII held a final closing in December 2008, raising a total of $14.7 billion, and as of September 30, 2017, Fund VII had $2.1 billion of uncalled commitments remaining. We have consistently produced attractive long-term investment returns in our traditional private equity funds, generating a 39% gross IRR and a 25% net IRR on a compound annual basis from inception through

September 30, 2017. Apollo's private equity fund appreciation was 7.3% and 18.1% for the three and nine months ended September 30, 2017, respectively.

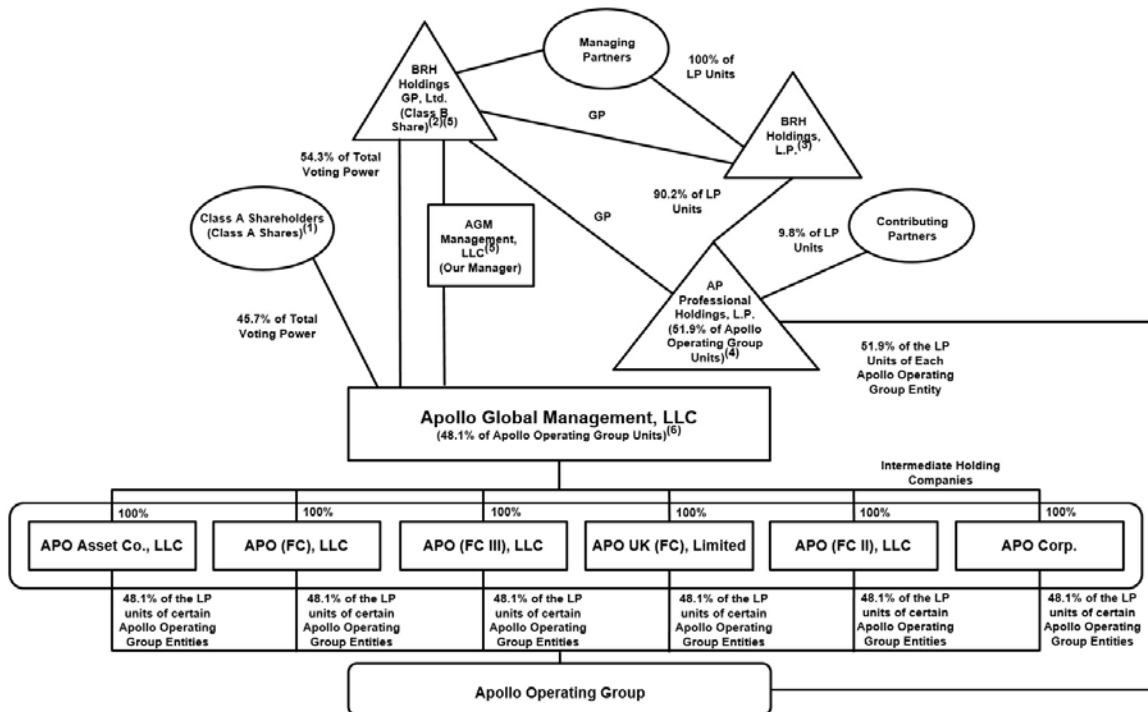
For our credit segment, total gross and net returns, excluding Athene and AGER assets that are managed by Apollo but not directly invested in Apollo funds and investment vehicles or sub-advised by Apollo, were 1.9% and 1.6%, respectively, for the three months ended September 30, 2017 and 6.0% and 5.1%, respectively, for the nine months ended September 30, 2017.

For our real assets segment, total combined gross and net returns for AGRE U.S. Real Estate Fund, L.P. ("U.S. RE Fund I") and Apollo U.S. RE Fund II, L.P. ("U.S. RE Fund II") including co-investment capital were 3.8% and 3.3%, respectively, for the three months ended September 30, 2017 and 13.5% and 11.5%, respectively, for the nine months ended September 30, 2017.

For further detail related to fund performance metrics across all of our businesses, see "-The Historical Investment Performance of Our Funds."

Holding Company Structure

The diagram below depicts our current organizational structure:



Note: The organizational structure chart above depicts a simplified version of the Apollo structure. It does not include all legal entities in the structure. Ownership percentages are as of November 2, 2017.

(1) The Strategic Investor holds 9.0% of the Class A shares outstanding and 4.3% of the economic interests in the Apollo Operating Group. The Class A shares held by investors other than the Strategic Investor represent 45.7% of the total voting power of our shares entitled to vote and 43.8% of the economic interests in the Apollo Operating Group. Class A shares held by the Strategic Investor do not have voting rights. However, such Class A shares will become entitled to vote upon transfers by the Strategic Investor in accordance with the agreements entered into in connection with the investments made by the Strategic Investor.

(2) Our Managing Partners own BRH Holdings GP, Ltd., which in turn holds our only outstanding Class B share. The Class B share represents 54.3% of the total voting power of our shares entitled to vote but no economic interest in Apollo Global Management, LLC. Our Managing Partners' economic interests are instead represented by their indirect beneficial ownership, through Holdings, of 46.8% of the limited partner interests in the Apollo Operating Group.

(3) Through BRH Holdings, L.P., our Managing Partners indirectly beneficially own through estate planning vehicles, limited partner interests in Holdings.

(4) Holdings owns 51.9% of the limited partner interests in each Apollo Operating Group entity. The AOG Units held by Holdings are exchangeable for Class A shares. Our Managing Partners, through their interests in BRH and Holdings, beneficially own 46.8% of the AOG Units. Our Contributing Partners, through their ownership interests in Holdings, beneficially own 5.1% of the AOG Units.

(5) BRH Holdings GP, Ltd. is the sole member of AGM Management, LLC, our manager. The management of Apollo Global Management, LLC is vested in our manager as provided in our operating agreement.

(6) Represents 48.1% of the limited partner interests in each Apollo Operating Group entity, held through the intermediate holding companies. Apollo Global Management, LLC, also indirectly owns 100% of the general partner interests in each Apollo Operating Group entity.

Each of the Apollo Operating Group partnerships holds interests in different businesses or entities organized in different jurisdictions.

Our structure is designed to accomplish a number of objectives, the most important of which are as follows:

- We are a holding company that is qualified as a partnership for U.S. federal income tax purposes. Our intermediate holding companies enable us to maintain our partnership status and to meet the qualifying income exception.
- We have historically used multiple management companies to segregate operations for business, financial and other reasons. Going forward, we may increase or decrease the number of our management companies or partnerships within the Apollo Operating Group based on our views regarding the appropriate balance between (a) administrative convenience and (b) continued business, financial, tax and other optimization.

Business Environment

As a global investment manager, we are affected by numerous factors, including the condition of financial markets and the economy. Price fluctuations within equity, credit, commodity, foreign exchange markets, as well as interest rates, which may be volatile and mixed across geographies, can significantly impact the valuation of our funds' investments and related income we may recognize.

In the U.S., the S&P 500 Index rose by 4.0% in the third quarter of 2017, following an increase of 2.6% in the second quarter of 2017. Outside the U.S., global equity markets also rose during the third quarter of 2017. The MSCI All Country World ex USA Index rose 6.2% following an increase of 5.8% in the second quarter of 2017.

Conditions in the credit markets also have a significant impact on our business. Credit markets rose in the third quarter of 2017, with the BofAML HY Master II Index increasing 2.0% and the S&P/LSTA Leveraged Loan Index increasing 1.0%. Benchmark interest rates remained stable in the third quarter, with the U.S. 10-year Treasury yield remaining at 2.3%, as investors generally expect the next interest rate increase during the fourth quarter of 2017.

Foreign exchange rates can impact the valuations of our funds' investments that are denominated in currencies other than the U.S. dollar. Relative to the U.S. dollar, the Euro appreciated 3.4% in the third quarter of 2017, after appreciating 7.3% in the second quarter of 2017, while the British pound appreciated 2.9% in the third quarter of 2017, after appreciating by 3.8% in the second quarter of 2017. Commodities were generally mixed in the third quarter of 2017, with energy prices rebounding. The price of crude oil increased 12.2% during the third quarter of 2017, following a decline of 9.0% in the second quarter of 2017.

In terms of economic conditions in the U.S., the Bureau of Economic Analysis reported real GDP increased at an annual rate of 3.0% in the third quarter of 2017, compared to a 3.1% increase in the second quarter of 2017. As of July 2017, the International Monetary Fund estimated that the U.S. economy will expand by 2.1% in 2017 and by 2.1% in 2018. Additionally, the U.S. unemployment rate stood at 4.2% as of September 30, 2017, the lowest level since the financial crisis of 2008.

Regardless of the market or economic environment at any given time, Apollo relies on its contrarian, value-oriented approach to consistently invest capital on behalf of its fund investors by focusing on opportunities that management believes are often overlooked by other investors. As such, Apollo's global integrated investment platform deployed $3.3 billion and $12.8 billion of capital through the funds it manages during the three and twelve months ended September 30, 2017, respectively. We believe Apollo's expertise in credit and its focus on nine core industry sectors, combined with more than 27 years of investment experience, has allowed Apollo to respond quickly to changing environments. Apollo's core industry sectors include chemicals, manufacturing and industrial, natural resources, consumer and retail, consumer services, business services, financial services, leisure, and media/telecom/technology. Apollo believes that these attributes have contributed to the success of its private equity funds investing in buyouts and credit opportunities during both expansionary and recessionary economic periods.

In general, institutional investors continue to allocate capital towards alternative investment managers for more attractive risk-adjusted returns in a low interest rate environment, and we believe the business environment remains generally accommodative to raise larger successor funds, launch new products, and pursue attractive strategic growth opportunities. As such, Apollo had $7.9 billion and $55.5 billion of capital inflows during the three and twelve months ended September 30, 2017, respectively. While Apollo continues to attract capital inflows, it also continues to generate realizations for fund investors. Apollo returned $1.7 billion and $7.8 billion of capital and realized gains to the investors in the funds it manages during the three and twelve months ended September 30, 2017, respectively.

Managing Business Performance

We believe that the presentation of Economic Income, or EI, supplements a reader's understanding of the economic operating performance of each of our segments.

Economic Income

EI has certain limitations in that it does not take into account certain items included under U.S. GAAP. EI represents segment income before income tax provision excluding transaction-related charges arising from the 2007 private placement and any acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets, contingent consideration and certain other charges associated with acquisitions. In addition, segment data excludes non-cash revenue and expense related to equity awards granted by unconsolidated related parties to employees of the Company, compensation and administrative related expense reimbursements from unconsolidated related parties, as well as the assets, liabilities and operating results of the funds and VIEs that are included in the condensed consolidated financial statements. We believe the exclusion of the non-cash charges related to the 2007 Reorganization for equity-based compensation provides investors with a meaningful indication of our performance because these charges relate to the equity portion of our capital structure and not our core operating performance.

Economic Net Income represents EI adjusted to reflect income tax provision on EI that has been calculated assuming that all income is allocated to Apollo Global Management, LLC, which would occur following an exchange of all AOG Units for Class A shares of Apollo Global Management, LLC. The economic assumptions and methodologies that impact the implied income tax provision are similar to those methodologies and certain assumptions used in calculating the income tax provision for Apollo's condensed consolidated statements of operations under U.S. GAAP. ENI is net of preferred distributions, if any, to Series A Preferred shareholders.

We believe that EI is helpful for an understanding of our business and that investors should review the same supplemental financial measure that management uses to analyze our segment performance. This measure supplements and should be considered in addition to and not in lieu of the results of operations discussed below in "-Overview of Results of Operations" that have been prepared in accordance with U.S. GAAP. See note 15 to the condensed consolidated financial statements for more details regarding management's consideration of EI.

EI may not be comparable to similarly titled measures used by other companies and is not a measure of performance calculated in accordance with U.S. GAAP. We use EI as a measure of operating performance, not as a measure of liquidity. EI should not be considered in isolation or as a substitute for net income or other income data prepared in accordance with U.S. GAAP. The use of EI without consideration of related U.S. GAAP measures is not adequate due to the adjustments described above. Management compensates for these limitations by using EI as a supplemental measure to U.S. GAAP results, to provide a more complete understanding of our performance as management measures it. A reconciliation of EI to its most directly comparable U.S. GAAP measure of income before income tax provision can be found in the notes to our condensed consolidated financial statements.

Fee Related Earnings

Fee Related Earnings ("FRE") is derived from our segment reported results and refers to a component of EI that is used as a supplemental measure to assess whether revenues that we believe are generally more stable and predictable in nature, primarily consisting of management fees, are sufficient to cover associated operating expenses and generate profits. FRE is the sum across all segments of (i) management fees, (ii) advisory and transaction fees, (iii) carried interest income earned from a publicly traded business development company we manage and (iv) other income, net excluding gains (losses) arising from the reversal of a portion of the tax receivable agreement liability, less (y) salary, bonus and benefits, excluding equity-based compensation and (z) other associated operating expenses.

Distributable Earnings

Distributable Earnings ("DE"), as well as DE After Taxes and Related Payables are derived from our segment reported results, and are supplemental non-U.S. GAAP measures to assess performance and the amount of earnings available for distribution to Class A shareholders, holders of RSUs that participate in distributions and holders of AOG Units. DE represents the amount of net realized earnings without the effects of the consolidation of any of the related funds. DE, which is a component of EI, is the sum across all segments of (i) total management fees and advisory and transaction fees, (ii) other income (loss), excluding the gains (losses) arising from the reversal of a portion of the tax receivable agreement liability (iii) realized carried interest income, and (iv) realized investment income, less (x) compensation expense, excluding the expense related to equity-based awards, (y) realized profit sharing expense, and (z) non-compensation expenses, excluding depreciation and amortization expense. DE After Taxes and Related Payables represents DE less estimated current corporate, local and non-U.S. taxes as well as the payable under Apollo's tax receivable agreement. DE After Taxes and Related Payables is net of preferred distributions, if any, to Series A Preferred shareholders. A reconciliation of DE and EI to their most directly comparable U.S. GAAP measure of income before income tax provision can be found in "- Summary of Non-U.S. GAAP Measures".

Fee Related EBITDA

Fee related EBITDA is a non-U.S. GAAP measure derived from our segment reported results and is used to assess the performance of our operations as well as our ability to service current and future borrowings. Fee related EBITDA represents FRE plus amounts for depreciation and amortization. "Fee related EBITDA +100% of net realized carried interest" represents fee-related EBITDA plus realized carried interest less realized profit sharing.

We use FRE, DE and Fee related EBITDA as measures of operating performance, not as measures of liquidity. These measures should not be considered in isolation or as a substitute for net income or other income data prepared in accordance with U.S. GAAP. The use of these measures without consideration of their related U.S. GAAP measures is not adequate due to the adjustments described above.

Operating Metrics

We monitor certain operating metrics that are common to the alternative investment management industry. These operating metrics include Assets Under Management, capital deployed and uncalled commitments.

Assets Under Management

The tables below present Fee-Generating and Non-Fee-Generating AUM by segment as of September 30, 2017 and 2016 and December 31, 2016:

	As of September 30, 2017			
	Private Equity	Credit	Real Assets	Total
	(in millions)			
Fee-Generating	$ 30,067	$ 126,907	$ 9,284	$ 166,258
Non-Fee-Generating	40,402	31,018	3,887	75,307
Total Assets Under Management	$ 70,469	$ 157,925	$ 13,171	$ 241,565

	As of September 30, 2016			
	Private Equity	Credit	Real Assets	Total
	(in millions)			
Fee-Generating	$ 30,630	$ 110,123	$ 7,916	$ 148,669
Non-Fee-Generating	11,551	25,273	3,143	39,967
Total Assets Under Management	$ 42,181	$ 135,396	$ 11,059	$ 188,636

	As of December 31, 2016			
	Private Equity	Credit	Real Assets	Total
	(in millions)			
Fee-Generating	$ 30,722	$ 111,781	$ 8,295	$ 150,798
Non-Fee-Generating	12,906	24,826	3,158	40,890
Total Assets Under Management	$ 43,628	$ 136,607	$ 11,453	$ 191,688

The table below presents AUM with Future Management Fee Potential, which is a component of Non-Fee-Generating AUM, for each of Apollo's three segments as of September 30, 2017 and 2016 and December 31, 2016.

	As of September 30, 2017	As of September 30, 2016	As of December 31, 2016
	(in millions)		
Private Equity	$ 25,796	$ 2,148	$ 1,977
Credit	8,565	7,818	6,533
Real Assets	874	927	639
Total AUM with Future Management Fee Potential	$ 35,235	$ 10,893	$ 9,149

The following tables present the components of Carry-Eligible AUM for each of Apollo's three segments as of September 30, 2017 and 2016 and December 31, 2016:

	As of September 30, 2017			
	Private Equity	Credit	Real Assets	Total
	(in millions)			
Carry-Generating AUM	$ 25,213	$ 26,634	$ 803	$ 52,650
AUM Not Currently Generating Carry	492	15,722	395	16,609
Uninvested Carry-Eligible AUM	34,290	11,927	1,281	47,498
Total Carry-Eligible AUM	$ 59,995	$ 54,283	$ 2,479	$ 116,757

	As of September 30, 2016			
	Private Equity	Credit	Real Assets	Total
	(in millions)			
Carry-Generating AUM	$ 19,063	$ 31,648	$ 697	$ 51,408
AUM Not Currently Generating Carry	1,225	7,852	509	9,586
Uninvested Carry-Eligible AUM	13,945	8,549	1,251	23,745
Total Carry-Eligible AUM	$ 34,233	$ 48,049	$ 2,457	$ 84,739

	As of December 31, 2016			
	Private Equity	Credit	Real Assets	Total
	(in millions)			
Carry-Generating AUM	$ 21,521	$ 33,306	$ 776	$ 55,603
AUM Not Currently Generating Carry	487	7,219	365	8,071
Uninvested Carry-Eligible AUM	13,136	11,119	976	25,231
Total Carry-Eligible AUM	$ 35,144	$ 51,644	$ 2,117	$ 88,905

The following table presents AUM Not Currently Generating Carry for funds that have commenced investing capital for more than 24 months as of September 30, 2017 and the corresponding appreciation required to reach the preferred return or high watermark in order to generate carried interest:

Category / Fund	Invested AUM Not Currently Generating Carry	Investment Period Active > 24 Months	Appreciation Required to Achieve Carry[(1)]
	(in millions)		
Private Equity:			
Total Private Equity	$ 492	$ 459	20%
Credit:			
Drawdown	4,175	3,832	31%
Liquid/Performing	10,870	7,756	< 250bps
		13	250-500bps
		455	> 500bps
MidCap, AINV, AFT, AIF	677	678	< 250bps
Total Credit	15,722	12,734	11%
Real Assets:			
Total Real Assets	395	250	> 250bps
Total	$ 16,609	$ 13,443	

(1) All investors in a given fund are considered in aggregate when calculating the appreciation required to achieve carry presented above. Appreciation required to achieve carry may vary by individual investor.

The components of Fee-Generating AUM by segment as of September 30, 2017 and 2016 and December 31, 2016 are presented below:

	As of September 30, 2017			
	Private Equity	Credit	Real Assets	Total
	(in millions)			
Fee-Generating AUM based on capital commitments	$ 21,803	$ 8,749	$ 784	$ 31,336
Fee-Generating AUM based on invested capital	7,443	6,696	4,882	19,021
Fee-Generating AUM based on gross/adjusted assets	821	94,159	3,563	98,543
Fee-Generating AUM based on NAV	-	17,303	55	17,358
Total Fee-Generating AUM	$ 30,067 (1)	$ 126,907	$ 9,284	$ 166,258

(1) The weighted average remaining life of the private equity funds excluding permanent capital vehicles at September 30, 2017 was 59 months.

	As of September 30, 2016			
	Private Equity	Credit	Real Assets	Total
	(in millions)			
Fee-Generating AUM based on capital commitments	$ 21,682	$ 6,425	$ 724	$ 28,831
Fee-Generating AUM based on invested capital	8,137	4,302	4,205	16,644
Fee-Generating AUM based on gross/adjusted assets	293	88,606	2,910	91,809
Fee-Generating AUM based on NAV	518	10,790	77	11,385
Total Fee-Generating AUM	$ 30,630 (1)	$ 110,123	$ 7,916	$ 148,669

(1) The weighted average remaining life of the private equity funds excluding permanent capital vehicles at September 30, 2016 was 68 months.

	As of December 31, 2016			
	Private Equity	Credit	Real Assets	Total
	(in millions)			
Fee-Generating AUM based on capital commitments	$ 21,782	$ 8,072	$ 724	$ 30,578
Fee-Generating AUM based on invested capital	8,058	4,212	4,374	16,644
Fee-Generating AUM based on gross/adjusted assets	882	88,196	3,131	92,209
Fee-Generating AUM based on NAV	-	11,301	66	11,367
Total Fee-Generating AUM	$ 30,722 (1)	$ 111,781	$ 8,295	$ 150,798

(1) The weighted average remaining life of the private equity funds excluding permanent capital vehicles at December 31, 2016 was 66 months.

The following table presents total AUM and Fee-Generating AUM amounts for our private equity segment:

	Total AUM			Fee-Generating AUM		
	As of September 30,		As of December 31,	As of September 30,		As of December 31,
	2017	2016	2016	2017	2016	2016
	(in millions)					
Traditional Private Equity Funds	$ 56,823	$ 30,227	$ 30,490	$ 23,842	$ 24,634	$ 24,457
Natural Resources	4,702	4,822	5,223	4,042	4,046	4,181
Other[(1)]	8,944	7,132	7,915	2,183	1,950	2,084
Total	$ 70,469	$ 42,181	$ 43,628	$ 30,067	$ 30,630	$ 30,722

(1) Includes co-investments contributed to Athene by AAA through its investment in AAA Investments as discussed in note 13 of the condensed consolidated financial statements.

The following table presents total AUM and Fee-Generating AUM amounts for our credit segment by category type:

	Total AUM			Fee-Generating AUM		
	As of September 30,		As of December 31,	As of September 30,		As of December 31,
	2017	2016	2016	2017	2016	2016
	(in millions)					
Liquid/Performing	$ 41,765	$ 36,733	$ 35,684	$ 36,176	$ 32,570	$ 31,562
Drawdown	27,223	20,954	23,852	17,253	12,122	13,645
Permanent capital vehicles ex Athene Non-Sub-Advised[(1)]	12,978	11,866	12,330	12,165	10,699	11,460
Athene Non-Sub-Advised[(1)]	57,029	51,497	50,761	57,029	49,697	50,761
AGER Non-Sub-Advised[(1)]	6,747	5,035	4,353	4,284	5,035	4,353
Advisory	12,183	9,311	9,627	-	-	-
Total	$ 157,925	$ 135,396	$ 136,607	$ 126,907	$ 110,123	$ 111,781

(1) The Company refers to the portion of the AUM related to AGER that is not sub-advised by Apollo or invested in funds and or investment vehicles managed by Apollo as “AGER Non-Sub-Advised” AUM. Athene Non-Sub-Advised and AGER Non-Sub-Advised reflects total combined AUM of $81.9 billion less $18.1 billion of assets that were either sub-advised by Apollo or invested in funds and investment vehicles managed by Apollo included within other asset categories. AGER Non-Sub-Advised includes $4.2 billion of AUM for which AAME provides investment advisory services.

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The following table presents the Athene and AGER assets that were either sub-advised by Apollo or invested in funds and investment vehicles managed by Apollo:

	Total AUM		
	As of September 30,		As of December 31,
	2017	2016	2016
	(in millions)		
Private Equity	$ 1,190	$ 894	$ 1,099
Credit			
Liquid/Performing	10,659	9,356	9,407
Drawdown	1,287	1,053	1,075
Total Credit	11,946	10,409	10,482
Real Assets			
Real Estate Debt	4,553	3,545	3,698
Real Estate Equity	407	434	439
Total Real Assets	4,960	3,979	4,137
Total	$ 18,096	$ 15,282	$ 15,718

The following table presents total AUM and Fee-Generating AUM amounts for our real assets segment:

	Total AUM			Fee-Generating AUM		
	As of September 30,		As of December 31,	As of September 30,		As of December 31,
	2017	2016	2016	2017	2016	2016
	(in millions)					
Debt	$ 9,835	$ 7,875	$ 8,604	$ 7,436	$ 6,160	$ 6,577
Equity	3,336	3,184	2,849	1,848	1,756	1,718
Total	$ 13,171	$ 11,059	$ 11,453	$ 9,284	$ 7,916	$ 8,295

The following tables summarize changes in total AUM for each of Apollo's three segments for the three and nine months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,							
	2017				2016			
	Private Equity	Credit	Real Assets	Total	Private Equity	Credit	Real Assets	Total
	(in millions)							
Change in Total AUM[1]:								
Beginning of Period	$ 67,798	$ 151,033	$ 13,009	$ 231,840	$ 41,181	$ 133,884	$ 11,201	$ 186,266
Inflows	581	6,640	655	7,876	1,448	4,913	820	7,181
Outflows[2]	-	(515)	(86)	(601)	(651)	(4,292)	(505)	(5,448)
Net Flows	581	6,125	569	7,275	797	621	315	1,733
Realizations	(384)	(981)	(335)	(1,700)	(150)	(452)	(611)	(1,213)
Market Activity[3][4]	2,474	1,748	(72)	4,150	353	1,343	154	1,850
End of Period	$ 70,469	$ 157,925	$ 13,171	$ 241,565	$ 42,181	$ 135,396	$ 11,059	$ 188,636

(1) At the individual segment level, inflows include new subscriptions, commitments, capital raised, other increases in available capital, purchases, acquisitions, and portfolio company appreciation. Outflows represent redemptions, other decreases in available capital and portfolio company depreciation. Realizations represent fund distributions of realized proceeds. Market activity represents gains (losses), the impact of foreign exchange rate fluctuations and other income.

(2) Outflows for Total AUM include redemptions of $273.9 million and $325.3 million during the three months ended September 30, 2017 and 2016, respectively.

(3) Includes foreign exchange impacts of $88.0 million, $1.0 billion and $43.3 million for private equity, credit and real assets, respectively, during the three months ended September 30, 2017.
(4) Includes foreign exchange impacts of $17.1 million, $173.3 million and $(11.1) million for private equity, credit and real assets, respectively, during the three months ended September 30, 2016.

	For the Nine Months Ended September 30,							
	2017				2016			
	Private Equity	Credit	Real Assets	Total	Private Equity	Credit	Real Assets	Total
	(in millions)							
Change in Total AUM[1]:								
Beginning of Period	$ 43,628	$ 136,607	$ 11,453	$ 191,688	$ 37,502	$ 121,361	$ 11,260	$ 170,123
Inflows	24,648	21,314	2,935	48,897	5,005	21,071	2,047	28,123
Outflows[2]	(74)	(3,302)	(388)	(3,764)	(1,100)	(8,619)	(505)	(10,224)
Net Flows	24,574	18,012	2,547	45,133	3,905	12,452	1,542	17,899
Realizations	(2,794)	(2,125)	(1,114)	(6,033)	(512)	(1,226)	(1,956)	(3,694)
Market Activity[3][4]	5,061	5,431	285	10,777	1,286	2,809	213	4,308
End of Period	$ 70,469	$ 157,925	$ 13,171	$ 241,565	$ 42,181	$ 135,396	$ 11,059	$ 188,636

(1) At the individual segment level, inflows include new subscriptions, commitments, capital raised, other increases in available capital, purchases, acquisitions and portfolio company appreciation. Outflows represent redemptions, other decreases in available capital and portfolio company depreciation. Realizations represent fund distributions of realized proceeds. Market activity represents gains (losses), the impact of foreign exchange rate fluctuations and other income.
(2) Outflows for Total AUM include redemptions of $693.6 million and $1,190.9 million during the nine months ended September 30, 2017 and 2016, respectively.
(3) Includes foreign exchange impacts of $209.6 million, $2.8 billion and $133.3 million for private equity, credit and real assets, respectively, during the nine months ended September 30, 2017.
(4) Includes foreign exchange impacts of $58.3 million, $318.8 million and $(91.5) million for private equity, credit and real assets, respectively, during the nine months ended September 30, 2016.

Total AUM was $241.6 billion at September 30, 2017, an increase of $9.7 billion, or 4.2%, compared to $231.8 billion at June 30, 2017. The net increase was primarily due to:

Net flows of $7.3 billion primarily related to:
- a $6.1 billion increase related to funds we manage in the credit segment primarily consisting of subscriptions of $3.0 billion related to our liquid/performing funds, Financial Credit Investment III, L.P. (“FCI III”) and Apollo European Principal Finance Fund III, L.P. (“EPF III") of $1.0 billion, $1.0 billion and $0.8 billion, respectively, an increase in AUM relating to Athene of $2.4 billion and an increase in AUM relating to Advisory assets of $0.5 billion;
- a $0.6 billion increase related to funds we manage in the private equity segment primarily consisting of subscriptions attributable to Fund IX of $0.4 billion; and
- a $0.6 billion increase related to funds we manage in the real assets segment primarily consisting of net segment transfers and subscriptions of $0.2 billion and $0.2 billion, respectively.

Market activity of $4.2 billion primarily related to $2.5 billion and $1.7 billion of appreciation in the funds we manage in the private equity and credit segments, respectively.

Offsetting these increases were:

Realizations of $1.7 billion primarily related to:
- $1.0 billion related to funds we manage in the credit segment primarily consisting of distributions of $0.7 billion from Apollo European Principal Finance Fund II, L.P. (“EPF II”);
- $0.4 billion related to funds we manage in the private equity segment primarily consisting of distributions from our traditional private equity funds; and
- $0.3 billion related to funds we manage in the real assets segment primarily consisting of distributions from our real estate debt funds.

Total AUM was $241.6 billion at September 30, 2017, an increase of $49.9 billion, or 26.0%, compared to $191.7 billion at December 31, 2016. The net increase was primarily due to:

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Net flows of $45.1 billion primarily related to:

- a $24.6 billion increase related to funds we manage in the private equity segment primarily consisting of subscriptions attributable to Fund IX of $24.7 billion;
- an $18.0 billion increase related to funds we manage in the credit segment primarily consisting of a net increase in AUM relating to Athene and AGER of $8.0 billion and $2.5 billion, respectively, subscriptions of $7.4 billion primarily related to our liquid/performing funds, EPF III and FCI III of $4.1 billion, $1.5 billion and $1.5 billion, respectively, and an increase in AUM relating to Advisory assets of $2.2 billion, offset by net segment transfers of $2.3 billion; and
- a $2.5 billion increase related to funds we manage in the real assets segment primarily consisting of net segment transfers of $1.7 billion and subscriptions of $0.9 billion.

Market activity of $10.8 billion primarily related to $5.4 billion and $5.1 billion of appreciation in the funds we manage in the credit and private equity segments, respectively.

Offsetting these increases were:

Realizations of $6.0 billion primarily related to:

- $2.8 billion related to funds we manage in the private equity segment primarily consisting of distributions of $1.8 billion, $0.6 billion and $0.4 billion from our traditional private equity funds, natural resources funds and co-investment vehicles, respectively;
- $2.1 billion related to funds we manage in the credit segment primarily consisting of distributions of $1.0 billion, $0.5 billion and $0.4 billion from EPF II, other drawdown funds and liquid/performing funds, respectively; and
- $1.1 billion related to funds we manage in the real assets segment primarily consisting of distributions of $0.9 billion from our real estate debt funds.

The following tables summarize changes in Fee-Generating AUM for each of Apollo's three segments for the three and nine months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,							
	2017				2016			
	Private Equity	Credit	Real Assets	Total	Private Equity	Credit	Real Assets	Total
	(in millions)							
Change in Fee-Generating AUM[1]:								
Beginning of Period	$ 30,011	$ 121,271	$ 9,672	$ 160,954	$ 29,530	$ 108,774	$ 7,124	$ 145,428
Inflows	71	6,699	252	7,022	1,221	3,220	986	5,427
Outflows[2]	(32)	(1,418)	(349)	(1,799)	(112)	(2,215)	-	(2,327)
Net Flows	39	5,281	(97)	5,223	1,109	1,005	986	3,100
Realizations	-	(533)	(300)	(833)	-	(326)	(250)	(576)
Market Activity[3]	17	888	9	914	(9)	670	56	717
End of Period	$ 30,067	$ 126,907	$ 9,284	$ 166,258	$ 30,630	$ 110,123	$ 7,916	$ 148,669

(1) At the individual segment level, inflows include new subscriptions, commitments, capital raised, other increases in available capital, purchases, acquisitions and portfolio company appreciation. Outflows represent redemptions, other decreases in available capital and portfolio company depreciation. Realizations represent fund distributions of realized proceeds. Market activity represents gains (losses), the impact of foreign exchange rate fluctuations and other income.

(2) Outflows for Fee-Generating AUM include redemptions of $191.3 million and $359.9 million during the three months ended September 30, 2017 and 2016, respectively.

(3) Includes foreign exchange impacts of $443.0 million and $25.6 million for credit and real assets, respectively, during the three months ended September 30, 2017, and foreign exchange impacts of $75.3 million and $(11.9) million for credit and real assets, respectively, during the three months ended September 30, 2016.

	For the Nine Months Ended September 30,							
	2017				2016			
	Private Equity	Credit	Real Assets	Total	Private Equity	Credit	Real Assets	Total
	(in millions)							
Change in Fee-Generating AUM[1]:								
Beginning of Period	$ 30,722	$ 111,781	$ 8,295	$ 150,798	$ 29,258	$ 101,522	$ 7,317	$ 138,097
Inflows	303	18,194	2,082	20,579	1,914	11,841	1,799	15,554
Outflows[2]	(557)	(4,601)	(364)	(5,522)	(416)	(3,589)	(46)	(4,051)
Net Flows	(254)	13,593	1,718	15,057	1,498	8,252	1,753	11,503
Realizations	(503)	(1,180)	(889)	(2,572)	(77)	(762)	(1,191)	(2,030)
Market Activity[3]	102	2,713	160	2,975	(49)	1,111	37	1,099
End of Period	$ 30,067	$ 126,907	$ 9,284	$ 166,258	$ 30,630	$ 110,123	$ 7,916	$ 148,669

(1) At the individual segment level, inflows include new subscriptions, commitments, capital raised, other increases in available capital, purchases, acquisitions and portfolio company appreciation. Outflows represent redemptions, other decreases in available capital and portfolio company depreciation. Realizations represent fund distributions of realized proceeds. Market activity represents gains (losses), the impact of foreign exchange rate fluctuations and other income.

(2) Outflows for Fee-Generating AUM include redemptions of $570.3 million and $944.6 million during the three and nine months ended September 30, 2017 and 2016, respectively.

(3) Includes foreign exchange impacts of $1.3 billion and $64.7 million for credit and real assets, respectively, during the nine months ended September 30, 2017, and foreign exchange impacts of $209.2 million and $(30.6) million for credit and real assets, respectively, during the nine months ended September 30, 2016.

Total Fee-Generating AUM was $166.3 billion at September 30, 2017, an increase of $5.3 billion or 3.3%, compared to $161.0 billion at June 30, 2017. The net increase was primarily due to:

Net flows of $5.2 billion primarily related to:

- a $5.3 billion increase related to funds we manage in the credit segment primarily consisting of subscriptions of $2.5 billion primarily related to FCI III, EPF III and our liquid/performing funds of $1.0 billion, $0.8 billion and $0.6 billion, respectively, an increase in AUM relating to Athene of $2.4 billion and fee-generating capital deployment of $1.4 billion. This was offset by fee-generating capital reduction of $1.4 billion and net segment transfers of $0.2 billion.

Market activity of $0.9 billion primarily related to appreciation in the funds we manage in the credit segment.

Offsetting these increases were:

Realizations of $0.8 billion primarily related to:

- $0.5 billion related to funds we manage in the credit segment primarily driven by distributions of $0.3 billion and $0.1 billion from EPF II and our liquid/performing funds, respectively; and
- $0.3 billion related to funds we manage in the real assets segment primarily driven by our real estate debt funds.

Total Fee-Generating AUM was $166.3 billion at September 30, 2017, an increase of $15.5 billion or 10.3%, compared to $150.8 billion at December 31, 2016. The net increase was primarily due to:

Net flows of $15.1 billion primarily related to:

- a $13.6 billion increase related to funds we manage in the credit segment primarily consisting of an increase in AUM relating to Athene of $8.0 billion, subscriptions of $5.6 billion primarily related to our liquid/performing funds, EPF III and FCI III of $2.6 billion, $1.5 billion and $1.5 billion, respectively, and an increase in fee-generating capital deployment of $3.2 billion. This was offset by net segment transfers of $1.4 billion, fee-generating capital reduction of $1.3 billion and redemptions of $0.5 billion; and
- a $1.7 billion increase related to funds we manage in the real assets segment primarily consisting of net segment transfers of $1.5 billion and subscriptions of $0.6 billion. This was offset by fee-generating capital reduction of $0.3 billion.

Market activity of $3.0 billion primarily related to appreciation in the funds we manage in the credit segment.

Offsetting these increases were:

Realizations of $2.6 billion primarily related to:

- $1.2 billion related to funds we manage in the credit segment primarily driven by distributions from our liquid/performing funds, EPF II and our permanent capital vehicles of $0.4 billion, $0.3 billion and $0.2 billion, respectively;
- $0.9 billion related to funds we manage in the real assets segment primarily driven by distributions from our real estate debt funds; and
- $0.5 billion related to funds we manage in the private equity segment primarily driven by distributions of $0.3 billion from our traditional private equity funds.

Capital Deployed and Uncalled Commitments

Capital deployed is the aggregate amount of capital that has been invested during a given period by our drawdown funds, SIAs that have a defined maturity date and funds and SIAs in our real estate debt strategy. Uncalled commitments, by contrast, represents unfunded capital commitments that certain of Apollo’s funds and SIAs have received from fund investors to fund future or current fund investments and expenses.

Capital deployed and uncalled commitments are indicative of the pace and magnitude of fund capital that is deployed or will be deployed, and which therefore could result in future revenues that include management fees, transaction fees and incentive income to the extent they are fee-generating. Capital deployed and uncalled commitments can also give rise to future costs that are related to the hiring of additional resources to manage and account for the additional capital that is deployed or will be deployed. Management uses capital deployed and uncalled commitments as key operating metrics since we believe the results measure our fund’s investment activities.

Capital Deployed

The following table summarizes by segment the capital deployed for funds and SIAs with a defined maturity date and certain funds and SIAs in Apollo’s real estate debt strategy during the specified reporting periods:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Private Equity	$ 1,129	$ 3,048	$ 3,417	$ 8,187
Credit	1,430	729	3,577	2,686
Real Assets[(1)]	712	567	2,324	1,550
Total capital deployed	$ 3,271	$ 4,344	$ 9,318	$ 12,423

(1) Included in capital deployed is $690 million and $2,152 million for the three and nine months ended September 30, 2017, respectively, and $498 million and $1,405 million for the three and nine months ended September 30, 2016, respectively, related to funds in Apollo’s real estate debt strategy.

Uncalled Commitments

The following table summarizes the uncalled commitments by segment during the specified reporting periods:

	As of September 30, 2017	As of December 31, 2016
	(in millions)	
Private Equity	$ 37,786	$ 16,079
Credit	15,168	11,816
Real Assets	1,399	1,414
Total uncalled commitments[(1)]	$ 54,353	$ 29,309

(1) As of September 30, 2017 and December 31, 2016, $48.8 billion and $25.9 billion, respectively, represented the amount of capital available for investment or reinvestment subject to the provisions of the applicable limited partnership agreements or other governing agreements of the funds, partnerships and accounts we manage. These amounts exclude uncalled commitments which can only be called for fund fees and expenses.

The Historical Investment Performance of Our Funds

Below we present information relating to the historical performance of our funds, including certain legacy Apollo funds that do not have a meaningful amount of unrealized investments, and in respect of which the general partner interest has not been contributed to us.

When considering the data presented below, you should note that the historical results of our funds are not indicative of the future results that you should expect from such funds, from any future funds we may raise or from your investment in our Class A shares.

An investment in our Class A shares is not an investment in any of the Apollo funds, and the assets and revenues of our funds are not directly available to us. The historical and potential future returns of the funds we manage are not directly linked to returns on our Class A shares. Therefore, you should not conclude that continued positive performance of the funds we manage will necessarily result in positive returns on an investment in our Class A shares. However, poor performance of the funds that we manage would cause a decline in our revenue from such funds, and would therefore have a negative effect on our performance and in all likelihood the value of our Class A shares.

Moreover, the historical returns of our funds should not be considered indicative of the future results you should expect from such funds or from any future funds we may raise. There can be no assurance that any Apollo fund will continue to achieve the same results in the future.

Finally, our private equity IRRs have historically varied greatly from fund to fund. For example, Fund IV generated a 12% gross IRR and a 9% net IRR since its inception through September 30, 2017, while Fund V generated a 61% gross IRR and a 44% net IRR since its inception through September 30, 2017. Accordingly, the IRR going forward for any current or future fund may vary considerably from the historical IRR generated by any particular fund, or for our private equity funds as a whole. Future returns will also be affected by the applicable risks, including risks of the industries and businesses in which a particular fund invests. See “Item 1A. Risk Factors-Risks Related to Our Businesses-The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our Class A shares” in the 2016 Annual Report.

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Investment Record

The following table summarizes the investment record by segment of Apollo's significant drawdown funds and SIAs that have a defined maturity date in which investors make a commitment to provide capital at the formation of such funds and deliver capital when called as investment opportunities become available. The funds included in the investment record table below have greater than $500 million of AUM and/or form part of a flagship series of funds. The SIAs included in the investment record table below have greater than $200 million of AUM and did not predominantly invest in other Apollo funds or SIAs.

All amounts are as of September 30, 2017, unless otherwise noted:

									As of September 30, 2017	
($ in millions)	Vintage Year	Total AUM	Committed Capital	Total Invested Capital[(1)]	Realized Value[(1)]	Remaining Cost[(1)]	Unrealized Value[(1)]	Total Value[(1)]	Gross IRR[(1)]	Net IRR[(1)]
Private Equity:										
Fund IX	N/A	$ 24,729	$ 24,729	$ -	$ -	$ -	$ -	$ -	-%	-%
Fund VIII	2013	22,318	18,377	12,023	2,342	10,411	15,248	17,590	29	19
Fund VII	2008	5,901	14,677	16,173	29,874	3,499	3,613	33,487	34	26
Fund VI	2006	3,551	10,136	12,457	18,356	3,151	2,933	21,289	12	10
Fund V	2001	309	3,742	5,192	12,697	138	52	12,749	61	44
Fund I, II, III, IV & MIA[(3)]	Various	15	7,320	8,753	17,400	-	1	17,401	39	26
Traditional Private Equity Funds[(4)]		$ 56,823	$ 78,981	$ 54,598	$ 80,669	$ 17,199	$ 21,847	$ 102,516	39%	25%
ANRP II	2016	3,505	3,454	970	491	751	965	1,456	57	32
ANRP I	2012	1,197	1,323	1,095	596	752	910	1,506	12	8
AION	2013	726	826	407	189	265	287	476	11	(1)
Total Private Equity[(9)]		$ 62,251	$ 84,584	$ 57,070	$ 81,945	$ 18,967	$ 24,009	$ 105,954		
Credit:										
Credit Opportunity Funds										
COF III	2014	$ 3,186	$ 3,426	$ 4,769	$ 2,676	$ 2,258	$ 2,113	$ 4,789	-%	(1)%
COF I & II	2008	458	3,068	3,787	7,397	126	177	7,574	23	20
European Principal Finance Funds										
EPF III[(5)]	2017	4,214	4,272	194	-	194	199	199	NM [(2)]	NM [(2)]
EPF I & II[(5)]	Various	3,863	5,020	5,971	5,781	1,532	2,814	8,595	21	14
Structured Credit Funds										
FCI III	2017	1,912	1,906	118	12	96	115	127	NM [(2)]	NM [(2)]
FCI I & II	Various	3,573	2,114	3,498	1,926	2,501	2,604	4,530	14	10
SCRF III [(12)]	2015	1,002	1,238	1,840	1,604	540	560	2,164	18	14
SCRF I & II[(12)]	Various	-	222	707	885	-	-	885	27	21
Other Drawdown Funds & SIAs[(6)]	Various	7,126	9,498	8,959	8,617	2,673	2,532	11,149	9	7
Total Credit[(10)]		$ 25,334	$ 30,764	$ 29,843	$ 28,898	$ 9,920	$ 11,114	$ 40,012		
Real Assets:										
U.S. RE Fund II[(7)]	2016	$ 934	$ 863	$ 443	$ 154	$ 374	$ 454	$ 608	21%	19%
U.S. RE Fund I[(7)]	2012	474	654	636	635	245	312	947	16	13
AGRE Debt Fund I[(13)]	2011	1,152	2,091	2,084	1,457	861	823	2,280	8	7
CPI Funds[(8)]	Various	597	5,011	2,578	2,621	268	84	2,705	15	11
Asia RE Fund[(7)]	2017	586	588	175	2	173	185	187	NM [(2)]	NM [(2)]
Total Real Assets[(11)]		$ 3,743	$ 9,207	$ 5,916	$ 4,869	$ 1,921	$ 1,858	$ 6,727		

(1) Refer to the definitions of Vintage Year, Total Invested Capital, Realized Value, Remaining Cost, Unrealized Value, Total Value, Gross IRR and Net IRR described elsewhere in this report.
(2) Returns have not been presented as the fund commenced investing capital less than 24 months prior to the period indicated and therefore such return information was deemed not meaningful.
(3) The general partners and managers of Funds I, II and MIA, as well as the general partner of Fund III, were excluded assets in connection with the 2007 Reorganization. As a result, Apollo did not receive the economics associated with these entities. The investment performance of these funds, combined with Fund IV, is presented to illustrate fund performance associated with Apollo's Managing Partners and other investment professionals.
(4) Total IRR is calculated based on total cash flows for all funds presented.
(5) Funds are denominated in Euros and historical figures are translated into U.S. dollars at an exchange rate of €1.00 to $1.18 as of September 30, 2017.
(6) Amounts presented have been aggregated for (i) drawdown funds with AUM greater than $500 million that do not form part of a flagship series of funds and (ii) SIAs with AUM greater than $200 million that do not predominantly invest in other Apollo funds or SIAs. Certain SIAs' historical figures are denominated in Euros and translated into U.S. dollars at an exchange rate of €1.00 to $1.18 as of September 30, 2017. Additionally, certain SIAs totaling $1.8 billion of AUM have been excluded from Total Invested Capital, Realized Value, Remaining Cost, Unrealized Value

and Total Value. These SIAs have an open ended life and a significant turnover in their portfolio assets due to the ability to recycle capital. These SIAs had $10.3 billion of Total Invested Capital through September 30, 2017.

(7) U.S. RE Fund I, U.S. RE Fund II and Asia RE Fund had $158 million, $390 million and $245 million of co-investment commitments raised as of September 30, 2017, respectively, which are included in the figures in the table. A co-invest entity within U.S. RE Fund I is denominated in GBP and translated into U.S. dollars at an exchange rate of £1.00 to $1.34 as of September 30, 2017.

(8) As part of the acquisition of Citi Property Investors ("CPI"), Apollo acquired general partner interests in fully invested funds. CPI Funds refers to CPI Capital Partners North America, CPI Capital Partners Asia Pacific, CPI Capital Partners Europe and other CPI funds or individual investments of which Apollo is not the general partner or manager and only receives fees pursuant to either a sub-advisory agreement or an investment management and administrative agreement. For CPI Capital Partners North America, CPI Capital Partners Asia Pacific and CPI Capital Partners Europe, the gross and net IRRs are presented in the investment record table since acquisition on November 12, 2010. The aggregate net IRR for these funds from their inception to September 30, 2017 was (2)%. This net IRR was primarily achieved during a period in which Apollo did not make the initial investment decisions and Apollo only became the general partner or manager of these funds upon completing the acquisition on November 12, 2010.

(9) Private equity co-investment vehicles, and funds with AUM less than $500 million have been excluded. These co-investment vehicles and funds had $8.2 billion of aggregate AUM as of September 30, 2017.

(10) Certain credit funds and SIAs with AUM less than $500 million and $200 million, respectively, have been excluded. These funds and SIAs had $1.7 billion of aggregate AUM as of September 30, 2017.

(11) Certain accounts owned by or related to Athene, certain co-investment vehicles and certain funds with AUM less than $500 million have been excluded. These accounts, co-investment vehicles and funds had $5.3 billion of aggregate AUM as of September 30, 2017.

(12) Remaining cost for certain of our credit funds may include physical cash called, invested or reserved for certain levered investments.

(13) The investor in this U.S. Dollar denominated fund has chosen to make contributions and receive distributions in the local currency of each underlying investment. As a result, Apollo has not entered into foreign currency hedges for this fund and the returns presented include the impact of foreign currency gains or losses. The investor's gross and net IRR, before the impact of foreign currency gains or losses, from the fund's inception to September 30, 2017 was 10% and 9%, respectively.

Private Equity

The following table summarizes the investment record for distressed investments made in our traditional private equity fund portfolios, since the Company's inception. All amounts are as of September 30, 2017:

	Total Invested Capital	Total Value	Gross IRR
	(in millions)		
Distressed for Control	$ 7,885	$ 18,777	29%
Non-Control Distressed	5,416	8,414	71
Total	13,301	27,191	49
Corporate Carve-outs, Opportunistic Buyouts and Other Credit[1]	41,297	75,325	22
Total	$ 54,598	$ 102,516	39%

(1) Other Credit is defined as investments in debt securities of issuers other than portfolio companies that are not considered to be distressed.

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The following tables provide additional detail on the composition of the Fund VIII, Fund VII and Fund VI private equity portfolios based on investment strategy. Amounts for Fund I, II, III, IV and V are included in the table above but not presented below as their remaining value is less than $100 million or the fund has been liquidated. All amounts are as of September 30, 2017:

Fund VIII[1]

	Total Invested Capital	Total Value
	(in millions)	
Corporate Carve-outs	$ 2,318	$ 3,889
Opportunistic Buyouts	9,191	12,956
Distressed	514	745
Total	$ 12,023	$ 17,590

Fund VII[1]

	Total Invested Capital	Total Value
	(in millions)	
Corporate Carve-outs	$ 2,252	$ 4,463
Opportunistic Buyouts	4,338	10,507
Distressed/Other Credit[2]	9,583	18,517
Total	$ 16,173	$ 33,487

Fund VI

	Total Invested Capital	Total Value
	(in millions)	
Corporate Carve-outs	$ 3,397	$ 5,819
Opportunistic Buyouts	6,374	10,496
Distressed/Other Credit[2]	2,686	4,974
Total	$ 12,457	$ 21,289

(1) Committed capital less unfunded capital commitments for Fund VIII and Fund VII was $11.5 billion and $14.1 billion, respectively, which represents capital commitments from limited partners to invest in such funds less capital that is available for investment or reinvestment subject to the provisions of the applicable limited partnership agreement or other governing agreements.

(2) The distressed investment strategy includes distressed for control, non-control distressed and other credit.

During the recovery and expansionary periods of 1994 through 2000 and late 2003 through the first half of 2007, our private equity funds invested or committed to invest approximately $13.7 billion primarily in traditional and corporate partner buyouts. During the recessionary periods of 1990 through 1993, 2001 through late 2003 and the recessionary and post recessionary periods (beginning the second half of 2007 through September 30, 2017), our private equity funds have invested $43.2 billion, of which $18.8 billion was in distressed buyouts and debt investments when the debt securities of quality companies traded at deep discounts to par value. Our average entry multiple for Fund VIII, VII and VI was 5.7x, 6.1x and 7.7x, respectively, as of September 30, 2017. Our average entry multiple for a private equity fund is the average of the total enterprise value over an applicable adjusted earnings before interest, taxes, depreciation and amortization which may incorporate certain adjustments based on the investment team's estimate and we believe captures the true economics of our funds' investments in portfolio companies. The average entry multiple of actively investing funds may include committed investments not yet closed.

Credit

The following table presents the AUM and gross and net returns information for Apollo's credit segment by category type:

	As of September 30, 2017				Gross Returns[1]		Net Returns[1]	
	AUM	Fee-Generating AUM	Carry-Eligible AUM	Carry-Generating AUM	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017
Category	(in millions)							
Liquid/Performing	$ 41,765	$ 36,176	$ 21,245	$ 9,292	1.4%	4.9%	1.3%	4.5%
Drawdown[2]	27,223	17,253	22,634	8,235	2.7	8.2	2.2	6.8
Permanent capital vehicles ex Athene Non-Sub-Advised[3]	12,978	12,165	10,404	9,107	2.9	8.8	2.0	5.9
Athene Non-Sub-Advised[3]	57,029	57,029	-	-	N/A	N/A	N/A	N/A
AGER Non-Sub-Advised[3]	6,747	4,284	-	-	N/A	N/A	N/A	N/A
Advisory	12,183	-	-	-	N/A	N/A	N/A	N/A
Total Credit	$ 157,925	$ 126,907	$ 54,283	$ 26,634	1.9%	6.0%	1.6%	5.1%

(1) The gross and net returns for the three and nine months ended September 30, 2017 for total credit excludes assets managed by AAM that are not directly invested in Apollo funds and investment vehicles or sub-advised by Apollo.

(2) As of September 30, 2017, significant drawdown funds and SIAs had inception-to-date gross and net IRRs of 16.0% and 12.2%, respectively. Significant drawdown funds and SIAs include funds and SIAs with AUM greater than $200 million that do not predominantly invest in other Apollo funds or SIAs.

(3) Athene Non-Sub-Advised and AGER Non-Sub-Advised reflects total combined AUM of $81.9 billion less $18.1 billion of assets that were either sub-advised by Apollo or invested in funds and investment vehicles managed by Apollo included within other asset categories. AGER Non-Sub-Advised includes $4.2 billion of AUM for which AAME provides investment advisory services.

Liquid/Performing

The following table summarizes the investment record for funds in the liquid/performing category within Apollo's credit segment. The significant funds included in the investment record table below have greater than $200 million of AUM and do not predominantly invest in other Apollo funds or SIAs.

			Net Returns			
	Vintage Year	Total AUM	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017	For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30, 2016
Credit:		(in millions)				
Hedge Funds[1]	Various	$ 6,617	1%	4%	3%	9%
CLOs[2]	Various	11,937	1	3	3	7
SIAs / Other	Various	23,211	2	6	4	8
Total		$ 41,765				

(1) Hedge Funds primarily includes Apollo Credit Strategies Master Fund Ltd., Apollo Credit Master Fund Ltd. and Apollo Credit Short Opportunities Fund.

(2) CLO returns are calculated based on gross return on invested assets, which excludes cash. Included within Total AUM of CLOs is $1.0 billion of AUM related to a standalone, self-managed asset management business established in connection with risk-retention rules, from which Apollo earns investment-related service fees, but for which Apollo does not provide management or advisory services. CLO returns exclude performance related to this AUM.

Permanent Capital

The following table summarizes the investment record for our permanent capital vehicles by segment, excluding Athene-related and AGER-related assets managed or advised by Athene Asset Management and AAME:

		Total AUM	Total Returns[1]			
	IPO Year[2]	As of September 30, 2017	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017	For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30, 2016
Credit:		(in millions)				
MidCap[3]	N/A	$ 7,680	3%	9%	3%	7%
AIF	2013	390	2	11	10	20
AFT	2011	431	1	1	9	18
AINV[4]	2004	4,435	(2)	12	7	22
Real Assets:						
ARI	2009	4,151	-	17%	5%	3%
Total		$ 17,087				

(1) Total returns are based on the change in closing trading prices during the respective periods presented taking into account dividends and distributions, if any, as if they were reinvested without regard to commission.
(2) An IPO year represents the year in which the vehicle commenced trading on a national securities exchange.
(3) MidCap is not a publicly traded vehicle and therefore IPO year is not applicable. The returns presented are a gross return based on NAV. The net returns based on NAV were 2% and 2% for the three months ended September 30, 2017 and 2016, respectively, and 6% and 4% for the nine months ended September 30, 2017 and 2016, respectively.
(4) All amounts are as of June 30, 2017 except for total returns. Refer to www.apolloic.com for the most recent financial information on AINV. The information contained on AINV's website is not part of this report. Included within Total AUM of AINV is $1.7 billion of AUM related to a non-traded business development company from which Apollo earns investment-related service fees, but for which Apollo does not provide management or advisory services. Net returns exclude performance related to this AUM.

Athene and SIAs

As of September 30, 2017, Apollo managed or advised $81.9 billion of total AUM in accounts owned by or related to Athene and AGER, of which approximately $18.1 billion was either sub-advised by Apollo or invested in Apollo funds and investment vehicles managed by Apollo. Of the approximately $18.1 billion of AUM, the vast majority were in sub-advisory managed accounts that manage high grade credit asset classes, such as CLO debt, commercial mortgage backed securities, and insurance-linked securities.

As of September 30, 2017, Apollo managed approximately $21 billion of total AUM in SIAs, which include certain SIAs in the investment record tables above and capital deployed from certain SIAs across Apollo's private equity, credit and real assets funds.

Overview of Results of Operations

Revenues

Advisory and Transaction Fees from Related Parties, Net. As a result of providing advisory services with respect to actual and potential private equity, credit, and real assets investments, we are entitled to receive fees for transactions related to the acquisition and, in certain instances, disposition of portfolio companies as well as fees for ongoing monitoring of portfolio company operations and directors' fees. We also receive advisory fees for advisory services provided to certain credit funds. In addition, monitoring fees are generated on certain structured portfolio company investments. Under the terms of the limited partnership agreements for certain funds, the management fee payable by the funds may be subject to a reduction based on a certain percentage of such advisory and transaction fees, net of applicable broken deal costs ("Management Fee Offset"). Such amounts are presented as a reduction to advisory and transaction fees from related parties, net, in the condensed consolidated statements of operations. See note 2 to our condensed consolidated financial statements for more detail on advisory and transaction fees from related parties, net.

The Management Fee Offsets are calculated for each fund as follows:

- 65%-100% for private equity funds, gross advisory, transaction and other special fees;
- 65%-100% for certain credit funds, gross advisory, transaction and other special fees; and

- 100% for certain real assets funds, gross advisory, transaction and other special fees.

Management Fees from Related Parties. The significant growth of the assets we manage has had a positive effect on our revenues. Management fees are typically calculated based upon any of "net asset value," "gross assets," "adjusted par asset value," "adjusted costs of all unrealized portfolio investments," "capital commitments," "invested capital," "adjusted assets," "capital contributions," or "stockholders' equity," each as defined in the applicable limited partnership agreement and/or management agreement of the unconsolidated funds.

Carried Interest Income from Related Parties. The general partners of our funds, in general, are entitled to an incentive return that can normally amount to as much as 20% of the total returns on fund capital, depending upon performance of the underlying funds and subject to preferred returns and high water marks, as applicable. The carried interest income from related parties is recognized in accordance with U.S. GAAP guidance applicable to accounting for arrangement fees based on a formula. In applying the U.S. GAAP guidance, the carried interest from related parties for any period is based upon an assumed liquidation of the funds' assets at the reporting date, and distribution of the net proceeds in accordance with the funds' allocation provisions.

As of September 30, 2017, approximately 54% of the value of our funds' investments on a gross basis was determined using market-based valuation methods (i.e., reliance on broker or listed exchange quotes) and the remaining 46% was determined primarily by comparable company and industry multiples or discounted cash flow models. For our private equity, credit and real assets segments, the percentage determined using market-based valuation methods as of September 30, 2017 was 23%, 72% and 40%, respectively. See "Item 1A. Risk Factors-Risks Related to Our Businesses-Our funds' performance, and our performance, may be adversely affected by the financial performance of our funds' portfolio companies and the industries in which our funds invest" in the 2016 Annual Report for a discussion regarding certain industry-specific risks that could affect the fair value of our private equity funds' portfolio company investments.

Carried interest income fee rates can be as much as 20% for our private equity funds. In our private equity funds, the Company does not earn carried interest income until the investors in the fund have achieved cumulative investment returns on invested capital (including management fees and expenses) in excess of an 8% hurdle rate. Additionally, certain of our credit and real assets funds have various carried interest rates and hurdle rates. Certain of our credit and real assets funds allocate carried interest to the general partner in a similar manner as the private equity funds. In our private equity, certain credit and real assets funds, so long as the investors achieve their priority returns, there is a catch-up formula whereby the Company earns a priority return for a portion of the return until the Company's carried interest income equates to its incentive fee rate for that fund; thereafter, the Company participates in returns from the fund at the carried interest income rate. Carried interest income is subject to reversal to the extent that the carried interest income distributed exceeds the amount due to the general partner based on a fund's cumulative investment returns. The Company recognizes potential repayment of previously received carried interest income as a general partner obligation representing all amounts previously distributed to the general partner that would need to be repaid to the Apollo funds if these funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual general partner obligation, however, would not become payable or realized until the end of a fund's life or as otherwise set forth in the respective limited partnership agreement of the fund.

The table below presents an analysis of Apollo's (i) carried interest receivable on an unconsolidated basis and (ii) realized and unrealized carried interest income (loss) for Apollo's combined segments as of and for the three and nine months ended September 30, 2017:

	As of September 30, 2017	For the Three Months Ended September 30, 2017			For the Nine Months Ended September 30, 2017		
	Carried Interest Receivable on an Unconsolidated Basis	Unrealized Carried Interest Income (Loss)	Realized Carried Interest Income	Total Carried Interest Income (Loss) from Related Parties	Unrealized Carried Interest Income (Loss)	Realized Carried Interest Income	Total Carried Interest Income (Loss) from Related Parties
	(in thousands)						
Private Equity Funds:							
Fund VIII	$ 763,727	$ 266,447	$ 16,441	$ 282,888	$ 434,524	$ 99,629	$ 534,153
Fund VII[1]	52,733	(544)	-	(544)	(21,921)	19,817	(2,104)
Fund VI[1]	47,929	14,669	-	14,669	90,166	-	90,166
Fund IV and V	- [3]	(6,432)	-	(6,432)	(13,079)	-	(13,079)
ANRP I and II	24,494 [3]	(13,883)	-	(13,883)	(71,073)	52,873	(18,200)
AAA/Other[2][5]	239,577	26,332	5,418	31,750	(66,781)	141,498	74,717
Total Private Equity Funds	1,128,460	286,589	21,859	308,448	351,836	313,817	665,653
Total Private Equity Funds, net of profit share	701,004	189,597	4,465	194,062	234,811	168,034	402,845
Credit Category:							
Drawdown	312,030 [3]	(7,294)	23,698	16,404	16,151	83,878	100,029
Liquid/Performing	45,226	5,301	2,260	7,561	(1,278)	23,672	22,394
Permanent capital vehicles	58,908	6,172	6,173	12,345	22,549	12,636	35,185
Total Credit Funds	416,164	4,179	32,131	36,310	37,422	120,186	157,608
Total Credit Funds, net of profit share	146,931	1,913	17,488	19,401	20,014	69,018	89,032
Real Assets Funds:							
CPI Funds	323	4	-	4	(10)	-	(10)
U.S. RE Fund I and II	22,988	(2,440)	4,080	1,640	(1,270)	8,111	6,841
Other[5]	12,223	(2,733)	2,905	172	(359)	4,113	3,754
Total Real Assets Funds	35,534	(5,169)	6,985	1,816	(1,639)	12,224	10,585
Total Real Assets Funds, net of profit share	21,350	(357)	3,349	2,992	1,209	5,696	6,905
Total	$ 1,580,158	$ 285,599	$ 60,975	$ 346,574	$ 387,619	$ 446,227	$ 833,846
Total, net of profit share	$ 869,285 [4]	$ 191,153	$ 25,302	$ 216,455	$ 256,034	$ 242,748	$ 498,782

(1) As of September 30, 2017, the remaining investments and escrow cash of Fund VII and Fund VI were valued at 99% and 97% of the fund's unreturned capital, respectively, which were below the required escrow ratio of 115%. As a result, these funds are required to place in escrow current and future carried interest income distributions to the general partner until the specified return ratio of 115% is met (at the time of a future distribution) or upon liquidation. As of September 30, 2017, Fund VI had $167.6 million of gross carried interest income, or $110.7 million net of profit sharing, in escrow. As of September 30, 2017, Fund VII had $69.7 million of gross carried interest income, or $38.8 million net of profit sharing, in escrow. With respect to Fund VII and Fund VI, realized carried interest income currently distributed to the general partner is limited to potential tax distributions per the fund's partnership agreement.

(2) AAA/Other includes $187.1 million of carried interest receivable, or $133.4 million net of profit sharing, from AAA Investments, L.P. which Apollo may elect to receive in cash or in common shares of Athene Holding (valued at the fair market value); and if Apollo elects to receive payment of such carried interest in cash, then common shares of Athene Holding shall be distributed to Apollo and immediately sold by Apollo to pay for such carried interest in cash.

(3) As of September 30, 2017, certain credit funds and private equity funds had $69.3 million and $42.2 million, respectively, in general partner obligations to return previously distributed carried interest income. The fair value gain on investments and income at the fund level needed to reverse the general partner obligations for certain credit funds and certain private equity funds was $340.2 million and $164.4 million, respectively, as of September 30, 2017.

(4) There was a corresponding profit sharing payable of $710.9 million as of September 30, 2017, including profit sharing payable related to amounts in escrow and a contingent consideration obligation of $87.3 million.

(5) Other includes certain SIAs.

The general partners of the private equity, credit and real assets funds listed in the table above were accruing carried interest income as of September 30, 2017. The investment manager of AINV accrues carried interest as it is earned. The general partners of certain of our credit funds accrue carried interest when the fair value of investments exceeds the cost basis of the individual investors' investments in the fund, including any allocable share of expenses incurred in connection with such investments, which we refer to as "high water marks." These high water marks are applied on an individual investor basis. Certain of our credit funds have investors with various high water marks, the achievement of which is subject to market conditions and investment performance.

Carried interest income from our private equity funds and certain credit and real assets funds is subject to contingent repayment by the general partner in the event of future losses to the extent that the cumulative carried interest distributed from inception to date exceeds the amount computed as due to the general partner at the final distribution. These general partner obligations, if applicable, are included in due to related parties on the condensed consolidated statements of financial condition.

The following table summarizes our carried interest since inception for our combined segments through September 30, 2017:

	Carried Interest Since Inception[(1)]				
	Undistributed by Fund and Recognized	Distributed by Fund and Recognized[(2)]	Total Undistributed and Distributed by Fund and Recognized[(3)]	General Partner Obligation as of September 30, 2017[(3)]	Maximum Carried Interest Income Subject to Potential Reversal[(4)]
			(in millions)		
Private Equity Funds:					
Fund VIII	$ 763.7	$ 104.3	$ 868.0	$ -	$ 830.4
Fund VII	52.7	3,121.5	3,174.2	-	704.0
Fund VI	47.9	1,659.0	1,706.9	-	1,160.6
Fund IV and V	-	2,053.1	2,053.1	24.1	10.6
ANRP I and II	24.5	72.3	96.8	18.1	48.0
AAA/Other	239.6	354.5	594.1	-	245.0
Total Private Equity Funds	1,128.4	7,364.7	8,493.1	42.2	2,998.6
Credit Category[(5)]:					
Drawdown	312.0	1,040.2	1,352.2	69.3	475.2
Liquid/Performing	45.2	515.5	560.7	-	76.7
Permanent capital vehicles ex AAM	49.6	-	49.6	-	49.6
Total Credit Funds	406.8	1,555.7	1,962.5	69.3	601.5
Real Assets Funds:					
CPI Funds	0.3	9.7	10.0	-	0.3
U.S. RE Fund I and II	23.0	16.9	39.9	-	33.3
Other[(6)]	12.2	7.9	20.1	-	14.6
Total Real Assets Funds	35.5	34.5	70.0	-	48.2
Total	$ 1,570.7	$ 8,954.9	$ 10,525.6	$ 111.5	$ 3,648.3

(1) Certain funds are denominated in Euros and historical figures are translated into U.S. dollars at an exchange rate of €1.00 to $1.18 as of September 30, 2017.
(2) Amounts in "Distributed by Fund and Recognized" for the CPI, Gulf Stream Asset Management, LLC ("Gulf Stream") and Stone Tower funds and SIAs are presented for activity subsequent to the respective acquisition dates.
(3) Amounts were computed based on the fair value of fund investments on September 30, 2017. Carried interest income has been allocated to and recognized by the general partner. Based on the amount of carried interest income allocated, a portion is subject to potential reversal or, to the extent applicable, has been reduced by the general partner obligation to return previously distributed carried interest income or fees at September 30, 2017. The actual determination and any required payment of any such general partner obligation would not take place until the final disposition of the fund's investments based on contractual termination of the fund.
(4) Represents the amount of carried interest income that would be reversed if remaining fund investments became worthless on September 30, 2017. Amounts subject to potential reversal of carried interest income include amounts undistributed by a fund (i.e., the carried interest receivable), as well as a portion of the amounts that have been distributed by a fund, net of taxes not subject to a general partner obligation to return previously distributed carried interest income, except for those funds that are gross of taxes as defined in the respective funds' governing documents.
(5) Amounts exclude AINV, as carried interest income from this entity is not subject to contingent repayment.
(6) Other includes certain SIAs.

Expenses

Compensation and Benefits. Our most significant expense is compensation and benefits expense. This consists of fixed salary, discretionary and non-discretionary bonuses, profit sharing expense associated with the carried interest income earned from private equity, credit and real assets funds and compensation expense associated with the vesting of non-cash equity-based awards.

Our compensation arrangements with certain partners and employees contain a significant performance-based incentive component. Therefore, as our net revenues increase, our compensation costs also rise or can be lower when net revenues decrease. In addition, our compensation costs reflect the increased investment in people as we expand geographically and create new funds.

In addition, certain professionals and selected other individuals have a profit sharing interest in the carried interest income earned in relation to our private equity, certain credit and real assets funds in order to better align their interests with our own and with those of the investors in these funds. Profit sharing expense is part of our compensation and benefits expense and is generally based upon a fixed percentage of private equity, credit and real assets carried interest income on a pre-tax and a pre-consolidated basis. Profit sharing expense can reverse during periods when there is a decline in carried interest income that was previously recognized. Profit sharing amounts are normally distributed to employees after the corresponding investment gains have been realized and generally before preferred returns are achieved for the investors. Therefore, changes in our unrealized gains (losses) for investments have the same effect on our profit sharing expense. Profit sharing expense increases when unrealized gains increase. Realizations only impact profit sharing expense to the extent that the effects on investments have not been recognized previously. If losses on other investments within a fund are subsequently realized, the profit sharing amounts previously distributed are normally subject to a general partner obligation to return carried interest income previously distributed back to the funds. This general partner obligation due to the funds would be realized only when the fund is liquidated, which generally occurs at the end of the fund's term. However, indemnification obligations also exist for pre-reorganization realized gains, which, although our Managing Partners and Contributing Partners would remain personally liable, may indemnify our Managing Partners and Contributing Partners for 17.5% to 100% of the previously distributed profits regardless of the fund's future performance. See note 13 to our condensed consolidated financial statements for further discussion of indemnification.

Each Managing Partner receives $100,000 per year in base salary for services rendered to us. Additionally, our Managing Partners can receive other forms of compensation. In addition, AHL Awards (as defined in note 11 to our condensed consolidated financial statements) and other equity-based compensation awards have been granted to the Company and certain employees, which amortize over the respective vesting periods. In addition, the Company grants equity awards to certain employees, including RSUs, restricted Class A shares and options, that generally vest and become exercisable in quarterly installments or annual installments depending on the contract terms over a period of three to six years. See note 11 to our condensed consolidated financial statements for further discussion of equity-based compensation.

Other Expenses. The balance of our other expenses includes interest, placement fees, and general, administrative and other operating expenses. Interest expense consists primarily of interest related to the 2013 AMH Credit Facilities, the 2024 Senior Notes and the 2026 Senior Notes as discussed in note 9 to our condensed consolidated financial statements. Placement fees are incurred in connection with our capital raising activities. General, administrative and other expenses includes occupancy expense, depreciation and amortization, professional fees and costs related to travel, information technology and administration. Occupancy expense represents charges related to office leases and associated expenses, such as utilities and maintenance fees. Depreciation and amortization of fixed assets is normally calculated using the straight-line method over their estimated useful lives, ranging from two to sixteen years, taking into consideration any residual value. Leasehold improvements are amortized over the shorter of the useful life of the asset or the expected term of the lease. Intangible assets are amortized based on the future cash flows over the expected useful lives of the assets.

Other Income (Loss)

Net Gains (Losses) from Investment Activities. Net gains (losses) from investment activities include both realized gains and losses and the change in unrealized gains and losses in our investment portfolio between the opening reporting date and the closing reporting date. Net unrealized gains (losses) are a result of changes in the fair value of unrealized investments and reversal of unrealized gains (losses) due to dispositions of investments during the reporting period. Significant judgment and estimation goes into the assumptions that drive these models and the actual values realized with respect to investments could be materially different from values obtained based on the use of those models. The valuation methodologies applied impact the reported value of investment company holdings and their underlying portfolios in our condensed consolidated financial statements.

Net Gains (Losses) from Investment Activities of Consolidated Variable Interest Entities. Changes in the fair value of the consolidated VIEs' assets and liabilities and related interest, dividend and other income and expenses subsequent to consolidation are presented within net gains (losses) from investment activities of consolidated variable interest entities and are attributable to Non-Controlling Interests in the condensed consolidated statements of operations.

Other Income (Losses), Net. Other income (losses), net includes gains (losses) arising from the remeasurement of foreign currency denominated assets and liabilities, reversal of a portion of the tax receivable agreement liability and other miscellaneous non-operating income and expenses.

Income Taxes. The Apollo Operating Group and its subsidiaries generally operate as partnerships for U.S. federal income tax purposes. As a result, except as described below, the Apollo Operating Group has not been subject to U.S. income taxes. However, the U.S. entities, in some cases, are subject to NYC UBT, and non-U.S. entities, in some cases, are subject to non-U.S. corporate income taxes. In addition, certain consolidated entities are, or are treated as, corporations for U.S. and non-U.S. tax purposes and therefore subject to federal, state, local and foreign corporate income tax. The Company's provision for income taxes is accounted for in accordance with U.S. GAAP.

Significant judgment is required in determining the provision for income taxes and in evaluating income tax positions, including evaluating uncertainties. We recognize the income tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained upon examination, including resolutions of any related appeals or litigation, based on the technical merits of the positions. The tax benefit is measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. If a tax position is not considered more likely than not to be sustained, then no benefits of the position are recognized. The Company's income tax positions are reviewed and evaluated quarterly to determine whether or not we have uncertain tax positions that require financial statement recognition or de-recognition.

Deferred tax assets and liabilities are recognized for the expected future tax consequences, using currently enacted tax rates, of differences between the carrying amount of assets and liabilities and their respective tax basis. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Non-Controlling Interests

For entities that are consolidated, but not 100% owned, a portion of the income or loss and corresponding equity is allocated to owners other than Apollo. The aggregate of the income or loss and corresponding equity that is not owned by the Company is included in Non-Controlling Interests in the condensed consolidated financial statements. The Non-Controlling Interests relating to Apollo Global Management, LLC primarily include the 51.9% and 53.9% ownership interest in the Apollo Operating Group held by the Managing Partners and Contributing Partners through their limited partner interests in Holdings as of September 30, 2017 and 2016, respectively. Non-Controlling Interests also include limited partner interests in certain consolidated funds and VIEs.

The authoritative guidance for Non-Controlling Interests in the condensed consolidated financial statements requires reporting entities to present Non-Controlling Interest as equity and provides guidance on the accounting for transactions between an entity and Non-Controlling Interests. According to the guidance, (1) Non-Controlling Interests are presented as a separate component of shareholders' equity on the Company's condensed consolidated statements of financial condition, (2) net income (loss) includes the net income (loss) attributable to the Non-Controlling Interest holders on the Company's condensed consolidated statements of operations, (3) the primary components of Non-Controlling Interest are separately presented in the Company's condensed consolidated statements of changes in shareholders' equity to clearly distinguish the interests in the Apollo Operating Group and other ownership interests in the consolidated entities and (4) profits and losses are allocated to Non-Controlling Interests in proportion to their ownership interests regardless of their basis.

Results of Operations

Below is a discussion of our condensed consolidated results of operations for the three and nine months ended September 30, 2017 and 2016. For additional analysis of the factors that affected our results at the segment level, see "-Segment Analysis" below:

	For the Three Months Ended September 30,		Amount Change	Percentage Change	For the Nine Months Ended September 30,		Amount Change	Percentage Change
	2017	2016			2017	2016		
Revenues:		(in thousands)				(in thousands)		
Management fees from related parties	$ 301,443	$ 274,313	$ 27,130	9.9%	$ 852,291	$ 775,171	$ 77,120	9.9%
Advisory and transaction fees from related parties, net	16,209	29,801	(13,592)	(45.6)	54,905	102,699	(47,794)	(46.5)
Carried interest income from related parties	346,580	199,617	146,963	73.6	833,459	407,134	426,325	104.7
Total Revenues	664,232	503,731	160,501	31.9	1,740,655	1,285,004	455,651	35.5
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	108,853	92,591	16,262	17.6	316,011	290,013	25,998	9.0
Equity-based compensation	24,485	26,163	(1,678)	(6.4)	70,332	74,203	(3,871)	(5.2)
Profit sharing expense	137,296	90,152	47,144	52.3	339,679	179,767	159,912	89.0
Total compensation and benefits	270,634	208,906	61,728	29.5	726,022	543,983	182,039	33.5
Interest expense	13,303	12,832	471	3.7	39,497	30,505	8,992	29.5
General, administrative and other	68,149	58,566	9,583	16.4	189,918	187,285	2,633	1.4
Placement fees	5,397	1,953	3,444	176.3	12,560	5,781	6,779	117.3
Total Expenses	357,483	282,257	75,226	26.7	967,997	767,554	200,443	26.1
Other Income:								
Net gains from investment activities	68,932	17,746	51,186	288.4	102,936	50,287	52,649	104.7
Net gains from investment activities of consolidated variable interest entities	845	800	45	5.6	11,085	2,817	8,268	293.5
Income from equity method investments	47,488	23,213	24,275	104.6	102,877	64,356	38,521	59.9
Interest income	1,504	1,192	312	26.2	2,929	3,073	(144)	(4.7)
Other income (loss), net	25,387	(40)	25,427	NM	44,776	485	44,291	NM
Total Other Income	144,156	42,911	101,245	235.9	264,603	121,018	143,585	118.6
Income before income tax provision	450,905	264,385	186,520	70.5	1,037,261	638,468	398,793	62.5
Income tax provision	(16,542)	(29,667)	13,125	(44.2)	(54,926)	(62,508)	7,582	(12.1)
Net Income	434,363	234,718	199,645	85.1	982,335	575,960	406,375	70.6
Net income attributable to Non-Controlling Interests	(231,411)	(140,099)	(91,312)	65.2	(542,507)	(340,077)	(202,430)	59.5
Net Income Attributable to Apollo Global Management, LLC	202,952	94,619	108,333	114.5	439,828	235,883	203,945	86.5
Net income attributable to Preferred Shareholders	(4,383)	-	(4,383)	NM	(9,155)	-	(9,155)	NM
Net Income Attributable to AGM Common Shareholders	$ 198,569	$ 94,619	$ 103,950	109.9%	$ 430,673	$ 235,883	$ 194,790	82.6%

Note:"NM" denotes not meaningful. Changes from negative to positive amounts and positive to negative amounts are not considered meaningful. Increases or decreases from zero and changes greater than 500% are also not considered meaningful.

Revenues

Our revenues and other income include fixed components that result from measures of capital and asset valuations and variable components that result from realized and unrealized investment performance, as well as the value of successfully completed transactions.

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Management fees from related parties increased by $27.1 million for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016. This change was primarily attributable to increased management fees earned with respect to EPF III, Athene and FCI III of $20.5 million, $7.6 million and $6.7 million, respectively, offset by a decrease in management fees earned with respect to ANRP II of $12.7 million during the three months ended September 30, 2017 as compared to the same period in 2016. Management fees earned from EPF III and FCI III increased as a result of capital raises that occurred after September 30, 2016, as well as a one-time catch-up of management fees during the three months ended September 30, 2017 of $7.4 million and $4.9 million from EPF III and FCI III, respectively. Management fees earned from ANRP II decreased primarily as a result of a catch-up of management fees during the three months ended September 30, 2016 of $13.2 million.

Advisory and transaction fees from related parties, net, decreased by $13.6 million for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016. This change was primarily attributable to a decrease in net advisory and transaction fees earned with respect to Fund VIII's portfolio companies of $15.3 million during the three months ended September 30, 2017 as compared to the same period in 2016.

Carried interest income from related parties increased by $147.0 million for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016. This change was primarily attributable to increased carried interest income earned from our private equity funds of $223.6 million, offset by decreased carried interest income earned from our credit funds of $75.7 million during the three months ended September 30, 2017 as compared to the same period in 2016. For additional details regarding changes in carried interest income in each segment, see "-Segment Analysis" below.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Management fees from related parties increased by $77.1 million for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. This change was primarily attributable to increased management fees earned from EPF III, Athene and FCI III of $43.1 million, $24.2 million, and $10.0 million, respectively, during the nine months ended September 30, 2017 as compared to the same period during 2016. Management fees earned from EPF III and FCI III increased as a result of capital raises that occurred after September 30, 2016, as well as a one-time catch-up of management fees during the nine months ended September 30, 2017 of $10.8 million and $7.0 million from EPF III and FCI III, respectively.

Advisory and transaction fees from related parties, net, decreased by $47.8 million for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. This change was primarily attributable to a decrease in net advisory and transaction fees earned with respect to Fund VIII's portfolio companies of $49.0 million during the nine months ended September 30, 2017 as compared to the same period during 2016.

Carried interest income from related parties increased by $426.3 million for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. This change was primarily attributable to increased carried interest income earned from our private equity funds of $519.0 million, offset by decreased carried interest income earned from our credit funds of $98.8 million during the nine months ended September 30, 2017 as compared to the same period in 2016. For additional details regarding changes in carried interest income in each segment, see "-Segment Analysis" below.

Expenses

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Compensation and benefits increased by $61.7 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to an increase in profit sharing expense of $47.1 million due to increased carried interest income during the three months ended September 30, 2017, as compared to the same period in 2016. In any period the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period. In addition, this change was attributable to an increase in salary, bonus and benefits of $16.3 million for the three months ended September 30, 2017, as compared to the same period in 2016 as a result of an increase in headcount.

Included in profit sharing expense is $13.7 million and $10.4 million for the three months ended September 30, 2017 and 2016, respectively, related to a performance based incentive arrangement for certain Apollo partners and employees designed to more closely align compensation on an annual basis with the overall realized performance of the Company (referred to herein as the "Incentive Pool"). Allocations to participants in the Incentive Pool contain both a fixed component and a discretionary component, each of which may vary year to year. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular period. See "-Profit Sharing Expense" in the Critical Accounting Policies section for an overview of the Incentive Pool.

General, administrative and other expenses increased by $9.6 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016 primarily due to an increase in professional fees during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016.

Placement fees increased by $3.4 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016 primarily as a result of placement fees related to the launches of EPF III and Fund IX of $2.6 million and $2.3 million, respectively, during the three months ended September 30, 2017.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Compensation and benefits increased by $182.0 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to an increase in profit sharing expense of $159.9 million due to increased carried interest income during the nine months ended September 30, 2017, as compared to the same period in 2016. In any period the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period.

Included in profit sharing expense is $54.0 million and $41.9 million for the nine months ended September 30, 2017 and 2016, respectively, related to the Incentive Pool. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular period. See "-Profit Sharing Expense" in the Critical Accounting Policies section for an overview of the Incentive Pool.

Interest expense increased by $9.0 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016 primarily as a result of the issuance of the 2026 Senior Notes in May 2016, as described in note 9 to our condensed consolidated financial statements.

General, administrative and other expense increased by $2.6 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016 primarily as a result of increased fund organizational expenses related to Fund IX during the nine months ended September 30, 2017, as compared to the same period in 2016.

Placement fees increased by $6.8 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016 as a result of placement fees related to the launch of EPF III of $7.5 million during the nine months ended September 30, 2017.

Other Income (Loss)

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Net gains from investment activities increased by $51.2 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to an increase in the fair value of the Company's investment in Athene Holding during the three months ended September 30, 2017, as compared to the same period in 2016. See note 5 to the condensed consolidated financial statements for further information regarding the Company's investment in Athene Holding.

Income from equity method investments increased by $24.3 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily driven by increases in the value of investments held by certain Apollo funds and other entities in which the Company has a direct interest, mainly with respect to Fund VIII of $21.4 million, during the three months ended September 30, 2017 as compared to the same period in 2016.

Other income, net increased by $25.4 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to $19.0 million in proceeds received in connection with the Company's early termination of a lease during the three months ended September 30, 2017.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Net gains from investment activities increased by $52.6 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to an increase in the fair value of the Company's investment in Athene Holding during the nine months ended September 30, 2017, as compared to the same period in 2016. See note 5 to the condensed consolidated financial statements for further information regarding the Company's investment in Athene Holding.

Net gains from investment activities of consolidated VIEs increased by $8.3 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. See note 4 to the condensed consolidated financial statements for details regarding net gains from investment activities of consolidated VIEs.

Income from equity method investments increased by $38.5 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily driven by increases in the value of investments held by certain Apollo funds and other entities in which the Company has a direct interest, mainly with respect to Fund VIII and AAA of $29.5 million and $6.5 million, respectively, during the nine months ended September 30, 2017, as compared to the same period in 2016.

Other income, net increased by $44.3 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016 primarily attributable to $19.0 million in proceeds received in connection with the Company's early termination of a lease during the nine months ended September 30, 2017, in addition to $17.5 million in insurance proceeds received during the nine months ended September 30, 2017 in connection with fees and expenses relating to a legal proceeding.

Net Income Attributable to Non-Controlling Interests and Preferred Shareholders

For information related to net income attributable to Non-Controlling Interests and net income attributable to preferred shareholders, see note 12 to the condensed consolidated financial statements.

Income Tax Provision

The Apollo Operating Group and its subsidiaries generally operate as partnerships for U.S. federal income tax purposes. As a result, only a portion of the income we earn is subject to corporate-level tax in the United States and foreign jurisdictions. The provision for income taxes includes federal, state and local income taxes in the United States and foreign income taxes.

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

The income tax provision decreased by $13.1 million for three months ended September 30, 2017, as compared to the three months ended September 30, 2016. The decrease in the income tax provision was primarily due to an overall change in the mix of earnings when comparing the amount of earnings that are subject to corporate-level taxation to those earnings that are not subject to corporate-level tax as these earnings are passed through to Non-Controlling Interests and Class A shareholders. The provision for income taxes includes federal, state, local and foreign income taxes resulting in an effective income tax rate of 3.7% and 11.2% for the three months ended September 30, 2017 and 2016, respectively. The most significant reconciling items between our U.S. federal statutory income tax rate and our effective income tax rate were due to the following: (i) income passed through to Non-Controlling Interests; (ii) income passed through to Class A shareholders; and (iii) state and local income taxes including NYC UBT (see note 8 to the condensed consolidated financial statements for further details regarding the Company's income tax provision).

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

The income tax provision decreased by $7.6 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. The decrease was primarily due to an overall change in the mix of earnings when comparing the amount of earnings that are subject to corporate-level taxation to those earnings that are not subject to corporate-level tax as these earnings are passed through to Non-Controlling Interests and Class A shareholders. The provision for income taxes includes federal, state, local and foreign income taxes resulting in an effective income tax rate of 5.3% and 9.8% for the nine months ended September 30, 2017 and 2016, respectively. The most significant reconciling items between our U.S. federal statutory income tax rate and our effective income tax rate were due to the following: (i) income passed through to Non-Controlling Interests; (ii) income passed through to Class A shareholders; and (iii) state and local income taxes including NYC UBT (see note 8 to the condensed consolidated financial statements for further details regarding the Company's income tax provision).

Segment Analysis

Discussed below are our results of operations for each of our reportable segments. They represent the segment information available and utilized by our executive management, which consists of our Managing Partners, who operate collectively as our chief operating decision maker, to assess performance and to allocate resources. Management divides its operations into three reportable segments: private equity, credit and real assets. These segments were established based on the nature of investment activities in each underlying fund, including the specific type of investment made and the level of control over the investment. Segment results represent segment income (loss) before income tax provision excluding transaction-related charges arising from the 2007 private placement, and any acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration and certain other charges associated with acquisitions. In addition, segment results exclude non-cash revenue and expense related to equity awards granted by unconsolidated related parties to employees of the Company, as well as the assets, liabilities and operating results of the funds and VIEs that are included in the condensed consolidated financial statements.

Our financial results vary, since carried interest, which generally constitutes a large portion of the income from the funds that we manage, as well as the transaction and advisory fees that we receive, can vary significantly from quarter to quarter and year to year. As a result, we emphasize long-term financial growth and profitability to manage our business.

Private Equity

The following table sets forth our segment statement of operations information and our supplemental performance measure, EI, within our private equity segment for the three and nine months ended September 30, 2017 and 2016. Prior period financial data has been updated to conform to the current presentation.

	For the Three Months Ended September 30,		Total Change	Percentage Change	For the Nine Months Ended September 30,		Total Change	Percentage Change
	2017	2016			2017	2016		
	(in thousands)				(in thousands)			
Private Equity:								
Revenues:								
Management fees from related parties	$ 76,079	$ 91,545	$ (15,466)	(16.9)%	$ 230,752	$ 242,981	$ (12,229)	(5.0)%
Advisory and transaction fees from related parties, net	10,572	26,601	(16,029)	(60.3)	41,646	87,615	(45,969)	(52.5)
Carried interest income from related parties:								
Unrealized[(1)]	286,589	75,019	211,570	282.0	351,836	136,529	215,307	157.7
Realized	21,859	9,844	12,015	122.1	313,817	10,110	303,707	NM
Total carried interest income from related parties	308,448	84,863	223,585	263.5	665,653	146,639	519,014	353.9
Total Revenues	**395,099**	**203,009**	**192,090**	**94.6**	**938,051**	**477,235**	**460,816**	**96.6**
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	31,467	32,532	(1,065)	(3.3)	93,230	96,170	(2,940)	(3.1)
Equity-based compensation	6,335	6,645	(310)	(4.7)	21,134	20,795	339	1.6
Profit sharing expense:								
Unrealized	96,992	19,234	77,758	404.3	117,025	29,403	87,622	298.0
Realized	17,394	7,266	10,128	139.4	145,783	7,398	138,385	NM
Realized: Equity-based	808	-	808	NM	1,270	-	1,270	NM
Total profit sharing expense	115,194	26,500	88,694	334.7	264,078	36,801	227,277	NM
Total compensation and benefits	152,996	65,677	87,319	133.0	378,442	153,766	224,676	146.1
Non-compensation expenses:								
General, administrative and other	19,699	18,118	1,581	8.7	53,676	54,400	(724)	(1.3)
Placement fees	2,257	330	1,927	NM	3,732	2,409	1,323	54.9
Total non-compensation expenses	21,956	18,448	3,508	19.0	57,408	56,809	599	1.1
Total Expenses	**174,952**	**84,125**	**90,827**	**108.0**	**435,850**	**210,575**	**225,275**	**107.0**
Other Income:								
Income from equity method investments	39,875	14,384	25,491	177.2	81,951	40,311	41,640	103.3
Net gains from investment activities	7,959	1,191	6,768	NM	11,255	3,542	7,713	217.8
Net interest loss	(4,374)	(4,188)	(186)	4.4	(12,952)	(9,868)	(3,084)	31.3
Other income, net	7,344	103	7,241	NM	25,915	320	25,595	NM
Total Other Income	**50,804**	**11,490**	**39,314**	**342.2**	**106,169**	**34,305**	**71,864**	**209.5**
Economic Income	**$ 270,951**	**$ 130,374**	**$ 140,577**	**107.8%**	**$ 608,370**	**$ 300,965**	**$ 307,405**	**102.1%**

(1) Included in unrealized carried interest income (loss) from related parties for the nine months ended September 30, 2017 and 2016 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 13 to our condensed consolidated financial statements for further detail regarding the general partner obligation.

Revenues

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Management fees from affiliates decreased by $15.5 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to a decrease in management fees earned with respect to ANRP II of $12.7 million during the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 primarily due to a one-time catch-up of management fees during the three months ended September 30, 2016 of $13.2 million.

Advisory and transaction fees from related parties, net decreased by $16.0 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to a decrease in net advisory and transaction fees earned with respect to Fund VIII’s portfolio companies of $15.3 million during the three months ended September 30, 2017 as compared to the three months ended September 30, 2016.

Carried interest income from related parties increased by $223.6 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to increases in carried interest income earned from Fund VIII, Fund VII and Fund VI of $156.3 million, $40.8 million and $33.8 million, respectively. The increase in carried interest income earned from Fund VIII was primarily driven by appreciation in value in the fund's private portfolio companies. The increases in carried interest income earned from Fund VII and Fund VI were primarily driven by appreciation in value in the funds' public portfolio companies.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Management fees from related parties decreased by $12.2 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to decreases in management fees earned with respect to ANRP II during the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 primarily due to a one-time catch-up of management fees during the nine months ended September 30, 2016 of $14.8 million.

Advisory and transaction fees from related parties, net decreased by $46.0 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to a decrease in net advisory and transaction fees earned with respect to Fund VIII's portfolio companies of $49.0 million during the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016.

Carried interest income from related parties increased by $519.0 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to increases in carried interest income earned from Fund VIII, Fund VI and Fund VII of $271.0 million, $198.7 million and $46.1 million, respectively, during the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. The increase in carried interest income earned from Fund VIII and Fund VII was primarily driven by appreciation in value in the funds' private portfolio companies. The increase in carried interest income earned from Fund VI was primarily driven by appreciation in value in the fund's public portfolio companies.

Expenses

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Compensation and benefits expense increased by $87.3 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to an increase in profit sharing expense of $88.7 million as a result of a corresponding increase in carried interest income as described above. In any period the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds that are generating carried interest in the period.

Included in profit sharing expense is $9.3 million and $2.9 million related to the Incentive Pool for the three months ended September 30, 2017 and 2016, respectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular period.

General, administrative and other increased by $1.6 million during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily driven by an increase in professional fees during the three months ended September 30, 2017, as compared to the same period in 2016.

Placement fees increased by $1.9 million during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily driven by placement fees incurred in connection with capital raising activity relating to Fund IX of $2.3 million during the three months ended September 30, 2017.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Compensation and benefits expense increased by $224.7 million for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. This change was primarily attributable to an increase in profit sharing expense of $227.3 million as a result of a corresponding increase in carried interest income as described above. In any period the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period.

Included in profit sharing expense is $40.5 million and $2.9 million related to the Incentive Pool for the nine months ended September 30, 2017 and 2016, respectively. The Incentive Pool is separate from the fund related profit sharing expense and

may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular period.

Placement fees increased by $1.3 million during the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily driven by placement fees incurred during the nine months ended September 30, 2017 of $3.5 million in connection with capital raising activity relating to Fund IX. Placement fees during the nine months ended September 30, 2016 were primarily incurred in connection with capital raising activity relating to ANRP II of $2.1 million.

Other Income

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Income from equity method investments increased by $25.5 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to increases in the income from Apollo’s equity ownership interest in Fund VIII and Fund VII of $21.4 million and $3.0 million, respectively, during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016.

Net gains from investment activities increased by $6.8 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to an increase in the fair value of the Company’s investment in Athene Holding during the three months ended September 30, 2017, as compared to the same period in 2016. See note 5 to the condensed consolidated financial statements for further information regarding the Company’s investment in Athene Holding.

Other income, net increased by $7.2 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to proceeds received in connection with the Company’s early termination of a lease which occurred during the three months ended September 30, 2017.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Income from equity method investments increased by $41.6 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to increases in income from Apollo’s equity ownership interest in Fund VIII, AAA and AION of $29.5 million, $6.5 million and $5.5 million, respectively, during the nine months ended September 30, 2017, as compared to the same period in 2016.

Net gains from investment activities increased by $7.7 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to an increase in the fair value of the Company’s investment in Athene Holding during the nine months ended September 30, 2017, as compared to the same period in 2016. See note 5 to the condensed consolidated financial statements for further information regarding the Company’s investment in Athene Holding.

Net interest loss increased by $3.1 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to additional interest expense incurred during the nine months ended September 30, 2017 as a result of the issuance of the 2026 Senior Notes in May 2016, as described in note 9 to our condensed consolidated financial statements.

Other income, net increased by $25.6 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to proceeds received in connection with the Company’s early termination of a lease which occurred during the nine months ended September 30, 2017, in addition to $17.5 million in insurance proceeds received during the nine months ended September 30, 2017 in connection with fees and expenses relating to a legal proceeding.

Credit

The following table sets forth segment statement of operations information and EI within our credit segment for the three and nine months ended September 30, 2017 and 2016. Prior period financial data has been updated to conform to the current presentation.

	For the Three Months Ended September 30,		Total Change	Percentage Change	For the Nine Months Ended September 30,		Total Change	Percentage Change
	2017	2016			2017	2016		
	(in thousands)				(in thousands)			
Credit:								
Revenues:								
Management fees from related parties	$ 187,885	$ 151,386	$ 36,499	24.1%	$ 516,083	$ 445,149	$ 70,934	15.9%
Advisory and transaction fees from related parties, net	4,219	2,612	1,607	61.5	10,484	10,058	426	4.2
Carried interest income from related parties:								
Unrealized[(1)]	4,179	91,502	(87,323)	(95.4)	37,422	150,720	(113,298)	(75.2)
Realized	32,131	20,500	11,631	56.7	120,186	105,698	14,488	13.7
Total carried interest income from related parties	36,310	112,002	(75,692)	(67.6)	157,608	256,418	(98,810)	(38.5)
Total Revenues	**228,414**	**266,000**	**(37,586)**	**(14.1)**	**684,175**	**711,625**	**(27,450)**	**(3.9)**
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	59,027	45,143	13,884	30.8	173,153	151,464	21,689	14.3
Equity-based compensation	9,925	8,834	1,091	12.4	28,255	25,694	2,561	10.0
Profit sharing expense:								
Unrealized	2,266	36,809	(34,543)	(93.8)	17,408	61,626	(44,218)	(71.8)
Realized	14,643	8,988	5,655	62.9	51,168	62,764	(11,596)	(18.5)
Realized: Equity-based	518	-	518	NM	1,387	-	1,387	NM
Total profit sharing expense	17,427	45,797	(28,370)	(61.9)	69,963	124,390	(54,427)	(43.8)
Total compensation and benefits	86,379	99,774	(13,395)	(13.4)	271,371	301,548	(30,177)	(10.0)
Non-compensation expenses								
General, administrative and other	35,709	29,161	6,548	22.5	99,559	95,193	4,366	4.6
Placement fees	3,140	723	2,417	334.3	8,828	2,113	6,715	317.8
Total non-compensation expenses	38,849	29,884	8,965	30.0	108,387	97,306	11,081	11.4
Total Expenses	**125,228**	**129,658**	**(4,430)**	**(3.4)**	**379,758**	**398,854**	**(19,096)**	**(4.8)**
Other Income:								
Income from equity method investments	8,222	8,036	186	2.3	20,561	21,824	(1,263)	(5.8)
Net gains from investment activities	60,570	16,171	44,399	274.6	91,365	45,819	45,546	99.4
Net interest loss	(5,972)	(6,172)	200	(3.2)	(18,978)	(14,542)	(4,436)	30.5
Other income (loss), net	16,318	(4,977)	21,295	NM	16,888	(5,512)	22,400	NM
Total Other Income	**79,138**	**13,058**	**66,080**	**NM**	**109,836**	**47,589**	**62,247**	**130.8**
Non-Controlling Interest	(1,751)	(510)	(1,241)	243.3	(3,244)	(5,070)	1,826	(36.0)
Economic Income	**$ 180,573**	**$ 148,890**	**$ 31,683**	**21.3%**	**$ 411,009**	**$ 355,290**	**$ 55,719**	**15.7%**

(1) Included in unrealized carried interest income (loss) from related parties for the nine months ended September 30, 2017 and 2016 was a reversal of previously realized carried interest income due to the general partner obligation to return previously distributed carried interest income. See note 13 to our condensed consolidated financial statements for further detail regarding the general partner obligation.

Revenues

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Management fees from related parties increased by $36.5 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to increases in management fees earned from EPF III, Athene and FCI III of $20.5 million, $7.6 million and $6.7 million, respectively, during the three months ended September 30, 2017, as compared to the same period during 2016. Management fees earned from EPF III and FCI III increased as a result of capital raises that occurred after September 30, 2016, as well as a one-time catch-up of management fees during the three months ended September 30, 2017 of $7.4 million and $4.9 million from EPF III and FCI III, respectively.

Advisory and transaction fees from affiliates, net, increased by $1.6 million during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily driven by an increase in net

advisory and transaction fees from FCI III of $2.0 million during the three months ended September 30, 2017, as compared to the same period during 2016.

Carried interest income from related parties decreased by $75.7 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to decreases in carried interest income earned from EPF II, CLOs, Apollo Credit Master Fund Ltd and FCI II of $19.6 million, $11.7 million, $12.0 million and $6.2 million, respectively, during the three months ended September 30, 2017, as compared to the same period in 2016.

The decrease in carried interest income earned from EPF II was primarily attributable to decreased appreciation of European and UK hotel assets and German commercial real estate investments in the fund's portfolio for the three months ended September 30, 2017 as compared to the same period in 2016. The decrease in carried interest income earned from the CLOs was due to under-performance relative to each respective CLO hurdle rate and lower appreciation and gains from the leveraged loan markets during the three months ended September 30,2017 as compared to the same period in 2016. The decrease in carried interest income earned from Apollo Credit Master Fund Ltd. was due to under-performance relative to the fund's hurdle rate during the three months ended September 30, 2017, as compared to the same period in 2016 as a result of lower appreciation on investments in the financial and technology sectors during the three months ended September 30, 2017. The decrease in carried interest income related to FCI II was due to lower valuations of the fund's life settlements portfolio during the three months ended September 30, 2017 as compared to the same period in 2016.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Management fees from related parties increased by $70.9 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to increases in management fees earned from EPF III, Athene and FCI III of $43.1 million, $24.2 million and $10.0 million, respectively. Management fees earned from EPF III and FCI III increased as a result of capital raises that occurred after September 30, 2016, as well as a one-time catch-up of management fees during the nine months ended September 30, 2017 of $10.8 million and $7.0 million from EPF III and FCI III, respectively. These increases were partially offset by a decrease in management fees earned from EPF II of $17.7 million during the nine months ended September 30, 2017, as compared to the same period during 2016, primarily resulting from a step down in fee basis from committed capital to invested capital during the nine months ended September 30, 2017.

Carried interest income from related parties decreased by $98.8 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to a decrease in carried interest income earned from Apollo Credit Master Fund Ltd, CLOs, EPF II, SCRF III and FCI II of $31.0 million, $22.3 million, $13.2 million, $9.9 million and $9.8 million, respectively, during the nine months ended September 30, 2017, as compared to the same period during 2016.

The decrease in carried interest income related to Apollo Credit Master Fund Ltd. was due to under-performance relative to the fund's hurdle rate during the nine months ended September 30, 2017, as compared to the same period in 2016 as a result of lower appreciation on investments in the financial and technology sectors during the nine months ended September 30, 2017. The decrease in carried interest income earned from the CLOs was due to under-performance relative to each respective CLO hurdle rate and lower appreciation and gains from the leveraged loan markets during the nine months ended September 30,2017 as compared to the same period in 2016. The decrease in carried interest income from EPF II was primarily attributable to lower appreciation of European and UK hotel assets in the fund's portfolio for the nine months ended September 30, 2017 as compared to the same period in 2016. The decrease in carried interest income related to SCRF III was attributable to carried interest income being generated at a slower rate as the fund began to unwind during the nine months ended September 30, 2017. The decrease in carried interest income earned from FCI II was due to lower valuations of the fund's life settlements portfolio during the nine months ended September 30, 2017 as compared to the same period in 2016.

Expenses

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Compensation and benefits expense decreased by $13.4 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily due to decreases in profit sharing expense of $28.4 million, offset by increases in salary, bonus and benefits of $13.9 million during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016 primarily due to increased headcount. Profit sharing expense decreased as a result of a corresponding decrease in carried interest income as described above. In any period the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period.

Included in profit sharing expense is $3.9 million and $5.7 million related to the Incentive Pool for the three months ended September 30, 2017 and 2016, respectively. The Incentive Pool is separate from the fund related profit sharing expense and

may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular period.

General, administrative and other increased by $6.5 million during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily driven by an increase in professional fees during the three months ended September 30, 2017, as compared to the same period in 2016.

Placement fees increased by $2.4 million during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily driven by placement fees incurred in connection with capital raising activity relating to EPF III of $2.6 million during the three months ended September 30, 2017.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Compensation and benefits expense decreased by $30.2 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to a decrease in profit sharing expense of $54.4 million during the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016 as a result of a corresponding decrease in carried interest income as described above. In any period the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period. The decrease in profit sharing expense was partially offset by an increase in salary, bonus and benefits of $21.7 million during the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016 primarily due to increased headcount.

Included in profit sharing expense is $12.5 million and $35.6 million related to the Incentive Pool for the nine months ended September 30, 2017 and 2016, respectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular period.

General, administrative and other increased by $4.4 million during the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. The change was primarily driven by an increase in fund organizational expenses related to the launch of EPF III as well as an increase in professional fees during the nine months ended September 30, 2017, as compared to the same period in 2016.

Placement fees increased by $6.7 million during the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily driven by placement fees incurred in connection with capital raising activity relating to EPF III of $7.5 million during the nine months ended September 30, 2017.

Other Income

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Net gains from investment activities increased by $44.4 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to an increase in the fair value of the Company's investment in Athene Holding during the three months ended September 30, 2017, as compared to the same period in 2016. See note 5 to the condensed consolidated financial statements for further information regarding the Company's investment in Athene Holding.

Other income (loss), net increased by $21.3 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to proceeds received in connection with the Company's early termination of a lease and the Company's recognition of $6.2 million of other income from the assignment of a CLO collateral management agreement during the three months ended September 30, 2017.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Income from equity method investments decreased by $1.3 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily driven by a decrease in income from Apollo's equity ownership interest in Apollo Energy Opportunity Fund, L.P. ("AEOF") and EPF II of $4.3 million and $2.1 million, respectively, partially offset by an increase in income from Apollo's equity ownership interest in AINV of $5.4 million during the nine months ended September 30, 2017, as compared to the same period in 2016.

Net gains from investment activities increased by $45.5 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to an increase in the fair value of the Company's investment in Athene Holding during the nine months ended September 30, 2017, as compared to the same period

in 2016. See note 5 to the condensed consolidated financial statements for further information regarding the Company's investment in Athene Holding.

Net interest loss increased by $4.4 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to additional interest expense incurred during the nine months ended September 30, 2017 as a result of the issuance of the 2026 Senior Notes in May 2016, as described in note 9 to our condensed consolidated financial statements.

Other income (loss), net increased by $22.4 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to proceeds received in connection with the Company's early termination of a lease and proceeds received from the assignment of a CLO collateral management agreement during the nine months ended September 30, 2017.

Non-Controlling Interests

For information related to Non-Controlling Interests, see note 12 to the condensed consolidated financial statements for further details.

Real Assets

The following table sets forth our segment statement of operations information and EI within our real assets segment for the three and nine months ended September 30, 2017 and 2016. Prior period financial data has been updated to conform to the current presentation.

	For the Three Months Ended September 30,		Total Change	Percentage Change	For the Nine Months Ended September 30,		Total Change	Percentage Change
	2017	2016			2017	2016		
	(in thousands)				(in thousands)			
Real Assets:								
Revenues:								
Management fees from related parties	$ 18,470	$ 15,554	$ 2,916	18.7%	$ 54,560	$ 42,921	$ 11,639	27.1%
Advisory and transaction fees from related parties, net	1,418	1,038	380	36.6	2,775	5,476	(2,701)	(49.3)
Carried interest income (loss) from related parties:								
Unrealized	(5,169)	963	(6,132)	NM	(1,639)	(4,151)	2,512	(60.5)
Realized	6,985	5,499	1,486	27.0	12,224	11,938	286	2.4
Total carried interest income from related parties	1,816	6,462	(4,646)	(71.9)	10,585	7,787	2,798	35.9
Total Revenues	**21,704**	**23,054**	**(1,350)**	**(5.9)**	**67,920**	**56,184**	**11,736**	**20.9**
Expenses:								
Compensation and benefits:								
Salary, bonus and benefits	10,513	9,129	1,384	15.2	27,905	26,062	1,843	7.1
Equity-based compensation	798	675	123	18.2	1,980	2,107	(127)	(6.0)
Profit sharing expense:								
Unrealized	(4,812)	432	(5,244)	NM	(2,848)	(1,400)	(1,448)	103.4
Realized	3,636	4,062	(426)	(10.5)	6,528	8,240	(1,712)	(20.8)
Total profit sharing expense	(1,176)	4,494	(5,670)	NM	3,680	6,840	(3,160)	(46.2)
Total compensation and benefits	10,135	14,298	(4,163)	(29.1)	33,565	35,009	(1,444)	(4.1)
Non-compensation expenses:								
General, administrative and other	5,520	4,674	846	18.1	15,299	16,239	(940)	(5.8)
Placement fees	-	-	-	NM	-	21	(21)	(100.0)
Total non-compensation expenses	5,520	4,674	846	18.1	15,299	16,260	(961)	(5.9)
Total Expenses	**15,655**	**18,972**	**(3,317)**	**(17.5)**	**48,864**	**51,269**	**(2,405)**	**(4.7)**
Other Income (Loss):								
Income (loss) from equity method investments	(83)	499	(582)	NM	1,935	1,631	304	18.6
Net interest loss	(1,163)	(1,168)	5	(0.4)	(3,634)	(2,895)	(739)	25.5
Other income (loss), net	2,044	(29)	2,073	NM	2,347	(14)	2,361	NM
Total Other Income (Loss)	**798**	**(698)**	**1,496**	**NM**	**648**	**(1,278)**	**1,926**	**NM**
Economic Income	**$ 6,847**	**$ 3,384**	**$ 3,463**	**102.3%**	**$ 19,704**	**$ 3,637**	**$ 16,067**	**441.8%**

Revenues

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Management fees from related parties increased by $2.9 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to increases in management fees earned with respect to ARI and Apollo Asia Real Estate Fund, L.P. (“Asia RE Fund”) of $2.5 million and $0.6 million, respectively, during the three months ended September 30, 2017, as compared to the same period during 2016, in connection with capital raises for the funds during 2017.

Carried interest income from related parties decreased by $4.6 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. Carried interest income earned from certain funds, including U.S. RE Fund I and II, includes an allocation of carried interest income from a strategic investment account that invests in the funds. This change was primarily attributable to decreases in carried interest income earned from strategic investment accounts and U.S. RE Fund II of $2.3 million and $1.1 million, respectively. The decrease in carried interest income earned from U.S. RE Fund II was primarily the result of stronger operating performance across many of the funds’ underlying properties and higher appreciation of several real estate investments during the three months ended September 30, 2016 as compared to the three months ended September 30, 2017.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Management fees from related parties increased by $11.6 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to increases in management fees earned with respect to ARI and Asia RE Fund of $7.2 million and $2.8, respectively, during the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, in connection with capital raises for the funds during 2017.

Advisory and transaction fees from related parties, net, decreased by $2.7 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to decreases in net advisory and transaction fees earned with respect to AGRE Debt Fund I, L.P. ("AGRE Debt Fund I") and U.S. RE Fund II of $2.0 million and $0.4 million, respectively, during the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016.

Carried interest income from related parties increased by $2.8 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to an increase in carried interest income earned from U.S. RE Fund II of $3.3 million, partially offset by a decrease in carried interest income earned from U.S. RE Fund I of $1.5 million during the nine months ended September 30, 2017, as compared to the same period during 2016. The increase in carried interest income earned from U.S. RE Fund II was primarily due to strong operating performance across many of the fund's underlying properties and appreciation of several real estate investments during the nine months ended September 30, 2017. The decrease in carried interest income earned from U.S. RE Fund I was primarily due to lower appreciation of several investments during the nine months ended September 30, 2017, as compared to the same period during 2016.

Expenses

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Compensation and benefits decreased by $4.2 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to a decrease in profit sharing expense of $5.7 million during the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 as a result of a corresponding decrease in carried interest income as described above. In any period the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period. The decrease in profit sharing expense was partially offset by an increase in salary, bonus and benefits of $1.4 million during the three months ended September 30, 2017, as compared to the same period during 2016 primarily due to increased headcount.

Included in profit sharing expense is $0.5 million and $1.8 million related to the Incentive Pool for the three months ended September 30, 2017 and 2016, respectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular period.

General, administrative and other increased by $0.8 million during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This change was primarily attributable to an increase in professional fees during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Compensation and benefits decreased by $1.4 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to a decrease in profit sharing expense of $3.2 million during the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. In any period the blended profit sharing percentage is impacted by the respective profit sharing ratios of the funds generating carried interest in the period. The decrease in profit sharing expense was partially offset by an increase in salary, bonus and benefits of $1.8 million during the nine months ended September 30, 2017, as compared to the same period during 2016 primarily due to increased headcount.

Included in profit sharing expense is $0.9 million and $3.5 million related to the Incentive Pool for the nine months ended September 30, 2017 and 2016, respectively. The Incentive Pool is separate from the fund related profit sharing expense and may result in greater variability in compensation and have a variable impact on the blended profit sharing percentage during a particular period.

General, administrative and other decreased by $0.9 million during the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This change was primarily attributable to fund organizational expenses related to U.S. RE Fund II incurred during the nine months ended September 30, 2016.

Other Income (Loss)

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Other income (loss), net increased by $2.1 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, primarily attributable to proceeds received in connection with the Company's early termination of a lease during the three months ended September 30, 2017.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Net interest loss increased by $0.7 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to additional interest expense incurred during the nine months ended September 30, 2017 primarily as a result of the issuance of the 2026 Senior Notes in May 2016, as described in note 9 to our condensed consolidated financial statements.

Other income (loss), net increased by $2.4 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily attributable to proceeds received in connection with the Company's early termination of a lease during the nine months ended September 30, 2017.

Summary of Fee Related Earnings

The following table is a summary of Fee Related Earnings for the three and nine months ended September 30, 2017 and 2016.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Management Fees	$ 282,434	$ 258,485	$ 801,395	$ 731,051
Advisory and Transaction Fees from Related Parties, net	16,209	30,251	54,905	103,149
Carried Interest Income from Related Parties[1]	6,173	2,307	12,636	17,516
Salary, Bonus and Benefits	(101,007)	(86,804)	(294,288)	(273,696)
Non-compensation Expenses	(66,325)	(53,006)	(181,094)	(170,375)
Other Income (Loss) attributable to Fee Related Earnings[2]	26,456	(4,240)	46,818	(4,166)
Non-Controlling Interest	(1,751)	(510)	(3,244)	(5,070)
Fee Related Earnings	$ 162,189	$ 146,483	$ 437,128	$ 398,409

(1) Represents carried interest income earned from a publicly traded business development company we manage.

(2) Includes $19.0 million in proceeds received in connection with the Company's early termination of a lease during the three and nine months ended September 30, 2017. Includes $17.5 million in insurance proceeds received in connection with fees and expenses relating to a legal proceeding during the nine months ended September 30, 2017.

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Summary of Distributable Earnings

The following table is a reconciliation of Distributable Earnings per share of common and equivalents[1] to net distribution per share of common and equivalent for the three and nine months ended September 30, 2017 and 2016.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands, except per share data)			
Distributable Earnings	$ 185,131	$ 152,636	$ 682,442	$ 421,706
Taxes and related payables[2]	(7,272)	(4,105)	(20,344)	(9,346)
Preferred distributions	(4,383)	-	(9,155)	-
Distributable Earnings After Taxes and Related Payables	173,476	148,531	652,943	412,360
Add back: Tax and related payables attributable to common and equivalents	4,706	3	14,091	9
Distributable Earnings before certain payables[3]	178,182	148,534	667,034	412,369
Percent to common and equivalents	49%	47%	49%	47%
Distributable Earnings before other payables attributable to common and equivalents	87,078	69,821	325,981	193,841
Less: Taxes and related payables attributable to common and equivalents	(4,706)	(3)	(14,091)	(9)
Distributable Earnings attributable to common and equivalents	$ 82,372	$ 69,818	$ 311,890	$ 193,832
Distributable Earnings per share of common and equivalent[4]	$ 0.42	$ 0.36	$ 1.59	$ 1.01
Retained capital per share of common and equivalent[4][5]	(0.03)	(0.01)	(0.19)	(0.04)
Net distribution per share of common and equivalent[4]	$ 0.39	$ 0.35	$ 1.40	$ 0.97

(1) Common and equivalents refers to Class A shares outstanding and RSUs that participate in distributions.
(2) Represents the estimated current corporate, local and non-U.S. taxes as well as the payable under Apollo's tax receivable agreement.
(3) Distributable earnings before certain payables represents Distributable Earnings before the deduction for the estimated current corporate taxes and the payable under Apollo's tax receivable agreement.
(4) Per share calculations are based on end of period Distributable Earnings Shares Outstanding, which consists of total Class A shares outstanding, AOG Units and RSUs that participate in distributions (collectively referred to as "common & equivalents").
(5) Retained capital is withheld pro-rata from common and equivalent holders and AOG Unit holders.

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Summary of Non-U.S. GAAP Measures

The table below sets forth a reconciliation of net income attributable Apollo Global Management, LLC Class A Shareholders to our non-U.S. GAAP performance measures for the three and nine months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Net Income Attributable to Apollo Global Management, LLC Class A Shareholders	$ 198,569	$ 94,619	$ 430,673	$ 235,883
Preferred distributions	4,383	-	9,155	-
Net income (loss) attributable to Non-Controlling Interests in consolidated entities	1,048	(222)	8,967	3,891
Net income attributable to Non-Controlling Interests in the Apollo Operating Group	230,363	140,321	533,540	336,186
Net Income	$ 434,363	$ 234,718	$ 982,335	$ 575,960
Income tax provision	16,542	29,667	54,926	62,508
Income Before Income Tax Provision	$ 450,905	$ 264,385	$ 1,037,261	$ 638,468
Transaction-related charges and equity-based compensation	8,514	18,041	10,789	25,315
Net (income) loss attributable to Non-Controlling Interests in consolidated entities	(1,048)	222	(8,967)	(3,891)
Economic Income(1)	$ 458,371	$ 282,648	$ 1,039,083	$ 659,892
Income tax provision on Economic Income	(22,356)	(51,896)	(83,125)	(107,253)
Preferred distributions	(4,383)	-	(9,155)	-
Economic Net Income	$ 431,632	$ 230,752	$ 946,803	$ 552,639
Preferred distributions	4,383	-	9,155	-
Income tax provision on Economic Income	22,356	51,896	83,125	107,253
Carried interest income from related parties(2)	(340,401)	(201,020)	(821,210)	(393,328)
Profit sharing expense	131,445	76,791	337,721	168,031
Equity-based compensation(3)	17,058	16,154	51,369	48,596
Income from equity method investments	(48,014)	(22,919)	(104,447)	(63,766)
Net gains from investment activities	(68,529)	(17,362)	(102,620)	(49,361)
Net interest loss	11,509	11,528	35,564	27,305
Other	750	663	1,668	1,040
Fee Related Earnings	$ 162,189	$ 146,483	$ 437,128	$ 398,409
Depreciation, amortization and other, net	5,825	2,435	10,860	7,532
Fee Related EBITDA	$ 168,014	$ 148,918	$ 447,988	$ 405,941
Net realized carried interest income(2)	19,129	13,220	230,112	31,828
Fee Related EBITDA + 100% of Net Realized Carried Interest	$ 187,143	$ 162,138	$ 678,100	$ 437,769
Non-cash revenues	(842)	(842)	(2,527)	(2,527)
Realized income from equity method investments	10,339	3,767	42,433	15,007
Net interest loss	(11,509)	(11,528)	(35,564)	(27,305)
Other	-	(899)	-	(1,238)
Distributable Earnings	$ 185,131	$ 152,636	$ 682,442	$ 421,706
Taxes and related payables	(7,272)	(4,105)	(20,344)	(9,346)
Preferred distributions	(4,383)	-	(9,155)	-
Distributable Earnings After Taxes and Related Payables	$ 173,476	$ 148,531	$ 652,943	$ 412,360

(1) See note 15 for more details regarding Economic Income for the combined segments.
(2) Excludes carried interest income from a publicly traded business development company we manage.
(3) Includes equity-based compensation related to RSUs (excluding RSUs granted in connection with the 2007 private placement), share options and restricted share awards.

Liquidity and Capital Resources

Historical

Although we have managed our historical liquidity needs by looking at deconsolidated cash flows, our historical condensed consolidated statements of cash flows reflect the cash flows of Apollo, as well as those of the consolidated Apollo funds and VIEs.

The primary cash flow activities of Apollo are:

- Generating cash flow from operations;
- Making investments in Apollo funds;
- Meeting financing needs through credit agreements; and
- Distributing cash flow to equity holders and Non-Controlling Interests.

Primary cash flow activities of the consolidated Apollo funds and VIEs are:

- Raising capital from their investors, which have been reflected historically as Non-Controlling Interests of the consolidated subsidiaries in our financial statements;
- Using capital to make investments;
- Generating cash flow from operations through distributions, interest and the realization of investments;
- Distributing cash flow to investors; and
- Issuing debt to finance investments (CLOs).

While primarily met by cash flows generated through fee income and carried interest income received, working capital needs have also been met (to a limited extent) through borrowings as described in note 9 to the condensed consolidated financial statements.

We determine whether to make capital commitments to our funds in excess of our minimum required amounts based on a variety of factors, including estimates regarding our liquidity resources over the estimated time period during which commitments will have to be funded, estimates regarding the amounts of capital that may be appropriate for other funds that we are in the process of raising or are considering raising, and our general working capital requirements.

Cash Flows

Significant amounts from our condensed consolidated statements of cash flows for the nine months ended September 30, 2017 and 2016 are summarized and discussed within the table and corresponding commentary below:

	For the Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
Operating Activities	$ 667,484	$ 573,171
Investing Activities	(244,204)	(172,325)
Financing Activities	(295,901)	(85,222)
Net Increase in Cash and Cash Equivalents	$ 127,379	$ 315,624

Operating Activities

Our net cash provided by operating activities was $667.5 million and $573.2 million during the nine months ended September 30, 2017 and 2016, respectively. These amounts were primarily driven by:

- net income of $982.3 million and $576.0 million during the nine months ended September 30, 2017 and 2016, respectively, as well as non-cash adjustments, net of $(69.4) million and $27.1 million, respectively;
- a net increase in our carried interest receivable of $(325.8) million and $(348.8) million during the nine months ended September 30, 2017 and 2016, respectively, due to a change in the fair value of our funds that generate carried interest of $828.4 million and $451.0 million during the nine months ended September 30, 2017 and 2016, respectively, offset

by fund distributions to the Company of $507.5 million and $103.1 million during the nine months ended September 30, 2017 and 2016, respectively;

- purchases of investments held by consolidated VIEs in the amount of $517.7 million and $396.8 million, offset by proceeds from sales of investments held by consolidated VIEs in the amount of $385.0 million and $422.9 million during the nine months ended September 30, 2017 and 2016, respectively;
- a net increase in due from related parties in the amount of $47.5 million and $49.9 million during the nine months ended September 30, 2017 and 2016, respectively;
- a net (decrease) increase in due to related parties in the amount of $(12.8) million and $68.7 million during the nine months ended September 30, 2017 and 2016, respectively;
- a net increase in accrued compensation and benefits in the amount of $91.9 million and $65.6 million during the nine months ended September 30, 2017 and 2016, respectively;
- payments made towards the satisfaction of our contingent obligations of $23.6 million and $10.1 million during the nine months ended September 30, 2017 and 2016, respectively;
- a net (decrease) increase in deferred revenue in the amount of $(17.3) million and $29.2 million during the nine months ended September 30, 2017 and 2016, respectively; and
- a net increase in our profit sharing payable of $179.7 million and $168.7 million during the nine months ended September 30, 2017 and 2016, respectively, due to profit sharing expense of $344.5 million and $210.5 million during the nine months ended September 30, 2017 and 2016, respectively, offset by payments of $183.7 million and $40.1 million during the nine months ended September 30, 2017 and 2016, respectively.

Investing Activities

Our net cash used in investing activities was $(244.2) million and $(172.3) million during the nine months ended September 30, 2017 and 2016, respectively. These amounts were primarily driven by:

- net cash contributions to our equity method investments of $35.9 million and $119.9 million during the nine months ended September 30, 2017 and 2016, respectively;
- purchases of fixed assets of $5.9 million and $4.9 million during the nine months ended September 30, 2017 and 2016, respectively;
- purchases of U.S. Treasury securities of $198.9 million the during the nine months ended September 30, 2017;
- issuance of related party loans of $5.8 million offset by repayment of related party loans of $17.7 million during the nine months ended September 30, 2017; and
- purchases of investments in the amount of $14.8 million and $44.5 million during the nine months ended September 30, 2017 and 2016, respectively.

Financing Activities

Our net cash used in financing activities was $(295.9) million and $(85.2) million during the nine months ended September 30, 2017 and 2016, respectively. These amounts were primarily driven by:

- cash received, net of issuance costs, in connection with the issuance of Preferred shares of $264.4 million during the nine months ended September 30, 2017;
- cash distributions paid to our Class A shareholders of $288.7 million and $172.1 million, during the nine months ended September 30, 2017 and 2016, respectively;
- cash distributions paid to the Non-Controlling Interest holders in the Apollo Operating Group of $329.2 million and $194.4 million during the nine months ended September 30, 2017 and 2016, respectively;
- cash contributions from Non-Controlling Interest holders in consolidated VIEs of $42.5 million and $12.9 million during the nine months ended September 30, 2017 and 2016, respectively;
- cash used for purchases of Class A shares of $18.5 million and $13.0 million during the nine months ended September 30, 2017 and 2016, respectively;
- net distributions related to tax liabilities associated with issuances of Class A shares in settlement of RSUs of $28.0 million and $35.3 million during the nine months ended September 30, 2017 and 2016, respectively;
- issuance of debt of consolidated VIEs of $534.6 million offset by repayments of debt of consolidated VIEs of $442.6 million during the nine months ended September 30, 2017; and
- issuance of debt of $532.7 million offset by repayments of debt of $200.0 million during the nine months ended September 30, 2016.

Distributions

In addition to other distributions such as payments pursuant to the tax receivable agreement, see note 12 to the condensed consolidated financial statements for information regarding the quarterly distributions which were made at the sole discretion of the Company's manager during 2017 and 2016.

Future Cash Flows

Our ability to execute our business strategy, particularly our ability to increase our AUM, depends on our ability to establish new funds and to raise additional investor capital within such funds. Our liquidity will depend on a number of factors, such as our ability to project our financial performance, which is highly dependent on our funds and our ability to manage our projected costs, fund performance, our access to credit facilities, our being in compliance with existing credit agreements, as well as industry and market trends. Also during economic downturns the funds we manage might experience cash flow issues or liquidate entirely. In these situations we might be asked to reduce or eliminate the management fee and incentive fees we charge, which could adversely impact our cash flow in the future.

An increase in the fair value of our funds' investments, by contrast, could favorably impact our liquidity through higher management fees where the management fees are calculated based on the net asset value, gross assets and adjusted assets. Additionally, higher carried interest income not yet realized would generally result when investments appreciate over their cost basis which would not have an impact on the Company's cash flow.

As of September 30, 2017, Fund VII's and Fund VI's remaining investments and escrow cash were valued at 99% and 97% of the fund's unreturned capital, respectively, which was below the required escrow ratio of 115%. As a result, these funds are required to place in escrow current and future carried interest income distributions to the general partner until the specified return ratio of 115% is met (at the time of a future distribution) or upon liquidation.

On April 20, 2010, the Company announced that it entered into a strategic relationship agreement with CalPERS. The strategic relationship agreement provides that Apollo will reduce fees charged to CalPERS on funds it manages, or in the future will manage, solely for CalPERS by $125 million over a five-year period or as close a period as required to provide CalPERS with that benefit. The agreement further provides that Apollo will not use a placement agent in connection with securing any future capital commitments from CalPERS. As of September 30, 2017, the Company had reduced fees charged to CalPERS on the funds it manages by approximately $105.7 million.

Although we expect to pay distributions according to our distribution policy, we may not pay distributions according to our policy, or at all, if, among other things, we do not have the cash necessary to pay the intended distributions. To the extent we do not have cash on hand sufficient to pay distributions, we may have to borrow funds to pay distributions, or we may determine not to pay distributions. The declaration, payment and determination of the amount of our quarterly distributions are at the sole discretion of our manager.

In February 2016, Apollo adopted a plan to repurchase up to $250 million in the aggregate of its Class A shares, including up to $150 million in the aggregate of its outstanding Class A shares through a share repurchase program and up to $100 million through a reduction of Class A shares to be issued to employees to satisfy associated tax obligations in connection with the settlement of equity-based awards granted under the 2007 Equity Plan, which we refer to as net share settlement. Under the share repurchase program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise, with the size and timing of these repurchases depending on legal requirements, price, market and economic conditions and other factors. See note 12 to the condensed consolidated financial statements for further information regarding the Company's share repurchase program and net share settlement during the three and nine months ended September 30, 2017 and 2016.

On March 11, 2016, it was announced that Apollo intended to embark on a program to purchase $50 million of AINV's common stock, subject to certain regulatory approvals. Under the program, shares may be purchased from time to time in open market transactions and in accordance with applicable law. As of September 30, 2017, Apollo had purchased approximately 871 thousand shares, or approximately $4.9 million of AINV's common stock.

On April 14, 2017, Apollo made an unfunded commitment to AGER, a strategic platform established to acquire or reinsure blocks of insurance business in the German and broader European life insurance market. The unfunded commitment of €125 million to purchase new Class B-1 equity interests in AGER during the commitment period may be reduced to the extent that certain employees, officers, directors and advisors of the Company, AGER, Apollo and/or their respective affiliates hereafter commit to purchase from AGER more than €25 million of new equity interests in AGER. Apollo further committed to purchase new Class C-1 equity interests in AGER on the closing date that represent a profits interest in AGER which, upon meeting certain vesting triggers, will be convertible by Apollo into additional Class B-1 equity interests in AGER. Apollo and Athene will be

minority investors in AGER and long term strategic partners with aggregate voting powers of 35% and 10%, respectively. For more information regarding unfunded general partner commitments, see "-Contractual Obligations, Commitments and Contingencies".

Carried interest income from our funds can be distributed to us on a current basis, but is subject to repayment by the subsidiaries of the Apollo Operating Group that act as general partner of such funds in the event that certain specified return thresholds are not ultimately achieved. The Managing Partners, Contributing Partners and certain other investment professionals have personally guaranteed, to the extent of their ownership interest, subject to certain limitations, the obligations of these subsidiaries in respect of this general partner obligation. Such guarantees are several and not joint and are limited to a particular Managing Partner's or Contributing Partner's distributions. Pursuant to the shareholders agreement dated July 13, 2007, as amended (the "Shareholders Agreement"), we agreed to indemnify each of our Managing Partners and certain Contributing Partners against all amounts that they pay pursuant to any of these personal guarantees in favor of Fund IV, Fund V and Fund VI (including costs and expenses related to investigating the basis for or objecting to any claims made in respect of the guarantees) for all interests that our Managing Partners and Contributing Partners have contributed or sold to the Apollo Operating Group.

Accordingly, in the event that our Managing Partners, Contributing Partners and certain investment professionals are required to pay amounts in connection with a general partner obligation to return previously distributed carried interest income with respect to Fund IV, Fund V and Fund VI, we will be obligated to reimburse our Managing Partners and certain Contributing Partners for the indemnifiable percentage of amounts that they are required to pay even though we did not receive the distribution to which that general partner obligation related.

The Company has future debt obligations. See note 9 to the condensed consolidated financial statements for further information regarding the Company's debt arrangements.

On March 7, 2017, Apollo issued 11,000,000 6.375% Series A Preferred shares (the "Preferred shares") for gross proceeds of $275.0 million, or $264.4 million net of issuance costs. See note 12 to the condensed consolidated financial statements for further information regarding the Company's Preferred shares.

On November 1, 2017, the Company declared a cash distribution of $0.39 per Class A share, which will be paid on November 30, 2017 to holders of record on November 21, 2017. Also, the Company declared a cash distribution of $0.398438 per Preferred share, which will be paid on December 15, 2017 to holders of record on December 1, 2017.

Investment Management and Sub-Advisory Agreements - Athene Asset Management

Apollo, through its consolidated subsidiary, AAM, provides asset management services to Athene with respect to assets in the Athene North American Accounts, including asset allocation services, direct asset management services, asset and liability matching management, mergers and acquisitions, asset diligence, hedging and other asset management services and receives management fees for providing these services. In addition, the Company, through AAM, provides sub-advisory services with respect to a portion of the assets in the Athene North American Accounts. See note 13 to the condensed consolidated financial statements for more details regarding the fee rates of the investment management, sub-advisory and other fee arrangements with respect to the assets in the Athene North American Accounts.

Investment Advisory and Sub-Advisory Agreements - AAME

Apollo, through AAME, provides investment advisory services with respect to certain assets in the Athene European Accounts and sub-advises certain assets in the Athene European Accounts. See note 13 to the condensed consolidated financial statements for more details regarding the fee rates of the investment advisory, sub-advisory and other fee arrangements with respect to the assets in the Athene European Accounts.

Athene Non-Sub-Advised AUM and AGER Non-Sub-Advised AUM

The Company refers to the portion of the AUM in the Athene North American Accounts that is not Athene Sub-Advised AUM as "Athene Non-Sub-Advised" AUM.

AGER currently is the holding company of Athene's German group companies. In addition, AGER has received subscriptions representing $2.6 billion from Athene and a number of global institutional investors for a capital raise conducted through a private placement. The closing of AGER is subject to regulatory approval. The Company refers to the portion of the AGER AUM that is not AGER Sub-Advised AUM as "AGER Non-Sub-Advised" AUM.

The following table presents the AUM for Athene and AGER as of September 30, 2017:

	As of September 30, 2017		
	Sub-Advised AUM[(2)]	Non-Sub-Advised AUM	Total AUM
Athene	16,947	57,029	73,976
AGER[(1)]	1,149	6,747	7,896
Total	18,096	63,776	81,872

(1) AUM relating to AGER includes $5.3 billion of AUM of Athene's German group companies, for which AGER currently is the holding company, and $2.6 billion of AUM in connection with its capital raise. AUM related to Athene in the table above does not include AUM related to AGER.

(2) Of the total $18.1 billion Athene Sub-Advised AUM and AGER Sub-Advised AUM as of September 30, 2017, $3.0 billion was Athene Assets Directly Invested.

Athene Holding Follow-on Offerings

In connection with the Athene Private Placement, Athene Holding amended its registration rights agreement to provide (i) investors who are party to such agreement, including AAA Investments, the potential opportunity for liquidity on their shares of Athene Holding through sales in registered public offerings over a 15 month period beginning on the date of Athene Holding's initial public offering (the "Athene IPO") and (ii) Athene Holding the right to cause certain investors who are party to the registration rights agreement to include in such offerings a certain percentage of their common shares of Athene Holding subject to the terms and conditions set forth in the agreement. However, pursuant to the registration rights agreement, any shares of Athene Holding held by Apollo (other than shares distributed to AAA in payment of carried interest to be sold for cash) will not be subject to such arrangements and instead will be subject to a lock-up period of two years following the effective date of the registration statement relating to the Athene IPO, but Athene Holding will not have the right to cause any shares owned by Apollo to be included in the Athene IPO or any follow-on offering. Apollo may elect to receive payment of carried interest in cash or in common shares of Athene Holding (valued at the fair market value); and if Apollo elects to receive payment of such carried interest in cash, then common shares of Athene Holding shall be distributed to Apollo and immediately sold by Apollo to pay for such carried interest in cash. On March 16, 2017 and May 22, 2017, AAA announced a conditional distribution of freely tradeable common shares of Athene Holding to its unitholders. The distribution was conditioned upon the pricing of an underwritten follow-on secondary offering of Class A common shares of Athene Holding. On March 28, 2017 and June 6, 2017, Athene Holding announced the base follow-on offering size of 27.5 million shares and 16.2 million shares of Athene Holding, respectively, at a price of $48.50 per share and $49.00 per share, respectively. The March and May offerings were subsequently increased to 31.6 million and 18.6 million shares of Athene Holding, respectively, after the underwriters' exercise of a 15% over-allotment option.

Distributions to Managing Partners and Contributing Partners

The three Managing Partners who became employees of Apollo on July 13, 2007 each receive a $100,000 base salary. Additionally, our Managing Partners can receive other forms of compensation. Any additional consideration will be paid to them in their proportional ownership interest in Holdings. Additionally, as a result of the tax receivable agreement, 85% of any tax savings APO Corp. recognizes will be paid to the Managing Partners.

Subsequent to the 2007 Reorganization, the Contributing Partners retained ownership interests in subsidiaries of the Apollo Operating Group. Therefore, any distributions that flow up to management or general partner entities in which the Contributing Partners retained ownership interests are shared pro rata with the Contributing Partners who have a direct interest in such entities prior to flowing up to the Apollo Operating Group. These distributions are considered compensation expense.

The Contributing Partners are entitled to receive the following:

- Profit sharing related to private equity carried interest income, from direct ownership of advisory entities. Any changes in fair value of the underlying fund investments would result in changes to Apollo Global Management, LLC's profit sharing payable;
- Additional consideration based on their proportional ownership interest in Holdings; and
- As a result of the tax receivable agreement, 85% of any tax savings APO Corp. recognizes will be paid to the Contributing Partners.

Potential Future Costs

We may make grants of RSUs or other equity-based awards to employees and independent directors that we appoint in the future.

Critical Accounting Policies

This Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates. A summary of our significant accounting policies is presented in note 2 to our condensed consolidated financial statements. The following is a summary of our accounting policies that are affected most by judgments, estimates and assumptions.

Consolidation

The Company assesses all entities with which it is involved for consolidation on a case by case basis depending on the specific facts and circumstances surrounding each entity. Pursuant to the consolidation guidance, the Company first evaluates whether it holds a variable interest in an entity. Apollo factors in all economic interests including proportionate interests through related parties, to determine if such interests are to be considered a variable interest. As Apollo's interest in many of these entities is solely through market rate fees and/or insignificant indirect interests through related parties, Apollo is generally not considered to have a variable interest in many of these entities under the guidance and no further consolidation analysis is performed. For entities where the Company has determined that it does hold a variable interest, the Company performs an assessment to determine whether each of those entities qualify as a VIE.

The determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and therefore certain of Apollo's funds may qualify as VIEs under the variable interest model whereas others may qualify as VOEs under the voting interest model. The granting of substantive kick-out rights is a key consideration in determining whether a limited partnership or similar entity is a VIE and whether or not that entity should be consolidated.

Under the voting interest model, Apollo consolidates those entities it controls through a majority voting interest. Apollo does not consolidate those VOEs in which substantive kick-out rights have been granted to the unaffiliated investors to either dissolve the fund or remove the general partner.

Under the variable interest model, Apollo consolidates those entities where it is determined that the Company is the primary beneficiary of the entity. The Company is determined to be the primary beneficiary if it holds a controlling financial interest in the VIE defined as possessing both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. If Apollo alone is not considered to have a controlling financial interest in the VIE but Apollo and its related parties under common control in the aggregate have a controlling financial interest in the VIE, Apollo will still be deemed to be the primary beneficiary if it is the party within the related party group that is most closely associated with the VIE. If Apollo and its related parties not under common control in the aggregate have a controlling financial interest in a VIE, then Apollo is deemed to be the primary beneficiary if substantially all the activities of the entity are performed on behalf of Apollo. Apollo determines whether it is the primary beneficiary of a VIE at the time it becomes initially involved with the VIE and reconsiders that conclusion continuously. Investments and redemptions (either by Apollo, related parties of Apollo or third parties) or amendments to the governing documents of the respective entity may affect an entity's status as a VIE or the determination of the primary beneficiary.

The assessment of whether an entity is a VIE and the determination of whether Apollo should consolidate such VIE requires judgment by our management. Those judgments include, but are not limited to: (i) determining whether the total equity investment at risk is sufficient to permit the entity to finance its activities without additional subordinated financial support, (ii) evaluating whether the holders of equity investment at risk, as a group, can make decisions that have a significant effect on the success of the entity, (iii) determining whether the equity investors have proportionate voting rights to their obligations to absorb losses or rights to receive the expected residual returns from an entity and (iv) evaluating the nature of the relationship and activities of those related parties with shared power or under common control for purposes of determining which party within the related-party group is most closely associated with the VIE. Judgments are also made in determining whether a member in the equity group has a controlling financial interest including power to direct activities that most significantly impact the VIE's economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE. This analysis considers all relevant economic interests including proportionate interests held through related parties.

Revenue Recognition

Carried Interest Income (Loss) from Related Parties. We earn carried interest income from our funds as a result of such funds achieving specified performance criteria. Such carried interest income generally is earned based upon a fixed percentage of realized and unrealized gains of various funds after meeting any applicable hurdle rate or threshold minimum. Carried interest income from certain of the funds that we manage is subject to contingent repayment and is generally paid to us as particular investments made by the funds are realized. If, however, upon liquidation of a fund, the aggregate amount paid to us as carried interest exceeds the amount actually due to us based upon the aggregate performance of the fund, the excess (in certain cases net of taxes) is required to be returned by us to that fund. For a majority of our credit funds, once the annual carried interest income has been determined, there generally is no look-back to prior periods for a potential contingent repayment, however, carried interest income on certain other credit funds can be subject to contingent repayment at the end of the life of the fund. We have elected to adopt Method 2 from U.S. GAAP guidance applicable to accounting for management fees based on a formula, and under this method, we accrue carried interest income quarterly based on fair value of the underlying investments and separately assess if contingent repayment is necessary. The determination of carried interest income and contingent repayment considers both the terms of the respective partnership agreements and the current fair value of the underlying investments within the funds. Estimates and assumptions are made when determining the fair value of the underlying investments within the funds and could vary depending on the valuation methodology that is used. See "Investments, at Fair Value" below for further discussion related to significant estimates and assumptions used for determining fair value of the underlying investments in our private equity, credit and real assets funds.

Management Fees from Related Parties. The management fees related to our private equity funds are generally based on a fixed percentage of the committed capital or invested capital. The corresponding fee calculations that consider committed capital or invested capital are both objective in nature and therefore do not require the use of significant estimates or assumptions. Management fees related to our credit funds, by contrast, can be based on net asset value, gross assets, adjusted cost of all unrealized portfolio investments, capital commitments, adjusted assets, capital contributions, or stockholders' equity all as defined in the respective partnership agreements. The credit management fee calculations that consider net asset value, gross assets, adjusted cost of all unrealized portfolio investments and adjusted assets are normally based on the terms of the respective partnership agreements and the current fair value of the underlying investments within the funds. Estimates and assumptions are made when determining the fair value of the underlying investments within the funds and could vary depending on the valuation methodology that is used. The management fees related to our real assets funds are generally based on a specific percentage of the funds' stockholders' equity or committed or net invested capital or the capital accounts of the limited partners. See "Investments, at Fair Value" below for further discussion related to significant estimates and assumptions used for determining fair value of the underlying investments in our private equity, credit and real assets funds.

Investments, at Fair Value

On a quarterly basis, Apollo utilizes valuation committees consisting of members from senior management, to review and approve the valuation results related to the investments of the funds it manages. For certain publicly traded vehicles managed by Apollo, a review is performed by an independent board of directors. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses. However, because of the inherent uncertainty of valuation, the estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Private Equity Investments. The majority of the illiquid investments within our private equity funds are valued using the market approach, which provides an indication of fair value based on a comparison of the subject company to comparable publicly traded companies and transactions in the industry.

Market Approach. The market approach is driven by current market conditions, including actual trading levels of similar companies and, to the extent available, actual transaction data of similar companies. Judgment is required by management when assessing which companies are similar to the subject company being valued. Consideration may also be given to any of the following factors: (1) the subject company's historical and projected financial data; (2) valuations given to comparable companies; (3) the size and scope of the subject company's operations; (4) the subject company's individual strengths and weaknesses; (5) expectations relating to the market's receptivity to an offering of the subject company's securities; (6) applicable restrictions on transfer; (7) industry and market information; (8) general economic and market conditions; and (9) other factors deemed relevant. Market approach valuation models typically employ a multiple that is based on one or more of the factors described above. Enterprise value as a multiple of EBITDA is common and relevant for most companies and industries, however, other industry specific multiples are employed where available and appropriate. Sources for gaining additional knowledge related to comparable

companies include public filings, annual reports, analyst research reports, and press releases. Once a comparable company set is determined, we review certain aspects of the subject company's performance and determine how its performance compares to the group and to certain individuals in the group. We compare certain measurements such as EBITDA margins, revenue growth over certain time periods, leverage ratios and growth opportunities. In addition, we compare our entry multiple and its relation to the comparable set at the time of acquisition to understand its relation to the comparable set on each measurement date.

Income Approach. For investments where the market approach does not provide adequate fair value information, we rely on the income approach. The income approach is also used to validate the market approach within our private equity funds. The income approach provides an indication of fair value based on the present value of cash flows that a business or security is expected to generate in the future. The most widely used methodology for the income approach is a discounted cash flow method. Inherent in the discounted cash flow method are significant assumptions related to the subject company's expected results, the determination of a terminal value and a calculated discount rate, which is normally based on the subject company's weighted average cost of capital, or "WACC." The WACC represents the required rate of return on total capitalization, which is comprised of a required rate of return on equity, plus the current tax-effected rate of return on debt, weighted by the relative percentages of equity and debt that are typical in the industry. The most critical step in determining the appropriate WACC for each subject company is to select companies that are comparable in nature to the subject company and the credit quality of the subject company. Sources for gaining additional knowledge about the comparable companies include public filings, annual reports, analyst research reports, and press releases. The general formula then used for calculating the WACC considers the after-tax rate of return on debt capital and the rate of return on common equity capital, which further considers the risk-free rate of return, market beta, market risk premium and small stock premium, if applicable. The variables used in the WACC formula are inferred from the comparable market data obtained. The Company evaluates the comparable companies selected and concludes on WACC inputs based on the most comparable company or analyzes the range of data for the investment.

The value of liquid investments, where the primary market is an exchange (whether foreign or domestic), is determined using period end market prices. Such prices are generally based on the close price on the date of determination.

Credit Investments. The majority of investments in Apollo's credit funds are valued based on quoted market prices and valuation models.

Quoted market prices are valued based on the average of the "bid" and the "ask" quotes provided by multiple brokers wherever possible without any adjustments. Apollo designates certain brokers to value specific securities. In order to determine the designated brokers, Apollo considers the following: (i) brokers with which Apollo has previously transacted, (ii) the underwriter of the security and (iii) active brokers indicating executable quotes. In addition, when valuing a security based on broker quotes wherever possible Apollo tests the standard deviation amongst the quotes received and the variance between the concluded fair value and the value provided by a pricing service. When broker quotes are not available, we use pricing service quotes or other sources to mark a position. When relying on a pricing service as a primary source, (i) Apollo analyzes how the price has moved over the measurement period, (ii) reviews the number of brokers included in the pricing service's population and (iii) validates the valuation levels with Apollo's pricing team and traders.

Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value utilizing a model based approach to determine fair value. Valuation approaches used to estimate the fair value of illiquid credit investments also may include the market approach and the income approach, as previously described above. The valuation approaches used consider, as applicable, market risks, credit risks, counterparty risks and foreign currency risks.

Real Assets Investments. For the CMBS portfolio of Apollo's funds, the estimated fair value of the CMBS portfolio is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. Broker quotes are only indicative of fair value and may not necessarily represent what the funds would receive in an actual trade for the applicable instrument. Additionally, the loans held-for-investment are stated at the principal amount outstanding, net of deferred loan fees and costs. The loans in Apollo's real assets funds are evaluated for possible impairment on a quarterly basis. For Apollo's real assets funds, valuations of non-marketable underlying investments are determined using methods that include, but are not limited to (i) discounted cash flow estimates or comparable analysis prepared internally, (ii) third party appraisals or valuations by qualified real estate appraisers, and (iii) contractual sales value of investments/properties subject to bona fide purchase contracts. Methods (i) and (ii) also incorporate consideration of the use of the income, cost, or sales comparison approaches of estimating property values.

Certain of our funds may also enter into foreign currency exchange contracts, total return swap contracts, credit default swap contracts, and other derivative contracts, which may include options, caps, collars and floors. Foreign currency exchange contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. If securities are held at the end of this period, the changes in value are recorded in income as unrealized gains or losses. Realized gains or losses are recognized when contracts are settled. Derivative contracts such as total

return swaps and credit default swaps are recorded at fair value as an asset or liability, with changes in fair value recorded as unrealized appreciation or depreciation. Realized gains or losses are recognized at the termination of the contract based on the difference between the close-out price of the total return or credit default swap contract and the original contract price. Forward contracts are valued based on market rates obtained from counterparties or prices obtained from recognized financial data service providers.

The fair values of the investments in our funds can be impacted by changes to the assumptions used in the underlying valuation models. For further discussion on the impact of changes to valuation assumptions see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk-Sensitivity" in our 2016 Annual Report. There have been no material changes to the valuation approaches utilized during the periods that our financial results are presented in this report.

Fair Value of Financial Instruments

Except for the Company's debt obligations (each as defined in note 9 to our condensed consolidated financial statements), Apollo's financial instruments are recorded at fair value or at amounts whose carrying values approximate fair value. See "-Investments, at Fair Value" above. While Apollo's valuations of portfolio investments are based on assumptions that Apollo believes are reasonable under the circumstances, the actual realized gains or losses will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may ultimately differ significantly from the assumptions on which the valuations were based. Financial instruments' carrying values generally approximate fair value because of the short-term nature of those instruments or variable interest rates related to the borrowings.

Profit Sharing Expense. Profit sharing expense is primarily a result of agreements with our Contributing Partners and employees to compensate them based on the ownership interest they have in the general partners of the Apollo funds. Therefore, changes in the fair value of the underlying investments in the funds we manage and advise affect profit sharing expense. The Contributing Partners and employees are allocated approximately 30% to 50% of the total carried interest income which is driven primarily by changes in fair value of the underlying fund's investments and is treated as compensation expense. Additionally, profit sharing expenses paid may be subject to clawback from employees, former employees and Contributing Partners to the extent not indemnified. When applicable, the accrual for potential clawback of previously distributed profit sharing amounts, which is a component of due from related parties on the condensed consolidated statements of financial condition, represents all amounts previously distributed to employees, former employees and Contributing Partners that would need to be returned to the general partner if the Apollo funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual general partner receivable, however, would not become realized until the end of a fund's life.

The Incentive Pool enables certain partners and employees to earn discretionary compensation based on carried interest realizations earned by the Company in a given year, which amounts are reflected in profit sharing expense in the accompanying condensed consolidated financial statements. The Company adopted the Incentive Pool to attract and retain, and provide incentive to, partners and employees of the Company and to more closely align the overall compensation of partners and employees with the overall realized performance of the Company. Allocations to the Incentive Pool and to its participants contain both a fixed and a discretionary component and may vary year-to-year depending on the overall realized performance of the Company and the contributions and performance of each participant. There is no assurance that the Company will continue to compensate individuals through performance-based incentive arrangements in the future and there may be periods when the executive committee of the Company's manager determines that allocations of realized carried interest income are not sufficient to compensate individuals, which may result in an increase in salary, bonus and benefits.

Fair Value Option. Apollo has elected the fair value option for the Company's investment in Athene Holding, the assets and liabilities of certain of its consolidated VIEs (including CLOs), the Company's U.S. Treasury securities with original maturities greater than three months when purchased and certain of the Company's other investments. Such election is irrevocable and is applied to financial instruments on an individual basis at initial recognition. Apollo has applied the fair value option for certain corporate loans, other investments and debt obligations held by the consolidated VIEs that otherwise would not have been carried at fair value. See notes 3, 4, and 5 to the condensed consolidated financial statements for further disclosure on the investments in Athene Holding and financial instruments of the consolidated VIEs and other investments for which the fair value option has been elected.

Equity-Based Compensation. Equity-based compensation is accounted for in accordance with U.S. GAAP, which requires that the cost of employee services received in exchange for an award is generally measured based on the grant date fair value of the award. Equity-based awards that do not require future service (i.e., vested awards) are expensed immediately. Equity-based employee awards that require future service are recognized over the relevant service period. As discussed in note 2, in connection with the adoption of new share-based payment guidance during the quarter ended March 31, 2017, the Company made an accounting policy election to no longer estimate forfeitures in determining the number of equity-based awards that are expected

to vest. Under the Company's new policy, which was applied prospectively as of January 1, 2017, forfeitures are accounted for when they occur. Apollo's equity-based awards consist of, or provide rights with respect to, AOG Units, RSUs, share options, restricted shares, AHL Awards and other equity-based compensation awards. For more information regarding Apollo's equity-based compensation awards, see note 11 to our condensed consolidated financial statements. The Company's assumptions made to determine the fair value on grant date are embodied in the calculations of compensation expense.

A significant part of our compensation expense is derived from amortization of RSUs. The fair value of all RSU grants after March 29, 2011 is based on the grant date fair value, which considers the public share price of the Company. RSUs are comprised of Plan Grants, which generally do not pay distributions until vested and, for grants made after 2011, the underlying shares are generally issued by March 15th after the year in which they vest, and Bonus Grants, which pay distributions on both vested and unvested grants and are generally issued after vesting on an approximate two-month lag. For Plan Grants, the grant date fair value is based on the public share price of the Company, and is discounted for transfer restrictions and lack of distributions until vested. For Bonus Grants, the grant date fair value is based on the public share price of the Company, and is discounted for transfer restrictions.

We utilize the present value of a growing annuity formula to calculate a discount for the lack of pre-vesting distributions on Plan Grant RSUs. The weighted average for the inputs utilized for the shares granted during the three and nine months ended September 30, 2017 and 2016 are presented in the table below for Plan Grants:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Distribution Yield(1)	6.0%	7.5%	6.1%	7.5%
Cost of Equity Capital Rate(2)	10.5%	9.3%	11.0%	9.4%

(1) Calculated based on the historical distributions paid during the twelve months ended September 30, 2017 and the Company's Class A share price as of the measurement date of the grant on a weighted average basis.
(2) Assumes a discount rate that was equivalent to the opportunity cost of foregoing distributions on unvested Plan Grant RSUs as of the valuation date, based on the Capital Asset Pricing Model ("CAPM"). CAPM is a commonly used mathematical model for developing expected returns.

The following table summarizes the weighted average discounts for Plan Grants for the three and nine months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Plan Grants:				
Discount for the lack of distributions until vested(1)	12.9%	8.2%	12.0%	10.1%

(1) Based on the present value of a growing annuity calculation.

We utilize the Finnerty Model to calculate a marketability discount on the Plan Grant and Bonus Grant RSUs to account for the lag between vesting and issuance. The Finnerty Model provides for a valuation discount reflecting the holding period restriction embedded in a restricted security preventing its sale over a certain period of time.

The Finnerty Model proposes to estimate a discount for lack of marketability such as transfer restrictions by using an option pricing theory. This model has gained recognition through its ability to address the magnitude of the discount by considering the volatility of a company's stock price and the length of restriction. The concept underpinning the Finnerty Model is that a restricted security cannot be sold over a certain period of time. Further simplified, a restricted share of equity in a company can be viewed as having forfeited a put on the average price of the marketable equity over the restriction period (also known as an "Asian Put Option"). If we price an Asian Put Option and compare this value to that of the assumed fully marketable underlying security, we can effectively estimate the marketability discount.

The inputs utilized in the Finnerty Model are (i) length of holding period, (ii) volatility and (iii) distribution yield. The weighted average for the inputs utilized for the shares granted during the three and nine months ended September 30, 2017 and 2016 are presented in the table below for Plan Grants and Bonus Grants:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Plan Grants:				
Holding Period Restriction (in years)	0.6	0.7	0.6	0.7
Volatility[1]	23.4%	31.6%	22.1%	31.7%
Distribution Yield[2]	6.0%	7.5%	6.1%	7.5%
Bonus Grants:				
Holding Period Restriction (in years)	0.2	0.2	0.2	0.2
Volatility[1]	23.0%	28.1%	22.6%	33.4%
Distribution Yield[2]	6.0%	7.5%	5.4%	7.5%

(1) The Company determined the expected volatility based on the volatility of the Company's Class A share price as of the grant date with consideration to comparable companies.
(2) Calculated based on the historical distributions paid during the twelve months ended September 30, 2017 and the Company's Class A share price as of the measurement date of the grant on a weighted average basis.

The following table summarizes the weighted average marketability discounts for Plan Grants and Bonus Grants for the three and nine months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Plan Grants:				
Marketability discount for transfer restrictions[1]	4.0%	5.8%	3.5%	5.8%
Bonus Grants:				
Marketability discount for transfer restrictions[1]	2.3%	3.0%	2.3%	3.4%

(1) Based on the Finnerty Model calculation.

Bonus Grants constitute a component of the discretionary annual compensation awarded to certain of our professionals. During 2016, the Company increased the default portion of annual compensation to be awarded as a discretionary Bonus Grant relative to the portion awarded in previous years. The increase in the proportion of discretionary annual compensation awarded as a Bonus Grant will be offset by a decrease in discretionary annual cash bonuses. These changes are intended to further align the interests of Apollo's employees and stakeholders and strengthen the long-term commitment of our partners and employees.

Fair Value Measurements

See note 5 to our condensed consolidated financial statements for a discussion of the Company's fair value measurements.

Recent Accounting Pronouncements

A list of recent accounting pronouncements that are relevant to Apollo and its industry is included in note 2 to our condensed consolidated financial statements.

Off-Balance Sheet Arrangements

In the normal course of business, we engage in off-balance sheet arrangements, including transactions in derivatives, guarantees, commitments, indemnifications and potential contingent repayment obligations. See note 14 to our condensed consolidated financial statements for a discussion of guarantees and contingent obligations and note 2 for a discussion of derivatives.

Contractual Obligations, Commitments and Contingencies

As of September 30, 2017, the Company's material contractual obligations consisted of lease obligations, contractual commitments as part of the ongoing operations of the funds and debt obligations. Fixed and determinable payments due in connection with these obligations are as follows:

	Remaining 2017	2018	2019	2020	2021	Thereafter	Total
				(in thousands)			
Operating lease obligations	$ 9,266	$ 34,643	$ 33,702	$ 15,563	$ 6,055	$ 13,313	$ 112,542
Other long-term obligations[1]	8,291	12,413	3,525	1,956	1,956	1,611	29,752
2013 AMH Credit Facilities - Term Facility[2]	1,837	7,347	7,347	7,347	300,367	-	324,245
2013 AMH Credit Facilities - Revolver Facility[3]	156	625	625	625	8	-	2,039
2024 Senior Notes [4]	5,000	20,000	20,000	20,000	20,000	548,333	633,333
2026 Senior Notes [5]	5,500	22,000	22,000	22,000	22,000	596,983	690,483
2014 AMI Term Facility I	81	324	324	324	16,460	-	17,513
2014 AMI Term Facility II	80	320	320	320	320	18,397	19,757
2016 AMI Term Facility I	88	351	351	351	20,063	-	21,204
2016 AMI Term Facility II	78	313	313	313	15,787	-	16,804
Obligations as of September 30, 2017	$ 30,377	$ 98,336	$ 88,507	$ 68,799	$ 403,016	$ 1,178,637	$ 1,867,672

(1) Includes (i) payments on management service agreements related to certain assets and (ii) payments with respect to certain consulting agreements entered into by the Company. Note that a significant portion of these costs are reimbursable by funds.

(2) $300 million of the outstanding Term Facility matures in January 2021. The interest rate on the $300 million Term Facility as of September 30, 2017 was 2.45%. See note 9 of the condensed consolidated financial statements for further discussion of the 2013 AMH Credit Facilities.

(3) The commitment fee as of September 30, 2017 on the $500 million undrawn Revolver Facility was 0.125%. See note 9 of the condensed consolidated financial statements for further discussion of the 2013 AMH Credit Facilities.

(4) $500 million of the 2024 Senior Notes matures in May 2024. The interest rate on the 2024 Senior Notes as of September 30, 2017 was 4.00%. See note 9 of the condensed consolidated financial statements for further discussion of the 2024 Senior Notes.

(5) $500 million of the 2026 Senior Notes matures in May 2026. The interest rate on the 2026 Senior Notes as of September 30, 2017 was 4.40%. See note 9 of the condensed consolidated financial statements for further discussion of the 2026 Senior Notes.

Note: Due to the fact that the timing of certain amounts to be paid cannot be determined or for other reasons discussed below, the following contractual commitments have not been presented in the table above.

(i) As noted previously, we have entered into a tax receivable agreement with our Managing Partners and Contributing Partners which requires us to pay to our Managing Partners and Contributing Partners 85% of any tax savings received by APO Corp. from our step-up in tax basis. The tax savings achieved may not ensure that we have sufficient cash available to pay this liability and we might be required to incur additional debt to satisfy this liability.

(ii) Debt amounts related to the consolidated VIEs are not presented in the table above as the Company is not a guarantor of these non-recourse liabilities.

(iii) In connection with the Stone Tower acquisition, the Company agreed to pay the former owners of Stone Tower a specified percentage of any future carried interest income earned from certain of the Stone Tower funds, CLOs and strategic investment accounts. This contingent consideration liability is remeasured to fair value at each reporting period until the obligations are satisfied. See note 14 to the condensed consolidated financial statements for further information regarding the contingent consideration liability.

(iv) Commitments from certain of our subsidiaries to contribute to the funds we manage and certain related parties.

Commitments

Certain of our management companies and general partners are committed to contribute to the funds we manage and certain related parties. While a small percentage of these amounts are funded by us, the majority of these amounts have historically been funded by our related parties, including certain of our employees and certain Apollo funds. The table below presents the commitment and remaining commitment amounts of Apollo and its related parties, the percentage of total fund commitments of Apollo and its related parties, the commitment and remaining commitment amounts of Apollo only (excluding related parties), and the percentage of total fund commitments of Apollo only (excluding related parties) for each private equity, credit and real assets fund as of September 30, 2017 as follows ($ in millions):

Fund	Apollo and Related Party Commitments	% of Total Fund Commitments	Apollo Only (Excluding Related Party) Commitments	Apollo Only (Excluding Related Party) % of Total Fund Commitments	Apollo and Related Party Remaining Commitments	Apollo Only (Excluding Related Party) Remaining Commitments
Private Equity:						
Fund IX[1]	$ 1,847.5	7.47%	$ 822.5	3.33%	$ 1,847.5	$ 822.5
Fund VIII	1,543.5	8.40	395.5	2.15	583.3	151.4
Fund VII	467.2	3.18	178.1	1.21	70.5	26.1
Fund VI	246.3	2.43	6.1	0.06	9.7	0.2
Fund V	100.0	2.67	0.5	0.01	6.2	-
Fund IV	100.0	2.78	0.2	0.01	0.5	-
AION	151.5	18.34	50.0	6.05	74.3	24.1
ANRP I	426.1	32.21	10.1	0.76	77.3	1.5
ANRP II	581.2	16.83	28.0	0.81	412.8	20.4
A.A. Mortgage Opportunities, L.P.	425.0	84.46	-	-	-	-
Apollo Rose, L.P.	299.1	100.00	-	-	99.0	-
Champ, L.P.	122.0	100.00	19.5	15.98	12.4	2.1
Apollo Royalties Management, LLC	108.6	100.00	-	-	-	-
Other Private Equity	140.6	Various	10.6	Various	36.1	1.7
Credit:						
Apollo Credit Opportunity Fund III, L.P. (“COF III”)	358.1	10.45	83.1	2.43	95.0	22.6
Apollo Credit Opportunity Fund II, L.P. (“COF II”)	30.5	1.93	23.4	1.48	-	-
Apollo Credit Opportunity Fund I, L.P. (“COF I”)	449.2	30.26	29.7	2.00	237.1	4.2
Apollo European Principal Finance Fund III, L.P. (“EPF III”)[2]	528.5	12.37	94.7	2.22	528.5	94.7
Apollo European Principal Finance Fund II, L.P. (“EPF II”)[2]	412.2	11.80	63.8	1.83	101.7	19.3
Apollo European Principal Finance Fund, L.P. (“EPF I”)[2]	317.4	20.74	20.9	1.37	51.6	4.8
Financial Credit Investment III, L.P. (“FCI III”)	224.3	11.76	0.1	0.01	217.7	0.1
Financial Credit Investment II, L.P. (“FCI II”)	244.6	15.73	-	-	122.0	-
Financial Credit Investment I, L.P. (“FCI I”)	95.3	17.05	-	-	60.5	-
Apollo Structured Credit Recovery Master Fund III, L.P. (“SCRF III”)	230.2	18.59	3.6	0.29	121.3	1.9
MidCap	1,672.6	80.23	110.9	5.32	229.0	31.0
Apollo Moultrie Credit Fund, L.P.	400.0	100.00	-	-	160.0	-
Apollo/Palmetto Short-Maturity Loan Portfolio, L.P.	300.0	100.00	-	-	-	-
Apollo Asia Private Credit Fund, L.P. (“APC”)	158.5	69.06	0.1	0.04	-	-
Apollo Energy Opportunity Fund, L.P. (“AEOF”)	5.4	0.52	4.9	0.47	3.9	3.6
AGER[2]	177.2	6.90	147.7	5.75	177.2	147.7
Other Credit	507.8	Various	229.8	Various	282.9	104.5
Real Assets:						
U.S. RE Fund II	400.4 [3]	46.44	4.7	0.55	216.2	2.6
U.S. RE Fund I	434.9 [3]	66.47	16.6	2.54	123.9	2.8
CPI Capital Partners North America, L.P.	7.6	1.27	2.1	0.35	0.6	0.2
CPI Capital Partners Europe, L.P.[2]	6.5	0.47	-	-	0.5	-
CPI Capital Partners Asia Pacific, L.P.	6.9	0.53	0.5	0.04	0.1	-
Asia RE Fund	455.9 [3]	77.47	8.4	1.42	344.0	6.3
Other Real Assets	79.4	Various	1.7	Various	11.5	0.3
Other:						
Apollo SPN Investments I, L.P.	12.4	0.31	12.4	0.31	7.6	7.6
Total	$ 14,074.4		$ 2,380.2		$ 6,322.4	$ 1,504.2

(1) Apollo Only (Excluding Related Party) Remaining Commitments related to Fund IX are subject to future syndication to Apollo employees.
(2) Apollo’s commitment in these funds is denominated in Euros and translated into U.S. dollars at an exchange rate of €1.00 to $1.18 as of September 30, 2017.

(3) Figures for U.S. RE Fund I include base, additional, and co-investment commitments. A co-investment vehicle within U.S. RE Fund I is denominated in pound sterling and translated into U.S. dollars at an exchange rate of £1.00 to $1.34 as of September 30, 2017. Figures for U.S. RE Fund II and Asia RE Fund include co-investment commitments.

On April 30, 2015, Apollo entered into the AAA Investments Credit Agreement (see note 13 for further disclosure regarding this facility). The 2013 AMH Credit Facilities, 2024 Senior Notes and 2026 Senior Notes will have future impacts on our cash uses. See note 9 of our condensed consolidated financial statements for information regarding the Company's debt arrangements.

Contingent Obligation-Carried interest income with respect to private equity funds and certain credit and real assets funds is subject to reversal in the event of future losses to the extent of the cumulative carried interest recognized in income to date. See note 14 to our condensed consolidated financial statements for a description of our contingent obligation.

One of the Company's subsidiaries, AGS, provides underwriting commitments in connection with securities offerings to the portfolio companies of the funds Apollo manages. As of September 30, 2017, there were no underwriting commitments outstanding related to such offerings.

As of September 30, 2017, one of the Company's subsidiaries had unfunded contingent commitments of $29.8 million, to facilitate funding at closing by lead arrangers for syndicated term loans issued by portfolio companies of funds managed by Apollo. The commitments expired on November 2, 2017.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our predominant exposure to market risk is related to our role as investment manager and general partner for our funds and the sensitivity to movements in the fair value of their investments and resulting impact on carried interest income and management fee revenues. Our direct investments in the funds also expose us to market risk whereby movements in the fair values of the underlying investments will increase or decrease both net gains (losses) from investment activities and income (loss) from equity method investments. For a discussion of the impact of market risk factors on our financial instruments see "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies-Investments, at Fair Value."

The fair value of our financial assets and liabilities of our funds may fluctuate in response to changes in the value of investments, foreign exchange, commodities and interest rates. The net effect of these fair value changes impacts the gains and losses from investments in our condensed consolidated statements of operations. However, the majority of these fair value changes are absorbed by the Non-Controlling Interests.

The Company is subject to a concentration risk related to the investors in its funds. Although there are more than 1,000 investors in Apollo's active private equity, credit and real assets funds, no individual investor accounts for more than 10% of the total committed capital to Apollo's active funds.

Risks are analyzed across funds from the "bottom up" and from the "top down" with a particular focus on asymmetric risk. We gather and analyze data, monitor investments and markets in detail, and constantly strive to better quantify, qualify and circumscribe relevant risks.

Each risk management process is subject to our overall risk tolerance and philosophy and our enterprise-wide risk management framework. This framework includes identifying, measuring and managing market, credit and operational risks at each segment, as well as at the fund and Company level.

Each segment runs its own investment and risk management process subject to our overall risk tolerance and philosophy:

- The investment process of our private equity funds involves a detailed analysis of potential acquisitions, and investment management teams assigned to monitor the strategic development, financing and capital deployment decisions of each portfolio investment.
- Our credit funds continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios, as well as, fund-wide risks.

At the direction of the Company's manager, the Company has established a risk committee comprised of various members of senior management including the Company's Chief Financial Officer, Chief Legal Officer, and the Company's Chief Risk Officer. The risk committee is tasked with assisting the Company's manager in monitoring and managing enterprise-wide

risk. The risk committee generally meets on a quarterly basis and reports to senior management of the Company's manager at such times as the committee deems appropriate and at least on an annual basis.

On at least a monthly basis, the Company's risk department provides a summary analysis of fund level market and credit risk to the portfolio managers of the Company's funds and the heads of the various business segments. On a periodic basis, the Company's risk department presents a consolidated summary analysis of fund level market and credit risk to the Company's risk committee. In addition, the Company's Chief Risk Officer reviews specific investments from the perspective of risk mitigation and discusses such analysis with the Company's risk committee and/or the executive committee of the Company's manager at such times as the Company's Chief Risk Officer determines such discussions are warranted. On an annual basis, the Company's Chief Risk Officer provides senior management of the Company's manager with a comprehensive overview of risk management along with an update on current and future risk initiatives.

Impact on Management Fees-Our management fees are based on one of the following:

- capital commitments to an Apollo fund;
- capital invested in an Apollo fund;
- the gross, net or adjusted asset value of an Apollo fund, as defined; or
- as otherwise defined in the respective agreements.

Management fees could be impacted by changes in market risk factors and management could consider an investment permanently impaired as a result of (i) such market risk factors causing changes in invested capital or in market values to below cost, in the case of our private equity funds and certain credit funds or (ii) such market risk factors causing changes in gross or net asset value, for the credit funds. The proportion of our management fees that are based on NAV is dependent on the number and types of our funds in existence and the current stage of each fund's life cycle.

Impact on Advisory and Transaction Fees-We earn transaction fees relating to the negotiation of private equity, credit and real assets transactions and may obtain reimbursement for certain out-of-pocket expenses incurred. Subsequently, on a quarterly or annual basis, ongoing advisory fees, and additional transaction fees in connection with additional purchases, dispositions, or follow-on transactions, may be earned. Management Fee Offsets and any broken deal costs, if applicable, are reflected as a reduction to advisory and transaction fees from related parties. Advisory and transaction fees will be impacted by changes in market risk factors to the extent that they limit our opportunities to engage in private equity, credit and real assets transactions or impair our ability to consummate such transactions. The impact of changes in market risk factors on advisory and transaction fees is not readily predicted or estimated.

Impact on Carried Interest Income-We earn carried interest income from our funds as a result of such funds achieving specified performance criteria. Our carried interest income will be impacted by changes in market risk factors. However, several major factors will influence the degree of impact:

- the performance criteria for each individual fund in relation to how that fund's results of operations are impacted by changes in market risk factors;
- whether such performance criteria are annual or over the life of the fund;
- to the extent applicable, the previous performance of each fund in relation to its performance criteria; and
- whether each funds' carried interest distributions are subject to contingent repayment.

As a result, the impact of changes in market risk factors on carried interest income will vary widely from fund to fund. The impact is heavily dependent on the prior and future performance of each fund, and therefore is not readily predicted or estimated.

Market Risk-We are directly and indirectly affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues and expenses will be adversely affected by changes in market conditions. Market risk is inherent in each of our investments and activities, including equity investments, loans, short-term borrowings, long-term debt, hedging instruments, credit default swaps and derivatives. Just a few of the market conditions that may shift from time to time, thereby exposing us to market risk, include fluctuations in interest and currency exchange rates, equity prices, changes in the implied volatility of interest rates and price deterioration. Volatility in debt and equity markets can impact our pace of capital deployment, the timing of receipt of transaction fee revenues and the timing of realizations. These market conditions could have an impact on the value of fund investments and rates of return. Accordingly, depending on the instruments or activities impacted, market risks can have wide ranging, complex adverse effects on our results from operations and our overall financial condition.

We monitor market risk using certain strategies and methodologies which management evaluates periodically for appropriateness. We intend to continue to monitor this risk going forward and continue to monitor our exposure to all market factors.

Interest Rate Risk-Interest rate risk represents exposure we and our funds have to instruments whose values vary with the change in interest rates. These instruments include, but are not limited to, loans, borrowings, investments in interest bearing securities and derivative instruments. We may seek to mitigate risks associated with the exposures by having our funds take offsetting positions in derivative contracts. Hedging instruments allow us to seek to mitigate risks by reducing the effect of movements in the level of interest rates, changes in the shape of the yield curve, as well as, changes in interest rate volatility. Hedging instruments used to mitigate these risks may include related derivatives such as options, futures and swaps.

Credit Risk-Certain of our funds are subject to certain inherent risks through their investments.

Certain of our entities invest substantially all of their excess cash in open-end money market funds and money market demand accounts, which are included in cash and cash equivalents. The money market funds invest primarily in government securities and other short-term, highly liquid instruments with a low risk of loss. We continually monitor the funds' performance in order to manage any risk associated with these investments.

Certain of our funds hold derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. We seek to minimize our risk exposure by limiting the counterparties with which our funds enter into contracts to banks and investment banks who meet established credit and capital guidelines. As of September 30, 2017, we do not expect any counterparty to default on its obligations and therefore do not expect to incur any loss due to counterparty default.

Foreign Exchange Risk-Foreign exchange risk represents exposures our funds have to changes in the values of current fund holdings and future cash flows denominated in other currencies and investments in non-U.S. companies. The types of investments exposed to this risk include investments in foreign subsidiaries, foreign currency-denominated loans, foreign currency-denominated transactions, and various foreign exchange derivative instruments whose values fluctuate with changes in currency exchange rates or foreign interest rates. Instruments used to mitigate this risk are foreign exchange options, currency swaps, futures and forwards. These instruments may be used to help insulate our funds against losses that may arise due to volatile movements in foreign exchange rates and/or interest rates.

In our capacity as investment manager of the funds we manage, we continuously monitor a variety of markets for attractive opportunities for managing risk. For example, certain of the funds we manage may put in place foreign exchange hedges or borrowings with respect to certain foreign currency denominated investments to provide a hedge against foreign exchange exposure.

Non-U.S. Operations-We conduct business throughout the world and are continuing to expand into foreign markets. We currently have offices outside the U.S. in Toronto, London, Frankfurt, Madrid, Luxembourg, Mumbai, Delhi, Singapore, Hong Kong and Shanghai and have been strategically growing our international presence. Our fund investments and our revenues are primarily derived from our U.S. operations. With respect to our non-U.S. operations, we are subject to risk of loss from currency fluctuations, social instability, changes in governmental policies or policies of central banks, expropriation, nationalization, unfavorable political and diplomatic developments and changes in legislation relating to non-U.S. ownership. Our funds also invest in the securities of companies which are located in non-U.S. jurisdictions. As we continue to expand globally, we will continue to focus on monitoring and managing these risk factors as they relate to specific non-U.S. investments.

ITEM 4. CONTROLS AND PROCEDURES

We maintain "disclosure controls and procedures", as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end

of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during our most recent quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II-OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See note 14 to our condensed consolidated financial statements for a summary of the Company’s legal proceedings.

ITEM 1A. RISK FACTORS

For a discussion of our potential risks and uncertainties, see the information under the heading "Risk Factors" in our 2016 Annual Report, which is accessible on the Securities and Exchange Commission's website at www.sec.gov. There have been no material changes to the risk factors for the three months ended September 30, 2017.

The risks described in our 2016 Annual Report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/ or operating results.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES

On August 4, 2017 we issued 233,248 Class A shares, net of taxes to Apollo Management Holdings, L.P., a subsidiary of Apollo Global Management, LLC, in connection with issuances of shares to participants in the Company’s 2007 Equity Plan for an aggregate purchase price of $6.7 million, respectively. The issuance was exempt from registration under the Securities Act in accordance with Section 4(a)(2) and Rule 506(b) thereof, as transactions by the issuer not involving a public offering. We determined that the purchaser of Class A shares in the transactions, Apollo Management Holdings, L.P., was an accredited investor.

Issuer Purchases of Equity Securities

The following table sets forth purchases of our Class A shares made by us or on our behalf during the fiscal quarter ended September 30, 2017.

Period	Total Number of Class A Shares Purchased[(1)]	Average Price Paid per Share	Class A Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Units that May be Purchased Under the Plan or Programs
July 1, 2017 through July 31, 2017	-	$ -	-	$ 137,062,230
August 1, 2017 through August 31, 2017	381,715	29.35	233,248	130,216,401
September 1, 2017 through September 30, 2017	-	-	-	130,216,401
Total	381,715		233,248	

(1) During the fiscal quarter ended September 30, 2017, we repurchased 148,467 Class A shares at an average price paid per share of $29.35 in open-market transactions not pursuant to a publicly-announced repurchase plan or program. Such number of Class A shares was equal to the number of Class A restricted shares issued under the 2007 Equity Plan during the quarter.

In February 2016, the Company announced its adoption of a program to repurchase up to $250 million in the aggregate of its Class A shares, including up to $150 million in the aggregate of its outstanding Class A shares through a share repurchase program and up to $100 million through a reduction of Class A shares to be issued to employees to satisfy associated tax obligations in connection with the settlement of equity-based awards granted under the 2007 Equity Plan, which we refer to as net share settlement. Under the share repurchase program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise, with the size and timing of these repurchases depending on legal requirements, price, market and economic conditions and other factors. The Company expects that the share repurchase program, which has no expiration date, will be in effect until the maximum approved dollar amount has been used to repurchase Class A shares. The share

repurchase program does not require the Company to repurchase any specific number of Class A shares, and the share repurchase program may be suspended, extended, modified or discontinued at any time. Reductions of Class A shares issued to employees to satisfy associated tax obligations in connection with the settlement of equity-based awards granted under the 2007 Equity Plan are not included in the table.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Certificate of Formation of Apollo Global Management, LLC (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
3.2	Second Amended and Restated Limited Liability Company Agreement of Apollo Global Management, LLC dated March 7, 2017 (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on March 7, 2017 (File No. 001-35107)).
4.1	Specimen Certificate evidencing the Registrant's Class A shares (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
4.2	Indenture dated as of May 30, 2014, among Apollo Management Holdings, L.P., the Guarantors party thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 30, 2014 (File No. 001-35107)).
4.3	First Supplemental Indenture dated as of May 30, 2014, among Apollo Management Holdings, L.P., the Guarantors party thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 30, 2014 (File No. 001-35107)).
4.4	Form of 4.000% Senior Note due 2024 (included in Exhibit 4.2 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 30, 2014 (File No. 001-35107), which is incorporated by reference).
4.5	Second Supplemental Indenture dated as of January 30, 2015, among Apollo Management Holdings, L.P., the Guarantors party thereto, Apollo Principal Holdings X, L.P. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.5 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
4.6	Third Supplemental Indenture dated as of February 1, 2016, among Apollo Management Holdings, L.P., the Guarantors party thereto, Apollo Principal Holdings XI, LLC and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.6 to the Registrant's Form 10-Q for the period ended March 31, 2016 (File No. 001-35107)).
4.7	Fourth Supplemental Indenture dated as of May 27, 2016, among Apollo Management Holdings, L.P., the Guarantors party thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 27, 2016 (File No. 001-35107)).
4.8	Fifth Supplemental Indenture dated as of April 13, 2017, among Apollo Management Holdings, L.P., the Guarantors party thereto, Apollo Principal Holdings XII, L.P. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.8 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
4.9	Form of 6.375% Series A Preferred Shares Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on March 7, 2017 (File No. 001-35107)).

Exhibit Number	Exhibit Description
10.1	Amended and Restated Limited Liability Company Operating Agreement of AGM Management, LLC dated as of July 10, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.2	Fourth Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings I, L.P. dated as of March 7, 2017 (incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
10.3	Fourth Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings II, L.P. dated as of March 7, 2017 (incorporated by reference to Exhibit 10.3 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
10.4	Fourth Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings III, L.P. dated as of March 7, 2017 (incorporated by reference to Exhibit 10.4 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
10.5	Fourth Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings IV, L.P. dated as of March 7, 2017 (incorporated by reference to Exhibit 10.5 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
+10.6	Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.7	Agreement Among Principals, dated as of July 13, 2007, by and among Leon D. Black, Marc J. Rowan, Joshua J. Harris, Black Family Partners, L.P., MJR Foundation LLC, AP Professional Holdings, L.P. and BRH Holdings, L.P. (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.8	Shareholders Agreement, dated as of July 13, 2007, by and among Apollo Global Management, LLC, AP Professional Holdings, L.P., BRH Holdings, L.P., Black Family Partners, L.P., MJR Foundation LLC, Leon D. Black, Marc J. Rowan and Joshua J. Harris (incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.9	Fifth Amended and Restated Exchange Agreement, dated as of April 28, 2017, by and among Apollo Global Management, LLC, Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P., Apollo Principal Holdings X, L.P., Apollo Principal Holdings XI, LLC, Apollo Principal Holdings XII, L.P., AMH Holdings (Cayman), L.P. and the Apollo Principal Holders (as defined therein) from time to time party thereto (incorporated by reference to Exhibit 10.9 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
10.10	Amended and Restated Tax Receivable Agreement, dated as of May 6, 2013, by and among APO Corp., Apollo Principal Holdings II, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings VI, Apollo Principal Holdings VIII, L.P., AMH Holdings (Cayman), L.P. and each Holder defined therein. (incorporated by reference to Exhibit 10.10 to the Registrant's Form 10-Q for the period ended June 30, 2016 (File No. 001-35107)).
10.11	Employment Agreement with Leon D. Black dated January 4, 2017 (incorporated by reference to Exhibit 10.11 to the Registrant's Form 10-K for the period ended December 31, 2016 (File No. 001-35107)).

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Exhibit Number	Exhibit Description
10.12	Employment Agreement with Marc J. Rowan dated January 4, 2017 (incorporated by reference to Exhibit 10.12 to the Registrant's Form 10-K for the period ended December 31, 2016 (File No. 001-35107)).
10.13	Employment Agreement with Joshua J. Harris dated January 4, 2017 (incorporated by reference to Exhibit 10.13 to the Registrant's Form 10-K for the period ended December 31, 2016 (File No. 001-35107)).
10.14	Third Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings V, L.P. dated as of March 7, 2017 (incorporated by reference to Exhibit 10.14 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
10.15	Third Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings VI, L.P. dated as of March 7, 2017 (incorporated by reference to Exhibit 10.15 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
10.16	Third Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings VII, L.P. dated as of March 7, 2017 (incorporated by reference to Exhibit 10.16 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
10.17	Third Amended and Restated Limited Partnership Agreement of Apollo Principal Holdings VIII, L.P. dated as of March 7, 2017 (incorporated by reference to Exhibit 10.17 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
10.18	Third Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings IX, L.P. dated as of March 7, 2017 (incorporated by reference to Exhibit 10.18 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
10.19	Second Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings X, L.P. dated as of March 7, 2017 (incorporated by reference to Exhibit 10.19 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
10.20	Second Amended and Restated Limited Liability Company Agreement of Apollo Principal Holdings XI, LLC dated as of March 7, 2017 (incorporated by reference to Exhibit 10.20 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
10.21	Second Amended and Restated Exempted Limited Partnership Agreement of Apollo Principal Holdings XII, L.P. dated as of March 7, 2017 (incorporated by reference to Exhibit 10.21 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
10.22	Fourth Amended and Restated Limited Partnership Agreement of Apollo Management Holdings, L.P. dated as of October 30, 2012 (incorporated by reference to Exhibit 10.25 to the Registrant's Form 10-Q for the period ended March 31, 2013 (File No. 001-35107)).
10.23	Settlement Agreement, dated December 14, 2008, by and among Huntsman Corporation, Jon M. Huntsman, Peter R. Huntsman, Hexion Specialty Chemicals, Inc., Hexion LLC, Nimbus Merger Sub, Inc., Craig O. Morrison, Leon Black, Joshua J. Harris and Apollo Global Management, LLC and certain of its affiliates (incorporated by reference to Exhibit 10.26 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).

Exhibit Number	Exhibit Description
10.24	First Amendment and Joinder, dated as of August 18, 2009, to the Shareholders Agreement, dated as of July 13, 2007, by and among Apollo Global Management, LLC, AP Professional Holdings, L.P., BRH Holdings, L.P., Black Family Partners, L.P., MJR Foundation LLC, Leon D. Black, Marc J. Rowan and Joshua J. Harris (incorporated by reference to Exhibit 10.27 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.25	Joinder, dated as of May 5, 2016, to the Shareholders Agreement, dated as of July 13, 2007, as amended by the First Amendment and Joinder dated as of August 18, 2009, by and among Apollo Global Management, LLC, AP Professional Holdings, L.P., BRH Holdings, L.P., Black Family Partners, L.P., MJR Foundation LLC, MJH Partners, L.P., Leon D. Black, Marc J. Rowan and Joshua J. Harris, and, solely in connection with Article VII of the Agreement, APO Corp., APO Asset Co., LLC, APO (FC), LLC, Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P. and Apollo Management Holdings, L.P. (incorporated by reference to Exhibit 10.24 to the Registrant's Form 10-Q for the period ended March 31, 2016 (File No. 001-35107)).
10.26	Joinder, dated as of May 3, 2017, to the Shareholders Agreement, dated as of July 13, 2007, as amended by the First Amendment and Joinder dated as of August 18, 2009, by and among Apollo Global Management, LLC, AP Professional Holdings, L.P., BRH Holdings, L.P., Black Family Partners, L.P., MJR Foundation LLC, MJH Partners, L.P., Leon D. Black, Marc J. Rowan and Joshua J. Harris, and, solely in connection with Article VII of the Agreement, APO Corp., APO Asset Co., LLC, APO (FC), LLC, Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX, L.P. and Apollo Management Holdings, L.P. and as supplemented by the Joinder dated as of May 5, 2016, by and among Apollo Principal Holdings X, L.P., AMH Holdings (Cayman), L.P., Apollo Principal Holdings XI, LLC, APO (FC II), LLC and APO UK (FC), Limited (incorporated by reference to Exhibit 10.26 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
10.27	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.28 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.28	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for Plan Grants) (incorporated by reference to Exhibit 10.31 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.29	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for Bonus Grants) (incorporated by reference to Exhibit 10.32 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.30	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for new independent directors) (incorporated by reference to Exhibit 10.31 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.31	Form of Restricted Share Unit Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for continuing independent directors) (incorporated by reference to Exhibit 10.32 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.32	Form of Restricted Share Award Grant Notice and Restricted Share Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.33 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).

Exhibit Number	Exhibit Description
+10.33	Form of Share Award Grant Notice and Share Award Agreement under the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan (for Retired Partners) (incorporated by reference to Exhibit 10.34 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.34	Apollo Management Companies AAA Unit Plan (incorporated by reference to Exhibit 10.34 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
+10.35	Non-Qualified Share Option Agreement pursuant to the Apollo Global Management, LLC 2007 Omnibus Equity Incentive Plan with Marc Spilker dated December 2, 2010 (incorporated by reference to Exhibit 10.40 to the Registrant's Registration Statement on Form S-1 (File No. 333-150141)).
10.36	Amended Form of Independent Director Engagement Letter (incorporated by reference to Exhibit 10.38 to the Registrant's Form 10-Q for the period ended March 31, 2014 (File No. 001-35107)).
+10.37	Employment Agreement with Martin Kelly, dated July 2, 2012 (incorporated by reference to Exhibit 10.42 to the Registrant's Form 10-Q for the period ended June 30, 2012 (File No. 001-35107)).
*+10.38	Employment Agreement with John Suydam, dated July 19, 2017.
10.39	Third Amended and Restated Exempted Limited Partnership Agreement of AMH Holdings (Cayman), L.P., dated March 7, 2017 (incorporated by reference to Exhibit 10.38 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
+10.40	Amended and Restated Limited Partnership Agreement of Apollo Advisors VI, L.P., dated as of April 14, 2005 and amended as of August 26, 2005 (incorporated by reference to Exhibit 10.41 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.41	Third Amended and Restated Limited Partnership Agreement of Apollo Advisors VII, L.P. dated as of July 1, 2008 and effective as of August 30, 2007 (incorporated by reference to Exhibit 10.42 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.42	Third Amended and Restated Limited Partnership Agreement of Apollo Credit Opportunity Advisors I, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.43 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.43	Third Amended and Restated Limited Partnership Agreement of Apollo Credit Opportunity Advisors II, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.44 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.44	Third Amended and Restated Limited Partnership Agreement of Apollo Credit Liquidity Advisors, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.45 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).

Exhibit Number	Exhibit Description
+10.45	Second Amended and Restated Limited Partnership Agreement of Apollo Credit Liquidity CM Executive Carry, L.P., dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.46 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.46	Second Amended and Restated Limited Partnership Agreement Apollo Credit Opportunity CM Executive Carry I, L.P. dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.47 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.47	Second Amended and Restated Limited Partnership Agreement of Apollo Credit Opportunity CM Executive Carry II, L.P. dated January 12, 2011 and made effective as of July 14, 2009 (incorporated by reference to Exhibit 10.48 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
+10.48	Second Amended and Restated Exempted Limited Partnership Agreement of AGM Incentive Pool, L.P., dated June 29, 2012 (incorporated by reference to Exhibit 10.49 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
10.49	Credit Agreement, dated as of December 18, 2013, by and among Apollo Management Holdings, L.P., as the Term Facility Borrower and a Revolving Facility Borrower, the other Revolving Facility Borrowers party thereto, the other guarantors party thereto from time to time, the lenders party thereto from time to time, the issuing banks party thereto from time to time and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.50 to the Registrant's Form 10-K for the period ended December 31, 2013 (File No. 001-35107)).
10.50	Guarantor Joinder Agreement, dated as of January 30, 2015, by Apollo Principal Holdings X, L.P. to the Credit Agreement, dated as of December 18, 2013, by and among Apollo Management Holdings, L.P., as the Term Facility Borrower and a Revolving Facility Borrower, the other Revolving Facility Borrowers party thereto, the existing guarantors party thereto, the lenders party thereto from time to time, the issuing banks party thereto from time to time and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.49 to the Registrant's Form 10-Q for the period ended March 31, 2015 (File No. 001-35107)).
10.51	Guarantor Joinder Agreement, dated as of February 1, 2016, by Apollo Principal Holdings XI, LLC to the Credit Agreement, dated as of December 18, 2013, by and among Apollo Management Holdings, L.P., as the Term Facility Borrower and a Revolving Facility Borrower, the other Revolving Facility Borrowers party thereto, the existing guarantors party thereto, the lenders party thereto from time to time, the issuing banks party thereto from time to time and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.48 to the Registrant's Form 10-Q for the period ended March 31, 2016 (File No. 001-35107)).
10.52	Amendment No. 1, dated as of March 11, 2016, to the Credit Agreement, dated as of December 18, 2013, among Apollo Management Holdings, L.P., Apollo Management, L.P., Apollo Capital Management, L.P., Apollo International Management, L.P., AAA Holdings, L.P., Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings VI, L.P., Apollo Principal Holdings VII, L.P., Apollo Principal Holdings VIII, L.P., Apollo Principal Holdings IX L.P., Apollo Principal Holdings X, L.P., Apollo Principal Holdings XI, LLC, ST Holdings GP, LLC and ST Management Holdings, LLC, the guarantors party thereto, the lenders party thereto, the issuing banks party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on March 15, 2016 (File No. 001-35107)).

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Exhibit Number	Exhibit Description
10.53	Guarantor Joinder Agreement, dated as of April 13, 2017, by Apollo Principal Holdings XII, L.P. to the Credit Agreement, dated as of December 18, 2013, as supplemented and as amended by Amendment No. 1 to the Credit Agreement dated as of March 11, 2016, among Apollo Management Holdings, L.P., as the Term Facility Borrower and a Revolving Facility Borrower, the other Revolving Facility Borrowers thereto, the existing guarantors party thereto, the lenders party thereto from time to time, the issuing banks party thereto from time to time, and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.52 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
+10.54	Form of Letter Agreement under the Amended and Restated Limited Partnership Agreement of Apollo Advisors VIII, L.P. effective as of January 1, 2014 (incorporated by reference to Exhibit 10.56 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.55	Form of Award Letter under the Amended and Restated Limited Partnership Agreement of Apollo Advisors VIII, L.P. effective as of January 1, 2014 (incorporated by reference to Exhibit 10.57 to the Registrant's Form 10-Q for the period ended June 30, 2014 (File No. 001-35107)).
+10.56	Amended and Restated Limited Partnership Agreement of Apollo EPF Advisors, L.P., dated as of February 3, 2011 (incorporated by reference to Exhibit 10.52 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.57	First Amended and Restated Exempted Limited Partnership Agreement of Apollo EPF Advisors II, L.P. dated as of April 9, 2012 (incorporated by reference to Exhibit 10.53 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.58	Amended and Restated Agreement of Exempted Limited Partnership of Apollo CIP Partner Pool, L.P., dated as of December 18, 2014 (incorporated by reference to Exhibit 10.54 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.59	Form of Award Letter under the Amended and Restated Agreement of Exempted Limited Partnership Agreement of Apollo CIP Partner Pool, L.P. (incorporated by reference to Exhibit 10.55 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.60	Second Amended and Restated Agreement of Limited Partnership of Apollo Credit Opportunity Advisors III (APO FC), L.P., dated as of December 18, 2014 (incorporated by reference to Exhibit 10.56 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.61	Form of Award Letter under Second Amended and Restated Agreement of Limited Partnership of Apollo Credit Opportunity Advisors III (APO FC), L.P. (incorporated by reference to Exhibit 10.57 to the Registrant's Form 10-K for the period ended December 31, 2014 (File No. 001-35107)).
+10.62	Amended and Restated Agreement of Limited Partnership of Apollo Global Carry Pool Aggregator, L.P., dated May 4, 2017 and effective as of July 1, 2016 (incorporated by reference to Exhibit 10.61 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107)).
+10.63	Form of Award Agreement for Apollo Global Carry Pool Aggregator, L.P. (incorporated by reference to Exhibit 10.62 to the Registrant's Form 10-Q for the period ended March 31, 2017 (File No. 001-35107))

Exhibit Number	Exhibit Description
+10.64	Form of Letter Agreement under the Amended and Restated Limited Partnership Agreement of Apollo ANRP Advisors II, L.P. dated March 2, 2017 and effective as of August 21, 2015.
+10.65	Form of Award Letter under the Amended and Restated Limited Partnership Agreement of Apollo ANRP Advisors II, L.P. dated March 2, 2017 and effective as of August 21, 2015.
*31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
*31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
*32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
*32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Scheme Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

\+ Management contract or compensatory plan or arrangement.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		Apollo Global Management, LLC
		(Registrant)
Date: November 3, 2017	By:	/s/ Martin Kelly
		Name: Martin Kelly
		Title: Chief Financial Officer (principal financial officer and authorized signatory)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

001-37963
(Commission file number)

ATHENE HOLDING LTD.

(Exact name of registrant as specified in its charter)

Bermuda	98-0630022
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

96 Pitts Bay Road
Pembroke, HM08, Bermuda
(441) 279-8400
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Class A Common Shares, par value $0.001	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part II of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, there was no public market for the registrant's common equity.

The number of shares of each class of our common stock outstanding is set forth in the table below, as of March 1, 2017:

Class A common shares	77,410,448	Class M-2 common shares	1,005,625
Class B common shares	111,852,897	Class M-3 common shares	1,293,200
Class M-1 common shares	3,445,767	Class M-4 common shares	5,348,992

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GLOSSARY OF SELECTED TERMS

Unless otherwise indicated in this Annual Report on Form 10-K, the following terms have the meanings set forth below:

Athene Holding Ltd. and Related Entities

Term or Acronym	Definition
A-A Mortgage	A-A Mortgage Opportunities, LP
AAA	AP Alternative Assets, L.P.
AAA Investor	AAA Guarantor - Athene, L.P.
AADE	Athene Annuity & Life Assurance Company, formerly known as Liberty Life Insurance Company, the parent insurance company of our U.S. insurance subsidiaries
AAIA	Athene Annuity and Life Company, formerly known as Aviva Life and Annuity Company
AAM	Athene Asset Management, L.P.
AAME	Apollo Asset Management Europe, LLP (together with certain of its affiliates)
AANY	Athene Annuity & Life Assurance Company of New York
AD	Athene Deutschland GmbH, formerly known as Delta Lloyd Deutschland AG
ADKG	Athene Deutschland Holding GmbH & Co. KG
AGS	Apollo Global Securities, LLC
AHL	Athene Holding Ltd.
ALACNY	Aviva Life and Annuity Company of New York, now known as ALICNY
ALIC	Athene Life Insurance Company
ALICNY	Athene Life Insurance Company of New York, formerly known as ALACNY
ALRe	Athene Life Re Ltd.
ALV	Athene Lebensversicherung AG, formerly known as Delta Lloyd Lebensversicherung AG
AmeriHome	AmeriHome Mortgage Company, LLC
AMTG	Apollo Residential Mortgage, Inc.
APK	Athene Pensionskasse AG, formerly known as Delta Lloyd Pensionskasse AG
Apollo	Apollo Global Management, LLC
Apollo Group	(1) Apollo, (2) the AAA Investor, (3) any investment fund or other collective investment vehicle whose general partner or managing member is owned, directly or indirectly, by Apollo or one or more of Apollo’s subsidiaries, (4) BRH Holdings GP, Ltd. and its shareholders and (5) any affiliate of any of the foregoing (except that AHL and its subsidiaries and employees of AHL, its subsidiaries or AAM are not members of the Apollo Group)
ARI	Apollo Commercial Real Estate Finance, Inc.
Athene USA	Athene USA Corporation, formerly known as Aviva USA Corporation
DLD	Delta Lloyd Deutschland AG, now known as Athene Deutschland GmbH
German Group Companies	Athene Deutschland GmbH, Athene Deutschland Holding GmbH & Co. KG, Athene Deutschland Verwaltungs GmbH, Athene Lebensversicherung AG and Athene Pensionskasse AG
Liberty Life	Liberty Life Insurance Corporation
Luxembourg subsidiary	Athene Real Estate Management Company s.a.r.l, formerly known as Delta Lloyd Real Estate Management Company s.a.r.l
MidCap	MidCap FinCo Limited
MidCap Financial	MidCap Financial Holdings, LLC
MidCap Holdings	MidCap FinCo Holdings Limited

Certain Terms & Acronyms

Term or Acronym	Definition
ABS	Asset-backed securities
ACL	Authorized control level RBC as defined by the model created by the National Association of Insurance Commissioners
ALM	Asset liability management
AUM	Assets under management
Alternative investments	Alternative investments, including investment funds, CLO equity positions and certain other debt instruments considered to be equity-like
Base of earnings	Earnings generated from our results of operations and the underlying profitability drivers of our business
Bermuda capital	The capital of ALRe calculated under U.S. statutory accounting principles, including that for policyholder reserve liabilities which are subjected to U.S. cash flow testing requirements, but excluding certain items that do not exist under our applicable Bermuda requirements, such as interest maintenance reserves.
Block reinsurance	A transaction in which the ceding company cedes all or a portion of a block of previously issued annuity contracts through a reinsurance agreement
BMA	Bermuda Monetary Authority
BSCR	Bermuda Solvency Capital Requirement
CAGR	Compound annual growth rate
CAL	Company action level RBC as defined by the model created by the National Association of Insurance Commissioners
CLO	Collateralized loan obligation
CMBS	Commercial mortgage-backed securities
CML	Commercial mortgage loans
Capital ratio	Ratios calculated (1) with respect to our U.S. insurance subsidiaries, by reference to RBC, (2) with respect to ALRe, by reference to BSCR, and (3) with respect to our German Group Companies, by reference to SCR
Cost of crediting	The interest credited to the policyholders on our fixed annuities, including, with respect to our FIAs, option costs
DAC	Deferred acquisition costs
Deferred annuities	FIAs, annual reset annuities and MYGAs
DSI	Deferred sales inducement
Excess capital	Capital in excess of the level management believes is needed to support our current operating strategy
FIA	Fixed indexed annuity, which is an insurance contract that earns interest at a crediting rate based on a specified index on a tax-deferred basis
Fixed annuities	FIAs together with fixed rate annuities
Fixed rate annuity	Fixed rate annuity is an insurance contract that offers tax-deferred growth and the opportunity to produce a guaranteed stream of retirement income for the lifetime of its policyholder
Flow reinsurance	A transaction in which the ceding company cedes a portion of newly issued policies to the reinsurer
GLWB	Guaranteed living withdrawal benefits
GMDB	Guaranteed minimum death benefits
IID	Iowa Insurance Division
IMA	Investment management agreement
IMO	Independent marketing organization
IMR	Interest maintenance reserve, which is a reserve required by U.S. statutory accounting principles to accumulate realized gains and losses resulting from fluctuations in interest rates
Invested assets	The sum of (a) total investments on the consolidated balance sheet with AFS securities at amortized cost, excluding derivatives, (b) cash and cash equivalents and restricted cash, (c) investments in related parties, (d) accrued investment income, (e) consolidated variable interest entities' assets, liabilities and noncontrolling interest and (f) policy loans ceded (which offset the direct policy loans in total investments). Invested assets also excludes assets associated with funds withheld liabilities related to business exited through reinsurance agreements and derivative collateral (offsetting the related cash positions).
Investment margin	Investment margin applies to deferred annuities and is the excess of our net investment earned rate over the cost of crediting to our policyholders
IRIS	Insurance Regulatory Information System
LIMRA	Life Insurance and Market Research Association
MCR	Minimum capital requirements

Term or Acronym	Definition
MMS	Minimum margin of solvency
Modco	Modified coinsurance
MVA	Market value adjustment
MYGA	Multi-year guaranteed annuity
NAIC	National Association of Insurance Commissioners
Net investment earned rate	Income from our invested assets divided by the average invested assets for the relevant period.
North America Accounts	The invested assets in our U.S. and Bermuda accounts owned by us or in accounts supporting reinsurance ceded to our subsidiaries by third-party insurers
NYSDFS	New York State Department of Financial Services
OTTI	Other-than-temporary impairment
Payout annuities	Annuities with a current cash payment component, which consist primarily of SPIAs, supplemental contracts and structured settlements
Policy loan	A loan to a policyholder under the terms of, and which is secured by, a policyholder's policy
RBC	Risk-based capital
Reserve liabilities	The sum of (a) interest sensitive contract liabilities, (b) future policy benefits, (c) dividends payable to policyholders, and (d) other policy claims and benefits, offset by reinsurance recoverables, excluding policy loans ceded. Reserve liabilities also includes the reserves related to assumed modco agreements in order to appropriately match the costs incurred in the consolidated statements of income with the liabilities. Reserve liabilities is net of the ceded liabilities to third-party reinsurers as the costs of the liabilities are passed to such reinsurers and therefore we have no net economic exposure to such liabilities, assuming our reinsurance counterparties perform under our agreements.
Rider reserves	Guaranteed living withdrawal benefits and guaranteed minimum death benefits reserves
RMBS	Residential mortgage-backed securities
RML	Residential mortgage loan
Sales	All money paid into an individual annuity, including money paid into new contracts with initial purchase occurring in the specified period and existing contracts with initial purchase occurring prior to the specified period (excluding internal transfers)
SPIA	Single premium immediate annuity
Surplus assets	Assets in excess of policyholder obligations, determined in accordance with the applicable domiciliary jurisdiction's statutory accounting principles
TAC	Total adjusted capital as defined by the model created by the NAIC
Total return	A measure of the historical performance of a portfolio computed using the modified Dietz method, which divides the total gain or loss in value of the portfolio, net of external flows, by the average value of the portfolio over the period of measurement
U.S. RBC Ratio	The CAL RBC ratio for AADE, our parent U.S. insurance company
VIE	Variable interest entity
VOBA	Value of business acquired

As used in this Form 10-K, unless the context otherwise indicates, any reference to "Athene," "our Company," "the Company," "us," "we" and "our" refer to Athene Holding Ltd. together with its consolidated subsidiaries and any reference to "AHL" refers to Athene Holding Ltd. only.

Forward-Looking Statements

Certain statements in this Annual Report on Form 10-K (report), other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results and the assumptions upon which those statements are based are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “seek,” “assume,” “believe,” “may,” “will,” “should,” “could,” “would,” “likely” and other words and terms of similar meaning, including the negative of these or similar words and terms, in connection with any discussion of the timing or nature of future operating or financial performance or other events. However, not all forward-looking statements contain these identifying words. Forward-looking statements appear in a number of places throughout and give our current expectations and projections relating to our financial condition, results of operations, plans, strategies, objectives, future performance, business and other matters.

We caution you that forward-looking statements are not guarantees of future performance and that our actual consolidated results of operations, financial condition and liquidity may differ materially from those made in or suggested by the forward-looking statements contained in this report. There can be no assurance that actual developments will be those anticipated by us. In addition, even if our consolidated results of operations, financial condition and liquidity are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results or conditions to differ materially from those contained or implied by the forward-looking statements, including the risks discussed in *Item 1A. Risk Factors*. Factors that could cause actual results or conditions to differ from those reflected in the forward-looking statements contained in this report include:

- the accuracy of management’s assumptions and estimates;
- variability in the amount of statutory capital that our insurance and reinsurance subsidiaries have;
- interest rate fluctuations;
- our potential need for additional capital in the future and the potential unavailability of such capital to us on favorable terms or at all;
- the activities of our competitors and our ability to grow our retail business in a highly competitive environment;
- the impact of general economic conditions on our ability to sell our products and the fair value of our investments;
- our ability to successfully acquire new companies or businesses and/or integrate such acquisitions into our existing framework;
- downgrades, potential downgrades or other negative actions by rating agencies;
- our dependence on key executives and inability to attract qualified personnel, or the potential loss of Bermudian personnel as a result of Bermuda employment restrictions;
- market and credit risks that could diminish the value of our investments;
- foreign currency fluctuations;
- changes in consumer perception regarding the desirability of annuities as retirement savings products;
- introduction of the proposed European Union financial transaction tax;
- potential litigation (including class action litigation), enforcement investigations or regulatory scrutiny against us and our subsidiaries, which we may be required to defend against or respond to;
- the impact of new accounting rules or changes to existing accounting rules on our business;
- interruption or other operational failures in telecommunication and information technology and other operating systems, as well as our ability to maintain the security of those systems;
- the termination by Athene Asset Management, L.P. (AAM) or Apollo Asset Management Europe, LLP (AAME) of its investment management or advisory agreements with us and limitations on our ability to terminate such arrangements;
- AAM’s or AAME’s dependence on key executives and inability to attract qualified personnel;
- increased regulation or scrutiny of alternative investment advisers and certain trading methods;
- potential changes to regulations affecting, among other things, transactions with our affiliates, the ability of our subsidiaries to make dividend payments or distributions to us, acquisitions by or of us, minimum capitalization and statutory reserve requirements for insurance companies and fiduciary obligations on parties who distribute our products;
- suspension or revocation of our subsidiaries’ insurance and reinsurance licenses;
- Athene Holding Ltd. (AHL) or Athene Life Re Ltd. (ALRe) becoming subject to U.S. federal income taxation;
- adverse changes in U.S. tax law;
- our being subject to U.S. withholding tax under Foreign Account Tax Compliance Act;
- our potential inability to pay dividends or distributions; and
- other risks and factors listed under *Item 1A. Risk Factors*.

We caution you that the important factors referenced above may not be exhaustive. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect or anticipate. In light of these risks, you should not place undue reliance upon any forward-looking statements contained in this report. The forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation, except as may be required by law, to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

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Item 1. Business

Overview

We are a leading retirement services company that issues, reinsures and acquires retirement savings products designed for the increasing number of individuals and institutions seeking to fund retirement needs. We generate attractive financial results for our policyholders and shareholders by combining our two core competencies of (1) sourcing long-term, generally illiquid liabilities and (2) investing in a high quality investment portfolio, which takes advantage of the illiquid nature of our liabilities. Our steady and significant base of earnings generates capital that we opportunistically invest across our business to source attractively-priced liabilities and capitalize on opportunities. Our differentiated investment strategy benefits from our strategic relationship with Apollo Global Management, LLC (Apollo) and its indirect subsidiary, AAM. AAM provides a full suite of services for our investment portfolio, including direct investment management, asset allocation, mergers and acquisition asset diligence and certain operational support services, including investment compliance, tax, legal and risk management support. Our relationship with Apollo and AAM also provides us with access to Apollo's investment professionals across the world as well as Apollo's global asset management infrastructure that, as of December 31, 2016, supported more than $191 billion of assets under management (AUM) across a broad array of asset classes. We are led by a highly skilled management team with extensive industry experience. We are based in Bermuda with our U.S. subsidiaries' headquarters located in Iowa.

We began operating in 2009 when the burdens of the financial crisis and resulting capital demands caused many companies to exit the retirement market, creating the need for a well-capitalized company with an experienced management team to fill the void. Taking advantage of this market dislocation, we have been able to acquire substantial blocks of long-duration liabilities and reinvest the related investments to produce profitable returns. We have been able to generate strong financial returns in a multi-year low rate environment. We believe we have fewer legacy liability issues than our peers given that all of our retail and flow reinsurance liabilities were underwritten after the financial crisis, and the majority of the liabilities we acquired through our acquisitions and block reinsurance were acquired at a discount to book value.

We have established a significant base of earnings and, as of December 31, 2016, have an expected annual investment margin of 2-3% over the 7.8 year weighted-average life of our deferred annuities, which make up a substantial portion of our reserve liabilities. Even as we have grown to $72.4 billion in investments, including related parties, $71.8 billion in invested assets and $86.7 billion of total assets as of December 31, 2016, we have continued to approach both sides of the balance sheet with an opportunistic mindset because we believe quickly identifying and capitalizing on market dislocations allows us to generate attractive, risk-adjusted returns for our shareholders. Further, our multiple distribution channels support growing origination across market environments and better enable us to achieve continued balance sheet growth while maintaining attractive profitability. We believe that in a typical market environment, we will be able to profitably grow through our organic channels, including retail, flow reinsurance and institutional products. In more challenging market environments, we believe that we will see additional opportunities to grow through our inorganic channels, including acquisitions and block reinsurance, due to market stress during those periods. We are diligent in setting our return targets based on market conditions and risks inherent to our products offered and acquisitions or block reinsurance transactions. In general, we may accept lower returns on products which may provide more certain return characteristics, such as funding agreements, and we may require higher returns for products or transactions where there is more inherent risk in meeting our return targets, such as with acquisitions. Generally, we target mid-teen returns for sources of organic growth and higher returns for sources of inorganic growth. If we are unable to source liabilities with our desired return profile in one of our channels, we generally will not sacrifice profitability solely for the sake of increasing market share and instead we will typically focus on our other channels to identify growth opportunities that meet our preferred risk and return profile.

As a result of our focus on issuing, reinsuring and acquiring attractively-priced liabilities, our differentiated investment strategy and our significant scale, for the year ended December 31, 2016, in our Retirement Services segment described below, we generated an investment margin on deferred annuities of 2.77% and an operating ROE excluding AOCI of 19.1%. We currently maintain what we believe to be high capital ratios for our rating and hold more than $1.5 billion of capital in excess of the level we believe is needed to support our current operating strategy, and view this excess as strategic capital available to reinvest into organic and inorganic growth opportunities. Because we hold this strategic capital to implement our opportunistic strategy and to enable us to explore deployment opportunities as they arise, and because we are investing for future growth, our consolidated ROE for the year ended December 31, 2016 was 13.1%, and our consolidated operating ROE excluding AOCI for the same period was 12.5%, in each case, without the benefit of any financial leverage or capital return through dividends or share buyback programs. On a consolidated basis, for the year ended December 31, 2016, we generated net income available to AHL shareholders of $805 million, and operating income, net of tax, of $760 million. Investment margin, operating income, net of tax, and operating ROE excluding AOCI are not calculated in accordance with GAAP. See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Key Operating and Non-GAAP Measures* for additional discussions regarding non-GAAP measures.

As of December 31, 2016, we had $6.9 billion of total AHL shareholders' equity and $6.5 billion of total AHL shareholders' equity excluding AOCI. Our top-level U.S. insurance subsidiary, Athene Annuity & Life Assurance Company (AADE), had a U.S. RBC ratio of 478% and ALRe had a Bermuda Solvency Capital Requirement (BSCR) ratio of 228%, each as of December 31, 2016. Our ALRe RBC ratio, which is used in evaluating our capital position and the amount of capital needed to support our Retirement Services segment, was 529% as of December 31, 2016, when applying the National Association of Insurance Commissioners (NAIC) RBC factors. Our main insurance subsidiaries are rated A- for financial strength by each of S&P and Fitch, each with a stable outlook, and by A.M. Best, with a positive outlook. AHL has a counterparty credit rating of BBB from S&P and an issuer default rating of BBB from Fitch, each with a stable outlook, and an issuer credit rating of bbb- from A.M. Best, with a positive outlook. See *Financial Strength Ratings*. We currently have no financial leverage, and have an undrawn $1.0 billion credit facility in place to provide an additional liquidity cushion in challenging economic or business environments or to provide additional capital support.

Item 1. Business

We operate our core business strategies out of one reportable segment, Retirement Services. In addition to Retirement Services, we report certain other operations in Corporate and Other. Retirement Services is comprised of our U.S. and Bermuda operations, which issue and reinsure retirement savings products and institutional products. Retirement Services has retail operations, which provide annuity retirement solutions to our policyholders. Retirement Services also has reinsurance operations, which reinsure multi-year guaranteed annuities (MYGA), fixed indexed annuities (FIA), traditional one year guarantee fixed deferred annuities, immediate annuities and institutional products from our reinsurance partners. In addition, our funding agreement backed notes (FABN) program is included in our Retirement Services segment. Corporate and Other includes certain other operations related to our corporate activities and our German operations, which is primarily comprised of participating long-duration savings products. In addition to our German operations, included in Corporate and Other are corporate allocated expenses, merger and acquisition costs, debt costs, certain integration and restructuring costs, certain stock-based compensation and intersegment eliminations. In Corporate and Other we also hold more than $1.5 billion of capital in excess of the level of capital we hold in Retirement Services to support our operating strategy.

We believe we hold a sufficient amount of capital in our Retirement Services segment to support our core operating strategies. This level of capital may fluctuate depending on the mix of both our assets and our liabilities, and also reflects the level of capital needed to support or improve our current ratings as well as our risk appetite based on our internal risk models. The level of capital we currently allocate to our Corporate non-reportable segment is our U.S. subsidiaries' statutory capital in excess of a U.S. RBC ratio of 400%, as well as the Bermuda capital for ALRe in excess of 400% RBC when also applying NAIC RBC factors. We view this excess as strategic capital, which we expect to deploy for additional organic and inorganic growth opportunities as well as expect to contribute to ratings improvements over time. We manage our capital to levels which we believe would remain consistent with our current ratings in a recessionary environment. For additional information regarding our segments, including financial information related thereto, refer to *Note 19 - Segment Information* to the consolidated financial statements.

We have developed organic and inorganic channels to address the retirement services market and grow our assets and liabilities. By focusing on the retirement services market, we believe that we will benefit from several demographic and economic trends, including the increasing number of retirees in the United States, the lack of tax advantaged alternatives for people trying to save for retirement and expectations of a rising interest rate environment. To date, most of our products sold and acquired have been fixed annuities, which offer people saving for retirement a product that is tax advantaged, has a minimum guaranteed rate of return or minimum cash value, and provides protection against investment loss. Our policies often include surrender charges (86% of our deferred annuity products, as of December 31, 2016) or market value adjustments (MVA) (73% of our deferred annuity products, as of December 31, 2016), both of which increase persistency and protect our ability to meet our obligations to policyholders.

Our organic channels have provided deposits of $8.8 billion, $3.9 billion and $2.9 billion for the years ended December 31, 2016, 2015 and 2014, respectively. Withdrawals on our deferred annuities were $4.2 billion, $4.4 billion and $4.4 billion for the years ended December 31, 2016, 2015 and 2014, respectively. While there can be no assurance that we will meet our growth targets, we believe that our new deposits should continue to significantly surpass our withdrawals as we continue to grow our retail and flow reinsurance channels. Absent any significant unexpected market conditions or regulatory impacts and assuming we can meet our pricing targets, we believe that with our ratings and the strong growth in our organic channel in 2016, new deposits from our organic channels and withdrawal experience with respect to our deferred annuities should be similar in the near-to-mid-term to our 2016 production and withdrawal experience, respectively. Within our organic channels, we have focused on developing a diverse suite of products that allow us to meet our risk and return profiles, even in today's low rate environment. As a result, not only were we able to deliver strong organic growth in 2016, but we were able to do so without sacrificing profitability. Going forward, we believe the 2015 upgrade of our financial strength ratings to A- by each of S&P, Fitch and A.M. Best, as well as our 2016 outlook upgrade to positive by A.M. Best and our recent FIA and MYGA new product launches will continue to enable us to increase penetration in our existing organic channels and access new markets within our retail channel, such as selling through financial institutions. This increased penetration will allow us to source additional volumes of profitably underwritten liabilities. Our organic channels currently include:

- Retail, from which we provide retirement solutions to our policyholders primarily through approximately 60 independent marketing organizations (IMO). Within our retail channel we had fixed annuity sales of $5.3 billion, $2.5 billion and $2.5 billion for the years ended December 31, 2016, 2015 and 2014, respectively.
- Flow reinsurance, which provides a diversified channel for us to source long-term liabilities with attractive crediting rates. Within our flow reinsurance channel, we generated $3.5 billion, $1.1 billion and $349 million in deposits for the years ended December 31, 2016, 2015 and 2014, respectively.
- Institutional products, which include funding agreements and pension risk transfer transactions. In October 2015, we sold a $250 million funding agreement in our inaugural transaction under our FABN program and, in the first quarter of 2017, we sold funding agreements in the aggregate principal amount of $650 million under our FABN program. We are pursuing pension risk transfer transactions in 2017.

Our inorganic channels, including acquisitions and block reinsurance, have contributed significantly to our growth. We believe our internal acquisitions team, with support from Apollo, has an industry-leading ability to source, underwrite and expeditiously close transactions, which makes us a competitive counterparty for acquisition or block reinsurance transactions. We are highly selective in the transactions that we pursue; ultimately closing only those that are well aligned with our core competencies and pricing discipline. Since our inception, we have evaluated a significant number of merger and acquisition opportunities and have closed on five acquisitions. In connection with our five acquisitions through December 31, 2016, we sourced reserve liabilities backed by approximately $65.9 billion in total assets (net of $9.3 billion in assets

ceded through reinsurance). The aggregate purchase price of our acquisitions was less than the aggregate statutory book value of the businesses acquired.

We have sourced a high quality portfolio of invested assets. Because we have remained disciplined in underwriting attractively priced liabilities, we have the ability to invest in a broad range of high quality assets and generate attractive earnings. As of December 31, 2016, approximately 93.2% of our AFS fixed maturity securities, including related parties, were rated NAIC 1 or NAIC 2, the two highest credit rating designations under the NAIC'S criteria (with investments of our German operations rated by applying NRSRO equivalent ratings to map NAIC ratings). In addition to our core fixed income portfolio, we opportunistically allocate 5-10% of our portfolio to alternative investments where we primarily focus on fixed income-like, cash flow-based investments. For instance, our alternative investment positions include significant equity stakes in two asset platforms that originate high quality credit assets (such as residential mortgage loans (RML), leveraged loans and mortgage servicing rights) that are well aligned with our investment strategy. Our relationship with AAM and Apollo allows us to take advantage of our generally illiquid liability profile and identify asset opportunities with an emphasis on earning incremental yield by taking liquidity risk and complexity risk, rather than assuming solely credit risk. While alternative investments are a relatively small portion of our overall portfolio, our alternative investments strategy has been an important driver of returns. In general, we target returns for alternative investments of 10% or higher on an internal rate of return (IRR) basis over the expected lives of such investments.

Through our efficient corporate structure and operations, we believe we have built a cost-effective platform to support our growth opportunities. We believe our fixed operating cost structure supports our ability to maintain an attractive financial profile across market environments. Additionally, we believe we have designed our platform to be highly scalable and support growth without significant incremental investment in infrastructure, which allows us to scale our business production up or down because of our cost-effective platform. As a result, we believe we will be able to convert a significant portion of our new business spread into operating income.

Relationship with Apollo

We have a strategic relationship with Apollo which allows us to leverage the scale of its asset management platform. Apollo's indirect subsidiary, AAM, serves as our investment manager. In addition to co-founding the Company, Apollo assists us in identifying and capitalizing on acquisition opportunities that have been critical to our ability to significantly grow our business. The Apollo Group consists of (1) Apollo,
(2) AAA Guarantor - Athene, L.P. (AAA Investor), (3) any investment fund or other collective investment vehicle whose general partner or managing member is owned, directly or indirectly, by Apollo or one or more of Apollo's subsidiaries, (4) BRH Holdings GP, Ltd. and its shareholders and (5) any affiliate of any of the foregoing (except that AHL and its subsidiaries and employees of AHL, its subsidiaries or AAM are not members of the Apollo Group). Members of the Apollo Group are significant owners of our common shares and Apollo employees serve on our board of directors. We expect our strategic relationship with Apollo to continue for the foreseeable future. See *Item 13. Certain Relationships and Related Transactions, and Director Independence.*

The Apollo Group controls and is expected to continue to control 45% of the total voting power of AHL and five of our 13 directors are employees of or consultants to Apollo and our Chairman, Chief Executive Officer and Chief Investment Officer is a dual employee of both AHL and AAM. Further, our bye-laws generally limit the voting power of our Class A common shares (and certain other of our voting securities) such that no person owns (or is treated as owning) more than 9.9% of the total voting power of our common shares (with certain exceptions).

Competitive Strengths

We believe the following strengths will allow us to capitalize on the growth prospects for our business:

- **Ideal Platform to Capitalize on Positive Demographic and Market Trends.** We have designed our products to capitalize on the growing need for retirement savings solutions. Our products provide protection against market downturns and offer interest which compounds on a tax-deferred basis until funds are distributed. Many of our products also provide the potential to earn interest based on the performance of a market index. These features provide distinct advantages over traditional savings vehicles such as bank CDs and variable annuities. Despite a challenging interest rate environment, we have been able to profitably source $5.3 billion of fixed annuity products through our retail channel in 2016 by leveraging our product design capabilities, our investment acumen, which allows us to invest at appropriate investment margins, and our scalable operating platform. We offer prudent product features at attractive prices. If investment rates increase due to a rise in interest rates or widening credit spreads, we would be able to offer higher crediting rates, which we believe would generate additional demand for our products and therefore increased sales. Even in a long-term low rate environment, we believe our underwriting expertise and ability to find and compete in areas of the market that are rationally priced will allow us to maintain strong operating results. For example, in prior years, our retail operations have generally not competed aggressively in the guaranteed income rider segment as we historically believed that such riders were not priced within our pricing discipline. However, recently, competitors have been issuing annuities with what we believe are more rationally-priced lifetime income benefit features. In the current environment, we believe that we can grow our retail sales by offering competitive guaranteed income rates while earning an attractive return.

Item 1. Business

- **Multiple Distribution Channels.** We have four dedicated distribution channels to capitalize on retirement services opportunities across market environments and grow our liabilities. Our key distribution channels are retail, reinsurance (including flow and block reinsurance), institutional products (focused on the sale of funding agreements and pension risk transfer transactions) and acquisitions. We intend to maintain a presence within each of these distribution channels with the ability to underwrite liabilities. However, we do not have any market share targets across our organization, which we believe provides us flexibility to respond to changing market conditions in one or more channels and to opportunistically grow liabilities that generate our desired levels of profitability. In a rising interest rate environment, we believe we will be able to profitably increase the volume of our retail, flow reinsurance and institutional product sales and we believe we will see increased acquisition and block reinsurance opportunities in more challenging market environments. We are diligent in setting our return targets based on market conditions and risks inherent to our products offered and acquisitions or block reinsurance transactions. In general, we may accept lower returns on products which may provide more certain return characteristics, such as FABN, and we may require higher returns for products or transactions where there is more inherent risk in meeting our return targets, such as with acquisitions. If market conditions or risks inherent to a product or transaction create return profiles that are not acceptable to us, we generally will not sacrifice our profitability merely to facilitate growth.
- **Superior and Unique Investment Capabilities.** We believe our relationships with AAM and Apollo provide access to superior and unique investment capabilities that allow us to invest a portion of our assets in securities that earn us incremental yield by taking liquidity risk and complexity risk, capitalizing on our long-dated and persistent liability profile to prudently achieve higher net investment earned rates, rather than assuming solely credit risk. Our investing capabilities support our ability to sell fixed annuities profitably and to price acquisitions competitively while meeting our return targets. Through AAM, we have access to more than 100 investment and operations professionals who are highly familiar with our business objectives and funding structure. This enables AAM to customize asset allocations and select investments for us that are most appropriate for our business. In addition, our strategic relationship with Apollo provides us with access to Apollo's broad credit and alternative investment platforms and allows us to leverage the scale, sourcing and investing capabilities, and infrastructure of an asset manager with more than $191 billion of AUM, which includes approximately $71.8 billion of our invested assets as of December 31, 2016. Apollo's global asset sourcing capabilities in a diverse array of asset classes provide AAM with the opportunity to capitalize on attractive investments for us.
    - In each of our U.S. acquisitions, we have successfully reinvested our acquired investment portfolio with the objective of achieving higher returns than were achieved on such investments prior to the acquisition. For example, we have reinvested a substantial portion of the investment portfolio acquired in our acquisition of Aviva USA, which contributed to the increase in fixed income and other net investment earned rates on this block of business to 4.12% for the year ended December 31, 2015 from 3.50% (on an annualized basis) for the fourth quarter of 2013.
    - Apollo and AAM work collaboratively to identify and quickly capitalize on opportunities in various asset classes. For example, we were an early investor in distressed non-agency residential mortgage-backed securities (RMBS) during 2009 and 2010, prior to the strong recovery of that market in later years. By the end of 2010, we had acquired a portfolio of $448 million (approximately 24% of our total invested assets at such time) of non-agency RMBS at discounts to par, well in advance of the significant price improvements in these investments. Today, RMBS continues to represent an important asset class within our investment portfolio. As of December 31, 2016, 14.8% of our invested assets were invested in RMBS, with such securities having an amortized book price of 84% of aggregate par value.
    - AAM selects investments and develops investment strategies prior to our purchase in accordance with our investment limits, and works in concert with our risk management team to stress-test the underwritten assets and asset classes under various negative scenarios. For the years ended December 31, 2016 and 2015, our other-than-temporary impairment (OTTI) as a percentage of our average invested assets was 4 and 5 basis points, respectively.
    - We also have access to expertise and capabilities to directly originate a wide range of asset classes through AAM and Apollo. Direct origination allows the selection of assets that meet our liability profile and the sourcing of better quality investments.
- **Efficient Corporate Platform to Support Profitability.** We believe we have designed an efficient corporate platform to support our portfolio of $71.0 billion of reserve liabilities as of December 31, 2016. Over the 7.8 year weighted average life of our deferred annuities, we expect to generate an annual investment margin of 2-3%.

In addition, our corporate platform enables us to be highly scalable and allows us to onboard incremental business without significant additional investment in infrastructure and with low incremental fixed operating cost. As a result, we believe we should be able to convert a significant portion of incremental net investment income from additional invested assets and liabilities into operating income.

- **Strength of Balance Sheet.** We believe the strength of our balance sheet provides confidence to our policyholders and business partners and positions us for continued growth. We presently hold over $1.5 billion in excess capital and have no financial leverage. We maintain what we believe to be high capital ratios for our rating, with our top level insurance subsidiary, AADE, having a U.S. RBC ratio of 478% and ALRe having a BSCR ratio of 228%, each as of December 31, 2016. Our ALRe RBC ratio was 529% as of December 31, 2016, when applying the NAIC RBC factors. To further reinforce our strong liquidity profile, we have access to a $1.0 billion revolving credit facility that is currently undrawn. Our invested assets comprise what we believe to be a highly rated and well diversified portfolio. As of December 31, 2016, approximately 93.2% of our AFS fixed maturity securities, including related parties, were rated NAIC 1 or NAIC 2. These assets are managed against what we believe to be prudently underwritten liabilities, which were, in each case, priced by us after the financial crisis.

- **Robust Risk Management.** We have established a comprehensive enterprise risk management (ERM) framework and risk management controls throughout our organization, which are further supported by AAM's and Apollo's own risk management capabilities that are intended to help us maintain our continued financial strength. We manage our business, capital and liquidity profile with the objective of withstanding severe adverse shocks, such as the 2007-2008 financial crisis, while maintaining a meaningful buffer above regulatory minimums and above certain capital thresholds to meet our desired credit ratings. Risk management is embedded in all of our business decisions and processes, including acquisitions, asset purchases, product design and underwriting, liquidity and liability management. Certain of the key attributes of our risk management profile are:
  - We maintain a risk committee of the board of directors charged with the oversight of the development and implementation of systems and processes designed to identify, manage and mitigate reasonably foreseeable material risks and with the duty to assist our board of directors and our other board committees with fulfilling their oversight responsibilities for our risk management function.
  - We believe that we underwrite liabilities and manage new product development prudently. Further, we believe that our strong fixed annuity underwriting provides us with long-dated and persistent liabilities, which we believe are priced at desirable levels to enable us to achieve attractive, risk-adjusted returns.
  - We believe we have designed our asset liability management (ALM) procedures to protect the Company, within limits, against significant changes in interest rates.
  - As of December 31, 2016, approximately 86% of our deferred annuity products had surrender charges and 73% had MVAs, each of which provide stability to our reserve liabilities.
  - As of December 31, 2016, 29% of our invested assets were floating rate investments which would allow us the flexibility to quickly increase our crediting rates in a rising interest rate environment, if desired.
  - We believe that we maintain an appropriate amount of assets that could be quickly liquidated, if needed, and have an additional liquidity cushion through a $1.0 billion revolving credit facility, which is undrawn as of the date hereof.
  - We believe we hold a high-quality portfolio, with approximately 93.2% of our AFS fixed maturity securities, including related parties, rated as NAIC 1 or NAIC 2 as of December 31, 2016 (with investments of our German operations rated by applying NRSRO equivalent ratings to map NAIC ratings).
  - AAM evaluates our structured securities at the time of acquisition using AAM's proprietary credit models.
  - Even during periods of moderate economic stress, based on our modeled estimates, we maintain what we believe to be an appropriate amount of liquidity to invest in opportunities as they arise.
- **Highly Experienced Management Team with Demonstrable Track Record.** Our highly successful, entrepreneurial senior management team has extensive experience in building companies, insurance operations, and investment management. We have assembled a management team of individuals who bring strong capabilities and experience to each facet of running our company. We are led by three well known and well respected industry executives with an average of 30 years of experience. James R. Belardi, our Chairman and founder, spent the majority of his career as the President of SunAmerica Life Insurance Company and Chief Investment Officer of American International Group, Inc. (AIG) Retirement Services, Inc. William J. Wheeler, our President, served as President of the Americas Group and Chief Financial Officer at MetLife Inc. (MetLife) prior to joining our company, and Martin P. Klein, our Chief Financial Officer, was previously Chief Financial Officer of Genworth Financial, Inc. Our management team oversees the Company's activities and its day-to-day management, including through various committees designed to manage our strategic initiatives, risk appetite and investment portfolio.

Growth Strategy

The key components of our growth strategy are as follows:

- **Continue Organic Growth by Expanding Our Distribution Channels.** We plan to grow organically by expanding our retail, reinsurance and institutional product distribution channels. We believe that we have the right people, infrastructure and scale to position us for continued growth. We aim to grow our retail channel in the United States by deepening our relationships with our approximately 60 IMOs and approximately 28,000 independent agents. Our strong financial position and capital efficient products allow us to be a dependable partner with IMOs and consistently write new business. We work with our IMOs to develop customized, and at times exclusive, products that help drive sales.

We expect our retail channel to continue to benefit from the ratings upgrade in 2015, our improving credit profile and recent product launches. We believe this should support growth in sales at our desired cost of crediting through increased volumes via current IMOs and access to new distribution channels, including small to mid-sized banks and regional broker-dealers. We are implementing the necessary technology platform, hiring and training a specialized sales force, and have created products to capture new potential distribution opportunities.

Our reinsurance channel also benefited from the 2015 ratings upgrade. We target reinsurance business consistent with our preferred liability characteristics, and as such, reinsurance provides another opportunistic channel for us to source long-term liabilities with attractive crediting rates. For the years ended December 31, 2016, 2015 and 2014 we generated deposits through our flow reinsurance channel of $3.5 billion, $1.1 billion and $349 million, respectively. We expect to grow this channel further as we continue to add new partners, some of which prefer to do business with higher rated counterparties such as us.

In addition, after having sold our first funding agreement under our FABN program in 2015, we sold additional funding agreements in the first quarter of 2017 and expect to grow our institutional products channel over time. We are pursuing pension risk transfer transactions in 2017.

- **Pursue Attractive Acquisitions.** We plan to continue leveraging our expertise in sourcing and evaluating transactions to grow our business profitably. From our founding through December 31, 2016, we have grown to $71.8 billion in invested assets and $71.0 billion in reserve liabilities, primarily through acquisitions and block reinsurance transactions. We believe that our demonstrated ability to successfully consummate complex transactions, as well as our relationship with Apollo, provide us with distinct advantages relative to other acquirers and reinsurance companies. Furthermore, our business has achieved sufficient scale to provide meaningful operational synergies for the businesses and blocks of business that we acquire. Consequently, we believe we are often sought out by companies looking to transact in the acquisitions and block reinsurance markets.

In furtherance of our strategy of growth through acquisitions, we routinely review and conduct investigations of potential acquisitions of business or blocks of business, some of which may be material. When we believe a favorable opportunity exists, we seek to enter into discussions with target companies or sellers regarding the possibility of such acquisitions. At any given time, we may be in discussions with one or more counterparties. There can be no assurances that any such negotiations will lead to definitive agreements, or if such agreements are reached, that any transactions would be consummated.

- **Expand Our Product Offering and International Presence.** Our efforts to date have focused on developing and sourcing retirement savings products and we are continuing such efforts by expanding our retail product offerings. On April 11, 2016, we launched our largest new retail product initiative, whereby we: (1) enhanced our most popular accumulation product, “Performance Elite,” with two new indices, (2) announced a new MYGA product designed for the bank and broker-dealer channel and (3) introduced an income-focused product, “Ascent Pro.” With the introduction of our new MYGA product and Ascent Pro, our retail channel is now competing in a much broader segment of the overall retirement market. For the nine months ended December 31, 2016, new MYGA sales in the IMO and financial institution channels were $603 million and Ascent Pro sales were $1.3 billion.

Additionally, while our organic growth initiatives and acquisitions have largely been focused on opportunities in the United States, our acquisition of Delta Lloyd Deutschland AG (DLD) in October 2015 demonstrated the geographic scalability of our strategy and our ability to capitalize quickly on international market environments as well. While we continue to believe that the European market provides a compelling growth opportunity to amass liabilities at one of the most favorable costs of funding in a number of years, we have come to realize that the opportunity over the next several years is larger than we initially anticipated. We have concluded that, in order to fully capitalize on this opportunity, we would need to commit capital to the European market at a level in excess of our targeted investment size, creating the need for third party capital to support growth. See further discussion on the AGER equity offering within *Products-German Products* below.

Recently, we have also developed our capabilities to undertake pension risk transfer transactions. Pension risk transfer transactions usually involve the issuance of a group annuity contract, sometimes through a separate account, in exchange for the transfer of pension liabilities from a terminating defined benefit plan. U.S. pension liabilities are estimated to be $2 to $3 trillion with an estimated $1 trillion of liabilities that may become available for closeout, with approximately $15 to $20 billion of expected annual closeout activity over the next several years. We are focused on medium- and large-sized deals where we believe that we can be competitive. We believe that we can leverage our sourcing expertise to underwrite these transactions and maintain our focus on writing profitable new business.

- **Leverage Our Unique Relationship with Apollo and AAM**. We intend to continue leveraging our unique relationship with Apollo and AAM to source high-quality assets with attractive risk-adjusted returns. Apollo’s global scale and reach provide us with broad market access across environments and geographies and allow us to actively source assets that exhibit our preferred risk and return characteristics. For instance, through our relationship with Apollo and AAM, we have indirectly invested in companies including MidCap FinCo Limited (MidCap) and AmeriHome Mortgage Company, LLC (AmeriHome). In 2013, Apollo presented us with an opportunity to fund the acquisition of MidCap, a middle-market lender focused on asset-backed loans, leveraged loans, real estate, rediscount loans and venture loans. Our equity investment in MidCap provides us with an alternative investment that meets the key characteristics we look for including an attractive risk-return profile. Our equity investment in MidCap is held indirectly through an investment fund, AAA Investment (Co-Invest VII), L.P. (CoInvest VII), of which MidCap constituted the majority of the fund's investments. CoInvest VII returned an annualized net investment earned rate of 15.15% and 15.98% for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, our equity investment and loans to Midcap were valued at $524 million and $237 million, respectively.

Similarly, in 2013, AAM proposed that Athene and an Apollo co-investor fund and launch AmeriHome, a mortgage lender and servicer with expertise in mortgage industry fundamentals that we believe are key to operating a successful and sustainable mortgage lender/servicer. Like our investment in MidCap, our equity investment in AmeriHome meets the key characteristics we look for in an alternative investment. Our equity investment in AmeriHome is held indirectly through an investment fund, A-A Mortgage Opportunities, LP (A-A Mortgage), and AmeriHome is currently A-A Mortgage’s only investment. Abiding by its core principles, AmeriHome has grown profitably, with A-A Mortgage returning an annualized net investment earned rate of 11.62% and 14.05% for

the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, our equity investment in A-A Mortgage was valued at $417 million.

- **Dynamic Approach to Asset Allocation during Market Dislocations.** As we have done successfully in the past, we plan to fully capitalize on future market dislocations to opportunistically reposition our portfolio to capture incremental yield. For example, during 2009-2010, we reinvested a significant portion of our portfolio into RMBS. Additionally, regulatory changes in the wake of the financial crisis have made it more expensive for banks and other traditional lenders to hold certain illiquid and complex assets, notwithstanding the fact that these assets may have prudent credit characteristics. This change in demand has provided opportunities for investors to acquire high-quality assets that offer attractive returns. For example, we see emerging opportunities as banks retreat from direct mortgage lending, structured and asset-backed products, and middle-market commercial loans. We intend to maintain a flexible approach to asset allocation, which will allow us to act quickly on similar opportunities that may arise in the future across a wide variety of asset types.
- **Maintain Risk Management Discipline.** Our risk management strategy is to proactively manage our exposure to risks associated with interest rate duration, credit risk and structural complexity of our invested assets. We address interest rate duration and liquidity risks through managing the duration of the liabilities we source with the assets we acquire, and through ALM modeling. We assess credit risk by modeling our liquidity and capital under a range of stress scenarios. We manage the risks related to the structural complexity of our invested assets through AAM’s modeling efforts. The goal of our risk management discipline is to be able to continue growth and to achieve profitable results across various market environments.

Products

We principally offer two product lines: annuities and funding agreements. Our primary product line is annuities and includes fixed deferred and immediate annuities. We sell funding agreements to institutional investors and investors in our FABN program.

The following summarizes our total premiums and deposits, comprised of all products deposits, which generally are not included in revenues on the consolidated statements of income, and premiums collected. Premiums and deposits by product, including those assumed through reinsurance and net of those ceded through reinsurance, are as follows:

	Years ended December 31,		
(In millions)	2016	2015	2014
Annuities			
Fixed indexed annuities	$ 5,322	$ 2,808	$ 2,560
Fixed rate annuities	3,565	883	323
Payout annuities	128	219	195
Total annuities products	9,015	3,910	3,078
Funding agreements	-	250	-
Life and other (excluding German products)	31	72	83
German products	212	81	-
Total premiums and deposits, net of ceded	$ 9,258	$ 4,313	$ 3,161

Reserve liabilities represents our policyholder liability obligations, including liabilities assumed through reinsurance and net of liabilities ceded through reinsurance, and therefore does not correspond to interest sensitive contract liabilities, future policy benefits, dividends payable to policyholders and other policy claims and benefits as disclosed on our consolidated balance sheets. Reserve liabilities includes the reserves related to assumed modified coinsurance (modco) and funds withheld agreements in order to appropriately match the costs incurred in the consolidated statements of income with the liabilities. Reserve liabilities is net of the ceded liabilities to third-party reinsurers as the costs of the liabilities are passed to such reinsurers and, therefore, we have no net economic exposure to such liabilities, assuming our reinsurance counterparties perform under our agreements. The majority of our ceded reinsurance is a result of reinsuring large blocks of life business following acquisitions.

The following summarizes our reserve liabilities by product:

	December 31,			
(In millions, except percentages)	2016		2015	
Annuities				
Fixed indexed annuities	$ 43,501	61.3%	$ 39,594	60.7%
Fixed rate annuities	13,490	19.0%	10,882	16.7%
Payout annuities	5,446	7.7%	5,708	8.7%
Total annuities products	62,437	88.0%	56,184	86.1%
Funding agreements	957	1.4%	1,451	2.2%
Life and other (excluding German products)	2,176	3.0%	2,094	3.2%
German products	5,381	7.6%	5,542	8.5%
Total reserve liabilities	$ 70,951	100.0%	$ 65,271	100.0%

Annuities

We offer deferred and immediate annuities, which are focused on meeting the needs and objectives of people preparing for, approaching or living in retirement. The combination of financial strength, innovative product design and an effective sales strategy enables us to compete successfully in the market and meet the evolving needs of the rapidly growing population of retirees.

Fixed Indexed Annuities - The majority of our reserve liabilities are FIAs. An FIA is a type of insurance contract in which the policyholder makes one or more premium deposits which earn interest at a crediting rate based on a specified market index on a tax deferred basis and is entitled to receive periodic or lump sum payments a specified number of years after the contract has been issued. FIAs allow policyholders the possibility of earning such interest without risk to principal, unless the contract is surrendered during a surrender charge period. A market index tracks the performance of a specific group of stocks or other assets representing a particular segment of the market, or in some cases, an entire market. Our FIAs include a provision for a minimum guaranteed surrender value calculated in accordance with applicable law, as well as death benefits as required by non-forfeiture regulations. We generally buy options on the indices to which the FIAs are tied to hedge the associated market risk. The cost of the option is priced into the overall economics of the product as an option budget.

The value to the policyholder of an FIA contract is equal to the sum of premiums paid, premium bonuses, if any, and index credits based on the change in the relevant market index, subject to a cap (a maximum rate that may be credited), spread (a credited rate determined by deducting a specific rate from the index return) and/or a participation rate (a credited rate equal to a percentage of the index return), less any fees for riders. Caps on our FIA products generally range from 2% to 5% when measured annually and 0.5% to 2% when measured monthly. Participation rates generally range from 25% to 100% of the performance of the applicable market index. Caps, spreads and participation rates can typically be reset no more frequently than annually, and in some instances no more frequently than every two to four years, at the relevant U.S. insurance subsidiary's discretion, subject to stated policy minimums. Certain riders provide a variety of benefits, such as lifetime income or additional liquidity, for a set charge. As this charge is fixed, the policyholder may lose principal if the index credits received do not exceed the amount of such charge.

We generate FIA income from our investment margin, which is based on the difference between income earned on the investments supporting the liabilities and the interest credited to customers, and fees received for riders. For the year ended December 31, 2016, retail sales of FIA products were $4.5 billion and flow reinsurance of FIA products was $686 million. According to sales information from participating members of LIMRA, for the nine months ended September 30, 2016 (the most recent period that data is currently available), we were the 3rd largest FIA provider in the United States based on retail FIA sales. For the year ended December 31, 2015, retail sales of FIA products were $2.4 billion and flow reinsurance of FIA products was $298 million. According to sales information from participating members of LIMRA, for the year ended December 31, 2015, we were the 6th largest FIA provider in the United States based on retail FIA sales and according to information from participating members of LIMRA, as of December 31, 2015 (the most recent period that specific market share data is currently available), we were the 3rd largest FIA provider based on fixed indexed deferred annuity assets (exclusive of reinsurance).

Fixed Rate Annuities - Fixed rate annuities include annual reset annuities and MYGAs. Unlike FIAs, fixed rate annuities earn interest at a set rate (or declared crediting rate), rather than a rate that may vary based on an index. Fixed rate annual reset annuities have a crediting rate that is guaranteed for one year. After such period, we have the ability to change the crediting rate once annually to any rate at or above a guaranteed minimum rate at our discretion. MYGAs are similar to annual reset annuities except that the initial crediting rate is guaranteed for a specified number of years, rather than just one year, before it may be changed at our discretion. On April 11, 2016, we introduced our first MYGA product designed for the financial institutions channel. For the year ended December 31, 2016, we had retail sales of $6 million of annual reset annuities and $772 million of MYGAs, as well as flow reinsurance of $2.8 billion of MYGAs. For the year ended December 31, 2015, we had retail sales of $14 million of annual reset annuities and $14 million of MYGAs, as well as flow reinsurance of $830 million of MYGAs. As of December 31, 2016, crediting rates on outstanding annual reset annuities ranged from 1% to 6% and crediting rates on outstanding MYGAs ranged from 1% to 6%. As of December 31, 2016, 53% of our fixed rate annuities were set at the guaranteed minimum crediting rate.

Retirement Services cost of crediting on deferred annuities for the years ended December 31, 2016, 2015 and 2014, was 1.96%, 1.92% and 1.94%, respectively.

Payout Annuities - Payout annuities primarily consist of single premium immediate annuities (SPIA), supplemental contracts and structured settlements. Payout annuities provide a series of periodic payments for a fixed period of time or for the life of the policyholder, based upon the policyholder's election at the time of issuance. The amounts, frequency and length of time of the payments are fixed at the outset of the annuity contract. SPIAs are often purchased by persons at or near retirement age who desire a steady stream of payments over a future period of years. Supplemental contracts are typically created upon the conversion of a death claim or the annuitization of a deferred annuity. Structured settlements generally relate to legal settlements.

Income Riders to Fixed Annuity Products - Many of our in-force deferred annuities are issued with riders that provide guaranteed living withdrawal benefits (GLWB). Riders providing GLWB features are sometimes referred to as income riders and permit policyholders to elect to receive guaranteed payments for life from their contract without having to annuitize their policies, which provides policyholders with greater flexibility in the future. Income riders, particularly on FIAs, have become very popular among policyholders. LIMRA estimates that 62% of FIA premium for the nine months ended September 30, 2016 (the most recent period that specific market share data is currently available) included an income rider.

We broadly characterize the income riders on our deferred annuities as either guaranteed or participating. Guaranteed income riders provide policyholders with a guaranteed lifetime withdrawal amount that is determined based upon the age of the policyholder when the policy is purchased and the age of the policyholder when he or she elects lifetime income. Participating income riders tend to have lower levels of guaranteed income but policyholders have the opportunity to receive greater levels of income if the policies' indexed crediting strategies perform well.

Our in-force block of deferred annuities contains policies with income riders that were sourced through both retail operations and acquisitions, such as the acquisition of a substantial block of policies having such riders in connection with the Aviva USA acquisition. With respect to our retail operations, we have generally not competed aggressively in the guaranteed income rider segment as we historically believed that such riders were not priced within our pricing discipline. However, recently competitors have been issuing annuities with what we believe are more rationally-priced lifetime income benefit features. In the current environment, we believe that we can grow our retail sales by offering competitive guaranteed income rates while earning an attractive spread, and on April 11, 2016, we introduced "Ascent Pro," offering policyholders the option to select a guaranteed income rider. In connection with this product offering and others involving income riders, we sometimes use reinsurance with third parties, which assume the risks arising from such products that are in excess of our pricing tolerance. We continually monitor market rationality for opportunities to grow our business, including in the area of guaranteed income riders, taking into account what we believe to be optimal product and product feature mix.

Withdrawal Options for Deferred Annuities - After the first year following the issuance of a deferred annuity, the policyholder is typically permitted to make withdrawals up to 5% or 10% (depending on the contract) of the prior year's value without a surrender charge or MVA, subject to certain limitations. Withdrawals in excess of the allowable amounts are assessed a surrender charge and MVA if such withdrawals are made during the surrender charge period of the policy. For the years ended December 31, 2016, 2015 and 2014, withdrawals on our deferred annuities were $4.2 billion, $4.4 billion and $4.4 billion, respectively. The surrender charge of most of our products is typically between 8% and 15% of the contract value at contract inception and generally decreases by approximately one percentage point per year during the surrender charge period. The surrender charge period of our most popular products ranges from 3 to 15 years. The average surrender charge (excluding the impact of MVAs) is 7.6% for our deferred annuities as of December 31, 2016.

At maturity, the policyholder may elect to receive proceeds in the form of a single payment or an annuity. If the annuity option is selected, the policyholder will receive a series of payments either over his or her lifetime or over a fixed number of years, depending upon the terms of the contract. Some contracts permit annuitization prior to maturity. In addition to the foregoing rights, a policyholder may also elect to purchase a guaranteed minimum withdrawal benefit rider which provides the policyholder with a guaranteed minimum withdrawal benefit for the life of the contract.

Funding Agreements

We focus on opportunistically issuing funding agreements to institutional investors at attractive prices. Funding agreements are negotiated privately between an investor and an insurance company. They are designed to provide an agreement holder with a guaranteed return of principal and periodic interest payments, while offering competitive yields and predictable returns. The interest rate can be fixed or floating. If the interest rate is a floating rate, it may be linked to the London Interbank Offered Rate (LIBOR), the federal funds rate or other major index.

Life and Other (Excluding German Products)

Life and other products include other retail products, including run-off or ceded business, statutory closed blocks and ceded life insurance.

German Products

Our German products include the annuity, life insurance and unit-linked products managed by the Athene Deutschland GmbH (AD), Athene Deutschland Holding GmbH & Co. KG (ADKG), Athene Deutschland Verwaltungs GmbH, Athene Lebensversicherung AG (ALV) and Athene Pensionskasse AG (APK) (collectively, German Group Companies). Our primary German product type is endowment policies, which are traditional German life insurance policies that include legally guaranteed interest, the right of policyholders to participate in certain portions of ALV's results and a death benefit. The legally guaranteed interest rate is reset annually and ranges from 1.75% to 4.00%. The policyholder

makes one or more premium deposits and is entitled to receive periodic or lump sum payments. These policies include a provision for minimum guaranteed surrender value calculated in accordance with applicable law, as well as death benefits. In addition, AD manages unit-linked life insurance policies, in which premium deposits are invested in fund units specified by the policyholder, and which includes a death benefit the value of which is tied to the performance of the fund units in which the premium deposits are invested. AD also manages pension insurance and disability insurance.

AGER Equity Offering

While we continue to believe that the European market provides a compelling growth opportunity to amass liabilities at one of the most favorable costs of funding in a number of years, we have come to realize that the opportunity over the next several years is larger than we initially anticipated. We have concluded that, in order to fully capitalize on this opportunity, we would need to commit capital to the European market at a level in excess of our targeted investment size, creating the need for third party capital to support growth. We, together with Apollo, have undertaken a process whereby our subsidiary, AGER Bermuda Holding Ltd., a Bermuda domiciled holding company and the holding company of our German Group Companies (AGER) is seeking to raise capital as part of a private offering of its equity securities (AGER Offering) in order to pursue expansion opportunities in Europe. As a founding investor, we expect to retain a sizable equity stake in AGER. However, in the event the AGER Offering is successful, our stake in AGER will be reduced and ultimately held as an alternative investment rather than as a consolidated subsidiary. Additionally, as described in further detail below, we expect to have the opportunity to be AGER's preferred reinsurer for spread liabilities, which will establish a new potential funding channel for our business.

Subject to the approval of a special committee of our board of directors comprised solely of disinterested directors, it is currently being proposed that Apollo and Athene will collectively commit up to €500 million in the AGER Offering. Our contribution would include the valuation of our German Group Companies at approximately €90 million (which is in line with our invested capital in our German Group Companies). This valuation of our German Group Companies will be fixed at the time of the closing of the commitments for the AGER Offering regardless of whether our German Group Companies operate at a profit or at a loss or otherwise increase or decrease in value from the time the commitments are final until the time of the capital call from AGER that results in AGER and its subsidiaries being deconsolidated from us, which may be as long as nine months or more. As a result, to the extent that our invested capital and/or fair value of our German Group Companies increases or decreases during such time period, we may incur a gain or loss upon deconsolidation.

The completion of the AGER Offering is conditioned upon obtaining (1) a sufficient amount of subscription commitments to allow AGER to take advantage of the opportunities in the European market over the next two to four years, (2) any required regulatory approvals, and (3) other customary terms and conditions. Prior to the successful completion of the AGER Offering and the initial material capital call in exchange for the issuance of new equity interests of AGER, AGER and our German Group Companies will continue to be consolidated subsidiaries of AHL. We expect the AGER Offering, if successful, to raise €1 billion or more from third parties.

In order to align the interests of Athene and AGER, upon the completion of the AGER Offering, we expect to enter into a cooperation agreement with AGER, pursuant to which, among other things, (1) we will agree not to compete with AGER in Europe (other than the United Kingdom), and (2) AGER will agree not to compete with us in the United States and the United Kingdom. Under the cooperation agreement, we would also have the right to reinsure approximately 20% of the spread business written or reinsured by any insurance or reinsurance company owned or acquired by AGER. An affiliate of Apollo is expected to act as investment adviser in regard to AGER's investment portfolio and provide investment services and advice. Both the services Apollo provides for AGER, and the fee they receive for doing so, may differ from the existing services provided to our German Group Companies.

In the event the AGER Offering is not completed for any reason, AGER and the German Group Companies would continue to be consolidated subsidiaries of AHL.

Distribution Channels

We have developed four dedicated distribution channels: retail, reinsurance (including flow and block reinsurance), institutional products and acquisitions, which support opportunistic origination across differing market environments and which we believe enable us to achieve stable asset growth while maintaining attractive returns.

Retail

We have built a scalable platform that allows us to originate and rapidly grow our business in fixed annuity products directly from our customers in spite of today's low-rate environment. We have developed a suite of retirement savings products, distributed through our network of approximately 28,000 independent agents in all 50 states. Sales of fixed annuities were $5.3 billion, $2.5 billion and $2.5 billion for the years ended December 31, 2016, 2015 and 2014, respectively. We expect that our upgrade to a financial strength rating of A- by each of S&P, Fitch and A.M. Best in 2015 will continue to allow us to increase our share with existing IMOs and enter into relationships with regional banks, broker-dealers and other financial institutions, resulting in a potential increase in annual sales at an attractive cost of crediting. We are focused in every aspect of our retail channel on providing high quality products and service to our policyholders and maintaining appropriate financial protection over the life of their policies.

Item 1. Business

Reinsurance

Reinsurance is an arrangement under which an insurance company, the reinsurer, agrees to indemnify another insurance company, the ceding company or cedant, for all or a portion of the insurance risks underwritten by the ceding company. Reinsurance is designed to (1) reduce the net amount at risk on individual risks, thereby enabling the ceding company to increase the volume of business it can underwrite, as well as increase the maximum risk it can underwrite on a single risk, (2) stabilize operating results by leveling fluctuations in the ceding company’s loss experience, (3) assist the ceding company in meeting applicable regulatory requirements and (4) enhance the ceding company’s financial strength and surplus position. As mentioned above, reinsurance can also be used to acquire or sell blocks of business. In general, annuity reinsurance is executed in the form of a flow transaction or a block transaction.

We conduct the majority of our reinsurance transactions through our subsidiary, ALRe. Founded on June 9, 2009, ALRe is licensed as a Class E insurer carrying on long-term business in Bermuda; one of the largest reinsurance markets in the world by reserves, with a regulatory regime deemed equivalent to the European Union’s Directive (2009/138/EC) (Solvency II) for commercial insurers. As a fixed annuity reinsurer, ALRe partners with life and annuity insurance companies to develop solutions to their capital requirements, enhance their presence in the retirement market and improve their financial results. The specific liabilities ALRe targets to reinsure include MYGAs, FIAs, traditional one year guarantee fixed deferred annuities, immediate annuities and institutional products. ALRe only targets business consistent with our preferred liability characteristics, and as such, reinsurance provides another opportunistic channel for us to source long-term liabilities with attractive crediting rates. For various transaction-related reasons, from time to time, our U.S. insurance subsidiaries, in particular AADE, will reinsure business from third-party ceding companies and retrocede a portion of the reinsured business to ALRe. Our flow reinsurance channel generated deposits of approximately $3.5 billion, $1.1 billion and $349 million for the years ended December 31, 2016, 2015 and 2014, respectively.

ALRe has been involved in reinsurance and retrocession transactions with 16 third-party cedents. Since inception through December 31, 2016, deposits from such transactions totaled approximately $10.7 billion, inclusive of third-party cedent business that flows through AADE, split between block transactions of $3.6 billion and flow business of $7.1 billion. As of December 31, 2016, ALRe had on-going flow reinsurance and retrocession treaties involving six third-party cedents rated A- or better for a quota share of such cedents’ new deposits, including both MYGAs and FIAs. ALRe was first rated by A.M. Best, Fitch and S&P in early 2015, which we believe is helpful in establishing reinsurance relationships with third-party cedents.

In our reinsurance transactions, as opposed to acquisitions, we acquire assets and liabilities associated with a certain book of business, as opposed to the assets or stock of a target company, which allows us to acquire only that portion of the target’s business that we wish to acquire without assuming additional liabilities.

Institutional Products

Funding Agreements - We participate in a FABN program, which is a medium term note program under which funding agreements are issued to a special-purpose trust that issues marketable notes. The proceeds of the issuance of a series of notes are used by the trust to acquire a funding agreement with matching interest and maturity payment terms from AADE. The notes are underwritten and marketed by major investment banks’ broker-dealer operations and are sold to institutional investors. In 2015, we issued our first funding agreement under the FABN program in the aggregate principal amount of $250 million. The funding agreement has a carrying value of $246 million as of December 31, 2016 and matures in October 2018. In the first quarter of 2017, we issued additional funding agreements under the FABN program in the aggregate principal amount of $650 million, of which $600 million matures in January 2022 and $50 million matures in October 2018.

Athene Annuity and Life Company (AAIA) is a member of the Federal Home Loan Bank of Des Moines (FHLBDM) and Athene Life Insurance Company (ALIC) is a member of the Federal Home Loan Bank of Indianapolis (FHLBI). Each issued funding agreements to the relevant Federal Home Loan Bank (FHLB) in exchange for cash advances in an aggregate amount of $641 million outstanding, with respect to AAIA, and $50 million outstanding, with respect to ALIC, each as of December 31, 2016. We have decided to wind down the ALIC entity. In connection with that decision, we decided to withdraw our membership in the FHLBI.

Pension Risk Transfer - We have developed capabilities to undertake pension risk transfer transactions. Pension risk transfer transactions usually involve a single premium group annuity contract issued for the purpose of discharging certain pension plan liabilities. Our planned pension risk transfer annuities are nonparticipating contracts. The assets supporting the guaranteed benefits for each contract may be held in a separate account. We will fully guarantee all benefit payments as provided for in the group annuity contract. The group annuity benefits may be purchased for retired and terminated employees or employees covered under terminating or ongoing pension plans. Both immediate and deferred annuities may be purchased by a single premium at issue. There are generally no cash surrender rights, with some exceptions including certain contracts that include liabilities for cash balance pension plans or lump sums. Under GAAP, these annuity contracts are treated as general account products. We are focused on medium- and large-sized deals where we believe we can be competitive.

Acquisitions

Acquisitions are an important source of growth in our business. We have a proven ability to acquire businesses in complex transactions at terms favorable to us, manage the liabilities that we acquire and reinvest the associated assets. Through December 31, 2016, we have closed four acquisition transactions in the U.S.: Liberty Life Insurance Corporation (Liberty Life), Investors Insurance Corporation, Presidential Life Corporation and Aviva USA; and one international acquisition, DLD, collectively representing reserve liabilities backed by approximately $65.9 billion in total assets (net of $9.3 billion in assets ceded through reinsurance).

Item 1. Business

The acquisition of Aviva USA marked a significant milestone in our history. As a result of the acquisition we grew to approximately four times our size immediately prior to the acquisition (as measured by total assets). The acquisition significantly enhanced our retail channel, increased our scale, improved our infrastructure and further demonstrated our integration abilities, in this case having successfully integrated a company with a significantly larger employee headcount and IT and operational footprint.

In October 2015, we acquired the German life insurance business of Delta Lloyd N.V., an Amsterdam-based financial services provider. The German life insurance businesses acquired have been in run-off since the beginning of 2010 by action of the predecessor owner. Accordingly, our German insurance subsidiaries do not write new life insurance business, except for a limited number of new co-insurance policies, and all distribution partner contracts have been terminated.

We plan to continue leveraging our expertise in sourcing and evaluating transactions to profitably grow our business. We believe that our demonstrated ability to source transactions, consummate complex transactions and reinvest assets into higher yielding investments as well as our relationship with Apollo provides us with distinct advantages relative to other acquirers.

In general, we seek to reinsure or otherwise dispose of those portions of the target company's business that we do not wish to retain, if any. Our largest dispositions of such businesses are described below.

Global Atlantic
As part of our acquisition of Aviva USA, we effectuated a sale or transferred the risk of substantially all of Aviva USA's life insurance business by reinsuring such business to affiliates of Global Atlantic. A description of the transactions is as follows:

- We entered into a 100% coinsurance and assumption agreement with Accordia. The agreement covers all open block life insurance business issued by AAIA, with the exception of enhanced guarantee universal life insurance products. Under the terms of the agreement, Accordia maintains a custody account with assets equal to or greater than an agreed-upon required statutory balance that as of December 31, 2016 was $2.9 billion. The agreement provides separate excess of loss coverage for policy liabilities of AAIA related to the former AmerUs Life Insurance Company (AmerUs) closed block (AmerUs Closed Block) that are also subject to existing reinsurance through Athene Re IV, a captive reinsurer that is a subsidiary of AAIA. As of December 31, 2016, outstanding obligations ceded pursuant to this arrangement which remained unnovated amounted to $2.8 billion in statutory reserves. We have no continuing contractual obligations with respect to policies that have been novated.

- We entered into a 100% coinsurance agreement with Accordia to cede all policy liabilities for the closed block established in connection with the demutualization of Indianapolis Life Insurance Company (ILICO), which had been previously acquired by Aviva USA. The ILICO Closed Block consists primarily of participating whole life insurance policies. Effective December 1, 2015, Accordia retroceded substantially all of the policy liabilities for the ILICO Closed Block to Ameritas Life Insurance Corp. (Ameritas). Under the terms of the retrocession agreement, Ameritas maintains a trust account with assets equal to or greater than a required statutory balance that as of December 31, 2016 was $717 million. AAIA is permitted to withdraw funds from the trust account under certain circumstances. As of December 31, 2016, outstanding obligations ceded pursuant to this arrangement amounted to $747 million in statutory reserves.

- We entered into the following coinsurance and funds withheld agreements with First Allmerica Financial Life Insurance Company (FAFLIC) to cede substantially all policy liabilities for the below described life insurance policies.

  - Athene Life Insurance Company of New York (ALICNY) entered into a 100% funds withheld coinsurance agreement with FAFLIC covering certain term and universal life policies which have reserves that are subject to financing arrangements. Under the terms of the agreement, ALICNY maintains a funds withheld account with an agreed-upon statutory balance that as of December 31, 2016 was $243 million.

  - ALICNY entered into a 100% coinsurance agreement with FAFLIC covering certain term and universal life policies which have reserves that are not subject to financing arrangements. Under the terms of the agreement, FAFLIC maintains a trust account with an agreed-upon required statutory balance that as of December 31, 2016 was $309 million.

  - ALICNY entered into a 100% coinsurance and assumption agreement with FAFLIC covering substantially all of ALICNY's in-force life business that is not ceded pursuant to the agreements described in the preceding two paragraphs. Under the terms of the agreement, FAFLIC maintains a trust account with an agreed-upon required statutory balance that as of December 31, 2016 was $217 million.

  - As of December 31, 2016, outstanding obligations ceded pursuant to the three FAFLIC reinsurance agreements discussed above amounted to $1.0 billion in statutory reserves.

We continue to have the primary legal obligation to satisfy claims and obligations relating to those policies not novated to Accordia or FAFLIC. As a consequence, if Accordia or FAFLIC were unable to satisfy its reinsurance obligations on such life policies, we would be responsible for satisfying those contractual obligations reinsured by Accordia or FAFLIC, respectively. We do not maintain a security interest in the custody account discussed above, and therefore in the event of an Accordia insolvency, the assets of the custody account may be available to satisfy the

claims of Accordia's general creditors. In addition, in the event of an Accordia insolvency, our claims against Accordia would be subordinated to those of its policyholders. As of December 31, 2016, both Accordia and FAFLIC were rated A- by A.M. Best.

Protective Life Insurance Company (Protective)
On April 29, 2011, AADE ceded substantially all of its life and health business to Protective under a coinsurance agreement. As part of this transaction, we transferred assets backing reserves and miscellaneous other liabilities on the life and health business. The reserve assets were placed in a trust account maintained by Protective for our benefit to secure the obligations of the reinsurer of the acquired business. As of December 31, 2016, the statutory book value of assets in this trust was $1.5 billion and the outstanding obligations ceded pursuant to the arrangement amounted to $1.5 billion. In the event that Protective is unable to satisfy its reinsurance obligations with respect to the policies ceded and the trust assets prove insufficient to satisfy the resulting obligations, we would have the primary legal obligation to satisfy such deficiency. In the event of a Protective insolvency, our claim against Protective would be subordinated to those of its policyholders. As of December 31, 2016, Protective was rated A+ by A.M. Best.

Investment Management

Investment activities are an integral part of our business and our net investment income is a significant component of our total revenues. Our investment philosophy in the United States is to invest a portion of our assets in securities that earn us incremental yield by taking liquidity risk and complexity risk and capitalizing on our long-dated and persistent liability profile to prudently achieve higher net investment earned rates, rather than assuming solely credit risk. We have established a significant base of earnings and as of December 31, 2016 have an expected annual investment margin of 2-3% over the 7.8 year weighted-average life of our deferred annuities, which make up a substantial portion of our reserve liabilities. Because we have remained disciplined in underwriting attractively priced liabilities, we have the ability to invest in a broad range of high quality assets to generate attractive earnings.

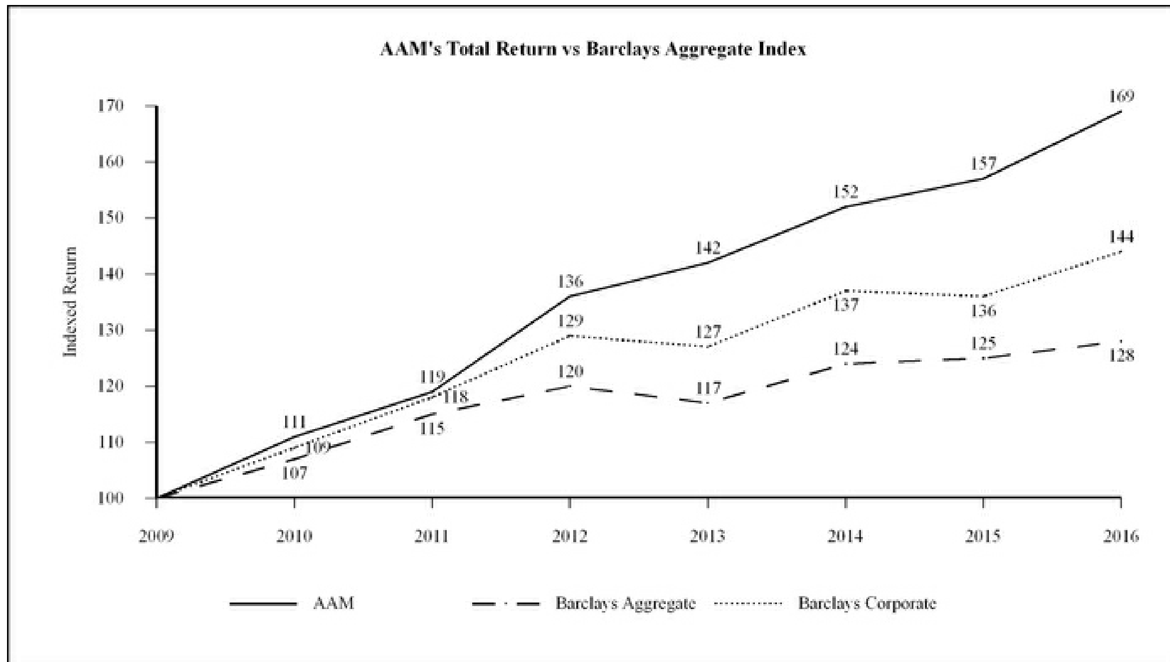
Our differentiated investment strategy benefits from our strategic relationship with Apollo and its indirect subsidiary, AAM. AAM provides a full suite of services for our investment portfolio, including direct investment management, asset allocation, mergers and acquisition asset diligence and certain operational support services, including investment compliance, tax, legal and risk management support. AAM provides portfolio management services for substantially all of our invested assets (excluding our German invested assets) and currently provides direct asset selection for 81% of our investment portfolio (excluding Germany). The remaining 19% is outsourced to Apollo and its affiliates to access additional sourcing and underwriting capabilities. Substantially all of the assets subject to a sub-advisory arrangement are sub-advised by Apollo affiliates. AAM allocates portions of our asset portfolio to sub-advisors to manage based on market opportunities. AAM also provides a slate of other asset and portfolio management services to us.

Through our relationship with Apollo, AAM has identified unique investment opportunities for us. AAM's knowledge of our funding structure and regulatory requirements allows it to design bespoke strategies and investments for our portfolio. For example, we hold a significant investment in MidCap through a consolidated investment fund managed by Apollo, together with loans made directly to MidCap. When we originally invested in MidCap Financial Holdings, LLC (MidCap Financial) in November 2013, MidCap Financial was a specialty finance company which primarily originated lending opportunities in the healthcare sector. With the assistance of Apollo, MidCap Financial entered new lending markets, raised substantial equity capital and restructured as MidCap in January 2015. MidCap represents a unique investment in an origination platform made available to us through our relationship with Apollo and, from time to time, provides us with access to assets for our investment portfolio. As of December 31, 2016, our exposure, including loaned amounts, to MidCap and its predecessor entities approximated $761 million, which represented 1% of our total invested assets and 11% of total AHL shareholders' equity. As of December 31, 2016, the value of our equity investment in MidCap had increased by 30% since our original investment in November 2013.

Item 1. Business

Since its inception, AAM has developed a track record for delivering sound investment returns. According to AAM, for the years ended December 31, 2016, 2015 and 2014, it generated total returns on the invested assets in our U.S. and Bermuda accounts owned by us or in accounts supporting reinsurance ceded to our subsidiaries by third-party insurers (the North America Accounts), net of management and sub-advisory fees, but gross of any other direct or indirect fees and expenses paid or payable directly or indirectly by us, of 6.41%, 3.30% and 6.82%, respectively. See *Item 13. Certain Relationships and Related Transactions, and Director Independence* for further discussion of fees paid or payable to Apollo and its affiliates, including AAM, and *Item 1A. Risk Factors-Risks Relating to Our Investment Manager* for further discussion regarding the risks inherent in historical total return figures.

Below is AAM's total return compared to the Barclays Aggregate Index and the Barclays Corporate Index. AAM has outperformed the Barclays Aggregate Index and the Barclays Corporate Index since 2009.



Note: This chart presents AAM’s total return relative to the performance of the Barclays Aggregate Index and the Barclays Corporate Index, with each index presented without any deduction for fees given that such indices are not actual portfolios managed by investment advisors. Such presentation is provided solely as an indication of the performance of fixed income strategies. No index, including the Barclays indices presented here, is directly comparable to AAM’s total return as the composition of the portfolio generating AAM’s total return inherently differs from the portfolio of securities represented by the respective index. In particular, with respect to the above presentation, the AAM total return figures reflect the performance of certain equity securities, structured securities and other asset classes not represented in either of the Barclays indices presented above. Athene’s historical results are not necessarily indicative of its future operating results. This chart is not intended to imply that AAM’s total return is correlated with the performance of either of the indices presented and AAM’s total return, and the volatility of such return, may be, and in many cases is likely to be, materially different from the performance of such indices.

We are downside focused and our asset allocations reflect the results of stress testing. Additionally, we establish what we believe are conservative risk thresholds which in turn define risk tolerance across a wide range of factors, including credit risk, liquidity risk, concentration risk and caps on specific asset classes. We protect against rising interest rates, as our assets are generally slightly shorter in effective duration than our liabilities, resulting in a risk profile that we believe could sustain substantial increases in rates over and above what is implied by current futures markets without sustaining net losses. See *Hedging Program and Derivatives* for further discussion. As of December 31, 2016, 29% of our invested assets were floating rate investments which would allow us the flexibility to quickly increase our crediting rates in a rising interest rate environment, if desired.

As a result of our robust combination of underwriting and investment management capabilities, we are able to achieve investment margins that provide attractive risk-adjusted returns and that provide us with a base of future earnings. We generated net investment income of $2.9 billion, $2.5 billion and $2.3 billion for the years ended December 31, 2016, 2015 and 2014, respectively. We generated consolidated net investment earned rates of 4.35%, 4.24% and 4.29% for the years ended December 31, 2016, 2015 and 2014, respectively. We believe that achieving an investment margin of 2-3% on our deferred annuities would maintain our attractive financial profile and is achievable given our underwriting and asset management capabilities. Moreover, our investing capabilities support our ability to sell fixed annuities profitably and to competitively price acquisitions while meeting our earnings expectations.

The deep experience of the AAM investment team and Apollo's credit portfolio managers assists us in sourcing and underwriting complex asset classes. AAM has selected a diverse array of corporate bonds and more structured, but highly rated asset classes. We also maintain holdings in floating rate and less rate-sensitive investments, including collateralized loan obligations (CLO), non-agency RMBS and various types of structured products. These asset classes permit us to earn incremental yield by assuming liquidity risk and complexity risk, rather than assuming solely credit risk.

In addition to our core fixed income portfolio, we opportunistically allocate 5-10% of our portfolio to alternative investments where we primarily focus on fixed income-like, cash flow-based investments. Our alternative investment strategy is inherently opportunistic rather than being derived from allocating a fixed percentage of assets to the asset class and the strategy is subject to internal concentration limits. Individual alternative investments are selected based on the investment's risk-reward profile, incremental effect on diversification and potential for attractive returns due to sector and/or market dislocations. We have a strong preference for alternative investments that have the following characteristics, among others: (1) investments that constitute a direct investment or an investment in a fund with a high degree of co-investment; (2) investments with debt-like characteristics (for example, a stipulated maturity and par value), or alternatively, investments with reduced volatility when compared to pure equity; and (3) investments that have less downside risk. In general, we target returns for alternative investments of 10% or higher on an IRR basis over the expected lives of such investments.

As of December 31, 2016, 93.2% of our AFS fixed maturity securities, including related parties, were rated NAIC 1 or NAIC 2 (with investments of our German operations rated by applying NRSRO equivalent ratings to map NAIC ratings).

Our asset portfolio is managed within the limits and constraints set forth in our Investment and Credit Risk Policy. Under this policy, we set limits on investments in our portfolio by asset class, such as corporate bonds, emerging markets securities, municipal bonds, non-agency RMBS, commercial mortgage-backed securities (CMBS), CLO, commercial mortgage whole loans and mezzanine loans and alternative investments. We also set credit risk limits for exposure to a single issuer that vary based on ratings. In addition, our asset portfolio is constrained by its scenario-based capital ratio limit and its stressed liquidity limit.

As part of our reinvestment strategy for the investment portfolios of our acquired companies, we generally seek to reinvest assets at yields higher than the related assets being liquidated for reinvestment. We have reinvested a substantial portion of the investment portfolio acquired in our acquisition of Aviva USA, which contributed to the increase in fixed income and other net investment earned rates on this block of business to 4.12% for the year ended December 31, 2015 from 3.50% (on an annualized basis) for the fourth quarter of 2013.

In Germany, our wholly owned subsidiary, ADKG, provides investment management services to our other German Group Companies. ADKG entered into an investment advisory agreement with AAME pursuant to which AAME provides advisory services for a significant portion of our German investment portfolio.

Reserves

We establish and carry actuarially-determined reserves that are calculated to meet our future obligations, which require us to make certain assumptions regarding expenses, investment yields, mortality, morbidity and persistency, with a provision for adverse deviation as appropriate, each as of the date of issue or acquisition. The assumptions used require considerable judgment. We review overall policyholder experience at least annually and update these assumptions when deemed necessary based on additional information that becomes available. For immediate annuity products, assumptions used in the reserve calculation can only be changed if the reserve is deemed to be insufficient. For all other insurance products, current assumptions are used in the calculation of reserves. For FIAs, the aggregate initial liability is equal to the deposit received plus a bonus, if applicable, and is split into a host component and an embedded derivative component. Thereafter, the host contract accretion rate is updated each quarter so that the present value of actual and expected guaranteed cash flows is equal to the initial host value and the embedded derivative liability is recognized at fair value, with the change in fair value recorded in interest sensitive contract benefits in our consolidated statements of income. Changes in, or deviations from, the assumptions used to set our reserves can significantly affect our reserve levels and related results of operations. See *Item 1A. Risk Factors-Risks Relating to Our Business* for additional discussion on assumptions and estimates.

Persistency is the probability that a policy will remain in force from one period to the next. We make assumptions about persistency based on expected policyholder behavior in future periods, including full and partial contract surrenders. Policyholder behavior is influenced by a number of factors including, but not limited to, recent and current performance of the policy, contractual guarantees contained within the policy, availability of alternative products and general economic conditions.

A surrender rate is the percentage of account value surrendered by the policyholder. A lapse rate is the percentage of account value canceled by us due to nonpayment of premiums or surrender of the policy. Our surrender rate experience on our FIA products for the years ended December 31, 2016 and 2015 was within our assumed ranges. Our estimate of surrender behavior is based on assumptions reflecting actual experience and we believe that, over the duration of the policies, we may experience a wide range of policyholder behavior and market conditions.

Mortality is the incidence of death among policyholders triggering the payment of underlying insurance benefits by the insurer. In addition, mortality also refers to the ceasing of payments on life-contingent annuities due to the death of the annuitant. We utilize a combination of actual and industry experience when setting our mortality assumptions.

We also set reserves for the guaranteed minimum benefits for some of our products. The assumptions used to establish the liabilities for our product guarantees require considerable judgment. At issue, and at each subsequent valuation, we determine the present value of the cost of guaranteed minimum benefits contained in our policies in excess of benefits that are funded by the account value. We also calculate the expected value of the future cost of providing these benefits. In making these projections, a number of assumptions are made and we update these assumptions as experience emerges, when required. We have limited experience to date on policyholder behavior for our guaranteed minimum benefit products which our acquirees began issuing in 2006, and as a result, future experience could lead to significant changes in our assumptions. If emerging experience deviates from our assumptions on utilizations of these benefits, such deviations could have a significant effect on our reserve levels and related results of operations. We periodically review these assumptions and, if necessary, update them based on additional information that becomes available. Changes in or deviations from the assumptions used can significantly affect our reserve levels and related results of operations.

To the extent actual experience differs from assumptions and estimates used to establish reserves, we may be required to increase or decrease our reserves to reflect changes in our expectations. Any such increase could cause a material increase in our liabilities and a reduction in our profitability, including operating losses and a reduction of capital.

Outsourcing

With regard to our U.S. business, we outsource some portion or all of each of the following functions to third-party service providers:

- hosting of financial systems;
- service of existing policies;
- custody;
- administration of annuities issued in support of pension risk transfer transactions;
- some information technology development and maintenance; and
- call centers.

We closely manage our outsourcing partners and integrate their services into our operations. We believe that outsourcing such functions allows us to focus capital and our employees on our core business operations and perform differentiating functions, such as actuarial, product development and risk management functions. In addition, we believe an outsourcing model provides predictable pricing, service levels and volume capabilities and allows us to benefit from technological developments that enhance our customer self-service and sales processes that we would not otherwise be able to take advantage of without reinvesting more of our own capital.

The majority of our new business and policy administration is handled in-house. For some closed in-force blocks of business we partner with Alliance - One Services, Inc., Concentrix Insurance Administrative Solutions Corporation and Infosys McCamish Systems, LLC to provide policy administration services. For administration of annuities issued in support of pension risk transfer transactions, we intend to use Conduent. For information technology services, we use some providers for managed services or supplemental labor, including Tata Consulting Services Limited and UST Global Inc., and use Hewlett Packard Company for data center, infrastructure and related services. For investment management services, we use AAM, AAME and Apollo. We believe that we have a good relationship with our principal outsource service providers.

Affiliated Reinsurance

Our U.S. insurance subsidiaries participate in reinsurance arrangements pursuant to which each cedes certain insurance risks to ALRe. ALRe is a fully licensed, operational and fully equity capitalized reinsurance company with third-party clients. Our U.S. insurance subsidiaries have entered into modco agreements with ALRe under which they cede to ALRe a 100% quota share of their respective obligations to repay the principal upon maturity or earlier termination and to make periodic interest payments under funding agreements issued by them. Our U.S. insurance subsidiaries have similar arrangements with ALRe with respect to substantially all of their other core business, under which generally 80% of all such business is ceded to ALRe on a modco basis. To support these internal reinsurance arrangements, ALRe holds the substantial majority of our capital with $6.1 billion of statutory capital as of December 31, 2016. ALRe had a BSCR ratio of 228% as of December 31, 2016.

Hedging Program and Derivatives

We use, and may continue to use, derivatives, including swaps, options, futures and forward contracts and reinsurance contracts to hedge risks such as current or future changes in the fair value of our assets and liabilities, current or future changes in cash flows, changes in interest rates, equity markets, currency fluctuations and changes in longevity. In particular, we purchase options and equity futures to hedge the market risk exposure inherent in our FIA products, which have crediting rates tied to certain market indices. Our hedging program is focused on hedging our economic risk exposures and reducing the variation in our realized investment margin.

We use a combination of equity options; equity index futures; and variance, interest rate, and currency swaps to hedge the risks from the equity derivatives embedded in our FIAs. Through the use of our hedging strategy, we are able to minimize the net impact on capital and surplus of market variations affecting our embedded derivatives.

In addition to hedging the risks from embedded derivatives, we also use currency swaps and futures to hedge mismatches between the currency of our liability cash flows and our assets. Although cash-flow matching and ALM analyses are employed to manage our interest rate and funding exposures, we may also use interest rate derivatives to ensure that our net economic interest rate exposure is within our risk tolerances.

Despite utilizing sophisticated risk management tools and strategies in selecting assets as well as hedges, we remain subject to the risk that our hedging strategies may not have the desired impact on the results of operations or financial condition due to inaccuracy of management's assumptions or estimates or to the transaction costs or execution risk associated with those strategies. See *Item 1A. Risk Factors* for further discussion on risks associated with hedging and derivatives.

Financial Strength Ratings

Our access to funding and our related cost of borrowing, the attractiveness of certain of our subsidiaries' products to customers, our attractiveness as a reinsurer to potential ceding companies and requirements for derivatives collateral posting are affected by our credit ratings and insurance financial strength ratings, as well as those of our subsidiaries, which are periodically reviewed by the rating agencies. Financial strength ratings and credit ratings are important factors affecting consumer confidence in an insurer and its competitive position in marketing products as well as critical factors considered by ceding companies in selecting a reinsurer.

As of December 31, 2016, Fitch, S&P and A.M. Best had issued credit ratings, financial strength ratings and/or outlook statements regarding us, as listed below. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurer or reinsurer to meet its obligations under an insurance policy or reinsurance arrangement and generally involve quantitative and qualitative evaluations by rating agencies of a company's financial condition and operating performance. Generally, rating agencies base their financial strength ratings upon information furnished to them by the Company and upon their own investigations, studies and assumptions. Financial strength ratings are based upon factors of concern to policyholders, agents, intermediaries and ceding companies and are not directed toward the protection of investors. Credit and financial strength ratings are not recommendations to buy, sell or hold securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

Company	A.M. Best	S&P	Fitch
Athene Holding Ltd.			
Issuer Credit Rating/Counterparty Credit Rating/Issuer Default Rating	bbb-	BBB	BBB
Outlook	Positive	Stable	Stable
Athene Life Re Ltd.			
Financial Strength Rating	A-	A-	A-
Outlook	Positive	Stable	Stable
Athene Annuity & Life Assurance Company			
Financial Strength Rating	A-	A-	A-
Outlook	Positive	Stable	Stable
Athene Annuity & Life Assurance Company of New York			
Financial Strength Rating	A-	A-	A-
Outlook	Positive	Stable	Stable
Athene Annuity and Life Company			
Financial Strength Rating	A-	A-	A-
Outlook	Positive	Stable	Stable
Athene Life Insurance Company of New York			
Financial Strength Rating	A-	Not Rated	Not Rated
Outlook	Positive	Not Rated	Not Rated

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Rating Agency	Financial Strength Rating Scale	Senior Unsecured Notes Credit Rating Scale
A.M. Best[1]	“A++” to “S”	“aaa” to “rs”
S&P[2]	“AAA” to “R”	“AAA” to “D”
Fitch[3]	“AAA” to “C”	“AAA” to “D”

[1] *A.M. Best’s financial strength rating is an independent opinion of an insurer’s or reinsurer’s financial strength and ability to meet its ongoing insurance policy and contract obligations. It is based on a comprehensive quantitative and qualitative evaluation of a company’s balance sheet strength, operating performance and business profile or, where appropriate, the specific nature and details of a security. The analysis may include comparisons to peers, industry standards and proprietary benchmarks as well as assessments of operating plans, philosophy, management, risk appetite and the implicit or explicit support of a parent or affiliate. A.M. Best’s long-term credit ratings reflect its assessment of the ability of an obligor to pay interest and principal in accordance with the terms of the obligation. Ratings from "aa" to "ccc" may be enhanced with a "+" (plus) or "-" (minus) to indicate whether credit quality is near the top or bottom of a category. A.M. Best’s short-term credit rating is an opinion as to the ability of the rated entity to meet its senior financial commitments on obligations maturing in generally less than one year.*

[2] *S&P’s insurer financial strength rating is a forward-looking opinion about the financial security characteristics of an insurance organization with respect to its ability to pay under its insurance policies and contracts in accordance with their terms. Generic rating categories range from "AAA" to "D". A "+" or "-" indicates relative strength within a generic category. An S&P credit rating is an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Short-term issuer credit ratings reflect the obligor’s creditworthiness over a short-term time horizon.*

[3] *Fitch’s financial strength ratings provide an assessment of the financial strength of an insurance organization. The National Insurer Financial Strength Rating is assigned to the insurance company’s policyholder obligations, including assumed reinsurance obligations and policyholder obligations, such as guaranteed investment contracts. Within long-term and short-term ratings, a “+” or a “-” may be appended to a rating to denote relative status within major rating categories.*

In addition to the financial strength ratings, rating agencies use an outlook statement to indicate a medium or long-term trend which, if continued, may lead to a rating change. A positive outlook indicates a rating may be raised and a negative outlook indicates a rating may be lowered. A stable outlook is assigned when ratings are not likely to be changed. Outlooks should not be confused with expected stability of the issuer’s financial or economic performance. A rating may have a stable outlook to indicate that the rating is not expected to change, but a stable outlook does not preclude a rating agency from changing a rating at any time without notice.

A.M. Best, S&P and Fitch review their ratings of insurance companies from time to time. There can be no assurance that any particular rating will continue for any given period of time or that it will not be changed or withdrawn entirely if, in their judgment, circumstances so warrant. While the degree to which ratings adjustments will affect sales and persistency is unknown, we believe if our ratings were to be negatively adjusted for any reason, we could experience a material decline in the sales of our products and the persistency of our existing business. See *Item 1A. Risk Factors* for further discussion about risks associated with financial strength ratings.

Competition

We operate in highly competitive markets. We face a variety of large and small industry participants, including diversified financial institutions and insurance and reinsurance companies. These companies compete in one form or another for the growing pool of retirement assets driven by a number of external factors such as the continued aging of the population and the reduction in safety nets provided by governments and private employers. In many segments, product differentiation is difficult as product development and life cycles have shortened. In addition, we have experienced pressure on fees as product unbundling and lower cost alternatives have emerged. As a result, scale and the ability to provide value-added services and build long-term relationships are important factors to compete effectively. See *Item 1A. Risk Factors - Risks Relating to Our Business* for further discussion on competitive risks. We believe that our leading presence in the retirement market, diverse range of capabilities and broad distribution network uniquely position us to effectively serve consumers’ increasing demand for retirement solutions, particularly in the FIA market.

We face competition in the FIA market from traditional insurance carriers such as Allianz Life Insurance Company of North America (Allianz) and American Equity Investment Life Insurance Company (AEL). Principal competitive factors for FIAs are initial crediting rates, reputation for renewal crediting action, product features, brand recognition, customer service, cost, distribution capabilities and financial strength ratings of the provider. Competition may affect, among other matters, both business growth and the pricing of our products and services. According to LIMRA, for the nine months ended September 30, 2016 (the most recent period that specific market share data is currently available), the leading two providers of FIAs were Allianz and AEL with market shares of 17.7% and 9.6%, respectively. The aggregate market share of the top ten providers of FIAs for the same period was 65.9%. For the nine months ended September 30, 2016 (the most recent period that data is currently available), we were the 3rd largest FIA provider in the United States based on retail FIA sales, and our market share for the same period was 6.9%. According to LIMRA, for the year ended December 31, 2015, the leading two providers of FIAs were Allianz and AEL with market shares of 16.0% and 12.5%, respectively. The aggregate market share of the top ten providers of FIAs for the same period was 66.0%. For the year ended December 31, 2015, we were the 6th largest FIA provider in the United States based on retail FIA sales, and our market share for the same period was 4.5%.

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Reinsurance markets are highly competitive, as well as cyclical by product and market. As a reinsurer, ALRe competes on the basis of many factors, including, among other things, financial strength, pricing and other terms and conditions of reinsurance agreements, reputation, service and experience in the types of business underwritten. The market impact of these and other factors related to reinsurance is generally not consistent across lines of business, domestic and international geographical areas and distribution channels. ALRe's competition includes other insurance and reinsurance companies, such as Reinsurance Group of America, Incorporated and Global Atlantic.

We also face competition in the market for acquisition targets, such as profitable blocks of insurance and whole businesses. Such competition is likely to intensify as insurance businesses become more attractive acquisition targets for both other insurance companies and financial and other institutions and as the already substantial consolidation in the financial services industry continues. We believe that our demonstrated ability to source and consummate complex transactions is a competitive advantage over other similar acquirers. We also compete for potential acquisition opportunities based on a number of factors including perceived financial strength, brand recognition, reputation and the pricing we are able to offer, which, to the extent we determine to finance a transaction, is in turn dependent on our ability to do so on suitable terms.

Finally, we face strong competition within our institutional products channel. With respect to funding agreements, namely those issued in connection with our FABN program, we compete with other insurers that have active FABN programs, such as AIG and MetLife. Within the funding agreement market, we complete primarily on the basis of interest rates and term. With respect to pension risk transfer, we compete with other insurers that offer pension risk transfer annuities, such as MetLife and Prudential Financial, Inc. Within the pension risk transfer market, we compete primarily on the basis of price, underwriting and investment capabilities.

Employees

As of December 31, 2016, we had approximately 1,125 employees located in Bermuda and the United States, and approximately 200 employees located in Germany and the United Kingdom. We believe that our employee relations are good. Whereas none of our employees located in Bermuda or the United States are subject to collective bargaining agreements and we are not aware of any current efforts to implement such agreements, one of our German Group Companies, ALV, is a member of the employers' association of insurance companies in Germany (*Arbeitgeberverband der Versicherungsunternehmen in Deutschland e.V.*). As such, ALV is required to apply the collective bargaining agreements entered into with the association and the relevant trade union to those employees that are members of the trade union. In addition, each of the German Group Companies applies these collective bargaining agreements based on individual agreements to most of the non-unionized staff as well. As of December 31, 2016, approximately 200 employees of our German Group Companies were directly or indirectly subject to such agreements. The collective bargaining agreements are for an indefinite term and apply as long as the relevant German Group Company is a member of the employers' association. There are also joint local employee representative bodies for the German operations, such as works councils and an economics committee, which have statutory co-determination, information and participation rights in accordance with German laws. The German Group Companies are required to apply and comply with various collective agreements with these local employee representations, such as works agreements. Two employee representatives are members of the supervisory board of our principal German life insurance carrier, ALV.

Regulation

Our U.S. insurance subsidiaries are licensed to transact insurance business in, and are subject to regulation and supervision by, all 50 states of the United States and the District of Columbia. Our German Group Companies licensed as insurers are subject to the relevant laws and regulations applicable to insurers in Germany, including but not limited to the German Insurance Supervision Act (*Versicherungsaufsichtsgesetz* (VAG)), and ALRe, a Bermuda domiciled insurer, is subject to regulation and supervision by the Bermuda Monetary Authority (BMA) and compliance with all applicable Bermuda law and Bermuda insurance statutes and regulations, including but not limited to Bermuda's Insurance Act 1978 (Bermuda Insurance Act). Our U.S. insurance subsidiaries are licensed, regulated and supervised in all jurisdictions where they conduct insurance business. The extent of such regulation varies, however; most jurisdictions have regulations and laws that require insurers and agents to be licensed and set standards of solvency and business conduct to be maintained by the insurer. Additionally, state statutes and regulations often require state approval of policy forms, policy language, rates and in some instances, marketing materials. Most states' statutes and regulations prescribe permitted types and concentrations of investments. Our U.S. insurance subsidiaries are required to file detailed annual financial statements with supervisory agencies in each of the jurisdictions in which they transact an insurance business.

From time to time, in the ordinary course of business and like others in the insurance and financial services industries, our U.S. insurance subsidiaries receive requests for information from government agencies in connection with such agencies' regulatory or investigatory authority. Such requests can include market conduct examinations, subpoenas or demand letters for documents to assist the government in audits or investigations. Each such subsidiary reviews such requests and notices and takes appropriate action. Our U.S. insurance subsidiaries have been subject to certain requests for information and investigations in the past and could be subject to them in the future.

Item 1. Business

United States

General

Each of our U.S. insurance subsidiaries is organized and domiciled in one of the following states: Delaware, Iowa, or New York (each, an Athene Domiciliary State) and is also licensed in such state as an insurer. The insurance department of each Athene Domiciliary State regulates the applicable U.S. insurance subsidiary, and each U.S. insurance subsidiary is regulated by each of the insurance regulators in the other states where such company is authorized to transact insurance business. The primary purpose of such regulatory supervision is to protect policyholders rather than holders of any securities, such as the AHL common shares.

In addition, as part of our acquisition of Aviva USA, we acquired a special purpose insurance company, Athene Re IV, which is a subsidiary of AAIA. Athene Re IV is domiciled in Vermont and provides reinsurance to AAIA in order to facilitate the reserve financing associated with a closed block of policies resulting from the demutualization of a prior insurance company currently part of AAIA. As part of the acquisition of AAIA, the liabilities associated with such closed block of insurance policies, including any exposure to payments due from such special purpose insurance company subsidiary, were reinsured to Accordia. We do not write business that requires the use of captive reinsurers. The substantial majority of all policyholder obligations written or held by our insurance subsidiaries are reinsured to ALRe, a fully licensed, operational and fully equity capitalized reinsurance company with third-party clients. For more information on our reinsurance structures, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Generally, insurance products underwritten by our U.S. insurance subsidiaries must be approved by the insurance regulators in each state in which they are sold. Those products are also substantially affected by federal and state tax laws. For example, changes in tax law could reduce or eliminate the tax-deferred accumulation of interest credited on the premiums paid by the holders of annuities and life insurance products, which could make such products less attractive to potential purchasers. A shift away from annuity products could reduce the investment income that our U.S. insurance subsidiaries earn on premiums or deposits received from the sale of such products, as well as the assets upon which our U.S. insurance subsidiaries earn income. In addition, certain insurance policies may also be subject to the Employee Retirement Income Security Act of 1974 (as amended, ERISA).

State insurance authorities have broad administrative powers over our U.S. insurance subsidiaries with respect to all aspects of their insurance business including: (1) licensing to transact business; (2) licensing of producers; (3) prescribing which assets and liabilities are to be considered in determining statutory surplus; (4) regulating premium rates for certain insurance products; (5) approving policy forms and certain related materials; (6) determining whether a reasonable basis exists as to the suitability of the annuity purchase recommendations producers make; (7) regulating unfair trade and claims practices; (8) establishing reserve requirements, solvency standards and minimum capital requirements (MCR); (9) regulating the amount of dividends that may be paid in any year; (10) regulating the availability of reinsurance or other substitute financing solutions, the terms thereof and the ability of an insurer to take credit on its financial statements for insurance ceded to reinsurers or other substitute financing solutions; (11) fixing maximum interest rates on life insurance policy loans, minimum crediting rates on accumulation products and minimum allowable surrender values; (12) regulating the type, amounts and valuations of investments permitted; (13) setting parameters for transactions with affiliates; and (14) regulating other matters.

The rates, forms, terms and conditions of our U.S. insurance subsidiaries' reinsurance agreements with unaffiliated third parties generally are not directly subject to regulation by any state insurance department in the United States. This contrasts with primary insurance where, as discussed above, the policy forms and premium rates are generally regulated by state insurance departments.

From time to time, increased scrutiny has been placed upon the U.S. insurance regulatory framework, and a number of state legislatures have considered or enacted legislative measures that alter, and in many cases increase, state authority to regulate insurance and reinsurance companies. In addition to legislative initiatives of this type, the NAIC and state insurance regulators are regularly involved in a process of reexamining existing laws and regulations and their application to insurance and reinsurance companies.

Furthermore, while the federal government in most contexts currently does not directly regulate the insurance business, federal legislation and administrative policies in a number of areas, such as employee benefits regulation, age, sex and disability-based discrimination, financial services regulation and federal taxation, can significantly affect the insurance business. It is not possible to predict the future impact of changing regulation on the operations of Athene. See *Item 1A. Risk Factors*.

NAIC

The NAIC is an organization, the mandate of which is to benefit state insurance regulatory authorities and consumers by promulgating model insurance laws and regulations for adoption by the states. The NAIC also provides standardized insurance industry accounting and reporting guidance through the NAIC Accounting Manual. However, model insurance laws and regulations are only effective when adopted by the states, and statutory accounting and reporting principles continue to be established by individual state laws, regulations and permitted practices. Changes to the NAIC Accounting Manual or modifications by the various state insurance departments may affect the statutory capital and surplus of our U.S. insurance subsidiaries. AHL has entered into capital maintenance agreements with each of its material U.S. insurance subsidiaries, pursuant to which AHL agrees to provide capital to the subsidiary to the extent that the capital of the subsidiary falls below a specified threshold as set with the applicable subsidiary's domestic regulator.

Some of the NAIC pronouncements, particularly as they affect accounting issues, take effect automatically in the various states without affirmative action by the states. Statutes, regulations and interpretations may be applied with retroactive impact, particularly in areas such as accounting and reserve requirements. Also, regulatory actions with prospective impact can potentially have a significant impact on currently sold products. The NAIC continues to work to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves.

Pursuant to its “Solvency Modernization Initiative,” the NAIC reviewed the U.S. financial regulatory system and all aspects of financial regulation affecting insurance companies. Though broad in scope, the Solvency Modernization Initiative focused on: (1) capital requirements; (2) corporate governance and risk management; (3) group supervision; (4) statutory accounting and financial reporting; and (5) reinsurance. This initiative has resulted in the recent adoption by the NAIC of the Own Risk and Solvency Assessment (ORSA) Model Act, which has been enacted by a number of states, including Delaware, Iowa and New York, and requires insurance companies to assess the adequacy of their and their group’s risk management and current and future solvency position. Under the ORSA Model Act, certain insurers must undertake an internal risk management review no less often than annually (but also at any time when there are significant changes to the risk profile of the insurer or its insurance group), in accordance with the NAIC’s ORSA Guidance Manual, and prepare an ORSA Report assessing the adequacy of the insurer’s risk management and capital in light of its current and future business plans. The ORSA Report is required to be filed with a company’s lead state regulator and made available to other domiciliary regulators within the holding company system. As of December 31, 2016, we were in compliance with all ORSA Report filing requirements.

In December 2012, the NAIC approved a new valuation manual containing a principle-based approach to life insurance company reserves. Principle-based reserving is designed to tailor the reserving process to specific products in an effort to create a principle-based modeling approach to reserving rather than the factor-based approach historically employed. Pursuant to the NAIC’s Standard Valuation Law (SVL), a minimum of 42 states representing at least 76% of total life insurance premiums written in the United States must pass legislation substantially similar to the SVL for the SVL to become operative as an NAIC model law. As of July 1, 2016, these minimum threshold requirements have been satisfied such that the SVL is now operative, and principle-based reserving became effective prospectively on January 1, 2017. Delaware and Iowa have each adopted a form of the SVL. New York is expected to adopt a form of the SVL in January 2018.

In November 2014, the NAIC adopted the Corporate Governance Annual Disclosure Model Act and Model Regulation (together, the Corporate Governance Model Act), which requires an insurer to provide an annual disclosure regarding its corporate governance practices to its lead state and/or domestic regulator. As adopted by the NAIC, the requirements of the Corporate Governance Model Act were intended to be effective January 1, 2016, with the first annual disclosure due by June 1, 2016. The Corporate Governance Model Act must be adopted by the individual states for the new requirements to apply, and specifically in Delaware, Iowa and New York for the changes to apply to our U.S. insurance subsidiaries. Iowa has adopted a form of the Corporate Governance Annual Disclosure Model Act, and the first corporate governance annual disclosure under that law was due on June 1, 2016. Neither Delaware nor New York has adopted the Corporate Governance Model Act, and it is not possible to predict whether Delaware and/or New York may adopt the Corporate Governance Model Act in the future; however, the NAIC is seeking to make the Corporate Governance Model Act part of its accreditation standards for state solvency regulation, which may motivate states to adopt the Corporate Governance Model Act.

Insurance Holding Company Regulation

Each direct and indirect parent of our U.S. insurance subsidiaries (including AHL) is subject to the insurance holding company laws of each of the Athene Domiciliary States. These laws generally require an insurance holding company and insurers that are members of such holding company system to register with their U.S. insurance regulators and to file certain reports with those authorities, including information concerning their capital structure, ownership, financial condition, certain intercompany transactions and general business operations. Generally, under these laws, transactions between our U.S. insurance subsidiaries and their affiliates, including any reinsurance transactions, must be fair and reasonable and, if material or of a specified category, require prior notice and approval or non-disapproval by the insurance department of each applicable Athene Domiciliary State.

Item 1. Business

Most states, including each of the Athene Domiciliary States, have insurance laws that require regulatory approval of a direct or indirect change of control of an insurer, which would include a change of control of its holding company. Laws such as these prevent any person from acquiring direct or indirect control of any of our U.S. insurance subsidiaries or their holding companies unless that person has filed a statement with specified information with the commissioner or director of the insurance department of the applicable Athene Domiciliary State (each, a Commissioner) and has obtained the Commissioner's prior approval. Under most states' statutes, including those of each of the Athene Domiciliary States, acquiring 10% or more of a voting interest in an insurance company or its parent company is presumptively considered a change of control, although such presumption may be rebutted. Accordingly, any person who acquires 10% or more of a voting interest in a direct or indirect parent of any of our U.S. insurance subsidiaries (or AHL) without the prior approval of the Commissioner of the applicable Athene Domiciliary State will be in violation of the applicable Athene Domiciliary State's law and may be subject to injunctive action requiring the disposition or seizure of those securities by the Commissioner or prohibiting the voting of those securities and to other actions determined by the Commissioner. Further, a willful violation of these laws is punishable in each Athene Domiciliary State as a criminal offense. In addition, the Model Insurance Holding Company System Regulatory Act (Amended Holding Company Model Act) requires any controlling person of a U.S. insurer seeking to divest its controlling interest in the insurance company to file with the relevant insurance commissioner a confidential notice of the proposed divestiture at least thirty days prior to the cessation of control (unless a person acquiring control from the divesting party has filed notice of the proposed acquisition of control with the Commissioner). After receipt of the notice, the Commissioner must determine those instances in which the parties seeking to divest or to acquire a controlling interest will be required to file for or obtain approval of the transaction. These laws may discourage potential acquisition proposals and may delay, deter or prevent an acquisition of control of a direct or indirect parent of any of our U.S. insurance subsidiaries (including AHL) (in particular through an unsolicited transaction), even if the shareholders of such parent consider such transaction to be desirable. Our bye-laws include limitations on the voting power exercisable by shareholders of the Company other than the Apollo Group so that certain persons or groups (Control Groups) are deemed not to hold more than 9.9% of the total voting power conferred by our shares.

Holding company system regulations currently in effect in New York require prospective acquirers of New York domiciled insurers to provide detailed disclosure with respect to intended changes to the business operations of the insurer, and expressly authorize the New York State Department of Financial Services (NYSDFS) to impose additional conditions on such acquisitions. Pursuant to these regulations, the NYSDFS may limit the changes that the acquirer may make to the insurer's business operations for a specified period of time following the acquisition without the NYSDFS' prior approval. In particular, the regulation provides the NYSDFS with the specific authority to require acquirers of New York domiciled life insurers to post assets in a trust account for the benefit of the target company's policyholders. In making such determination, the NYSDFS may consider whether the acquirer is, or is controlled by or under common control with, an investment manager such as Apollo. The NAIC's former Private Equity Issues Working Group, which was formed to develop best practice recommendations relating to acquisitions of control of insurance or reinsurance companies by private equity and hedge funds, adopted narrative guidance for state insurance examiners to consider in reviewing applications for an acquisition of an insurer. Such guidance has been adopted by the NAIC and is included in the 2015 Annual/2016 Quarterly edition of the NAIC's Financial Analysis Handbook.

Although Athene Re IV is not subject to insurance holding company laws, the Vermont insurance regulator may use all or a part of the holding company law framework described above in determining whether to approve a proposed change of control.

In December 2010, the NAIC adopted the Amended Holding Company Model Act. The Amended Holding Company Model Act introduces the concept of "enterprise risk" within an insurance holding company system and imposes more extensive informational requirements on parents and other affiliates of licensed insurers or reinsurers, with the purpose of protecting the licensed companies from enterprise risk, including requiring an annual enterprise risk report by each ultimate controlling person identifying the material risks within the insurance holding company system that could pose enterprise risk to the licensed companies. An enterprise risk is an activity or event involving affiliates of an insurer that could have a material adverse effect on the insurer or the insurer's holding company system. The Amended Holding Company Model Act must be adopted by the individual states for the new requirements to apply. Iowa, Delaware and New York have each adopted a form of the Amended Holding Company Model Act.

In December 2014, the NAIC adopted additional amendments to the Amended Holding Company Model Act for consideration by the various states that address the authority of an insurance commissioner to act as the group-wide supervisor for an internationally active insurance group or to acknowledge the authority of another regulatory official, from another jurisdiction, to so act. These changes to the Amended Holding Company Model Act must be enacted by the individual states before they will become effective, and specifically in Delaware, Iowa and New York for the changes to apply to our U.S. insurance subsidiaries. Delaware has adopted a form of these changes to the Amended Holding Company Model Act, and Iowa has adopted similar provisions under a predecessor statute. It is not possible to predict with any degree of certainty the additional capital requirements, compliance costs or other burdens these changes may impose in the future.

In addition, the NAIC has adopted a revised Suitability in Annuity Transactions Model Regulation (SAT), which places new responsibilities upon issuing insurance companies with respect to the suitability of annuity sales, including responsibilities for training agents. Many states, including Iowa, Delaware and New York, have already enacted laws and/or regulations based on SAT, thus imposing suitability standards with respect to sales of FIAs and variable annuities. The NYSDFS recently issued a circulated letter emphasizing insurers' obligations under laws and regulations based on SAT when replacing a deferred annuity contract with an immediate annuity contract. Future changes in such laws and regulations, including those that may result from any delay, repeal or modification of the DOL fiduciary rule, could adversely impact the way we market and sell our annuity products.

Item 1. Business

Restrictions on Dividends and Other Distributions

Current law of two of the Athene Domiciliary States, Delaware and Iowa, permits the payment of dividends or distributions which, together with dividends or distributions paid during the preceding twelve months do not exceed the *greater* of (a) 10% of the insurer's surplus as regards policyholders as of the immediately preceding year end or (b) the net gain from operations of the insurer for the preceding twelve-month period ending as of the immediately preceding year end. Current law of New York permits the payment of dividends or distributions which, together with dividends or distributions paid during any calendar year, (1) do not exceed the *greater* of (a) 10% of the insurer's surplus as regards policyholders as of the end of the immediately preceding calendar year or (b) the net gain from operations of the insurer for the immediately preceding calendar year, not including realized capital gains, not to exceed 30% of the insurer's surplus as regards policyholders as of the end of the immediately preceding calendar year or (2) do not exceed the *lesser* of (a) 10% of the insurer's surplus as regards policyholders as of the end of the immediately preceding calendar year or (b) the net gain from operations of the insurer for the immediately preceding calendar year, not including realized capital gains. Any proposed dividend in excess of these amounts is considered an extraordinary dividend or extraordinary distribution and may not be paid until it has been approved, or a 30-day waiting period has passed during which it has not been disapproved, by the Commissioner. Additionally, under current law of the Athene Domiciliary States, AAIA may only pay dividends from the insurer's earned profits on its business, which shall not include contributed capital or contributed surplus, and AADE may only pay dividends from that part of its available and accumulated surplus funds which is derived from realized net operating profits on its business and realized capital gains, and ALICNY may only pay dividends pursuant to the "greater of" standard described above from that part of its positive unassigned funds, excluding 85% of the change in net unrealized capital gains or losses less capital gains tax, for the immediately preceding calendar year. Further, as a condition to each of the NYSDFS' and Iowa Insurance Division's (IID) approval of Athene's acquisition of Aviva Life and Annuity Company of New York (ALACNY, now ALICNY) and AAIA, respectively, in connection with the broader Aviva USA acquisition, Athene agreed not to cause ALACNY or AAIA to declare, distribute or pay any dividend for five years from the date of acquisition of control of ALACNY or AAIA without the prior written consent of the NYSDFS or the IID, as applicable. The Athene Domiciliary States' insurance laws and regulations also require that each of our U.S. insurance subsidiaries' surplus as regards policyholders following any dividend or distribution be reasonable in relation to such U.S. insurance subsidiary's outstanding liabilities and adequate to meet its financial needs.

Credit for Reinsurance Ceded

The ability of a ceding insurer to take reserve and capital credit for the reinsurance purchased from reinsurance companies is a significant component of reinsurance regulation. Typically, a ceding insurer will only enter into a reinsurance agreement if it can obtain credit on its statutory basis financial statements against its reserves (report lower net reserves) and/or toward its MCR (the denominator in its RBC calculation) for the reinsurance ceded to the reinsurer. With respect to U.S.-domiciled ceding companies, credit is usually granted when the reinsurer is licensed or accredited in the state where the ceding company is domiciled. States also generally permit ceding insurers to take credit for reinsurance if the reinsurer: (1) is domiciled in a state with a credit for reinsurance law that is substantially similar to the credit for reinsurance law in the ceding insurer's state of domicile, and (2) meets certain financial requirements. Credit for reinsurance purchased from a reinsurer that does not meet the foregoing conditions is generally allowed to the extent that such reinsurer secures its obligations with qualified collateral.

ALRe has provided, and may in the future provide, reinsurance to our U.S. insurance subsidiaries in the normal course of business. Our U.S. insurance subsidiaries have entered into modco agreements with ALRe under which they will cede to ALRe a 100% quota share of their respective obligations to repay the principal upon maturity or earlier termination and to make periodic interest payments under funding agreements issued by them. Our U.S. insurance subsidiaries have similar arrangements with ALRe with respect to substantially all of their other core business, under which between 80% and 100% of all such business is ceded to ALRe on a modco basis, net of third party reinsurance. ALRe is not licensed, accredited or approved in any state in the United States and, consequently, ALRe must collateralize its obligations to our U.S. insurance subsidiaries or any third-party cedant in order for any of our U.S. insurance subsidiaries or any third-party cedant to obtain credit against its reserves on its statutory basis financial statements (unless the basis for such reinsurance transaction is modco). ALRe is domiciled in Bermuda, one of the largest reinsurance markets in the world by reserves with a regulatory regime deemed by the European Commission (EC) in November 2015 to be equivalent to the European Union (EU) Solvency II. The delegated act granting Bermuda equivalency under Solvency II was approved by the European Parliament and Council in March 2016.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) provides that only the state in which a ceding insurer is domiciled may regulate the financial statement credit for reinsurance taken by that ceding insurer; other states are no longer able to require additional collateral from unauthorized reinsurers or otherwise impose their own credit for reinsurance laws on ceding insurers that are licensed, but not domiciled, in such other states.

In November 2011, the NAIC adopted amendments to its Credit for Reinsurance Model Law and Regulation to implement reinsurance collateral reform. Under the amended Credit for Reinsurance Model Law and Regulation, collateral requirements may be reduced from 100% for unauthorized or non-accredited reinsurers meeting certain criteria as to financial strength and reliability that are domiciled in jurisdictions that are found to have strong systems of insurance regulation (each, a "Qualified Jurisdiction"). Once a state legislature enacts the amendments to the Credit for Reinsurance Model Law and Regulation and the standards become operative in that state, such reinsurers will be eligible to apply for "certified reinsurer" status and reinsurers that become so certified will be permitted to post collateral at reduced levels in that state. The new collateral levels will apply on a prospective basis only. The NAIC recently made the reinsurance collateral reform provisions of the amended Credit for Reinsurance Model Law and Regulation an accreditation standard. Delaware and Iowa have adopted the reduced collateral requirements under the Credit for Reinsurance Model Law and Regulation, and New York has adopted the reduced collateral requirements under a predecessor statute.

In December 2014, the NAIC approved Bermuda as a "Qualified Jurisdiction," effective January 1, 2015, with respect to certain classes of insurers, including Class E insurers such as ALRe. The recognition of Bermuda as a Qualified Jurisdiction permits ALRe to apply for "certified reinsurer" status with the ability (if so certified) to post reduced collateral for coverage provided by ALRe to ceding insurers in the United States (including our U.S. insurance subsidiaries). The amount of collateral required to be posted by insurers with this designation varies based upon the insurers' credit rating. ALRe is not currently certified to post reduced collateral in any state.

Statutory Investment Valuation Reserves

Life insurance companies domiciled in the U.S. are required to establish an asset valuation reserve (AVR) to stabilize statutory policyholder surplus from fluctuations in the market value of investments. The AVR consists of two components: (1) a "default component" for possible credit-related losses on fixed maturity investments and (2) an "equity component" for possible market-value losses on all types of equity investments, including real estate-related investments. Although future additions to the AVR will reduce the future statutory capital and surplus of our U.S. insurance subsidiaries, we do not believe that the impact under current regulations of such reserve requirements will materially affect our U.S. insurance subsidiaries. Insurers domiciled in the U.S. also are required to establish an interest maintenance reserve (IMR) for net realized capital gains and losses, net of tax, on fixed maturity investments where such gains and losses are attributable to changes in interest rates, as opposed to credit-related causes. The IMR is required to be amortized into statutory earnings on a basis reflecting the remaining period to maturity of the fixed maturity securities. These reserves are required by state insurance regulatory authorities to be established as liabilities on a life insurer's statutory financial statements and may also be included in the liabilities assumed by our U.S. insurance subsidiaries pursuant to their reinsurance agreements with U.S.-based life insurer ceding companies.

Policy and Contract Reserve Adequacy Analysis

The Athene Domiciliary States and other states have adopted laws and regulations with respect to policy and contract reserve sufficiency. Under applicable insurance laws, our U.S. insurance subsidiaries are each required to annually conduct an analysis of the adequacy of all life insurance and annuity statutory reserves. A qualified actuary appointed by each such subsidiary's board must submit an opinion annually for each such subsidiary which states that the statutory reserves make adequate provision, according to accepted actuarial standards of practice, for the anticipated cash flows resulting from the contractual obligations and related expenses of such subsidiary. The adequacy of the statutory reserves is considered in light of the assets held by such U.S. insurance subsidiary with respect to such reserves and related actuarial items, including, but not limited to, the investment earnings on such assets and the consideration anticipated to be received and retained under the related policies and contracts. At a minimum, such testing is done over a number of economic scenarios prescribed by the states, with the scenarios designed to stress anticipated cash flows for higher and/or lower future levels of interest rates. Our U.S. insurance subsidiaries may find it necessary to increase reserves, which may decrease their statutory surplus, in order to pass additional cash flow testing requirements.

U.S. Statutory Reports and Regulatory Examinations

Our U.S. insurance subsidiaries are required to file detailed annual reports, including financial statements, in accordance with prescribed statutory accounting rules, with regulatory officials in the jurisdictions in which they conduct business. In addition, each U.S. insurance subsidiary is required to file quarterly reports prepared on the same basis, though with considerably less detail.

As part of their routine regulatory oversight process, state insurance departments conduct periodic detailed examinations, generally once every three to five years, of the books, records, accounts and operations of insurance companies that are domiciled in their states. Examinations are generally carried out in cooperation with the insurance departments of other, non-domiciliary states under guidelines promulgated by the NAIC. There are currently no such examinations ongoing.

Vermont insurance laws and regulations applicable to Athene Re IV require it to file financial statements with the Commissioner of the Insurance Division of the Vermont Department of Financial Regulation. Additionally, Athene Re IV is subject to periodic financial examinations by the Insurance Division of the Vermont Department of Financial Regulation. The Vermont Department of Financial Regulation recently completed an examination of Athene Re IV for the period from January 1, 2011 through December 31, 2014. The final report was issued on September 21, 2016. There were no issues noted in the report.

Market Conduct Regulation

State insurance laws and regulations include numerous provisions governing the marketplace activities of insurers, including provisions governing claims settlement practices, the form and content of disclosure to consumers, illustrations, advertising, sales and complaint process practices. State regulatory authorities generally enforce these provisions through periodic market conduct examinations. In addition, our U.S. insurance subsidiaries must file, and in many jurisdictions and for some lines of business obtain regulatory approval for, rates and forms relating to the insurance written in the jurisdictions in which they operate. Our U.S. insurance subsidiaries are currently undergoing the following market conduct examinations, each in the ordinary course of business: (1) the Missouri Department of Insurance, Financial Institutions & Professional Registration is conducting a market conduct examination of AAIA, (2) the NYSDFS is conducting a triennial examination of AANY, (3) the Wisconsin Office of the Commissioner of Insurance is conducting a general market conduct examination of AAIA, (4) the New York Office of the State Comptroller is conducting an audit of AANY and ALICNY regarding abandoned property, (5) the State of Connecticut Insurance Department is conducting an examination survey of the market conduct practices of AAIA and (6) the State of Massachusetts is conducting a limited scope market conduct examination of AAIA. The California Department of Insurance is completing a review of the rating and underwriting practices of AAIA, AADE and AANY.

State insurance regulators have been scrutinizing claims settlement practices of insurance companies with regard to payment of death benefits. Through their authority to regulate market conduct, including claims settlement practices, state insurance regulators have been examining the use by insurance companies of the U.S. Social Security Administration’s Social Security Death Index (Death Master File) to identify deceased persons and the processes by which insurance companies search for beneficiaries of life and annuity contracts. In particular, these regulators have been looking at how insurance companies handle unreported deaths, maturity of life insurance and annuity contracts, and contracts that have exceeded limiting age to determine if the companies are appropriately identifying when death benefits or other payments under the contracts should be made. Several states have enacted new laws or adopted new regulations mandating the use by insurance companies of the Death Master File or other similar databases to identify deceased persons and more rigorous processes to find beneficiaries. The NAIC currently is developing a new model law to address the issue of unclaimed benefits.

In 2013, prior to our acquisition of Aviva USA, it entered into multi-state settlement agreements with the insurance regulators and treasurers for 48 states in connection with certain of its subsidiaries’ use of the Death Master File. As part of the settlement, AAIA and its subsidiary ALICNY agreed to pay a $4 million assessment for examination, compliance and monitoring costs without admitting any liability or wrongdoing, and further agreed to adopt policies and procedures reasonably designed to ensure timely payment of valid claims to beneficiaries in accordance with insurance laws and to timely report and remit unclaimed proceeds to the appropriate states in connection with unpaid property laws. Our U.S. insurance subsidiaries could continue to be subject to risks related to unpaid benefits, the Death Master File, and the procedures required by the prior multi-state settlement as they relate to our annuity business. Furthermore, administrative challenges associated with implementing the procedures described above may make compliance with the multi-state settlement and applicable law difficult and could have a material and adverse effect on our results of operations. AADE is currently undergoing a multi-state unclaimed property examination led by Verus Financial, on behalf of California, Florida, Georgia, Indiana, Louisiana, North Carolina, Ohio, Pennsylvania, Tennessee and Texas. Further, AADE is also a defendant in a lawsuit filed by the West Virginia Treasurer, State of West Virginia ex rel. John D. Perdue v. Liberty Life Ins. Co., Case No. 12-C-419, pursuant to which the Treasurer alleges that Liberty Life, now known as AADE, failed to adopt reasonable procedures, such as using the Death Master File, to identify deceased insureds with unpaid death benefits and timely escheat those unclaimed benefits to the state. The Treasurer accordingly seeks to recover unpaid death benefits, statutory interest and penalties.

Another area of focus by state insurance regulators has been on the use of third-party administrators (TPAs) to administer insurance policies. Our U.S. insurance subsidiaries rely on TPAs to service certain annuity and life insurance policies and have experienced increased service and administration complaints related to the conversion and administration of the Aviva USA life insurance policies reinsured to affiliates of Global Atlantic by the TPA retained by such Global Atlantic affiliates to provide services on such policies, as well as on certain annuity policies that were on Aviva USA’s life systems that were also converted to and are being administered by the same TPA. As a result of these increased complaints and service-related issues, our U.S. insurance subsidiaries may be subject to increased regulatory scrutiny, including fines and penalties, and policyholder litigation.

Capital Requirements

Regulators of each state have discretionary authority in connection with our U.S. insurance subsidiaries’ continued licensing to limit or prohibit sales to policyholders within their respective states if, in their judgment, the regulators determine that such entities have not maintained the required level of minimum surplus or capital or that the further transaction of business would be hazardous to policyholders.

In order to enhance the regulation of insurers’ solvency, the NAIC adopted a model law to implement RBC requirements for life, health and property and casualty insurance and reinsurance companies. All states have adopted the NAIC’s model law or a substantively similar law. The NAIC Risk-Based Capital for Insurers Model Act requires life insurance companies to submit an annual report (the Risk-Based Capital Report), which compares an insurer’s total adjusted capital (TAC) to its authorized control level RBC (ACL), each such term as defined pursuant to applicable state law. A company’s RBC is calculated by using a specified formula that applies factors to various risks inherent in the insurer’s operations, including risks attributable to its assets, underwriting experience, interest rates and other business expenses. The factors are higher for those items deemed to have greater underlying risk and lower for items deemed to have less underlying risk. Statutory RBC is measured on two bases, with ACL calculated as one-half company action level RBC (CAL). Regulators typically use ACL in assessing companies and reviewing solvency requirements. Companies themselves typically report and are compared using the CAL standard.

The Risk-Based Capital Report is used by regulators to set in motion appropriate regulatory actions relating to insurers that show indications of weak or deteriorating conditions. RBC is an additional standard for MCR that insurers must meet to avoid being placed in rehabilitation or liquidation by regulators. The annual Risk-Based Capital Report, and the information contained therein, is not intended by the NAIC as a means to rank insurers.

RBC is a method of measuring the level of capital appropriate for an insurance company to support its overall business operations, in light of its size and risk profile. It provides a means of assessing capital adequacy, where the degree of risk taken by the insurer is the primary determinant. The value of an insurer's TAC in relation to its RBC, together with its trend in its TAC, is used as a basis for determining regulatory action that a state insurance regulator may be authorized or required to take with respect to an insurer. The four action levels include:

1. CAL: The insurer is required to submit a plan for corrective action when its TAC is equal to or less than 200% of ACL;
2. Regulatory Action Level: The insurer is required to submit a plan for corrective action and is subject to examination, analysis and specific corrective action when its TAC is equal to or less than 150% of ACL;
3. ACL: Regulators may place the insurer under regulatory control when its TAC is equal to or less than 100% of ACL; and
4. Mandatory Control Level: Regulators are required to place the insurer under regulatory control when its TAC is equal to or less than 70% of ACL.

TAC and RBC are calculated annually by insurers, as of December 31 of each year. As of December 31, 2016, each of our U.S. insurance subsidiaries' TAC was significantly in excess of the levels that would prompt regulatory action under the laws of the Athene Domiciliary States. As of December 31, 2016, our U.S. RBC ratio was 478%. The calculation of RBC requires certain judgments to be made, and, accordingly, our U.S. insurance subsidiaries' current RBC may be greater or less than the RBC calculated as of any date of determination.

Under U.S. statutory accounting principles (SAP), our U.S. domiciled subsidiaries defer the portion of realized capital gains and losses on fixed maturity securities attributable to changes in the general level of interest rates into an IMR. The IMR amortizes into future year statutory operating results based on a formula prescribed by the NAIC. The IMR provides a buffer to our statutory capital and surplus in the event we have to sell securities in an unrealized loss position. As of December 31, 2016 and 2015, our aggregate IMR balance was $217 million and $238 million, respectively.

Insurance Regulatory Information System Ratios

The NAIC has established the Insurance Regulatory Information System (IRIS) to assist state insurance departments in their oversight of the financial condition of insurance companies operating in their respective states. IRIS is a series of financial ratios calculated by the NAIC based on financial information submitted by insurers on an annual basis. Each ratio has an established "usual range" of results. The NAIC shares the IRIS ratios calculated for each insurer with the interested state insurance departments. Generally, an insurance company will be required to explain ratios that fall outside the usual range, and may be subject to regulatory scrutiny and action if one or more of its ratios fall outside the specified ranges. None of our U.S. insurance subsidiaries are currently subject to non-ordinary course regulatory scrutiny based on their IRIS ratios.

Regulation of Investments

Each of our U.S. insurance subsidiaries is subject to laws and regulations in each Athene Domiciliary State that require diversification of its investment portfolio and limit the amounts of investments in certain asset categories, such as below-investment grade fixed income securities, real estate-related equity, partnerships, other equity investments, derivatives and alternative investments. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, could require the divestiture of such non-qualifying investments. Accordingly, the investment laws in the Athene Domiciliary States could prevent our U.S. insurance subsidiaries from pursuing investment opportunities which they believe are beneficial to their shareholders, which could in turn preclude Athene from realizing its investment objectives. We believe that the investments our U.S. insurance subsidiaries have made are in compliance, in all material respects, with such laws and regulations as of December 31, 2016.

Item 1. Business

Guaranty Associations

All 50 states and the District of Columbia have insurance guaranty fund laws requiring insurance companies doing business within those jurisdictions to participate in guaranty associations. Guaranty associations are organized to cover, subject to limits, contractual obligations under insurance policies issued by life insurance companies which later become impaired or insolvent. These associations levy assessments, up to prescribed limits, on each member insurer doing business in a particular state on the basis of their proportionate share of the premiums written by all member insurers in the lines of business in which the impaired or insolvent insurer previously engaged. Most states limit assessments in any year to 2% of the insurer's average annual premium for the three years preceding the calendar year in which the impaired insurer became impaired or insolvent. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets, usually over a period of years. Assessments levied against our U.S. insurance subsidiaries by guaranty associations during each of the past five years have not been material. While Athene cannot accurately predict the amount of future assessments or future insolvencies of competitors which would lead to such assessments, Athene believes that assessments with respect to pending insurance company impairments and insolvencies will not have a material effect on Athene's financial condition or results of operations.

Federal Oversight

Although the insurance business in the United States is primarily regulated by the states, federal initiatives can affect the businesses of our U.S. insurance subsidiaries in a variety of ways. From time to time, federal measures are proposed which may significantly affect the insurance business. These areas include financial services regulation, securities regulation, derivatives regulation, pension regulation, money laundering, privacy regulation, taxation and the economic and trade sanctions implemented by the Office of Foreign Assets Control (OFAC). OFAC maintains and enforces economic sanctions against certain foreign countries and groups and prohibits U.S. persons from engaging in certain transactions with certain persons or entities. OFAC has imposed civil penalties on persons, including insurance and reinsurance companies, arising from violations of its economic sanctions program. In addition, various forms of direct and indirect federal regulation of insurance have been proposed from time to time, including proposals for the establishment of an optional federal charter for insurance companies.

Title I of the Dodd-Frank Act established the Financial Stability Oversight Council (FSOC), which has authority to designate non-bank financial companies as systemically important financial institutions (SIFIs), thereby subjecting them to enhanced prudential standards and supervision by the Board of Governors of the Federal Reserve System (Federal Reserve). The prudential standards for non-bank SIFIs include enhanced RBC requirements, leverage limits, liquidity requirements, single counterparty exposure limits, governance requirements for risk management, stress test requirements, special debt-to-equity limits for certain companies, early remediation procedures, and recovery and resolution planning. Athene USA Corporation (Athene USA) and certain of our U.S. insurance subsidiaries may be above the initial quantitative threshold for treatment as a non-bank SIFI (total consolidated assets of $50 billion). If the FSOC were to determine that Athene USA or any of our U.S. subsidiaries is a non-bank SIFI, such entity would become subject to certain of these enhanced prudential standards.

The Dodd-Frank Act, which effected the most far-reaching overhaul of financial regulation in the U.S. in decades, established the Federal Insurance Office within the U.S. Department of the Treasury (Treasury Department). While currently not having a general supervisory or regulatory authority over the business of insurance, the Director of the Federal Insurance Office performs various functions with respect to insurance, including serving as a non-voting member of the FSOC and making recommendations to the FSOC regarding non-bank financial companies to be designated as SIFIs. The Federal Insurance Office has been charged with providing reports to the U.S. Congress on (1) the global reinsurance market (provided in January 2015), (2) modernization of U.S. insurance regulation and possible federal involvement in supervision of insurance group holding companies (provided in December 2013) and (3) state regulators' ability to access reinsurance information (provided in November 2013). Such reports could ultimately lead to changes in the regulation of insurers and reinsurers in the United States, including insurance group holding companies.

The Dodd-Frank Act also authorizes the Federal Insurance Office to assist the Secretary of the Treasury Department in negotiating covered agreements. A covered agreement is an agreement between the United States and one or more foreign governments, authorities or regulatory entities, regarding prudential measures with respect to insurance or reinsurance. The Federal Insurance Office is further charged with determining, in accordance with the procedures and standards established under the Dodd-Frank Act, whether state laws are preempted by a covered agreement. Pursuant to this authority, as of January 13, 2017, the Treasury Department and the Office of the U.S. Trade Representative have negotiated a covered agreement with the European Union (Covered Agreement) to address, among other things, reinsurance collateral requirements. The Covered Agreement remains subject to the U.S. and the European Union completing their respective internal requirements and procedures necessary for the Covered Agreement to take effect with respect to each party. As such, it is uncertain when, if ever, the Covered Agreement will take effect.

Item 1. Business

FIAs

In recent years, the Securities and Exchange Commission (SEC) and state securities regulators have questioned whether FIAs, such as those sold by our U.S. insurance subsidiaries, should be treated as securities under the federal and state securities laws rather than as insurance products exempted from such laws. On December 17, 2008, the SEC voted to approve Rule 151A, and apply federal securities oversight to FIAs issued on or after January 12, 2011. Under the Dodd-Frank Act, annuities that meet specific requirements are specifically exempted from being treated as securities by the SEC. We expect that the types of FIAs our U.S. insurance subsidiaries sell will meet applicable requirements for exemption from treatment as securities and therefore will remain exempt from being treated as securities by the SEC and state securities regulators. However, there can be no assurance that federal or state securities laws or state insurance laws and regulations will not be amended or interpreted to impose further requirements on FIAs. Treatment of these products as securities would require additional registration and licensing of these products and the agents selling them, as well as cause our U.S. insurance subsidiaries to seek new or additional marketing relationships for these products, any of which may impose significant restrictions on their ability to conduct business as currently operated. On July 12, 2010, the District of Columbia Circuit Court of Appeals vacated Rule 151A.

Unclaimed Property Laws

Each of our U.S. insurance subsidiaries is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of abandoned or unclaimed money or property. State treasurers, controllers and revenue departments have been scrutinizing escheatment practices of life insurance companies with regard to unclaimed life insurance and annuity death benefits. As with state insurance regulators, state revenue authorities have been looking at how life insurance companies handle unreported deaths, maturity of life insurance and annuity contracts, and contracts that have exceeded limiting age to determine if the companies are appropriately determining when death benefits or other payments under the contracts should be treated as unclaimed property. State treasurers, controllers and revenue departments have audited life insurance companies, required escheatments and imposed interest penalties on amounts escheated for failure to escheat death benefits or other contract benefits when beneficiaries could not be found at the expiration of statutory dormancy periods.

Regulation of OTC Derivatives

We use derivatives to mitigate a wide range of risks in connection with our businesses, including options purchased to hedge the derivatives embedded in the FIAs that we have issued, and swaps, futures and/or options may be used to manage the impact of increased benefit exposures from our annuity products that offer guaranteed benefits. Title VII of the Dodd-Frank Act creates a comprehensive framework for the federal oversight and regulation of the OTC derivatives market and entities, such as us, that participate in the market and requires U.S. regulators to promulgate rules and regulations implementing its provisions. Regulations have been finalized and implemented in many areas and are being finalized for implementation in others.

The Dodd-Frank Act divides the regulatory responsibility for swaps in the United States between the SEC and the Commodity Futures Trading Commission (CFTC). The CFTC regulates swaps and swap entities, and the SEC regulates security-based swaps and security based swap entities. The CFTC and the SEC have jointly finalized certain regulations under the Dodd-Frank Act, including critical rulemakings on the definitions of “swap,” “security-based swap,” “swap dealer,” “security-based swap dealer,” “major swap participant” and “major security-based swap participant.” In addition, the CFTC has substantially finalized its required rulemaking under the Dodd-Frank Act, including regulations relating to the registration and regulation of swap dealers, major swap participants and swap execution facilities, reporting, recordkeeping, mandatory clearing and mandatory on-facility trade execution. The SEC has yet to implement its regulatory regime for security-based swaps and market participants transacting in security-based swaps, including security-based swap dealers and major security-based swap participants subject to the SEC’s oversight. As a result of this bifurcation and the different pace at which the agencies have promulgated and implemented regulations, different transactions are subject to different levels of regulation.

The Dodd-Frank Act and the CFTC rules thereunder require us, in connection with certain swap transactions, to comply with mandatory clearing and on-facility trade execution requirements, and it is anticipated that the types of swaps subject to these requirements will be expanded over time. In addition, new regulations require us to comply with mandatory minimum margin requirements for uncleared swaps and, in some instances, uncleared security-based swaps. Uncleared swap variation margin regulations issued by U.S. bank prudential regulators, the CFTC and regulators in certain other jurisdictions, such as the European Union and Canada, are scheduled to take effect on March 1, 2017. These regulations require market participants to enter into agreements consistent with the requirements thereunder and a failure to do so could result in trading disruptions. Derivative clearing requirements and mandatory margin requirements could increase the cost of our risk mitigation and could have other implications. For example, increased margin requirements, combined with netting restrictions and restrictions on securities that qualify as eligible collateral, could reduce our liquidity and require increased holdings of cash and highly liquid securities with lower yields causing a reduction in income. In addition, the requirement that certain trades be centrally cleared through clearinghouses subjects us to documentation that is significantly more counterparty-favorable and may entitle counterparties to unilaterally change such terms as trading limits and the amount of margin required. The ability of any such counterparty to take such actions could create trading disruptions and liquidity concerns. Finally, the requirement that certain trades be centrally cleared through clearinghouses concentrates counterparty risk in both clearinghouses and clearing members. The failure of a clearinghouse could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on clearinghouse members during a financial crisis, which could lead clearinghouse members to default. Because clearinghouses are still developing and the related bankruptcy process is untested, it is difficult to anticipate or identify all actual risks related to the default of a clearinghouse.

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The Dodd-Frank Act and new regulations thereunder and similar regulations issued by non-U.S. jurisdictions that may indirectly apply to us could significantly increase the cost of derivative contracts, reduce the availability of derivatives to protect against risks we encounter, reduce our ability to monetize or restructure our existing derivative contracts, and increase our credit risk exposure. If we reduce our use of derivatives as a result of the Dodd-Frank Act and the regulations thereunder and other similar regulations, our results of operations may become more volatile and our cash flows may be less predictable which could adversely affect our financial performance. Additionally, we have always been subject to the risk that hedging and other management procedures might prove ineffective in reducing the risks to which insurance policies expose us or that unanticipated policyholder behavior or mortality, combined with adverse market events, could produce economic losses beyond the scope of the risk management techniques employed. Any such losses could be increased by the increased cost of entering into derivatives and the reduced availability of customized derivatives that might result from the implementation of the Dodd-Frank Act.

Notwithstanding the foregoing, the future of Title VII of the Dodd-Frank Act and the related regulations implemented by the CFTC and the SEC and their impact on us remain uncertain and unpredictable, particularly in light of actions taken by the Trump administration. On February 3, 2017, President Trump signed an Executive Order that establishes core principles for regulating the U.S. financial system and provides a framework for comprehensive change to current financial regulation, and on February 24, 2017, President Trump also signed an Executive Order that requires federal agencies to designate a “Regulatory Reform Officer” and a “Regulatory Reform Task Force” to evaluate existing regulations and make recommendations to repeal, replace or modify regulations that, among others, inhibit job creation, are ineffective or impose costs that exceed benefits. At this point it is difficult to predict the impact of these Executive Orders on Title VII of the Dodd-Frank Act, derivatives regulatory schemes in other jurisdictions and our derivatives activities.

Consumer Protection Laws and Privacy and Data Security Regulation

Numerous other federal and state laws also affect Athene’s earnings and activities, including federal and state consumer protection laws. As part of the Dodd-Frank Act, Congress established the Consumer Financial Protection Bureau (CFPB) to supervise and regulate institutions that provide certain financial products and services to consumers. Although the consumer financial services subject to the CFPB’s jurisdiction generally exclude insurance business of the kind in which our U.S. insurance subsidiaries engage, the CFPB does have authority to regulate non-insurance consumer services which are offered by issuers of securities in our U.S. insurance subsidiaries’ investment portfolio.

Federal and state laws and regulations require financial institutions, including insurers, to protect the security and confidentiality of nonpublic personal information, including certain health-related and customer information, and to notify customers and other individuals about their policies and practices relating to their collection and disclosure of health-related and customer information and their practices relating to protecting the security and confidentiality of that information. State laws regulate use and disclosure of Social Security numbers and federal and state laws require notice to affected individuals, law enforcement, regulators and others if there is a breach of the security of certain nonpublic personal information, including Social Security numbers. In addition, state laws and regulations restrict the disclosure of the medical record and health status information obtained by insurers.

Federal and state lawmakers and regulatory bodies may be expected to consider additional or more detailed regulation regarding these subjects and the privacy and security of nonpublic personal information. Furthermore, the issues surrounding data security and the safeguarding of consumers’ protected information are under increasing regulatory scrutiny by state and federal regulators, particularly in light of the number and severity of recent U.S. companies’ data breaches. The Federal Trade Commission, the Federal Bureau of Investigation, the Federal Communications Commission, the NYSDFS and the NAIC have undertaken various studies, reports and actions regarding data security for entities under their respective supervision. Some states have recently enacted new insurance laws that require certain regulated entities to implement and maintain comprehensive information security programs to safeguard the personal information of insureds and enrollees.

The NAIC recently instituted a 50-state market conduct examination of multiple insurers that were the subject of separate data breaches. The NAIC also has created a Cybersecurity Task Force to look into various data security issues. In June 2015, the NAIC adopted a guidance document that sets forth twelve principles for effective insurance regulation of cybersecurity risks based on similar regulatory guidance adopted by the Securities Industry and Financial Markets Association. In December 2015, the NAIC adopted the “Roadmap for Cybersecurity Consumer Protections”, which describes the protections to which the NAIC believes consumers should be entitled from their insurance companies, agents and other businesses concerning the collection and maintenance of consumers’ personal information, as well as what consumers should expect when such information has been involved in a data breach. In March 2016, the NAIC’s Cybersecurity Task Force exposed for public comment a draft of a new model law addressing cybersecurity, which is intended to establish the exclusive standards for data security and breaches applicable to insurance licensees in states adopting such law. After receiving input from industry groups and regulators, a second draft of the model law was published for comment. If adopted in its current form, upon the occurrence of a data breach, the model law could subject us to two separate and different data breach legal frameworks, depending on the state in which the breach is deemed to have occurred, as many states have pre-existing and broadly applicable privacy laws and regulations presently in effect. We cannot predict the effect or the compliance costs if state and federal regulators pursue investigations and increase the regulatory requirements for the security of protected information.

In addition to the NAIC’s proposed model law, state lawmakers and regulatory bodies may consider additional or more detailed regulation regarding these subjects and the privacy and security of nonpublic personal information. The NYSDFS recently published a new regulation entitled Cybersecurity Requirements for Financial Services Companies (23 NYCRR 500), which became effective on March 1, 2017, with ongoing compliance deadlines over the next 24 months. We are in the process of updating processes and procedures to comply with the new requirements. We cannot predict the effect or the amount of compliance costs that will be incurred if state and federal regulators pursue investigations and increase the regulatory requirements for the security of protected information.

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Further, the Gramm-Leach-Bliley Act of 1999, which implemented fundamental changes in the regulation of the financial services industry in the United States, includes privacy requirements for financial institutions, including obligations to protect and safeguard consumers' nonpublic personal information and records, and limitations on the re-disclosure and re-use of such information.

Finally, our investment in a limited partnership which is in the business of originating RML, as well as our direct investment in any residential or other mortgage loans, may expose us to various environmental and other regulation. For example, to the extent that we hold whole mortgage loans as part of our investment portfolio, we may be responsible for certain tax payments or subject to liabilities under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980. Additionally, we may be subject to regulation by the CFPB as a mortgage holder or property owner. We are currently unable to predict the impact of such regulation on our business.

Broker-dealers

Our securities operations, principally conducted by our limited purpose SEC-registered broker-dealer, Athene Securities, LLC, are subject to federal and state securities and related laws, and are regulated principally by the SEC, state securities authorities and FINRA. Athene Securities, LLC does not hold customer funds or safekeep customer securities or otherwise engage in any securities transactions. Athene Securities, LLC was the principal underwriter of a block of variable annuity contracts which has been closed to new investors since 2002. The closed block of variable annuity contracts was issued by a predecessor of AAIA. Athene Securities, LLC continues to receive concessions on those variable annuity contracts. Athene Securities, LLC also provides supervisory oversight to Athene employees who are registered representatives.

Employees or personnel registered with Athene Securities, LLC are subject to the Securities Exchange Act of 1934, as amended (Exchange Act) and to regulation and examination by the SEC, FINRA and state securities commissioners. The SEC and other governmental agencies and self-regulatory organizations, as well as state securities commissions in the United States, have the power to conduct administrative proceedings that can result in censure, fines, cease-and-desist orders or suspension, termination or limitation of the activities of the regulated entity or its employees.

As a registered broker-dealer and member of various self-regulatory organizations, Athene Securities, LLC is subject to the SEC's net capital rule, which specifies the minimum level of net capital a broker-dealer is required to maintain and requires a minimum part of its assets to be kept in relatively liquid form. These net capital requirements are designed to measure the financial soundness and liquidity of broker-dealers. The net capital rule imposes certain requirements that may have the effect of preventing a broker-dealer from distributing or withdrawing capital and may require that prior notice to the regulators be provided prior to making capital withdrawals. Compliance with net capital requirements could limit operations that require the intensive use of capital, such as trading activities and underwriting, and may limit the ability of our broker-dealer subsidiaries to pay dividends to us.

ERISA

We also may be subject to regulation by the DOL when providing a variety of products and services to employee benefit plans governed by ERISA. ERISA is a comprehensive federal statute that applies to U.S. employee benefit plans sponsored by private employers and labor unions. Plans subject to ERISA include pension and profit sharing plans and welfare plans, including health, life and disability plans. Among other things, ERISA imposes reporting and disclosure obligations, prescribes standards of conduct that apply to plan fiduciaries and prohibits transactions known as "prohibited transactions," such as conflict-of-interest transactions, self-dealing and certain transactions between a benefit plan and a "party in interest." ERISA also provides for a scheme of civil and criminal penalties and enforcement. Our insurance businesses provide services to employee benefit plans subject to ERISA. We are also subject to ERISA's prohibited transaction rules for transactions with ERISA plans, which may affect our ability to, or the terms upon which we may, enter into transactions with those plans, even in businesses unrelated to those giving rise to "party in interest" status. The applicable provisions of ERISA and the U.S. Internal Revenue Code of 1986, as amended (Internal Revenue Code) are subject to enforcement by the DOL, the Internal Revenue Service (IRS) and the U.S. Pension Benefit Guaranty Corporation. Severe penalties are imposed for breach of duties under ERISA.

On April 6, 2016, the DOL issued a new regulation more broadly defining the circumstances under which a person is considered to be a fiduciary by reason of giving investment advice or recommendations to an employee benefit plan or a plan's participants or to individual retirement account (IRA) holders. In addition to releasing the investment advice regulation, the DOL: (1) issued a new prohibited transaction class exemption referred to as the "Best Interest Contract Exemption" (BICE), to be used in connection with the sale of FIAs or variable annuities, and (2) updated the previous prohibited transaction class exemption 84-24, to be used in connection with the sale of traditional fixed rate annuities. To satisfy the requirements under the BICE, a "Financial Institution" (defined under the exemption as a registered investment adviser, bank, registered broker-dealer, or insurance company) must, among other things, accept fiduciary responsibility for the recommendations of the producer and, in the case of a retirement investor that is an IRA, enter into a contract with the IRA. To assist in understanding the regulation, the DOL, on October 27, 2016, issued its first in a series of frequently asked questions followed by its second series on January 13, 2017, responding to questions submitted by various retirement market participants impacted by the regulation. The frequently asked questions, among other things, clarified that an insurance-only licensed producer can meet the best interest requirements even though he or she is limited to selling insurance products. In addition, the DOL clarified that an insurance carrier that acts as a Financial Institution will only act as such with respect to the sale of that insurance carrier's products. The DOL issued the Proposed Best Interest Contract Exemption for Insurance Intermediaries on January 19, 2017, in an attempt to provide a separate exemption for IMOs to act as Financial Institutions for the sale of insurance products. The proposed rule sets forth various requirements, including a minimum annual premium volume requirement and reserve or errors and omissions coverage requirements, limiting the availability of the exemption to only very large IMOs in the industry. The rule was subject to a comment period that ended on February 21, 2017.

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On February 3, 2017, the President of the United States issued an executive memorandum directing the DOL to examine the fiduciary rule to determine whether the fiduciary rule has harmed or is likely to cause harm to investors by limiting access to certain retirement products or related financial advice, whether the fiduciary rule has resulted in dislocations in the retirement services industry that may adversely affect investors or retirees, or whether the fiduciary rule is likely to cause increased litigation and increased costs for investors and retirees. In direct response to the memorandum, the acting secretary of the DOL stated that the DOL will consider its legal options to delay the applicability date of the rule in order to comply with the memorandum. The DOL has published a proposed amendment to the fiduciary rule that will delay the applicability date for 60 days to allow the DOL to fully review the rule in light of the executive memorandum. The DOL has provided a 15-day comment period to respond to the proposed delay and it is anticipated it will issue the final rule officially delaying the applicability date in late March. In addition to the 15-day comment period for the delay itself, the DOL has opened a 45-day comment period to collect responses to the questions raised in the executive memorandum. We anticipate a delay, with a possible replacement of the rule that is less burdensome but still requires sales to be in the best interest of clients. However, until the rule is officially delayed, we continue to move forward in preparation for the April 10, 2017 applicability date.

While there remains significant uncertainty regarding our distributors' response to the DOL's regulation and our distributors' ability to meet the requirement of the BICE, we believe many of our producers have a path to an entity capable of being a Financial Institution because the IMOs with which they are affiliated have a broker-dealer or registered investment adviser or because such producers are otherwise a registered representative of a broker-dealer that could sign the contract required by the BICE. In June 2016 we undertook a review of our producer relationships and estimated that approximately 84% of our retail sales of FIAs are through producers with a path to a Financial Institution under the regulation. While we cannot confirm this figure with certainty, we have used this assumption in preparing for implementation of the regulation. The following table summarizes the percentages of our new deposits for the year ended December 31, 2016, by various categories we believe are relevant to understanding the impact of the DOL regulation on our business.

Reinsured Qualified Deposits	Reinsured Non-Qualified Deposits	Retail Non-Qualified Deposits	Retail MYGA Qualified Deposits (84-24)	Retail FIA Qualified Deposits
15%	24%	20%	4%	37%
Rule does not apply to reinsurers directly but may affect cedants' volumes and risks	Rule does not apply to non-qualified sales	Rule does not apply to non-qualified sales	Sales must satisfy 84-24 exemption	Sales must satisfy BICE exemption; estimated that 84% of such sales (or 31% of total deposits) have a path to a Financial Institution

Given the uncertainty surrounding our distributors' response to the DOL regulation, we are preparing to act as the Financial Institution for sales of our FIAs, subject to various conditions and qualifications, for a transitional period, during which our current distributors do not have access or the ability to be a Financial Institution with respect to sales of FIAs. In the event that we must serve as the Financial Institution, we expect to adjust the compensation paid to producers on the sales of our FIAs to compensate us for various compliance costs incurred in acting as the Financial Institution, as well as for the additional risk associated with such fiduciary sales.

We cannot predict with any certainty the impact of the regulation and exemptions, but the regulation and exemptions could alter the way our products and services are marketed and sold, particularly to purchasers of IRAs and individual retirement annuities. If implemented in its current form, the DOL regulation could have an adverse effect on our ability to write new business.

The SEC also has indicated that it may propose rules creating a uniform standard of conduct applicable to broker-dealers and investment advisers, which, if adopted, may affect the distribution of our products. Should the SEC rules, if adopted, not align with the finalized DOL regulations related to conflicts of interest in the provision of investment advice, the distribution of our products could be further complicated. The DOL has also issued a number of regulations recently, and may issue similar additional regulations, that increase the level of disclosure that must be provided to plan sponsors and participants. These ERISA disclosure requirements will likely increase the regulatory and compliance burden on us, resulting in increased costs.

Bermuda

General

The Bermuda Insurance Act regulates the insurance business of ALRe, and provides that no person may carry on any insurance business in or from within Bermuda unless registered as an insurer under the Bermuda Insurance Act by the BMA. The BMA is required by the Bermuda Insurance Act to determine whether the applicant is a fit and proper body to be engaged in the insurance business and, in particular, whether it has, or has available to it, adequate knowledge and expertise to operate an insurance business. See also *Fit and Proper Controllers* below.

The continued registration of an insurer is subject to the insurer complying with the terms of its registration and such other conditions as the BMA may impose from time to time. The Bermuda Insurance Act also grants to the BMA powers to supervise, investigate and intervene in the affairs of insurance companies.

The Bermuda Insurance Act imposes on Bermuda insurance companies solvency standards as well as auditing and reporting requirements. Certain significant aspects of the Bermuda insurance regulatory framework are set forth below.

Classification of Insurers

The Bermuda Insurance Act distinguishes between insurers carrying on long-term business, insurers carrying on special purpose business and insurers carrying on general business. Long-term business is generally defined as life, annuity and accident and health insurance, while general business broadly includes all types of insurance that are not long-term business (property and casualty business). Special purpose business is fully funded insurance business approved by the BMA to be written by a company registered as a Special Purpose Insurer. There are five classifications of insurers carrying on long-term business, ranging from Class A insurers (pure captives) to Class E insurers (larger commercial carriers). Class A insurers are subject to the lightest regulation and Class E insurers are subject to the strictest regulation.

ALRe, which is incorporated to carry on long-term business, is registered as a Class E insurer which is the license class for long-term insurers and reinsurers with total assets of more than $500 million that are not registrable as a single-parent or multi-owner long-term captive insurer or reinsurer. ALRe is not licensed to carry on general business and has not sought authorization as a reinsurer or approval as an accredited reinsurer in any state or jurisdiction of the United States. Consequently, in order for its ceding companies to receive statutory reserve or RBC credit for the reinsurance provided by ALRe, ALRe typically structures its reinsurance transactions in one of three ways: (1) coinsurance, where ALRe’s liabilities to ceding companies in connection with reinsurance transactions are secured by assets held in trust for the benefit of the applicable ceding company, (2) funds withheld, where, although ALRe recognizes an insurance reserve liability, the assets to secure such liabilities are held and maintained by the applicable ceding company, or (3) modco, where both the insurance reserves and assets supporting the reserves are retained by the applicable ceding company.

Cancellation of Insurer’s Registration

The BMA could revoke or suspend ALRe’s license in circumstances in which (1) it is shown that false, misleading or inaccurate information has been supplied to the BMA by ALRe or on its behalf for the purposes of any provision of the Bermuda Insurance Act, (2) ALRe has ceased to carry on business, (3) ALRe has persistently failed to pay fees due under the Bermuda Insurance Act, (4) ALRe has been shown to have not complied with a condition attached to its registration or with a requirement made of it under the Bermuda Insurance Act, (5) ALRe is convicted of an offense against a provision of the Bermuda Insurance Act or (6) ALRe is, in the opinion of the BMA, found not to have been carrying on business in accordance with sound insurance principles.

Head Office and Principal Representative

An insurer is required to establish and maintain its head and principal office in Bermuda, which requires certain officers and a director to reside in Bermuda, and to appoint and maintain a principal representative in Bermuda. For the purpose of the Bermuda Insurance Act, the ALRe principal representative is Zachary Jones and his principal office for these purposes is AHL’s Bermuda office. It is the duty of the principal representative to forthwith notify the BMA where the principal representative believes there is a likelihood of the insurer becoming insolvent or that a reportable “event” has, to the principal representative’s knowledge, occurred or is believed to have occurred. Examples of such a reportable “event” include failure by the insurer to comply substantially with a condition imposed upon the insurer by the BMA relating to a solvency margin or other ratio or a significant loss which is likely to cause the insurer to fail to comply with its Enhanced Capital Requirement (ECR), as discussed below.

Public Disclosure

The Bermuda Insurance Act provides the BMA with powers to set standards on public disclosure. Using this power, the BMA requires all commercial insurers and insurance groups to prepare and publish a Financial Condition Report on their website. According to the BMA’s guiding principles on public disclosure, an obligation to disclose exists only if it would not compromise competitive advantage and confidentiality. The BMA has discretion in granting exemptions.

Independent Approved Auditor

Insurers must appoint an independent auditor who will annually audit and report on the insurer’s financial statements (Bermuda Financial Statements) prepared under GAAP or International Financial Reporting Standards (IFRS) and statutory financial returns, each of which are required to be filed annually with the BMA. The auditor must be approved by the BMA as the independent auditor of the insurer.

Approved Actuary

Long-term insurers must appoint an actuary approved by the BMA. In order to be approved, the actuary must be a member in good standing of either the Canadian Institute of Actuaries, the Casualty Actuarial Society, the Institute of Actuaries of Australia, the Institute and Faculty of Actuaries (for the United Kingdom (UK)), the Society of Actuaries, the American Academy of Actuaries or a member of an actuarial body recognized by the BMA. Additionally, the actuary must be qualified to provide an opinion in accordance with the requirements of the Bermuda Insurance Act.

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A Class E insurer is required to submit annually an opinion of its approved actuary with its capital and solvency return. The approved actuary's opinion must state, among other things, whether or not the aggregate amount of technical provisions shown in the statutory economic balance sheet as of the end of the relevant financial year meets the requirements of the Bermuda Insurance Act and makes reasonable provision for the total technical provisions of the insurer under the terms of its insurance contracts and agreements.

Non-insurance Business

Pursuant to an amendment to the Bermuda Insurance Act, after a grandfathered period ending on December 31, 2016, as a Class E insurer, ALRe will not be permitted to engage in non-insurance business unless that non-insurance business is ancillary to its core business. Non-insurance business means any business other than insurance business and includes carrying on investment business, managing an investment fund as operator, carrying on business as a fund administrator, carrying on banking business, underwriting debt or securities or otherwise engaging in investment banking, engaging in commercial or industrial activities and carrying on the business of management, sales or leasing of real property.

Annual Financial Statements, Annual Statutory Financial Return and Annual Capital and Solvency Return

Class E insurers must file annual Bermuda Financial Statements and statutory financial returns within four months of the end of each fiscal year. The Bermuda Insurance Act prescribes rules for the preparation and substance of statutory financial returns (which include, in statutory form, an insurer information sheet, an auditor's report, a balance sheet, income statement, a statement of capital and surplus and notes thereto). The statutory financial returns include detailed information and analysis regarding premiums, claims, reinsurance and investments of the insurer.

A Class E insurer is required to file with the BMA its Bermuda Financial Statements and a statutory financial return no later than four months after its financial year end (unless specifically extended). The statutory financial return includes, among other matters, a report of the approved independent auditor on the statutory financial returns of the insurer.

In addition, each year a Class E insurer is required to file with the BMA a capital and solvency return along with its annual statutory financial return. The prescribed form of capital and solvency return comprises the insurer's BSCR model or an approved internal capital model in lieu thereof, a schedule of fixed income and equity investments by BSCR rating, a schedule of funds held by ceding reinsurers in segregated accounts/trusts by BSCR rating, a schedule of long-term premiums written by line of business, a schedule of risk management, a schedule of fixed income securities, a schedule of long-term business data, a schedule of long-term variable annuity guarantees data and reconciliation, a schedule of long-term variable annuity guarantees - internal capital model, a schedule of eligible capital, a schedule of commercial insurer's solvency self-assessment (CISSA), a statutory economic balance sheet, the approved actuary's opinion, a schedule of particulars of ceded reinsurance, a schedule of cash and cash equivalents counterparty analysis, a schedule of currency risk, a schedule of concentration risk and a schedule of anti-money laundering assessment.

Neither the statutory financial return nor the capital and solvency return is available for public inspection.

Minimum Margin of Solvency (MMS), ECR and Restrictions on Dividends and Distributions

Class E insurers must at all times maintain an MMS and an ECR in accordance with the provisions of the Bermuda Insurance Act. Each year the insurer is required to file with the BMA a capital and solvency return within four months of its relevant financial year end (unless specifically extended). The Bermuda Insurance Act mandates certain actions and filings with the BMA if an insurer fails to meet and/or maintain its ECR or MMS including the filing of a written report detailing the circumstances giving rise to the failure and the manner and time within which the insurer intends to rectify the failure.

An insurer is prohibited from declaring or paying a dividend if in breach of its ECR or MMS or if the declaration or payment of such dividend would cause such a breach. Where an insurer fails to meet its MMS on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA. Under the Bermuda Insurance Act, ALRe is prohibited from paying a dividend in an amount exceeding 25% of the prior year's total statutory capital and surplus, unless at least two members of ALRe's board of directors and its principal representative sign and submit to the BMA an affidavit attesting that a dividend in excess of this amount would not cause ALRe to fail to meet its relevant margins. In certain instances, ALRe would also be required to provide prior notice to the BMA in advance of the payment of dividends. In the event that such an affidavit is submitted to the BMA in accordance with the Bermuda Insurance Act, and further subject to ALRe meeting its MMS and ECR, ALRe is permitted to distribute up to the sum of 100% of statutory surplus and an amount less than 15% of its total statutory capital. Distributions in excess of this amount require the approval of the BMA. Further, ALRe must obtain the BMA's prior approval before reducing its total statutory capital as shown in its previous financial year statutory balance sheet by 15% or more. ALRe is also required to obtain a certification from its approved actuary prior to declaring or paying any dividends and such certificate will not be given unless the value of its long-term business assets exceeds its long-term business liabilities, as certified by its approved actuary, by the amount of the dividend and at least the MMS. These restrictions on declaring or paying dividends and distributions under the Bermuda Insurance Act are in addition to those under Bermuda's Companies Act 1981 (the Companies Act) which apply to all Bermuda companies.

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At the time of filing its statutory financial statements, a Class E insurer is also required to deliver to the BMA a declaration of compliance, in such form and with such content as may be prescribed by the BMA, declaring whether or not the Class E insurer has, with respect to the preceding financial year (1) complied with all requirements of the minimum criteria applicable to it; (2) complied with the MMS as at its financial year end; (3) complied with the applicable enhanced capital requirements as at its financial year end; and (4) complied with applicable conditions, directions and restrictions imposed on, or approvals granted to, the Class E insurer. The declaration of compliance is required to be signed by two directors of the Class E insurer and if the Class E insurer has failed to comply with any of the requirements referenced in (1) through (4) above or observe any limitations, restrictions or conditions imposed upon the issuance of its license, if applicable, the Class E insurer will be required to provide the BMA with particulars of such failure in writing. A Class E insurer shall be liable to civil penalty by way of a fine for failure to comply with a duty imposed on it in connection with the delivery of the declaration of compliance.

The MMS that a Class E insurer is required to maintain with respect to its long-term business is the greater of (1) $8 million, (2) 2% of the first $500 million of assets plus 1.5% of assets above $500 million (assets for this purpose are defined as the total assets reported in the insurer’s statutory balance sheet on Line 15, Column C in the relevant year less the aggregate of the amounts held in a segregated account reported on Lines 13(b) and (c) Column C) or (3) 25% of the ECR as reported at the end of the relevant year. We are well above each of these MMS requirements.

The BMA has embedded an economic balance sheet (EBS) framework as part of the Capital and Solvency Return that forms the basis for an insurer’s ECR. The premise underlying the EBS framework is the idea that assets and liabilities should be valued on a consistent economic basis. Under the Bermuda Regulatory Framework there are two solvency calculations: (1) a Class E Insurer must have total statutory capital and surplus as reported on the insurer’s statutory balance sheet greater than the MMS calculated pursuant to the Insurance Account Rules 2016; and (2) under the Insurance (Prudential Standards) (Class C, Class D and Class E Solvency Requirement) Rules 2011 an insurer is required to maintain available statutory economic capital and surplus to an amount that is equal to or exceeds the value of its ECR. Effective January 1, 2016, the method for preparing these statutory financial statements was amended, and in addition, the requirements and rules for preparing the Class E statutory EBS became effective. Prior to January 1, 2016, a Class E insurer's ECR and its total statutory capital and surplus were calculated using the company's statutory balance sheet. Following January 1, 2016, a Class E insurer's ECR and total statutory economic capital and surplus is calculated using the Class E statutory EBS.

A Class E insurer is required to maintain available statutory capital and surplus at a level equal to or in excess of its ECR which is established by reference to the Class E BSCR model. The BSCR model provides a method for determining an insurer’s capital requirements (statutory capital and surplus) by taking into account the risk characteristics of different aspects of the insurer’s business. The BSCR formula establishes capital requirements for fourteen categories of risk: fixed income investment risk, equity investment risk, long-term interest rate/liquidity risk, currency risk, concentration risk, credit risk, operational risk and seven categories of long-term insurance risk. For each category, the capital requirement is determined by applying factors to asset, premium, reserve, creditor, probable maximum loss and operation items, with higher factors applied to items with greater underlying risk and lower factors for less risky items.

As of December 31, 2016, ALRe’s EBS capital and surplus, measured under the new regime in place after January 1, 2016, resulted in a BSCR ratio of 228%. ALRe’s total statutory capital and surplus as of December 31, 2015, measured under the regime in place prior to January 1, 2016, was 323% of its ECR.

While not specifically referred to in the Bermuda Insurance Act, target capital level (TCL) is also an important threshold for statutory capital and surplus. TCL is equal to 120% of ECR as calculated pursuant to the BSCR formula. TCL serves as an early warning tool for the BMA. If an insurer fails to maintain statutory capital at least equal to its TCL, such failure will likely result in increased regulatory oversight by the BMA. A Class E insurer which at any time fails to meet its applicable ECR shall, upon becoming aware of such failure or upon having reason to believe that such a failure has occurred, immediately notify the BMA in writing. Within 14 days of such notification, such Class E insurer shall file with the BMA a written report containing details of the circumstances leading to the failure and a plan detailing the specific actions to be taken to rectify the failure, and the time within which the Class E insurer intends to rectify the failure. Within 45 days of becoming aware of such failure, or of having reason to believe that such a failure has occurred, such Class E insurer shall furnish the BMA with (1) unaudited statutory economic balance sheets and unaudited interim statutory financial statements prepared in accordance with GAAP covering such period as the BMA may require; (2) an opinion of the approved actuary in relation to total long-term business insurance technical provisions as set out in the statutory economic balance sheet, where applicable; (3) a long-term business solvency certificate in respect of the financial statements; and (4) a capital and solvency return reflecting an ECR prepared using post-failure data where applicable.

All Bermuda companies must comply with the provisions of the Companies Act regulating the payment of dividends and making distributions from contributed surplus. A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that: (1) the company is, or would after the payment be, unable to pay its liabilities as they become due, or (2) the realizable value of the company’s assets would thereby be less than its liabilities.

Eligible Capital

To enable the BMA to better assess the quality of the insurer’s capital resources, a Class E insurer is required to disclose the makeup of its capital in accordance with the recently introduced ‘3-tiered capital system.’ Under this system, all of the insurer’s capital instruments will be classified as either basic or ancillary capital which in turn will be classified into one of three tiers based on their “loss absorbency” characteristics. Highest quality capital will be classified as Tier 1 Capital, lesser quality capital will be classified as either Tier 2 Capital or Tier 3 Capital. Under this regime, up to certain specified percentages of Tier 1, Tier 2 and Tier 3 Capital may be used to support the insurer’s MMS,

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ECR and TCL. The Bermuda Insurance Act requires that Class E insurers have Tier 1 Capital equal to or greater than 50% of the value of its ECR and Tier 3 Capital of not more than 17.65% of the aggregate of its Tier 1 Capital and Tier 2 Capital.

The characteristics of the capital instruments that must be satisfied to qualify as Tier 1, Tier 2 and Tier 3 Capital are set out in the Insurance (Eligible Capital) Rules 2012, and any amendments thereto. Under these rules, Tier 1, Tier 2 and Tier 3 Capital may, until January 1, 2024, include capital instruments that do not satisfy the requirement that the instrument be non-redeemable or settled only with the issuance of an instrument of equal or higher quality upon a breach, or that the coupon payment on the instrument be cancellable or deferrable indefinitely, upon breach, or if it would cause a breach, of the ECR.

Where the BMA has previously approved the use of certain instruments for capital purposes, the BMA's consent will need to be obtained if such instruments are to remain eligible for use in satisfying the MMS and the ECR. We do not currently use any such instruments.

Code of Conduct

Every Bermuda registered insurer must comply with the Insurance Code of Conduct (Code of Conduct) which prescribes the duties and standards that must be complied with to ensure sound corporate governance, risk management and internal controls are implemented. The BMA will assess an insurer's compliance with the Code of Conduct in a proportionate manner relative to the nature, scale and complexity of its business. Failure to comply with the requirements of the Code of Conduct will be taken into account by the BMA in determining whether an insurer is conducting its business in a sound and prudent manner as prescribed by the Bermuda Insurance Act and may result in the BMA exercising its powers of intervention and investigation (see below) and, in the case of ALRe, as a Class E insurer, will be a factor in calculating the operational risk charge under the insurer's BSCR or approved internal model.

Fit and Proper Controllers

The BMA maintains supervision over the "controllers" of all registered insurers in Bermuda. For these purposes, a "controller" includes (1) the managing director of the registered insurer or its parent company, (2) the chief executive of the registered insurer or of its parent company, (3) a shareholder controller, and (4) any person in accordance with whose directions or instructions the directors of the registered insurer or its parent company are accustomed to act.

The definition of shareholder controller is set out in the Bermuda Insurance Act but generally refers to (1) a person who holds 10% or more of the shares carrying rights to vote at a shareholders' meeting of the registered insurer or its parent company, (2) a person who is entitled to exercise 10% or more of the voting power at any shareholders' meeting of such registered insurer or its parent company or (3) a person who is able to exercise significant influence over the management of the registered insurer or its parent company by virtue of its shareholding or its entitlement to exercise, or control the exercise of, the voting power at any shareholders' meeting.

Based on the shares as described above, shareholder controller ownership is defined as follows:

Actual Shareholder Controller Ownership	Defined Shareholder Controller Ownership
10% or more but less than 20%	10%
20% or more but less than 33%	20%
33% or more but less than 50%	33%
50% or more	50%

Where the shares of a registered insurer, or the shares of its parent company, are traded on a recognized stock exchange, and such shareholder becomes a 10%, 20%, 33%, or 50% shareholder controller of the insurer, that shareholder shall, within 45 days, notify the BMA in writing that such shareholder has become, or as a result of a disposition ceased to be, a controller of any such category.

Under our bye-laws, we have imposed restrictions on the ownership by holders of our Class A common shares (other than the Apollo Group) controlling more than 9.9% of the voting power associated with our common shares. The voting rights exercisable by shareholders of the Company other than the Apollo Group will be limited so that Control Groups are not deemed to hold more than 9.9% of the total voting power conferred by our shares. In addition, our board of directors retains certain discretion to make adjustments to the aggregate number of votes attaching to the shares of any person or group that they consider fair and reasonable in all the circumstances to ensure that such person or group will not hold more than 9.9% of the total voting power represented by our then outstanding shares. As such, other than the Apollo Group (at the 33% to 50% shareholder controller level), no shareholder will be considered, according to the Bermuda Insurance Act, a shareholder controller of ALRe.

Any person or entity who contravenes the Bermuda Insurance Act by failing to give notice or knowingly becoming a controller of any description before the required 45 days has elapsed is guilty of an offense under Bermuda law and liable to a fine of $25,000 on summary conviction.

The BMA may file a notice of objection to any person or entity who has become a controller of any description where it appears that such person or entity is not, or is no longer, fit and proper to be a controller of the registered insurer. Before issuing a notice of objection, the BMA is required to serve upon the person or entity concerned a preliminary written notice stating the BMA's intention to issue formal notice of

objection. Upon receipt of the preliminary written notice, the person or entity served may, within 28 days, file written representations with the BMA which shall be taken into account by the BMA in making its final determination. Any person or entity who continues to be a controller of any description after having received a notice of objection is guilty of an offense and liable on summary conviction to a fine of $25,000 (and a continuing fine of $500 per day for each day that the offense is continuing) or, if convicted on indictment, to a fine of $100,000 and/or 2 years in prison.

Notice of Change of Controllers and Officers

All registered insurers are required to give written notice to the BMA of the fact that a person has become, or ceased to be, a controller or officer of the registered insurer within 45 days of becoming aware of such fact. An officer in relation to a registered insurer means a director, chief executive or senior executive performing duties of underwriting, actuarial, risk management, compliance, internal audit, finance or investment matters.

Notification of Material Changes

All registered insurers are required to give notice to the BMA of their intention to effect a material change within the meaning of the Bermuda Insurance Act. For the purposes of the Bermuda Insurance Act, the following changes are material: (1) the transfer or acquisition of insurance business, including portfolio transfers or corporate restructurings, pursuant to a court-approved scheme of arrangement under Section 25 of the Bermuda Insurance Act or Section 99 of the Companies Act, (2) the amalgamation with or acquisition of another firm, (3) engaging in unaffiliated, third-party business that is retail business, (4) the acquisition of a controlling interest in an undertaking that is engaged in non-insurance business which offers services and products to persons who are not affiliates of the insurer, (5) outsourcing all or substantially all of the company’s actuarial, risk management and compliance or internal audit functions, (6) outsourcing all or a material part of an insurer’s underwriting activity, (7) the transfer other than by way of reinsurance of all or substantially all of a line of business, (8) the expansion into a material new line of business, (9) the sale of an insurer and (10) outsourcing of an “officer” role, as such term is defined by the Bermuda Insurance Act.

As a registered insurer, ALRe may not take any steps to give effect to such a material change unless it has first served notice on the BMA that it intends to effect such material change and before the end of 30 days, either the BMA has notified ALRe in writing that it has no objection to such change or that period has lapsed without the BMA having issued a notice of objection.

Before issuing a notice of objection, the BMA would be required to serve upon ALRe a preliminary written notice stating the BMA’s intention to issue formal notice of objection. Upon receipt of the preliminary written notice, ALRe could, within 28 days, file written representations with the BMA which the BMA would be required to take into account in making its final determination.

Supervision, Investigation and Intervention

The BMA may appoint an inspector with powers to investigate the affairs of an insurer if the BMA believes that an investigation is required in the interests of the insurer’s policyholders or potential policyholders. In order to verify or supplement information otherwise provided to the inspector, the BMA may direct an insurer to produce documents or information relating to matters connected with its business.

If it appears to the BMA that there is a risk of an insurer becoming insolvent, or that it is in breach of the Bermuda Insurance Act or any conditions imposed upon its registration, the BMA may, among other things, direct the insurer (1) not to take on any new insurance business, (2) not to vary any insurance contract if the effect would be to increase its liabilities, (3) not to make certain investments, (4) to realize certain investments, (5) to maintain or transfer to the custody of a specified bank, certain assets, (6) not to declare or pay any dividends or other distributions or to restrict the making of such payments, (7) to limit its premium income, (8) not to enter into any specified transaction with any specified persons or persons of a specified class, (9) to provide such written particulars relating to the financial circumstances of the insurer as the BMA thinks fit, (10) to obtain the opinion of an actuary loss reserve specialist and to submit it to the BMA, and (11) to remove a controller or officer.

Group Supervision

The BMA may, in respect of an insurance group, determine whether it is appropriate for it to act as its group supervisor. An insurance group is defined as a group of companies that conducts exclusively, or mainly, insurance business. The BMA may make such determination where it ascertains that (1) the group is headed by a “specified insurer” (that is to say, it is headed by either a Class 3A, Class 3B or Class 4 general business insurer or a Class C, Class D or Class E long-term insurer or another class of insurer designated by order of the BMA); or (2) where the insurance group is not headed by a “specified insurer,” where it is headed by a parent company which is incorporated in Bermuda or (3) where the parent company of the group is not a Bermuda company, in circumstances where the BMA is satisfied that the insurance group is directed and managed from Bermuda or the insurer with the largest balance sheet total is a specified insurer.

Where the BMA determines that it should act as the group supervisor, it shall designate a specified insurer that is a member of the insurance group to be the designated insurer (the “Designated Insurer”) and it shall give to the Designated Insurer and other competent authorities written notice of its intention to act as group supervisor. Once the BMA has been designated as group supervisor, the Designated Insurer must ensure that an approved group actuary is appointed to provide an opinion as to the adequacy of the insurance group’s insurance reserves as reported in its group statutory financial returns.

Pursuant to its powers under the Bermuda Insurance Act, the BMA will maintain a register of particulars for every insurance group for which it acts as the group supervisor detailing, among other things, the names and addresses of the Designated Insurer, each member company of the insurance group falling within the scope of group supervision, the principal representative of the insurance group in Bermuda, other competent authorities supervising other member companies of the insurance group, and the insurance group auditors. The Designated Insurer must notify the BMA of any changes to the above details entered on the register of an insurance group.

As group supervisor, the BMA will perform a number of supervisory functions including (1) coordinating the gathering and dissemination of information which is of importance for the supervisory task of other competent authorities, (2) carrying out a supervisory review and assessment of the insurance group, (3) carrying out an assessment of the insurance group's compliance with the rules on solvency, risk concentration, intra-group transactions and good governance procedures, (4) planning and coordinating, with other competent authorities, supervisory activities in respect of the insurance group, both as a going concern and in emergency situations, (5) coordinating any enforcement action that may need to be taken against the insurance group or any of its members and (6) planning and coordinating meetings of colleges of supervisors (consisting of insurance regulators) in order to facilitate the carrying out of the functions described above.

In carrying out its functions, the BMA may make rules for (1) assessing the financial situation and the solvency position of the insurance group and/or its members and (2) regulating intra-group transactions, risk concentration, governance procedures, risk management and regulatory reporting and disclosure.

The BMA has not yet designated any long-term life reinsurers, such as ALRe, for group supervision, accordingly, we are not currently subject to group supervision. The BMA may, however, exercise its authority to act as our group supervisor in the future.

Disclosure of Information

In addition to powers under the Bermuda Insurance Act to investigate the affairs of an insurer, the BMA may require certain information from an insurer (or certain other persons) to be produced to the BMA. Further, the BMA has been given powers to assist other regulatory authorities, including foreign insurance regulatory authorities, with their investigations involving insurance and reinsurance companies in Bermuda but subject to restrictions. For example, the BMA must be satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities of the foreign regulatory authority. Further, the BMA must consider whether cooperation is in the public interest. The grounds for disclosure are limited and the Bermuda Insurance Act provides for sanctions for breach of the statutory duty of confidentiality.

Certain Other Bermuda Law Considerations

All Bermuda "exempted companies" are exempt from certain Bermuda laws restricting the percentage of share capital that may be held by non-Bermudians. However, exempted companies may not participate in certain business transactions, including (1) the acquisition or holding of land in Bermuda except that which is required for their business and held by way of lease or tenancy for terms of not more than 50 years or, with the consent of the Bermuda Minister of Finance, land which is used to provide accommodation or recreational facilities for officers and employees for a term not exceeding 21 years, (2) the taking of mortgages on land in Bermuda to secure an amount in excess of $50,000 without the consent of the Bermuda Minister of Finance, (3) the acquisition of any bonds or debentures secured by any land in Bermuda, other than certain types of Bermuda government securities or securities issued by Bermuda public authorities or (4) the carrying on of business of any kind in Bermuda, except in furtherance of the business carried on outside Bermuda or under license granted by the Bermuda Minister of Finance. Generally it is not permitted without a special license granted by the Bermuda Minister of Finance to insure Bermuda domestic risks or risks of persons of, in or based in Bermuda.

Exchange Control

The permission of the BMA is required, pursuant to the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of shares (which includes the Class A common shares) of Bermuda companies to or from a non-resident of Bermuda for exchange control purposes, other than in cases where the BMA has granted a general permission. The BMA, in its notice to the public dated June 1, 2005, has granted a general permission for the issue and subsequent transfer of any securities of a Bermuda company from and/or to a non-resident of Bermuda for exchange control purposes for so long as any "Equity Securities" of the company (which includes the Class A common shares) are listed on an "Appointed Stock Exchange" (which includes the New York Stock Exchange (NYSE)). The BMA accepts no responsibility for our financial soundness or the correctness of any of the statements made or opinions expressed in this report.

Germany

The following paragraphs outline the most relevant legal provisions applicable to our German business and Athene Real Estate Management Company s.a.r.l (Luxembourg subsidiary).

Basic Legal Framework

Our German Group Companies licensed as insurers are subject to the relevant laws and regulation applicable to insurers in Germany. Our German Group Companies acting as insurance holding companies are subject to the relevant laws and regulations applicable to insurance holding companies in Germany. The relevant laws include the VAG, which constitutes the basic regulatory framework for operating an

insurance business in Germany and which also includes a limited set of provisions that apply to insurance holding companies. The VAG is supplemented by various ordinances implemented by the German Ministry of Finance and/or Federal Financial Supervisory Authority (BaFin) which regulate and mandate, among other things, eligibility criteria for investments, policyholder participation in income, accounting principles, corporate governance requirements, regulatory capital and reporting of insurance undertakings. The relevant insurance contracts are governed by the Insurance Contracts Act and the German Civil Code and further specific consumer protection laws, data protection requirements and anti-money-laundering requirements.

Profit Sharing and Dividend Restriction

German insurance law provides that policyholders participate in the income of the insurance undertaking unless explicitly excluded in the contracts (which is not the case for the portfolio of our German Group Companies). In particular, the minimum transfer ordinance provides for a minimum profit participation in the amount of 90% of the investment result, 90% of the insurance result and 50% of the other results of the insurance undertaking. Additionally, on maturity policyholders are entitled to 50% of the unrealized capital gains, which are hidden reserves which have not yet materialized from an accounting perspective. Unrealized gains on fixed-interest investments and interest-rate hedges only participate in excess of a certain safety requirement necessary to ensure payment of the guaranteed interest.

Distribution of dividends by insurance undertakings is only permitted in excess of a safety requirement, which is an amount that is necessary in order to secure the payment of the insurer's liabilities in case the guaranteed interest is above a certain reference rate (based on a zero-coupon euro swap with a maturity of ten years).

BaFin and European Insurance and Occupational Pensions Authority (EIOPA)

Our German Group Companies are subject to supervision by BaFin, which is the central financial regulatory authority for Germany. As part of an enhanced system of financial markets regulation in Europe, EIOPA has been set up as a regulatory authority on the European level. EIOPA has certain powers in relation to the Solvency II regime, including issuing guidelines interpreting Solvency II which are addressed to the national supervisory authorities. It cannot be predicted how EIOPA intends to apply its powers in practice and whether the new authority will result in more intrusive and intensive regulation, adding additional burdens to our resources.

Solvency II

The EC has implemented a new prudential framework for insurance companies, known as Solvency II, that replaced the previous life, non-life, reinsurance and insurance group's directives in Europe from 2016 onwards. Solvency II uses a more principle- and risk-based approach.

Solvency II is set up based on a four-level legislative process. The "Level 1" directive, dated November 25, 2009, as amended by the proposed Omnibus II Directive, sets out a framework which is supplemented by the more detailed Commission Delegated Regulation (EU) 2015/35 (Solvency II Delegated Regulation) and implementing measures as issued by the EC at "Level 2" and technical standards, which are directly applicable in Germany. "Level 3" consists of standards and guidance developed by EIOPA and at "Level 4," the EC monitors uniform implementation of the rules.

Insurance undertakings to which Solvency II applies, including ALV, have become subject to changes with regard to solvency capital and own funds requirements, the valuation of assets and liabilities, provisions concerning business organization (governance) and reporting and disclosure requirements.

Solvency II further provides for the supervision of insurance groups and imposes a group-level capital requirement in relation to certain insurance groups. In Germany, the relevant regulatory changes triggered by Solvency II are implemented via a restatement of the VAG, which was enacted in April 2015 and became effective on January 1, 2016.

Credit for Reinsurance Ceded

Whereas under the previous regime, the reduction for ceded reinsurance was a fixed function based on the primary insurer's liabilities, Solvency II implements a risk-based approach pursuant to which insurance undertakings have to take into account their own risk profile in determining their solvency requirements. Under Solvency II, capital charges for ceded reinsurance thus depends on a variety of factors, including in particular the financial strength of the reinsurer, spread, rating and the number of reinsurers employed by the primary insurer.

Capital Requirements

Under the Solvency II regime, MCR, as well as solvency capital requirements (SCR), are imposed. As of 2016, our German Group Companies licensed as insurance undertakings are obliged to meet these requirements in order to be able to fulfill, subject to a certain confidence level of 99.5%, in case of the SCR, or 85%, in case of the MCR, over a one-year period, all obligations arising from existing business as well as the new business expected to be written over the following 12 months. Failure to maintain adequate capital levels may result in regulatory action by BaFin.

Item 1. Business

Regulation of Investments

Our German Group Companies are subject to certain regulatory provisions on eligible investments, including the prudent person principle under Solvency II.

Consumer Protection Laws

The German insurance law is strongly focused on protection of policyholders. Various specific rights, including cancellation rights, are granted to policyholders, aimed in particular at protecting their right of due information and transparency. As a general tendency, courts (the European Court of Justice as well as national German courts) tend to strengthen the policyholders' position vis-à-vis insurance undertakings.

Privacy Regulation

As to our German Group Companies, personal data of customers is collected, processed and used in Germany. As a consequence, German data protection laws apply which are considered to be rather strict in comparison to U.S. data protection laws. In general, the Federal German Data Protection Act requires either consent of the respective customer or statutory permission in order to collect, process and/or use personal data of customers (further requirements apply to the processing of health data). Furthermore, under the German Criminal Act, employees of private health, accident or life insurance companies are subject to statutory confidentiality obligations. A transfer to a reinsurer or other third party of customer data falling under such insurance categories generally requires consent of the respective customer. On April 27, 2016, the General Data Protection Regulation (GDPR) was adopted by the EU Parliament providing for more harmonized data protection standards applicable in all EU Member States beginning May 25, 2018. Until then, Germany has time to adopt a new Federal German Data Protection Act adapted to the GDPR and providing for Germany specific supplements where the GDPR leaves room for national derogations. In early 2017, the German government issued its second draft of such new Federal German Data Protection Act, although it is likely that further amendments will be made to such draft before the act is adopted.

Luxembourg Regulation

Our Luxembourg subsidiary is subject to supervision by the CSSF and Luxembourg regulation for management companies of investment funds. We do not believe that our Luxembourg subsidiary is governed by the directive 2011/61/EU of the European Parliament and of the Council of June 8, 2011 on Alternative Investment Fund Managers and it is currently registered accordingly with the Commission de Surveillance du Secteur Financier (CSSF) on the basis of a self-assessment. In the absence of a final decision by the relevant Luxembourg authorities, and subject to any policy changes and changes in circumstances on which the self-assessment is based, namely regarding the holding and investment structure, we cannot exclude the risk of our Luxembourg subsidiary qualifying as an Alternative Investment Fund Manager. Such a determination would require an enhanced administration, organization and financing of our Luxembourg subsidiary. The Luxembourg investment fund managed by our Luxembourg subsidiary is regulated as a specialized investment fund under Luxembourg law and thus is also subject to legislative and/or regulatory developments, which may impact the position and performance of our Luxembourg subsidiary.

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act) are made available, free of charge, on or through the "Investor Relations" portion of our website *www.athene.com*. Information contained on our website is not part of, nor is it incorporated by reference in, this report or any of our periodic reports. The public may read and copy any materials that the Company has filed with the SEC at the SEC's Public Reference Room located at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 800-SEC-0330. Reports filed with or furnished to the SEC will also be available as soon as reasonably practicable after they are filed with or furnished to the SEC and are available over the internet at the SEC's website at *www.sec.gov*.

Item 1A. Risk Factors

Risks Relating to Our Business

Our business, financial condition, liquidity, results of operations and cash flows depend on the accuracy of our management's assumptions and estimates, and we could face significant losses if these assumptions and estimates differ significantly from actual results.

We make and rely on certain assumptions and estimates regarding many items, including interest rates, investment returns, expenses and operating costs, tax assets and liabilities, business mix, surrender activity, mortality and contingent liabilities, related to our business and anticipated results that affect amounts reported in our consolidated financial statements and notes thereto. We also use these assumptions and estimates to make decisions crucial to our business operations, including establishing pricing, target returns and expense structures for our insurance subsidiaries' products, determining the amount of reserves we are required to hold for our policy liabilities, the price we will pay to acquire or reinsure business, the hedging strategies to manage risks to our business and operations and the amount of regulatory and rating agency capital that our insurance subsidiaries must hold to support their businesses. The factors influencing these business decisions cannot be predicted with certainty and if our assumptions and estimates differ significantly from actual outcomes and results, our business, financial condition, liquidity, results of operations and cash flows may be materially and adversely affected.

Insurance Products and Liabilities

Pricing of our annuity and other insurance products, whether issued by us or acquired through reinsurance or acquisitions, is based upon assumptions about persistency. A factor which may affect persistency for some of our products is the value of guaranteed minimum benefits. An increase in the value of guaranteed minimum benefits could result in our policies remaining in force longer than we have estimated, which could adversely affect our results of operations. This could be caused by extended periods of poor equity market performance and/or low interest rates, developments affecting customer perception and other factors outside our control. Alternatively, our persistency estimates could be negatively affected during periods of rising equity markets or interest rates or by other factors outside our control, which could result in fewer policies remaining in force than estimated. Therefore, our results will vary based on differences between actual and expected withdrawals from our subsidiaries' products.

Certain of our deferred annuity products also contain optional benefit riders, including guaranteed lifetime income or death benefits, that may be exercised at certain points of time under the terms of a contract. We set prices for such products using assumptions about mortality, the rate of election of deferred annuity living benefits and other optional benefits offered to our policyholders. The profitability of these products may be lower than expected if actual policyholder utilization of these benefits varies adversely from our assumptions.

We license analytic software with actuarial modeling capabilities from third parties to facilitate the pricing of our products, make projections of our in-force business for planning purposes and objectively assess the risks in our subsidiaries' insurance and reinsurance asset and liability portfolios. These actuarial models help us to measure and control risk accumulation, inform management and other stakeholders of capital requirements and manage the risk/return profile and amount of capital required to cover the risks in each of our subsidiaries' insurance and reinsurance contracts and our overall portfolio of insurance and reinsurance contracts. However, given the inherent uncertainty of modeling techniques and the application of such techniques, these models and databases may not accurately address the emergence of a variety of matters which might impact certain of our subsidiaries' products. Accordingly, these models may inaccurately predict the exposures that our subsidiaries are assuming and our financial results may be adversely impacted, perhaps significantly.

If emerging or actual experience deviates from our assumptions regarding any of the above factors, such deviations could have a significant effect on our reserve levels and our related results of operations and financial condition. For example, a significant portion of our in-force and newly issued products contain riders that offer guaranteed lifetime income or death benefits. These riders expose us to mortality, longevity and policyholder behavior risks. If actual utilization of certain rider benefits is adverse when compared to our estimates used in setting our reserves for future policy benefits, these reserves may prove to be inadequate and we may be required to increase them. Conversely, if policies lapse at a significantly higher rate than expected, we may need to accelerate the amortization of deferred acquisition costs (DAC), value of business acquired (VOBA) and deferred sales inducement (DSI) balances. More generally, deviations from our pricing expectations could result in our subsidiaries earning less of a spread between the investment income earned on our subsidiaries' assets and the interest credited to such products and other costs incurred in servicing the products, or may require our subsidiaries to make more payments under certain products than our subsidiaries had projected. We have limited experience to date on policyholder behavior for our guaranteed minimum benefit products. As a result, future experience could deviate significantly from our assumptions. Such acceleration of expense amortization, reduced spread or increased payments could materially and adversely affect our financial condition, results of operations or cash flows.

Determination of Fair Value

As defined under GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants in the principal market or in the most advantageous market when no principal market exists. Adjustments to transaction prices or quoted market prices may be required in illiquid or disorderly markets in order to estimate fair value. Different valuation techniques may be appropriate under the circumstances to determine the value that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange and not under duress. Nonperformance or credit risk is considered in determining fair value. Considerable judgment may be required in interpreting market data used to develop the

estimates of fair value. Accordingly, estimates of fair value are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

For example, the valuation of investments involves considerable judgment, is subject to considerable variability and is revised as additional information becomes available. As such, changes in, or deviations from, the assumptions used in such valuations can significantly affect our financial statements. During periods of market disruption, including periods of rapidly changing credit spreads or illiquidity, if trading becomes less frequent or market data becomes less observable, it has been and will likely continue to be difficult to value certain of our investments, such as certain of our real-estate related investments, structured products and alternative investments. There may be certain asset classes in active markets with significant observable data that could become illiquid in a difficult financial environment. Further, rapidly changing credit and equity market conditions could materially impact the valuation of investments as reported within our financial statements, and the period-to-period changes in value could vary significantly. Our ability to sell investments, or the price ultimately realized for investments, depends upon the demand and liquidity in the market and increases the use of judgment in determining the estimated fair value of certain investments. Even if our assumptions and valuations are accurate at the time that they are made, the same factors influencing our valuations of such investments could cause the market value of these investments to decline, which could materially and adversely impact our financial condition, results of operations or cash flows.

Additionally, we also use, and may in the future use, derivatives, including swaps, options, futures and forward contracts, and reinsurance contracts to hedge risks such as current or future changes in the fair value of our assets and liabilities, current or future changes in cash flows, changes in interest rates, equity markets and credit spreads, the occurrence of credit defaults, currency fluctuations and changes in mortality and longevity. We use equity derivatives to hedge the liabilities associated with our FIAs. Our hedging strategies also rely on assumptions and projections regarding our assets, liabilities (including with respect to the optional benefits offered as part of our products), general market factors and the creditworthiness of our counterparties that may prove to be incorrect or inadequate. Accordingly, our hedging activities may not have the desired beneficial impact on our financial condition or results of operations. Hedging strategies involve transaction and other costs, and if we terminate any hedging arrangements, including reinsurance contracts, we may also be required to pay additional costs, such as transaction fees or breakage costs. We may also incur losses on transactions after taking into account our hedging strategies, which may have a material and adverse effect on our financial condition and cash flows.

Financial Statements and Results

The preparation of our consolidated financial statements and notes thereto in accordance with GAAP requires management to make various estimates and assumptions that affect the reported amounts in our financial statements. These estimates include, but are not limited to, the fair value of investments, impairment of investments and valuation allowances, the valuation of derivatives, including embedded derivatives, DAC, DSI and VOBA, future policy benefit reserves, valuation allowances on deferred tax assets, and stock-based compensation. For example, the calculations we use to estimate DAC, DSI and VOBA are necessarily complex and involve analyzing and interpreting large quantities of data. The assumptions and estimates required for these calculations involve judgment and by their nature are imprecise and subject to changes and revisions over time. Accordingly, our results may be adversely affected from time to time by actual results differing from assumptions, changes in estimates and changes resulting from implementing more sophisticated administrative systems and procedures that facilitate the calculation of more precise estimates. Any of these inaccuracies could require us, among other things, to accelerate the amortization of DAC, DSI and VOBA, which would result in a charge to earnings, or in a restatement of our historical financial statements or other material adjustments to our financial statements. Additionally, the potential for unforeseen developments, including changes in laws, may result in losses and loss expenses materially different from the reserves initially established, which could also materially and adversely impact our business, financial condition, results of operations and prospects.

The amount of statutory capital that our insurance and reinsurance subsidiaries have, or that they are required to hold, can vary significantly from time to time and is sensitive to a number of factors outside of our control.

Our U.S. insurance subsidiaries are subject to state regulations that provide for MCR based on RBC formulas for life insurance companies relating to insurance, business, asset, interest rate and certain other risks. Similarly, ALRe is subject to MCR imposed by the BMA through its ECR and MMS. The BSCR is based on the BMA's Economic Balance Sheet (EBS) regulatory framework, which was granted equivalency to Solvency II in March 2016. EBS is effective as of January 1, 2016, with the first filing due in 2017 for the year ended December 31, 2016.

Our German Group Companies are subject to SCR and MCR pursuant to Solvency II, which applies at the level of ALV and at the level of the group.

In any particular year, our subsidiaries' capital ratios and/or statutory surplus amounts may increase or decrease depending on a variety of factors, most of which are outside of our control, including, but not limited to, the following:

- the amount of statutory income or losses generated by our insurance subsidiaries (which itself is sensitive to equity and credit market conditions);
- the amount of additional capital our insurance subsidiaries must hold to support their business growth;
- changes in reserve requirements applicable to our insurance subsidiaries;
- changes in market value of certain securities in our investment portfolio;
- changes in the credit ratings of investments held in our investment portfolio;
- the value of certain derivative instruments;

- changes in interest rates;
- credit market volatility;
- changes in policyholder behavior;
- changes to the RBC formulas and interpretations of the NAIC instructions with respect to RBC calculation methodologies;
- changes to the ECR, BSCR, or TCL formulas and interpretations of the BMA's instructions with respect to ECR, BSCR, or TCL calculation methodologies; and
- changes to the SCR formulas and interpretations with respect to SCR calculation methodologies and MCR pursuant to Solvency II and German regulations.

The financial strength and credit ratings of our insurance subsidiaries are significantly influenced by their statutory surplus amounts and these MCRs. NRSROs may also implement changes to their internal models, which differ from the RBC, BSCR and SCR capital models, that have the effect of increasing or decreasing the amount of statutory capital our subsidiaries must hold in order to maintain their current ratings. Additional statutory reserves may be required as the result of mandatory annual asset adequacy analysis, and rising or falling interest rates and widening credit spreads could alter this cash flow testing analysis. In addition, NRSROs may downgrade the investments held in our portfolio, which could result in impairments and therefore a reduction of the RBC ratios of our U.S. domiciled insurance subsidiaries, a decrease in the solvency ratio of our German Group Companies, or an increase in the ECR of ALRe.

To the extent that one of our insurance subsidiary's solvency or capital ratios is deemed to be insufficient by one or more NRSROs, we may take actions either to increase the capitalization of the insurer or to reduce the capitalization requirements. If we are unable to accomplish such actions, NRSROs may view this as a reason for a ratings downgrade. If a subsidiary's solvency or capital ratios reach certain minimum levels, it could subject us to further examination or corrective action imposed by our insurance regulators, including limitations on our subsidiaries' ability to write additional business, supervision by regulators, seizure or liquidation, each of which could materially and adversely affect our business, financial condition, results of operations, cash flows and prospects.

The BMA released consultation papers in November 2016 and March 2017 that propose further updates to certain aspects of the EBS framework. The BMA has not finalized any changes and expects to release additional guidance later in 2017 after reviewing trial run results of these changes. If the final guidance, when completed and adopted, materially increases the ECR, it could materially and adversely affect our BSCR ratio and, correspondingly, our capital in excess of BMA requirements.

Interest rate fluctuations could adversely affect our business, financial condition, liquidity, results of operations and cash flows.

Interest rate risk is a significant market risk for us. We define interest rate risk as the risk of an economic loss due to changes in interest rates. This risk arises from our holdings in interest rate-sensitive assets and liabilities, primarily as a result of issuing or reinsuring fixed deferred and immediate annuities and investing primarily in fixed income assets. As of December 31, 2016, reserves for fixed deferred and immediate annuities net of reinsurance made up substantially all of our reserve liabilities. Substantial and sustained increases or decreases in market interest rates can affect the profitability of our insurance products and the fair value of our investments. These fluctuations could materially and adversely affect our business, financial condition, liquidity, results of operations and cash flows, including in the following respects:

- Significant changes in interest rates expose us to the risk of not realizing anticipated spreads between overall net investment earned rates and the crediting rates to our policyholders, which are a significant source of our operating profits. We have the ability to adjust crediting rates, including caps and participation rates for FIAs, on many of our annuity liabilities (subject to minimum guaranteed values). However, we may not be able to adjust such rates in a timely manner or to the extent desired to adequately respond to the effect that changes in interest rates may have on the returns on our investments. Many of our annuity products have surrender and withdrawal penalty provisions designed to prevent early policyholder withdrawals in rising interest rate environments and to help ensure targeted spreads are earned. However, competitive factors, including the need or desire to manage levels of surrenders and withdrawals, may limit our ability to adjust or maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions.

- Changes in interest rates may also negatively affect the value of our assets and our ability to realize gains or avoid losses from the sale of those assets, all of which also ultimately affect our earnings and/or capital. Significant volatility in interest rates may have a larger adverse impact on certain assets in our investment portfolio which are highly structured or have limited liquidity, including our real estate-related assets, structured products and alternative investments, which may not have active trading markets, making the disposition of such assets difficult.

- Changes in interest rates may also affect changes in prepayment rates on certain of the real estate-related assets, structured products and alternative investments we invest in. For instance, falling interest rates may accelerate the rate of prepayment on mortgage loans, while rising interest rates may decrease such prepayments below the level of our expectations. At the same time, falling interest rates may result in the lengthening of duration for our policies and liabilities due to the guaranteed minimum benefits contained in our products, while rising interest rates could lead to increased policyholder withdrawals and a shortening of duration for our liabilities. In either case, we could experience a mismatch in our assets and liabilities and potentially incur economic losses, which may have an adverse effect on our financial condition, results of operations and cash flows.

- During periods of declining interest rates or a prolonged period of low interest rates, life insurance and annuity products may be relatively more attractive to consumers due to minimum guarantees that are mandated by law or by regulators at the time that we price

these products, resulting in a higher persistency than we anticipated, potentially resulting in greater claims costs on our guaranteed minimum benefit riders than we expected and cash flow mismatches between our assets and liabilities. In addition, the surrender and withdrawal penalties we impose on certain of our annuity products may further increase persistency during such periods. Certain statutory capital and reserve requirements are based on formulas or models that consider interest rates, and an extended period of low interest rates may increase the statutory capital we are required to hold and the amount of assets we must allocate to support statutory reserves, which could decrease the spread income that we are able to earn from these products. This reduced spread could also force us to accelerate amortization of DAC and/or VOBA, which would have an adverse effect on our financial condition and results of operations. Our German life insurance company subsidiaries are required by law to set up an additional premium reserve if the interest rate guaranteed to policyholders of certain endowment and annuity products issued exceeds a certain reference rate which is based on the rolling ten-year average of an AAA rated Eurobond. If interest rates remain at current low levels or further decline as a result of further quantitative easing in response to declining economic conditions, we could be required to provide additional capital to our German insurance company subsidiaries or increase reserves allocated to certain products which could in turn have a material adverse effect on our financial condition and results of operations.

- Additionally, during periods of declining interest rates, we may have to reinvest the cash we receive as interest or return of principal on our investments into lower-yielding high-grade instruments or seek lower-credit instruments in order to maintain comparable returns, each of which could have a material and adverse effect on our financial condition and results of operations.

- Certain securitized financial assets are accounted for based on expectations of future cash flows. To the extent the coupon on these instruments or the underlying collateral is based on a reference rate (for example, LIBOR), we use the market observed forward curve in our cash flow projections. As of December 31, 2016, we held $17.8 billion of securitized financial assets that have floating rate coupons or adjustable rate collateral. To the extent interest rates are lower than we have projected, we will experience slower accretion of discounts on these assets and will have a lower yield on our portfolio, which would adversely affect our financial condition and results of operations.

- An extended period of declining interest rates or a prolonged period of low interest rates may cause us to change our long-term view of the interest rates that we can earn on our investments, causing us to change the long-term interest rate that we assume in our evaluation of our insurance liabilities, reducing the attractiveness of our subsidiaries' products.

- In periods of rapidly increasing interest rates, withdrawals from and/or surrenders of annuity contracts may increase as policyholders choose to seek higher investment returns elsewhere. Obtaining cash to satisfy these obligations may require our insurance subsidiaries to liquidate fixed income investments at a time when market prices for those assets are depressed because of increases in interest rates. This may result in realized investment losses. Regardless of whether we realize an investment loss, such cash payments would result in a decrease in total invested assets and may decrease our levels of profitability or results of operations. Premature withdrawals or unexpected surrenders may also cause us to accelerate amortization of DAC and/or VOBA, which would also adversely affect our financial condition and results of operations.

- An increase in market interest rates could also reduce the value of certain of our alternative investments held as collateral under reinsurance agreements and create a need for ALRe to provide additional collateral to support the reserve requirements of our ceding companies, thereby reducing our available capital and potentially creating a need for additional capital which may not be available to us on favorable terms, or at all, when needed.

We may want or need additional capital in the future, and such capital may not be available to us on favorable terms or at all due to volatility in the equity or credit markets, adverse economic conditions or our creditworthiness.

We may want or need to raise additional capital in the future through offerings of debt or equity securities or otherwise to:

- operate and expand our business;
- make acquisitions or assume business through reinsurance;
- fund our liquidity needs caused by investment losses;
- replace capital lost in the event of significant investment, insurance or reinsurance losses or adverse reserve developments;
- meet rating agency or regulatory capital requirements; or
- meet other requirements and obligations.

Additional capital may not be available on terms favorable to us, or at all, when we seek to raise such capital. Availability of additional capital will depend on a variety of factors such as market conditions, our credit ratings and adverse regulatory actions taken against us. Our inability to raise capital at such times can have a range of effects, including forcing us to forego profitable growth opportunities and impairing the capital ratios of our insurance subsidiaries. This would have the potential to decrease both our profitability and our financial flexibility. Further, any additional capital raised through the sale of equity could dilute your ownership interest in our company and may cause the value of our shares to decline.

Item 1A. Risk Factors

If we do not manage our growth effectively, our financial performance could be adversely affected; our historical growth rates may not be indicative of our future growth.

We have experienced rapid growth since we commenced operations in 2009. As of December 31, 2016, our reserve liabilities have grown to $71.0 billion, our work force has grown to approximately 1,325 employees, and our independent agent base has grown to approximately 28,000 agents. We intend to continue to grow by recruiting new independent agents, increasing the productivity of our existing agents, expanding our insurance distribution network, making strategic acquisitions, developing new products, expanding into new product lines and continuing to develop new incentives for our sales agents. We believe that we have the right people, infrastructure and scale to position us for continued growth. Future growth will impose significant added responsibilities on our management, including the need to identify, recruit, maintain and integrate additional employees, including management. There can be no assurance that our systems, procedures and controls will be adequate to support our operations as they expand. In addition, due to our rapid growth and resulting increased size, it may be necessary to expand the scope of our investing activities to asset classes in which we historically have not invested or have not had significant exposure. If we are unable to adequately manage our investments in these classes, our financial condition and results of operations in the future could be less favorable than in the past. Further, we have utilized reinsurance to support our growth and the future availability of such reinsurance is uncertain. Our failure to manage growth effectively, or our inability to recruit, maintain and integrate additional qualified employees and independent agents, could have a material adverse effect on our business, financial condition and results of operations. In addition, due to our rapid growth, our historical growth rates are not likely to accurately reflect our future growth rates or our growth potential. We cannot assure you that our future revenues will increase or that we will continue to be profitable.

If our risk management policies and procedures, which include the use of derivatives and reinsurance, are not adequate to protect us, we may be exposed to unidentified, unanticipated or inadequately managed risks.

We place a high priority on risk management and risk control. We have developed risk management policies and procedures, including hedging programs and risk management programs that utilize derivatives and reinsurance, and expect to continually refine and enhance these techniques, strategies and assessment methods. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective, particularly during extremely turbulent market conditions. Many of our methods of managing risk and exposures are based upon observed historical market behavior or statistics based on historical data. These methods are also based upon certain assumptions and estimates made by management. As a result, these methods may not accurately anticipate future market outcomes or policyholder behavior, which could result in volatility that is significantly greater than historical measures indicate. Other risk management methods depend on the evaluation of information regarding markets, customers or other matters that are publicly available or otherwise accessible to management. This information may not always be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record and verify large numbers of transactions and events. These policies and procedures may not be fully effective to manage or mitigate our risks which may have a material and adverse effect on our business, financial condition, liquidity, results of operations, cash flows and prospects.

We operate in a highly competitive industry that includes a number of competitors, many of which are larger and more well-known than we are, which could limit our ability to achieve our growth strategies and could materially and adversely affect our business, financial condition, results of operations, cash flows and prospects.

We operate in highly competitive markets and compete with large and small industry participants. These companies compete for an increasing pool of retirement assets, driven primarily by aging of the U.S. population and the reduction in, and concerns about the viability of, financial safety nets historically provided by governments and employers. In each of our subsidiaries' businesses we face intense competition, including from U.S. and non-U.S. insurance and reinsurance companies, broker-dealers, financial advisors, asset managers and diversified financial institutions, both for customers for our subsidiaries' products and in the acquisition and block reinsurance markets. We compete based on a number of factors including perceived financial strength, credit ratings, brand recognition, reputation, quality of service, performance of our products, product features, scope of distribution and price. A decline in our competitive position as to one or more of these factors could adversely affect our profitability. In addition, we may in the future sacrifice our competitive or market position in order to improve our short-term profitability, particularly in the highly competitive retail markets, which may adversely affect our long-term growth and results of operations. Alternatively, we may sacrifice short-term profitability to maintain market share and longer term growth.

In recent years, there has been substantial consolidation among companies in the financial services industry due to economic turmoil resulting in increased competition from large, efficient, well-capitalized financial services firms. Many of our competitors are large and well-established and some have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk while maintaining financial strength ratings or have higher financial strength, claims-paying or credit ratings than we do. Our competitors may also have lower operating costs or return on capital requirements than us which may allow them to price products, reinsurance arrangements or acquisitions more competitively. The competitive pressures arising from consolidation could result in increased pressure on the pricing of certain of our products and services, and could harm our ability to maintain or increase profitability. In addition, if our financial strength and credit ratings remain lower than the ratings of certain of our competitors, we may experience increased surrenders and/or an inability to reach sales targets, which may have a material and adverse effect on our growth, business, financial condition, results of operations, cash flows and prospects.

Item 1A. Risk Factors

A significant portion of our retail annuities are sold through a proprietary distribution network.

We distribute annuity products through independent producers affiliated with certain IMOs. A significant portion of our retail annuity production results from sales of product in our BalancedChoice Annuity product series, which contains certain product features that are licensed from a third-party actuarial firm. Only IMOs which are affiliated with the Annexus Group are permitted to distribute the BalancedChoice Annuity product series. If we experienced a disruption in our relationship with the Annexus Group, it could have an adverse effect for a period of time on our annuity sales of this product series.

We are subject to general economic conditions, including prevailing interest rates, levels of unemployment and financial and equity and credit market performance, which may affect, among other things, our ability to sell our products, the fair value of our investments and whether such investments become impaired and the surrender rate and profitability of our policies.

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. A general economic slowdown could adversely affect us in the form of changes in consumer behavior and decreases in the returns on and value of our investment portfolio. Concerns over the slow economic recovery, the level of U.S. national debt, currency fluctuations and volatility, the stability of the EU and the potential exit of the UK (Brexit) and of certain other EU members, the rate of growth of China and other Asian economies, unemployment, the availability and cost of credit, the U.S. housing market, inflation levels, negative interest rates, energy costs and geopolitical issues have contributed to increased volatility and diminished expectations for the economy and the markets. Declining economic growth rates globally and resultant diverging paths of monetary policy could increase volatility in the credit markets, potentially impacting the availability and cost of credit.

Factors such as equity prices, equity market volatility, interest rates, counterparty risks, availability of credit, inflation rates, economic uncertainty, changes in laws or regulations (including laws relating to the financial markets generally or the taxation or regulation of the insurance industry), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including governmental instability, wars, terrorist acts or security operations) can have a material impact on the value of our investment portfolio and our subsidiaries' ability to sell their products. Equity market volatility can negatively affect our revenues and profitability in various ways, particularly as a result of guaranteed minimum withdrawal or surrender benefits in our products. The estimated cost of providing guaranteed minimum withdrawal benefits incorporates various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction in our revenues and net income. The rate of amortization of DAC and VOBA costs relating to FIA products and the cost of providing guaranteed minimum withdrawal or surrender benefits could also increase if equity market performance is worse than assumed, which could have a material and adverse effect on our growth, business, financial condition, results of operations and cash flows.

Additionally, the possibility of volatility in the capital markets spreading through a highly integrated and interdependent banking system remains. These factors, combined with reduced business and consumer confidence, have negatively impacted U.S. economic growth. The Federal Reserve has scaled back programs that have in recent years fostered a historically low interest rate environment, which could generate volatility in debt and equity markets including increases in interest rates and associated declining values on fixed income investments. As the Federal Reserve moves towards normalizing monetary policy and moving short-term interest rates off of their lower levels, the central bank may adversely affect prospects for continued economic recovery with little room for incremental monetary accommodation.

Furthermore, long-term structural concerns remain with regard to the Eurozone's move towards a closer currency, fiscal, economic and monetary union, particularly in the wake of the UK's vote to exit the EU. In addition, significant risks persist regarding the sovereign debt of Greece, as well as certain other countries, which in some cases have required countries to obtain emergency financing. While economic policy measures and commitments have stabilized the Euro's volatility, the EU's fiscal outlook remains negative, and further substantial decline in the value of the Euro could expose us to significantly greater foreign currency exposure than we estimate at this time. The financial turmoil in Europe, including the recent downgrades of the sovereign rating of the UK and uncertainty resulting from Brexit, continues to be a long-term threat to global capital markets and remains a challenge to global financial stability. If these or other countries require additional financial support or if sovereign credit ratings decline further, yields on the sovereign debt of certain countries may increase, the cost of borrowing may increase and the availability of credit may become more limited. Our results of operations and investment portfolio are exposed to these risks and may be adversely affected as a result. In addition, in the event of extreme prolonged market events, such as the recent global credit crisis, we could incur significant losses.

Our investments are subject to market and credit risks that could diminish their value and these risks could be greater during periods of extreme volatility or disruption in the financial and credit markets, which could adversely impact our business, financial condition, liquidity and results of operations.

Our investments and derivative financial instruments are subject to risks of credit defaults and changes in market values. Periods of extreme volatility or disruption in the financial and credit markets could increase these risks. Underlying factors relating to volatility affecting the financial and credit markets could lead to other than temporary impairment of assets in our investment portfolio. We are also subject to the risk that cash flows resulting from payments on assets that serve as collateral underlying the structured products we own may differ from our expectations in timing or size. In addition, many of our classes of investments, but in particular our alternative investments, may produce investment income that fluctuates from period to period and is more variable than may be the case with other asset classes, such as corporate bonds. Any event reducing the estimated fair value of these securities, other than on a temporary basis, could have a material and adverse effect

on our business, results of operations, financial condition and cash flows. If our investment manager, AAM, or our German subsidiaries' investment adviser, AAME, fails to react appropriately to difficult market, economic and geopolitical conditions, our investment portfolio could incur material losses. Some of our investments are more vulnerable to these risks than others, as described more fully below.

As of December 31, 2016, 82% of our total invested assets were invested in fixed maturity securities, equity securities, and short-term investments, including our investments in investment grade and high-yield corporate bonds and structured products, which include RMBS and CLOs. As of December 31, 2016, 47% of our total invested assets were invested in non-structured investment grade bonds, 3% in high-yield non-structured securities, and 5% in structured securities (other than CMBS, RMBS and CLOs). Issuers or guarantors of such fixed income securities may default on principal or interest payments they owe us, or the underlying collateral may default on such payments, causing an adverse change in cash flows. An economic downturn affecting the issuers or underlying collateral of these securities, a ratings downgrade affecting the issuers or guarantors of such securities, or similar trends and issues could cause the estimated fair value of our fixed income securities portfolio and our earnings to decline and the default rates of the fixed income securities in our portfolio to increase.

As of December 31, 2016, 8% of our total invested assets were invested in senior and mezzanine tranches issued by CLOs and 0.4% was invested in equity tranches issued by CLOs. As of December 31, 2016, 95% of our investments in CLOs were managed by Apollo and its affiliates other than AAM. CLOs are a form of securitization where payments from multiple large business loans, generally below investment grade, are pooled together and sold to different classes of owners in various tranches. Senior tranches of CLOs have some protection from credit losses by more junior tranches while junior tranches often have higher yields than those of the collateral loans and receive higher coupons to compensate for higher risk. CLOs thus provide investment opportunities with varying risk/return profiles and diversified exposure to multiple borrowers. Control over the CLOs in which we invest is exercised through collateral managers, who may take actions that could adversely affect our interests, and we may not have the right to direct collateral management. There may also be less information available to us regarding the underlying debt instruments held by CLOs than if we had invested directly in the debt of the underlying companies. Additionally, as subordinated interests, the estimated fair values of CLOs tend to be much more sensitive to adverse economic downturns and underlying borrower defaults than those of more senior securities. For example, as the secondary market pricing of the loans underlying CLOs deteriorated during the fourth quarter of 2008, it is our understanding that many investors were forced to raise cash by selling their interests in performing loans which resulted in a forced deleveraging cycle of price declines, compulsory sales and further price declines. While loan prices have recovered from the low levels experienced during the financial crisis, conditions in the large corporate leveraged loan market may deteriorate again, which may cause pricing levels to decline. Furthermore, our investments in CLOs are also subject to liquidity risk as there is a limited market for CLOs. Accordingly, we may suffer unrealized depreciation and could incur realized losses in connection with the sale of our CLO interests, which could have a material adverse effect on our business, financial condition and results of operations.

Included in assets of AAA Investment (Co-Invest VI), L.P. (CoInvest VI), one of our consolidated variable interest entities (VIE), are equity investments in publicly traded shares of Caesars Entertainment Corporation (CEC) and Caesars Acquisition Company (CAC). We received the CEC and CAC shares as part of a contribution agreement in 2012 with AAA Guarantor - Athene, L.P. and its subsidiary, Apollo Life Re Ltd., in order to provide a capital base to support future acquisitions. There are pending claims against CEC, CAC and/or others, related to certain guaranties issued for debt of Caesars Entertainment Operating Company, Inc. (CEOC) and/or certain transactions involving CEOC and certain of its subsidiaries (collectively, Debtors), CEC, CAC and others. CEC and the Debtors announced on or about September 26, 2016, that CEC and CEOC had received confirmations from representatives of CEOC's major creditor groups of those groups' support for a term sheet that describes the key economic terms of a proposed consensual chapter 11 plan for the Debtors. The plan, containing such terms and further including such other terms respecting, among other things, the merger of CAC into CEC, that CoInvest VI and others will not retain their pre-merger CEC shares, that CoInvest VI and others will retain the value of their CAC shares when receiving shares in the merged CEC, and that CoInvest VI and others will receive releases to the fullest extent permitted by law, was confirmed by the Bankruptcy Court by order dated January 17, 2017. Conditions precedent to the effective date of the plan include regulatory approvals from the various gaming regulators, CEC and CAC shareholders approval of the proposed merger, and securing required financings. As a result, CoInvest VI recorded a liability of $27 million during 2016 for the entire carrying value of the CEC shares. As of December 31, 2016, CoInvest VI's investment in CAC is carried at its fair value of $45 million.

We have a risk management framework in place to identify, assess and prioritize risks, including the market and credit risks to which our investments are subject. As part of that framework, we test our investment portfolio based on various market scenarios. Under certain stressed market scenarios, unrealized losses on our investment portfolio could lead to material reductions in its carrying value. Under some extreme scenarios, total AHL shareholders' equity could be negative for the period of time prior to any potential market recovery. See *Item 7A. Quantitative and Qualitative Disclosures About Market Risks*.

A decline in fair value below the amortized cost of a security requires management to assess whether an OTTI has occurred. The decision on whether to record an OTTI is determined in part by our assessment of the financial condition and prospects of a particular issuer, projections of future cash flows and recoverability of the particular security as well as management's assertion of whether it is more likely than not that we will sell the particular security before recovery.

Our investments linked to real estate are subject to credit, market and servicing risk, which could diminish the value that we obtain from such investments.

As of December 31, 2016, 18% of our total invested assets were invested in fixed maturity and equity securities linked to real estate, such as CMBS and RMBS. Additionally, as of December 31, 2016, 8% of our total invested assets were invested in commercial mortgage loans (CML) and RML, and 1% of our total invested assets were invested in real estate held for investment. In total, as of December 31, 2016, 27% of our

total invested assets were invested in assets linked to real estate. Defaults by third parties in the payment or performance of their obligations underlying these assets could reduce our investment income and realized investment gains or result in the recognition of investment losses. For example, the value of our real estate-related assets depends in part on the financial condition of the borrowers, the value of the real properties underlying the mortgages and, for commercial properties, the financial condition of the tenants of the properties underlying those mortgages, as well as general and specific economic trends affecting the overall default rate. An unexpectedly high rate of default on mortgages held by a CMBS or RMBS may limit substantially the ability of the issuer of such security to make payments to holders of such securities, reducing the value of those securities or rendering them worthless. The risk of such defaults is generally higher in the case of mortgage securitizations that include “sub-prime” or “alt-A” mortgages. As of December 31, 2016, 30% of our holdings in assets linked to real estate were invested in such “sub-prime” mortgages and “alt-A” mortgages. Changes in laws and other regulatory developments relating to mortgage loans may impact the investments of our portfolio linked to real estate in the future. Additionally, cash flow variability arising from an unexpected acceleration in mortgage prepayment behavior can be significant, and could cause a decline in the estimated fair value of certain “interest only” securities or loans.

The CML we hold, and CML underlying the CMBS that we hold, face both default and delinquency risk. For CML that we hold directly, we establish loan specific estimated impairments at each balance sheet date based on the excess carrying value of a loan over the present value of expected future cash flows discounted at the loan’s original effective interest rate, the estimated fair value of the loan’s collateral if the loan is in the process of foreclosure or otherwise collateral dependent, or the loan’s observable market price. We also establish valuation allowances for loan losses when it is probable that a credit event has occurred and the amount of loss can be reasonably estimated. As of December 31, 2016, our CML investments comprised 8% of our total invested assets, of which 0.3% were in the process of foreclosure. Legislative proposals that would allow or require modifications to the terms of CML, an increase in the delinquency or default rate of our CML portfolio or geographic or sector concentration within our CML portfolio could materially and adversely impact our financial condition and results of operations.

Our investments in RML and RMBS also involve credit risks. Higher than expected rates of default or loss severities on our RML investments and the assets underlying our RMBS investments may adversely affect the value of such assets. A significant number of the mortgages underlying our RML and RMBS investments are concentrated in certain geographic areas. Certain markets within those areas experienced significant decreases in home values during the financial crisis of 2007-2008 and the years thereafter. Any event that adversely affects the economic or real estate market in any of these areas could have a disproportionately adverse effect on our RML and RMBS investments. While we actively monitor our exposure to these and other risks inherent in this strategy, we cannot assure you that our hedging and risk management strategies will be effective; any failure to manage these risks effectively could materially and adversely affect our results of operations and financial condition. A rise in home prices, the concern over further introduction of or changes to government policies aimed at altering prepayment behavior, and an increased availability of housing-related credit could combine to increase expected or actual prepayment speeds, which would likely lower the valuations of RML and the valuations of RMBS that are structured as interest only securities and inverse interest only securities. In general, any material decline in the economy or significant problems in a particular real estate market would likely cause a decline in the value of residential properties securing the mortgages in that market, thereby increasing the risk of delinquency, default and foreclosure. This could, in turn, have a material adverse effect on our credit loss experience in the affected market.

Control over the underlying assets in all of our real estate-related investments is exercised through a servicer that we do not control. If a servicer is not vigilant in seeing that borrowers make their required periodic payments, borrowers may be less likely to make these payments, resulting in a higher frequency of default. If a servicer takes longer to liquidate non-performing mortgages, our losses related to those loans may be higher than originally anticipated. Any failure by a servicer to service mortgages in which we are invested or which underlie a RMBS in which we are invested could negatively impact the value of our investments in the related RML or RMBS.

Our German Group Companies and the Luxembourg investment fund managed by our Luxembourg subsidiary in which we have invested are significantly (directly or indirectly) invested in real estate in Germany and rely to a large extent on earnings from rentals and mortgage loan financing. Rents, real estate prices and default risk of mortgage loans largely depend on economic and business conditions in Germany. Declining economic conditions could cause us to be unable to re-let our real estate on the current terms, encounter difficulties in divesting parts of the real estate and lead to an increased number of mortgage loan defaults. This could impair the performance of our German Group Companies and the Luxembourg investment fund managed by our Luxembourg subsidiary in which we have invested (including the investments of the Luxembourg investment fund, in particular Elementae S.A., a holding company in which the Luxembourg investment fund is the sole shareholder) and have material adverse effects on our business, financial condition, results of operations and cash flows. The Luxembourg investment fund managed by our Luxembourg subsidiary in which we have invested may also (directly or indirectly) hold investments located elsewhere, which may depend on local economic and business conditions and which may be similarly adversely affected.

In addition to the credit and market risk that we face in relation to all of our real estate-related investments, certain of these investments may expose us to various environmental, regulatory and other risks. For example, our investment in RML could result in claims being assessed against us as a mortgage holder or property owner, including assignee liability, responsibility for tax payments, environmental hazards and other liabilities, including liabilities under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980. We may continue to be liable under such claims after foreclosing on a property securing a mortgage loan held by us. Additionally, we may be subject to regulation by the CFPB as a mortgage holder or property owner. We are currently unable to predict the impact of such regulation on our business. Any adverse environmental claim or regulatory action against us resulting from our investment in RML could adversely impact our reputation, business and results of operations.

Item 1A. Risk Factors

Many of our invested assets are relatively illiquid and we may fail to realize profits from these assets for a considerable period of time, or lose some or all of the principal amount we invest in these assets if we are required to sell our invested assets at a loss at inopportune times to cover policyholder withdrawals or to meet our insurance, reinsurance or other obligations.

We offer certain products that allow policyholders to withdraw their funds under defined circumstances. In order to meet such obligations, we seek to manage our liabilities and configure our investment portfolios to provide and maintain sufficient liquidity to support expected withdrawal demands and contract benefits and maturities. However, in order to provide necessary long-term returns and to achieve our strategic goals, a certain portion of our assets are relatively illiquid. Many of our investments are in securities that are not publicly traded or that otherwise lack liquidity, such as our privately placed fixed maturity securities, below investment grade securities, investments in mortgage loans and alternative investments.

We record our relatively illiquid types of investments at fair value. If we were forced to sell certain of our assets, there can be no assurance that we would be able to sell them for the prices at which we have recorded them and we might be forced to sell them at significantly lower prices. In many cases, we may be prohibited by contract or applicable securities laws from selling such securities for a period of time. When we hold a security or position, it is vulnerable to price and value fluctuations and may experience losses if we are unable to timely sell, hedge or transfer the position. Thus, it may be impossible or costly for us to liquidate positions rapidly in order to meet unexpected withdrawal or recapture obligations. This potential mismatch between the liquidity of our assets and liabilities could have a material and adverse effect on our business, financial condition, results of operations and cash flows.

Our investment portfolio may be subject to concentration risk, particularly with regards to our investments in MidCap, AmeriHome and real estate.

Concentration risk arises from exposure to significant asset defaults of a single issuer, industry or class of securities, based on economic conditions, geography or as a result of adverse regulatory or court decisions. When an investor's assets are concentrated and that particular asset or class of assets experiences significant defaults, the default of such assets could threaten the investor's financial condition. Our most significant potential exposure to concentration risk are our investments in MidCap, a provider of revolving and term debt facilities to middle market companies in North America and Europe, and in A-A Mortgage and its indirect investment in AmeriHome, a mortgage lender and mortgage servicer. As of December 31, 2016, our exposure, including loaned amounts, to MidCap was $761 million, which represented 1% of our total invested assets and 11% of total AHL shareholders' equity. As of December 31, 2016, our exposure to A-A Mortgage was $417 million, which represented less than 1% of our total invested assets and 6% of total AHL shareholders' equity. To the extent that we suffer a significant loss on our investment in MidCap or A-A Mortgage, our financial condition and results of operations could be adversely affected.

As of December 31, 2016, 27% of our total invested assets were invested in real estate-related assets. Any significant decline in the value of real estate generally or the occurrence of any of the risks described above with respect to our real estate related-investments could materially and adversely affect our financial condition and results of operations.

Our investment portfolio may include investments in securities of issuers based outside the United States, including emerging markets, which may be riskier than securities of U.S. issuers.

We may invest in securities of issuers organized or based outside the United States that may involve heightened risks in comparison to the risks of investing in U.S. securities, including unfavorable changes in currency rates and exchange control regulations, reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets, higher brokerage commissions, transfer taxes and custody fees, local economic or political instability and greater market risk in general. In particular, investing in securities of issuers located in emerging market countries involves additional risks, such as exposure to economic structures that are generally less diverse and mature than, and to political systems that can be expected to have less stability than, those of developed countries, national policies that restrict investment by foreigners in certain issuers or industries of that country, the absence of legal structures governing foreign investment and private property and an increased risk of foreclosure on collateral located in such countries, a lack of liquidity due to the small size of markets for securities of issuers located in emerging markets and price volatility. The vote in 2016 by the UK to exit the EU has created significant volatility in the global financial markets. The effect of Brexit on our investment portfolios at this time is uncertain and this uncertainty will likely continue as negotiations commence to determine the future terms of the UK's relationship with the EU. Brexit is likely to continue to adversely affect European and worldwide economic conditions and could contribute to greater instability in the global financial markets before and after the terms of the UK's future relationship with the EU are settled.

As of December 31, 2016, 32% of the carrying value of our AFS fixed maturity securities, including related parties, was comprised of securities of issuers based outside of the United States and debt securities of foreign governments. Of our total AFS fixed maturity securities, including related parties as of December 31, 2016, 9% were invested in CLOs of Cayman Islands issuers (where underlying assets are largely loans to U.S. issuers), 6% were invested in securities of non-U.S. issuers by our German Group Companies and 17% were invested in other non-U.S. issuers. While we invest in securities of non-U.S. issuers, the currency denominations of such securities usually match the currency denominations of the liabilities that the assets support. When the currency denominations of the assets and liabilities do not match, we generally undertake hedging activities to eliminate or mitigate currency mismatch risk. See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Consolidated Investment Portfolio* for further information on international exposure.

Item 1A. Risk Factors

We previously identified material weaknesses in our internal control over financial reporting. If we fail to maintain effective internal control over financial reporting, we may not be able to accurately report our consolidated financial results.

We identified material weaknesses in our internal control over financial reporting as of and for the years ended December 31, 2014 and 2013. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. If we fail to maintain effective internal control over financial reporting, we may not be able to accurately report our consolidated financial results.

During the process of preparing and completing our consolidated financial statements for the year ended December 31, 2013, we determined we did not have sufficient internal control over financial reporting related to: (1) actuarial balances of the blocks of business acquired from Aviva USA and (2) the preparation and accuracy of income tax balances, each of which constituted a material weakness. To address the material weakness over actuarial balances, we designed and implemented controls to review the data inputs, models, reserve systems, valuations and other processes related to material reserves acquired from Aviva USA. Finally, we designed and implemented review controls over actuarial model changes in the actuarial units across our company. To address the material weakness over income tax balances, we took several actions, including adding expertise and resources to our tax staff through adding a global senior head of tax with significant experience, and enhancing our capabilities and processes to support financial reporting for income taxes. Additionally, we have designed controls to support the comprehensive review over our income tax processes, which include providing supporting documentation and analyses of our income tax accounting positions in a timely manner and managing the response to complex accounting for the income tax consequences of insurance acquisitions to prevent or detect misstatements in the determination of the income tax consequences of future acquisitions. Management believes that these deficiencies no longer constituted material weaknesses as of December 31, 2015, and as of December 31, 2016, assessed these deficiencies as significant deficiencies.

Due to a transition period established by rules of the SEC for newly public companies, we are not required to conduct an evaluation of our internal controls over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002 until the year ended December 31, 2017, nor have we conducted such an evaluation. Such an evaluation would include documenting internal control activities and procedures over financial reporting, assessing the design effectiveness of such controls, and testing the operating effectiveness of such controls, and could result in the identification of additional material weaknesses in our internal control over financial reporting.

Any failure to maintain adequate internal control over financial reporting or to implement required, new or improved internal controls, or difficulties encountered in their implementation, could cause us to report additional material weaknesses in our internal control over financial reporting, and may result in our inability to accurately report our consolidated financial results. Any such failure could have a material and adverse effect on our consolidated financial results and the value of our common shares.

Our growth strategy includes acquiring business through acquisitions of other insurance companies and reinsurance of insurance obligations written by unaffiliated insurance companies, and our ability to consummate these acquisitions on economically advantageous terms acceptable to us in the future is unknown.

We have grown and intend to grow our business in the future in part by acquisitions of other insurance companies and businesses, including through reinsurance, which could require additional capital, systems development and skilled personnel. We may experience challenges identifying, financing, consummating and integrating such acquisitions. While we have reviewed various acquisition opportunities and have successfully completed acquisitions in the past to facilitate our growth, competition exists in the market for profitable blocks of insurance and businesses. Such competition is likely to intensify as insurance businesses become more attractive acquisition targets. It is also possible that merger and acquisition transactions will become less frequent, which could also make it more difficult for us to implement our growth strategy as we have done in the past. Thus, in the future, we may not be able to find suitable acquisition opportunities that are available at attractive valuations, if at all. Even if we do find suitable acquisition opportunities, we may not be able to consummate the acquisitions on commercially acceptable terms. In addition, to the extent we determine to finance an acquisition, suitable financing arrangements may not be available on acceptable terms, on a timely basis, or at all. Our acquisition activities may also divert the attention of our management from our business, which may have an adverse effect on our business and results of operations.

Occasionally we may acquire or seek to acquire an insurance company or business that writes traditional life insurance business or other businesses that are not core to our business. In the past, except in limited circumstances, we have arranged for the sale or transfer, through reinsurance or otherwise, of such business prior to or following our acquisitions to the extent that we did not want to retain these non-core businesses. As we grow, the ability of our management to transfer or source sufficient reasonably priced reinsurance for traditional life insurance or other non-core businesses that we may acquire and want to dispose of may be limited. As we acquire new businesses and write a larger volume of business, it may be difficult to find buyers or reinsurers willing to assume increased risk, and added reinsurance may increase the associated costs. Ultimately, we may not be able to find buyers or source adequate reinsurance at all. In the event that we were unable to find buyers or purchase adequate reinsurance, we would have to accept an increase in our net risk exposures, revise our pricing to reflect higher reinsurance premiums, or otherwise modify our acquisitions and product offerings, each of which could have an adverse effect on our business, financial condition, results of operations and cash flows.

In furtherance of our strategy of growth through acquisitions, we routinely review and conduct investigations of potential acquisitions of business or blocks of business, some of which may be material. When we believe a favorable opportunity exists, we seek to enter into discussions with target companies or sellers regarding the possibility of such acquisitions. At any given time, we may be in discussions with one

or more counterparties. There can be no assurance that any such negotiations will lead to definitive agreements, or if such agreements are reached, that any transactions would be consummated.

We may not be able to successfully integrate future acquisitions and such acquisitions may result in greater risks to us, our business, financial condition, results of operations, cash flows and prospects.

Any failure to manage our growth and integrate our future acquisitions successfully may adversely affect us. Additionally, our ability to incorporate effectively the components of any businesses we may in the future acquire into our previously existing framework is unknown.

Potential difficulties that we may encounter in integrating new acquisitions include, but are not limited to:

- our failure to successfully execute plans to reinvest investments acquired in such acquisitions into higher yielding assets at acceptable levels of credit and other risks;
- the risks relating to integrating accounting and financial systems and accounting policies and the related risk of having to restate our historical financial statements;
- the challenge of integrating complex systems, operating procedures, regulatory compliance programs, technology, pricing structures, networks and other assets and strategies in a manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies;
- the challenge of integrating workforces;
- potential unknown liabilities that are significantly larger than we anticipate at the time of acquisition, and unforeseen increased expenses or delays associated with acquisitions, including costs in excess of the cash transition costs that we estimate at the outset of a transaction;
- conditions that we must comply with in order to obtain regulatory approvals for such acquisitions;
- the diversion of the attention of our management and other key employees;
- the potential loss of key employees or business at the target company;
- the inability to successfully combine our businesses in a manner that permits us to achieve the synergies and other benefits anticipated to result from future acquisitions;
- the challenge of forming and maintaining a cohesive management team;
- the risks of incurring significant goodwill and/or VOBA impairment charges in the future;
- the risk that the target will incur dramatic and significant lapses, withdrawals or sales declines shortly after signing or closing of an acquisition;
- our inability to secure hedges on adverse changes on interest rates, currencies and spreads on assets in the target company's investment portfolio on commercially reasonable terms or at all, or that such hedges perform poorly and do not properly hedge these risks;
- potential ratings downgrades of us or of the acquired entity;
- increased regulatory scrutiny as a result of our entry into new markets or our increase in size or market share; and
- branding or rebranding initiatives that involve substantial costs and may not be favorably received by customers of the target.

The failure to appropriately mitigate these difficulties and manage our growth effectively could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

If we are unable to attract and retain IMOs and agents, sales of our products may be adversely affected.

We distribute our annuity products through a variable cost distribution network which currently includes approximately 60 IMOs and approximately 28,000 independent agents. Insurance companies compete vigorously for productive and profitable agents. We must attract and retain such marketers and agents to sell our products. We compete with other life insurance companies for marketers and agents primarily on the basis of our financial position, support services, compensation and product features. Such marketers and agents may promote products offered by other life insurance companies that may offer a larger variety of products than we do. Our competitiveness for such marketers and agents also depends upon the long-term relationships we develop with them. There can be no assurance that such relationships will continue in the future. In addition, as a result of our ratings upgrades in 2015, our growth plans include distributing annuity products through small and mid-size banks and regional broker-dealers. If we are unable to attract and retain sufficient marketers and agents to sell our products or we are not successful in expanding our distribution channels through the bank and broker-dealer markets, our ability to compete and our revenues and resulting financial condition and results of operations could be adversely affected.

Repurchase agreement programs subject us to potential liquidity and other risks.

We may engage in repurchase agreement transactions whereby we sell fixed income securities to third parties, primarily major brokerage firms or commercial banks, with a concurrent agreement to repurchase such securities at a determined future date. These repurchase agreements provide us with liquidity and in certain instances also allow us to earn spread income. Under such agreements we may be required to deliver additional securities or cash as margin to the counterparty if the value of the securities sold decreases prior to the repurchase date. The cash proceeds received by us under such repurchase agreements are typically invested in fixed income securities and may not be available to be returned prior to the scheduled repurchase date, and it is possible that we will enter into other repurchase transactions and use cash proceeds from such transactions to pay the repurchase prices on maturing repurchase transactions. Repurchase agreements, however, are generally not committed arrangements, and market and other conditions on the repurchase date or at other times may limit our ability to enter into new repurchase transactions or to enter into transactions on favorable terms. To the extent that we are not able to enter into new transactions or to

enter into sufficient new transactions, we may need to find other sources to pay the repurchase prices under these transactions, which may or may not be available to us. Additionally, during difficult market situations, we may not be able to access funds under such repurchase agreements, which may require us to sell securities on unfavorable terms in order to ensure short-term liquidity.

In some cases, the maturity of the securities purchased by us with the cash proceeds received in the repurchase transaction may exceed the term of the related transaction and/or the market value of securities sold in such repurchase transactions may fall below stipulated margin requirements in the applicable repurchase agreement. If we are required to return significant amounts of cash collateral or post cash or securities as margin on short notice and we are forced to sell securities to meet such obligations, we may have difficulty doing so in a timely manner, may be forced to sell securities in a volatile or illiquid market for less than they otherwise would have been able to realize under normal market conditions, or both. In addition, under adverse capital market and economic conditions, liquidity may broadly deteriorate, which would further restrict our ability to sell securities.

A financial strength rating downgrade, potential downgrade or any other negative action by a rating agency could make our product offerings less attractive, inhibit our ability to acquire future business through acquisitions or reinsurance and increase our cost of capital, which could have a material adverse effect on our business.

Various NRSROs review the financial performance and condition of insurers and reinsurers, including our subsidiaries, and publish their financial strength ratings as indicators of an insurer's ability to meet policyholder obligations. These ratings are important to maintaining public confidence in our insurance subsidiaries' products, our insurance subsidiaries' ability to market their products and our competitive position. Factors that could negatively influence this analysis include:

- changes to our business practices or organizational business plan in a manner that no longer supports our ratings;
- unfavorable financial or market trends;
- a need to increase reserves to support our outstanding insurance obligations;
- our inability to retain our senior management and other key personnel;
- rapid or excessive growth, especially through large reinsurance or acquisitions, beyond the bounds of capital sufficiency or management capabilities as judged by the NRSROs;
- significant losses to our investment portfolio; and
- changes in NRSROs' capital adequacy assessment methodologies in a manner that would adversely affect the financial strength ratings of our insurance subsidiaries.

Some other factors may also relate to circumstances outside of our control, such as views of the NRSRO and general economic conditions. Any downgrade or other negative action by a NRSRO with respect to the financial strength ratings of our insurance subsidiaries, or an entity we acquire, or our credit ratings, could materially adversely affect us and our ability to compete in many ways, including the following:

- reducing new sales of insurance products;
- harming relationships with or perceptions of distributors, IMOs and sales agents;
- increasing the number or amount of policy lapses or surrenders and withdrawals of funds, which may result in a mismatch of our overall asset and liability position;
- requiring us to offer higher crediting rates or greater policyholder guarantees on our insurance products in order to remain competitive;
- increase our borrowing costs;
- reducing our level of profitability and capital position generally or hindering our ability to raise new capital; or
- requiring us to collateralize obligations under or result in early or unplanned termination of hedging agreements and harming our ability to enter into new hedging agreements.

In order to improve or maintain their financial strength ratings, our subsidiaries may attempt to implement business strategies to improve their capital ratios. We cannot guarantee any such measures will be successful. We cannot predict what actions NRSROs may take in the future, and failure to improve or maintain current financial strength ratings could materially and adversely affect our business, financial condition, results of operations and cash flows.

We are subject to significant operating and financial restrictions imposed by our credit agreement.

The credit agreement dated January 22, 2016, by and among AHL, ALRe and Athene USA, as borrowers, each lender from time to time party thereto and Citibank, N.A., as administrative agent (Credit Facility) contains various restrictive covenants which limit, among other things, AHL's, ALRe's and Athene USA's ability, and in certain instances, some or all of their subsidiaries' ability, to:

- incur additional indebtedness, make guarantees and enter into derivative arrangements;
- create liens on our or such subsidiaries' assets;
- make fundamental changes;
- engage in certain transactions with affiliates;
- make changes in the nature of our business; and
- pay dividends and distributions or repurchase our common shares.

These covenants, some of which are financial, may prevent or restrict us from capitalizing on business opportunities, including making additional acquisitions or growing our business. In addition, if AHL undergoes a "change of control" as defined in the Credit Facility, the lenders under the Credit Facility will have the right to terminate the facility and/or accelerate the maturity of all outstanding loans. As of the date of this report, AHL is in compliance with all covenants and no borrowings under the Credit Facility are outstanding. As a result of these restrictions and their effects on us, we may be limited in how we conduct our business and may be unable to raise additional debt financing to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness we may incur may contain additional restrictive covenants.

We are subject to the credit risk of our counterparties, including ceding companies who reinsure business to ALRe, reinsurers who assume liabilities from our subsidiaries and derivative counterparties.

Our insurance subsidiaries may cede insurance and transfer related assets and certain liabilities to third-party insurance companies through reinsurance. Under such reinsurance agreements, our insurance subsidiaries will be liable for losses on insurance risks if such reinsurers fail to perform under their respective reinsurance agreements with our subsidiaries.

In connection with the acquisitions of our two largest U.S. insurance subsidiaries, we entered into reinsurance agreements with Protective and Global Atlantic. As part of our acquisition of AADE, we effected a sale of substantially all of AADE's life insurance business by reinsuring such business to Protective. Similarly, in connection with our acquisition of Aviva USA, we effectuated a sale of substantially all of Aviva USA's life insurance business by reinsuring such business to Global Atlantic. Because these agreements involve reinsurance of entire business segments, each covers a much larger volume of business than a traditional reinsurance agreement. Additionally, although certain of Protective's financial obligations under its reinsurance agreement with us are secured by assets placed in a trust for our benefit and Global Atlantic is obligated to maintain assets in custody accounts for our benefit to support substantially all of its financial obligations under its reinsurance agreements with us, as each of Protective and Global Atlantic are the only counterparties under each respective agreement, we face a heightened risk of default with respect to those reinsurers in particular. In addition, we do not have a security interest in the assets in the custody accounts supporting the Global Atlantic reinsurance agreements. Therefore, in the event of an insolvency of the Global Atlantic insurance company acting as reinsurer, our claims would be subordinated to those of such insurance company's policyholders and the assets in the relevant custody accounts may be available to satisfy the claims of such insurance company's general creditors in addition to us. As with any other reinsurance agreement, we remain liable to our policyholders even if Protective or Global Atlantic fail to perform. Although each agreement provides that Protective and Global Atlantic, respectively, agree to indemnify us for losses sustained in connection with their respective performances of each agreement, such indemnification may not be adequate to compensate us for losses actually incurred in the event that Protective or Global Atlantic are either unable or unwilling to perform according to the agreements' terms. In addition to possible losses that could be incurred if our subsidiaries are forced to recapture these blocks, such subsidiaries may also face a substantial shortfall in capital to support the recaptured business, possibly resulting in material declines to the insurer's RBC ratio and/or creditworthiness and potentially expose the insurer to ratings downgrades, regulatory intervention, increased policyholder withdrawals or other negative effects.

Conversely, ALRe and certain of our U.S. insurance subsidiaries assume liabilities from other insurance companies. Changes in the ratings, creditworthiness or market perception of such ceding companies or in the administration of policies reinsured to us could cause policyholders of contracts reinsured to us to surrender or lapse their policies in unexpected amounts. In addition, to the extent such ceding companies do not perform under their reinsurance agreements with us, we may not achieve the results we intended and could suffer unexpected losses. In either case, we have exposure to our subsidiaries' reinsurance counterparties which could materially adversely affect our business, financial condition, results of operations and cash flows.

Finally, we are exposed to credit loss in the event of nonperformance by our counterparties on derivative agreements. We seek to further reduce the risk associated with such agreements by entering into such agreements with large, well-established financial institutions. In addition, rules recently adopted by the CFTC and the prudential regulators will require us and our swap dealer counterparties to collect and post initial and variation margin with respect to non-cleared swaps. Any initial margin required to be posted to our swap dealer counterparties under these rules will be segregated with a third-party custodian. However, there can be no assurance that we will not suffer losses in the event a counterparty or custodian fails to perform or is subject to a bankruptcy or similar proceeding.

We rely significantly on third parties for investment services and certain other services related to our policies, and we may be held responsible for obligations that arise from the acts or omissions of third parties under their respective agreements with us if they are deemed to have acted on our behalf.

We rely significantly on various third parties to provide investment services to us as well as to sell, distribute and provide administrative services for our subsidiaries' policies. As such, our results may be affected by the performance of those parties. Additionally, our operations are dependent on various service providers and on various technologies, some of which are provided or maintained by certain key outsourcing partners and other parties.

Item 1A. Risk Factors

Many of our subsidiaries' products and services are sold through third-party intermediaries. In particular, our insurance businesses are reliant on such intermediaries to describe and explain their products to potential customers, and although we take precautions to avoid this result, such intermediaries may be deemed to have acted on our behalf. If that occurs, the intentional or unintentional misrepresentation of our subsidiaries' products and services in advertising materials or other external communications, or inappropriate activities by our personnel or an intermediary could result in liability for us and have an adverse effect on our reputation and business prospects, as well as lead to potential regulatory actions or litigation. In addition, as a result of our acquisitions, we rely on TPAs to administer a portion of our annuity contracts, as well as a small amount of legacy life insurance business. We currently rely on these TPAs to administer a number of our policies. In addition, to the extent any of these TPAs do not administer our business appropriately, we may experience customer complaints, regulatory intervention and other adverse impacts, which could affect our future growth and profitability. If any of these TPAs or their employees are found to have made material misrepresentations to our policyholders, violated applicable insurance, privacy or other laws and regulations or otherwise engaged in misconduct, we could be held liable for their actions, which could adversely affect our reputation and business prospects, as well as lead to potential regulatory actions or litigation. Additionally, if any of these TPAs fails to perform in accordance with our standards, we may incur additional costs in connection with finding and retaining new TPAs, which may divert the time and attention of our senior management from our business.

Additionally, past or future misconduct by agents that distribute our subsidiaries' products or employees of our vendors could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm and the precautions we take to prevent and detect this activity may not be effective in all cases. Although we employ controls and procedures designed to monitor associates' business decisions and to prevent us from taking excessive or inappropriate risks, associates may take such risks regardless of such controls and procedures. In addition, annuity sales to seniors have been the subject of increased scrutiny by FINRA and state insurance regulators, and have been the source of industry litigation in situations where annuity sales have allegedly been unsuitable for the financial needs of seniors.

Further, on April 6, 2016, the DOL issued a new regulation which imposes upon third parties who sell annuities within ERISA plans or to individual retirement account IRA holders a fiduciary duty to the retirement investor. For the year ended December 31, 2016, of our total deposits of $8.8 billion from our organic channels, 42% was associated with sales of FIAs to employee benefit plans and IRAs and 14% was associated with traditional fixed annuities sold to employee benefit plans and IRAs. The requirements of the regulation will begin to be implemented on April 10, 2017, with full implementation on January 1, 2018. The DOL has published a proposed amendment to the fiduciary rule that will delay the applicability date for 60-days to allow the DOL to fully review the rule in light of the executive memorandum. The DOL has provided a 15-day comment period to respond to the proposed delay and it is anticipated it will issue the final rule officially delaying the applicability date in late March. In addition to the 15-day comment period relating to the delay, the DOL has opened a 45-day comment period to collect responses to the questions raised in the executive memorandum. We anticipate a delay, with a possible replacement of the rule that is less burdensome but still requires sales to be in the best interest of clients. However, until the rule is officially delayed, we continue to move forward in preparation for the April 10, 2017 applicability date.

The DOL regulation regarding fiduciary obligations of distributors of products to retirement accounts may result in additional compliance costs to us, regulatory scrutiny and litigation, as well as reduced sales of our products. As the fiduciary regulations are not currently in effect, we are not able to assess the actual impact that such regulations may have on us and our associates. However, when fully implemented such regulations may have an adverse effect on our results of operations and financial condition.

If we lose or fail to retain our senior executives or other key personnel and are unable to attract qualified personnel, our ability to execute our growth plans and operate our business could be impeded or adversely affected, which could significantly and negatively affect our business.

Our success depends in large part on our ability to attract and retain key people, including senior executives, sales and distribution professionals, actuarial and finance professionals and information technology professionals. Intense competition exists for key employees with demonstrated ability, and we may be unable to hire or retain such employees. Accordingly, the loss of services of one or more of the members of our senior management could delay or prevent us from fully implementing our business strategy and, consequently, significantly and negatively impact our business. The unexpected loss of members of our senior management or other key employees could have a material adverse effect on our operations due to the loss of their skills, knowledge of our business and their years of industry experience as well as the potential difficulty of promptly finding qualified replacement employees. We also rely upon the knowledge and experience of employees involved in functions that require technical expertise in order to provide for sound operational controls for our overall enterprise, including the accurate and timely preparation of required regulatory filings and financial statements and operation of internal controls. A loss of such employees could adversely impact our ability to execute key operational functions and could adversely affect our operational controls, including our internal control over financial reporting.

Foreign currency fluctuations may reduce our net income and our capital levels, adversely affecting our financial condition.

We are exposed to foreign currency exchange rate risk both as a result of our acquisition of our German Group Companies, which conduct business in a variety of non-U.S. currencies, and the investments in our investment portfolio that are denominated in currencies other than the U.S. dollar or are issued by entities which primarily conduct their business outside of the U.S. We may employ various strategies (including hedging) to largely manage our exposure to foreign currency exchange risk. To the extent that these exposures are not fully hedged or the hedges are ineffective, our results or equity may be reduced by fluctuations in foreign currency exchange rates that could materially adversely affect our financial condition and results of operations.

Item 1A. Risk Factors

The vote by the United Kingdom mandating its withdrawal from the EU could have an adverse effect on our business and investments.

The vote in 2016 by the UK to exit the EU, or Brexit, has created significant volatility in the global financial markets. However, the eventual effects of the UK's withdrawal from the EU on our business or our investment portfolios is uncertain at this time and will depend on agreements the UK makes to retain access to EU markets either during a transitional period or more permanently. Brexit could impair the ability of our German companies to transact business in the future in the UK, including by restricting the free travel of employees from and to the UK and through legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. Furthermore, Brexit is likely to continue to adversely affect European and worldwide economic conditions and could contribute to greater instability in the global financial markets before and after the terms of the UK's future relationship with the EU are settled. Brexit's impact could have an adverse effect on our business and investments.

Our operations may be affected by the introduction of an EU financial transaction tax (FTT).

On February 14, 2013, the EC published a proposal for a Directive for a common FTT in those EU Member States which choose to participate (the FTT Zone) and the proposal was included in the EC's work program for 2014, published on October 22, 2013.

The proposed FTT has broad scope and would apply to financial transactions where at least one party to the transaction is established in the FTT Zone and either that party or another party is a financial institution established in the FTT Zone. The term "financial institution" covers a wide range of entities, including insurance and reinsurance undertakings. The term "financial transaction" includes the sale and purchase of a financial instrument, a transfer of risk associated with a financial instrument and the conclusion or modification of a derivative. The proposed minimum rate of tax is 0.1% of the consideration, or 0.01% of the notional amount in relation to a derivative. A financial institution may be deemed to be "established" in the FTT Zone, even if it has no business presence there, for example, if the underlying financial instrument is issued in the FTT Zone.

In the period following its publication in February 2013, the FTT proposal has both been subject to significant negotiation between the participating EU Member States and the subject of a legal challenge. As a result, both the scope of any FTT, as well as the timing of implementation, has been somewhat unclear.

In December 2015, those EU Member States that remain committed to the introduction of the FTT (the FTT 10) announced that they had reached a broad understanding as to the possible foundations for the FTT. At that time, the FTT 10 intended to reach a final agreement by the summer of 2016. Although an agreement was not reached during the summer of 2016, the FTT 10 reached an agreement in October 2016 on the basic outline of the FTT, and directed the EC to draft an EU directive authorizing the FTT. A draft of this directive and the FTT legislation was expected to be finalized at the meeting of the Economic and Financial Affairs Council of the EU (ECOFIN) on December 6, 2016. At its meeting on December 6, 2016 ECOFIN was informed that the FTT 10 is still working on a number of open questions and trying to reach a compromise on the core elements. No further dates have been set at this time for the development of the FTT.

It remains clear that further work will still be required in order to settle both the scope and application of any FTT, and further legal challenges may yet arise. The introduction of an FTT in this or similar form could have an adverse effect on our results of operations.

Our business in Bermuda could be adversely affected by Bermuda employment restrictions.

As of December 31, 2016, we employed approximately 25 non-Bermudians in our Bermuda office (other than spouses of Bermudians, holders of permanent residents' certificates, and holders of working residents' certificates). We may hire additional non-Bermudians as our business grows. Under Bermuda law, non-Bermudians (other than spouses of Bermudians, holders of permanent residents' certificates, and holders of working residents' certificates) generally may not engage in any gainful occupation in Bermuda without a valid government work permit (with certain exceptions). A work permit is generally granted or renewed upon showing that, after proper public advertisement, no Bermudian, spouse of a Bermudian, or holder of a permanent resident's or working resident's certificate who meets the minimum standards reasonably required by the employer has applied for the job. Work permit terms that are available for request range from three months to five years. We may not be able to use the services of one or more of our non-Bermudian employees if we are not able to obtain work permits for them, which could have a material adverse effect on our business, financial condition and results of operations.

Interruption or other operational failures in telecommunications, information technology and other operational systems or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data residing on those systems, including as a result of human error, could have a material adverse effect on our business.

We are highly dependent on automated and information technology systems to record and process our internal transactions and transactions involving our customers, as well as to calculate reserves, value our investment portfolio and complete certain other components of our financial statements. We could experience a failure of one of these systems, our employees or agents could fail to monitor and implement enhancements or other modifications to a system in a timely and effective manner or our employees or agents could fail to complete all necessary data reconciliation or other conversion controls when implementing a new software system or modifications to an existing system. Additionally, anyone who is able to circumvent our security measures and penetrate our information technology systems could access, view, misappropriate, alter or delete information in the systems, including personally identifiable customer information and proprietary business information. Information security risks also exist with respect to the use of portable electronic devices, such as laptops, which are particularly vulnerable to loss and theft.

We believe that we have established and implemented appropriate security measures, controls and procedures to safeguard our information technology systems and to prevent unauthorized access to such systems and any data processed or stored in such systems, and we periodically evaluate and test the adequacy of such systems, controls and procedures. In addition, we have established a business continuity plan which is designed to ensure that we are able to maintain all aspects of our key business processes functioning in the midst of certain disruptive events, including any disruptions to or breaches of our information technology systems. Despite the implementation of security and back-up measures, our information technology systems may be vulnerable to physical or electronic intrusions, viruses or other attacks, programming errors and similar disruptions. We may also be subject to disruptions of any of these systems arising from events that are wholly or partially beyond our control (for example, natural disasters, acts of terrorism, epidemics, computer viruses and electrical or telecommunications outages). All of these risks are also applicable where we rely on outside vendors to provide services to us and our customers. The failure of any one of these systems for any reason, or errors made by our employees or agents, could in each case cause significant interruptions to our operations, which could harm our reputation, adversely affect our internal control over financial reporting or have a material adverse effect on our business, financial condition and results of operations.

We retain confidential information in our information technology systems and those of our business partners, and we rely on industry standard commercial technologies to maintain the security of those systems. Despite our implementation of network security measures, our servers could be subject to physical and electronic intrusions, and similar disruptions from unauthorized tampering with our computer systems. While we perform annual penetration tests and have adopted a number of measures to protect the security of customer and company data, and to our knowledge have not experienced a successful cyber attack that has resulted in any material compromise in the security of our information technology systems, there is no guarantee that such an attack will not occur or be successful in the future.

In addition, an increasing number of jurisdictions require that customers be notified if a security breach results in the disclosure of personally identifiable customer information. Any compromise of the security of our information technology systems that results in inappropriate disclosure or use of personally identifiable customer information could damage the reputation of our brand in the marketplace, deter purchases of our products, subject us to heightened regulatory scrutiny or significant civil and criminal liability and require us to incur significant technical, legal and other expenses.

We may be the target or subject of, and may be required to defend against or respond to, litigation (including class action litigation), enforcement investigations or regulatory scrutiny.

We, like other financial services companies, are involved in litigation and arbitration in the ordinary course of business. More generally, we operate in an industry in which various practices are subject to regulatory scrutiny and potential litigation, including class actions and enforcement investigations. Plaintiffs may seek large or indeterminate amounts of damages, including compensatory, liquidated, treble and/or punitive damages. In addition, we sell our products through third parties, including IMOs, whose activities may be difficult to monitor. Civil jury verdicts have been returned against insurers and other financial services companies involving sales, underwriting practices, product design, product disclosure, administration, denial or delay of benefits, charging excessive or impermissible fees, recommending unsuitable products to customers, breaching fiduciary or other duties to customers, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or other persons with whom the insurer does business, payment of sales or other contingent commissions and other matters. Such lawsuits can result in substantial judgments that are disproportionate to actual damages, including material amounts of punitive or non-economic compensatory damages. In some states, juries, judges and arbitrators have substantial discretion in awarding punitive, or non-economic, compensatory damages, which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, financial services companies have made material settlement payments. Given the large or indeterminate amounts sometimes sought, and the inherent unpredictability of litigation, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation matters could have a material and adverse effect on our financial condition. See *Item 3. Legal Proceedings*.

Risks Relating to Our Investment Manager

We rely on our investment management or advisory agreements with AAM and AAME for the management of our investment portfolio. AAM and AAME may terminate these arrangements at any time, and there are limitations on our ability to terminate such arrangements, which may adversely affect our investment results.

We rely on AAM and AAME to provide us with investment management and advisory services pursuant to various investment management agreements (IMAs) and advisory agreements. AAM and AAME rely in part on their ability to attract and retain key people, and the loss of services of one or more of the members of AAM's or AAME's senior management could delay or prevent AAM or AAME from fully implementing our investment strategy.

Item 1A. Risk Factors

IMA Termination Rights
Our bye-laws currently provide that we may not, and will cause our subsidiaries not to, terminate any IMA or advisory agreement among us, our subsidiaries and AAM or AAME without cause before October 31, 2018 (or any third anniversary thereafter) (each such date, an IMA Termination Date) and any termination on an IMA Termination Date without cause requires (1) the approval of our board of directors and at least 50% of the total issued shares of AHL that are entitled to vote (giving effect to the voting allocation provisions set forth in our bye-laws) and (2) six months' prior written notice to AAM or AAME of such termination. Notwithstanding the foregoing, any such IMA may be terminated by our board of directors for cause (as defined in our bye-laws), which includes (a) material violations of law relating to AAM's or AAME's advisory business, (b) AAM's or AAME's gross negligence, willful misconduct or reckless disregard of AAM's or AAME's obligations under the relevant agreement, (c) a determination by the board of directors, in its sole discretion and acting in good faith, of unsatisfactory long-term performance of AAM or AAME, or (d) a determination by the board of directors, in its sole discretion and acting in good faith, that the fees being charged by AAM or AAME are unfair and excessive compared to a comparable asset manager (provided, that in the case of the immediately preceding clauses (c) and (d), the board of directors must deliver notice of such determination to AAM or AAME, as applicable, and AAM or AAME, as applicable, will have 30 days after receipt of such notice to address the board of directors' concerns, and provided, further, that in the case of the immediately preceding clause (d), AAM or AAME has the right to lower its fees to match the fees of such comparable asset manager). However, our organizational documents give our board of directors complete discretion as to whether to determine if a for cause termination event has occurred under any IMA and therefore the board of directors may never elect to make such a determination. Five of our 13 directors are employees of or consultants to Apollo and our Chairman, Chief Executive Officer and Chief Investment Officer is an employee of AAM, and under Bermuda law, such directors would be allowed to vote on any resolution to terminate an IMA as long as they declare their conflict prior to any such vote.

Proposed Bye-law Amendment
A proposed amendment to our bye-laws that has been approved by our board of directors and is subject to approval by our shareholders at our 2017 Annual General Meeting provides that we may not, and will cause our subsidiaries not to, terminate any IMA or advisory agreement among us or any of our subsidiaries, on the one hand, and AAM or AAME, on the other hand, before October 31, 2018 (or any anniversary thereafter) (each such date, an IMA Termination Election Date) and any termination on an IMA Termination Election Date requires (i) the approval of two-thirds of our Independent Directors (as defined below) and (ii) written notice to AAM or AAME of such termination at least 30 days' prior to an IMA Termination Election Date. If our Independent Directors make any such election to terminate and notice of such termination is delivered, the termination will be effective on the second anniversary of the applicable IMA Termination Election Date (IMA Termination Effective Date). Notwithstanding the foregoing, under such proposed amendment, (A) our Independent Directors may only elect to terminate an IMA or advisory agreement on an IMA Termination Election Date if two-thirds of our Independent Directors determine, in their sole discretion and acting in good faith, that either (i) there has been unsatisfactory long-term performance materially detrimental to us by AAM or AAME, or (ii) the fees being charged by AAM or AAME are unfair and excessive compared to a comparable asset manager (provided, that in either case such Independent Directors must deliver notice of any such determination to AAM or AAME, as applicable, and AAM or AAME, as applicable, will have until the applicable IMA Termination Effective Date to address such concerns, and provided, further, that in the case of such a determination that the fees being charged by AAM or AAME are unfair and excessive, AAM or AAME, as applicable, has the right to lower its fees to match the fees of such comparable asset manager) and (B) upon the determination by two-thirds of our Independent Directors, we or our subsidiaries may also terminate an IMA or advisory agreement with AAM or AAME as a result of either (i) a material violation of law relating to AAM's or AAME's advisory business, or (ii) AAM's or AAME's gross negligence, willful misconduct or reckless disregard of AAM's or AAME's obligations under the relevant agreement, and in either case the delivery of at least 30 days' prior written to such termination and such termination will be effective at the end of such 30-day period (the events described in the foregoing clauses (A) and (B) are referred to in more detail in our bye-laws as "AHL Cause"). For purposes of these provisions of the bye-laws (as amended pursuant to such proposed amendment), an "Independent Director" cannot be (x) an officer or employee of ours or any of our subsidiaries or (y) an officer or employee of (1) any member of the Apollo Group described in clauses (i) through (iv) of the definition of "Apollo Group" as set forth in our bye-laws or (2) AGM or any of its subsidiaries (excluding any subsidiary that constitutes any portfolio company (or investment) of (A) an investment fund or other investment vehicle whose general partner, managing member or similar governing person is owned, directly or indirectly, by AGM or by one or more of its subsidiaries or (B) a managed account agreement (or similar arrangement) whereby AGM or one or more of its subsidiaries serves as general partner, managing member or in a similar governing position).

Our organizational documents give our Independent Directors complete discretion, while acting in good faith, as to whether to determine if an AHL Cause event has occurred with respect to any IMA or advisory agreement with AAM or AAME, and therefore our Independent Directors are under no obligation to make, and therefore may exercise their discretion never to make, such a determination.

The boards of directors of AHL's subsidiaries may terminate an IMA or advisory agreement with AAM or AAME relating to the applicable subsidiary if such subsidiary's board of directors determines that such termination is required in the exercise of its fiduciary duties. If our subsidiaries do elect to terminate any such agreement, other than as provided above, we may be in breach of our bye-laws, which could subject us to regulatory scrutiny, expose us to shareholder lawsuits and could have a negative effect on our financial condition and results of operations.

Investment Management Fees
Further, except in limited circumstances, we currently pay AAM 40 basis points per annum on assets managed and we pay additional fees to Apollo and its affiliates for providing sub-advisory services and acting as manager of investment funds in which we invest. Any such fees may be higher than what other investment managers may be willing to charge us currently for investment services. Because of the services and the unique acquisition opportunities provided by AAM that we are able to access that many other companies cannot access, we do not currently expect our board of directors or our Independent Directors would elect to terminate any IMA. These limitations on our ability to terminate the IMAs or advisory agreements with AAM or AAME could have a negative effect on our financial condition and results of operations.

Termination by AAM or AAME
Conversely, we may be adversely affected if AAM or AAME elect to terminate an IMA at a time when such agreement remains advantageous to us. We depend upon AAM and AAME to implement our investment strategy. However, AAM and AAME do not face the restrictions described above with regards to its ability to terminate any of its agreements with us and may terminate such agreements at any time. If AAM or AAME choose to terminate such agreements, there is no assurance that we could find a suitable replacement or that certain of the opportunities made available to us as a result of our relationship with AAM and AAME would be offered by a suitable replacement, and therefore our results of operations and financial condition could be adversely impacted by our failure to retain a satisfactory investment manager.

Interruption or other operational failures in telecommunications, information technology and other operational systems at AAM or AAME or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data residing on AAM's or AAME's systems, including as a result of human error, could have a material adverse effect on our business.

We are highly dependent on AAM and AAME, as our investment manager and adviser, respectively, to maintain information technology and other operational systems to record and process their transactions with respect to our investment portfolio, which includes providing information to us to enable us to value our investment portfolio that may affect our GAAP or U.S. statutory accounting principles financial statements. AAM or AAME could experience a failure of one of these systems, their employees or agents could fail to monitor and implement enhancements or other modifications to a system in a timely and effective manner or their employees or agents could fail to complete all necessary data reconciliation or other conversion controls when implementing a new software system or modifications to an existing system. Additionally, anyone who is able to circumvent AAM's or AAME's security measures and penetrate their information technology systems could access, view, misappropriate, alter or delete information in the systems, including proprietary information relating to our investment portfolio. The maintenance and implementation of these systems at AAM and AAME is not within our control. Should AAM's or AAME's systems fail to accurately record information pertaining to our investment portfolio, we may inadvertently include inaccurate information in our financial statements and experience a lapse in our internal control over financial reporting. The failure of any one of these systems at AAM or AAME for any reason, or errors made by their employees or agents, could in each case cause significant interruptions to their operations, which could adversely affect our internal control over financial reporting or have a material adverse effect on our business, financial condition and results of operations.

The historical performance of AAM and AAME should not be considered as indicative of the future results of our investment portfolio, our future results or any returns expected on our common shares.

Our investment portfolio's returns have benefited historically from investment opportunities and general market conditions that currently may not exist and may not repeat themselves, and there can be no assurance that either AAM or AAME will be able to avail itself of profitable investment opportunities in the future. Furthermore, the historical returns of our investments managed by AAM and AAME are not directly linked to returns on our common shares, which are affected by various factors, one of which is the value of our investment portfolio. In addition, each of AAM and AAME are compensated based solely on our assets which they manage rather than by investment return targets. Accordingly, there can be no guarantee that either AAM or AAME will be able to achieve any particular return for our investment portfolio in the future.

We evaluate AAM's past performance, in part, based upon the total return that AAM is able to generate in managing our investment portfolio. Such total return values have been included in *Item 1. Business-Investment Management*. Such values are prepared by AAM and involve the use of estimates and assumptions that are not within our control and further involve the use of certain figures that are not derived from our books and records and may be unaudited.

If either AAM or AAME loses or fails to retain its senior executives or other key personnel and is unable to attract qualified personnel, its ability to provide us with investment management and advisory services could be impeded or adversely affected, which could significantly and negatively affect our business.

AAM and AAME depend in large part on their ability to attract and retain key people, including senior executives, finance professionals and information technology professionals. Intense competition exists for key employees with demonstrated ability, and AAM or AAME may be unable to hire or retain such employees. Accordingly, the loss of services of one or more of the members of AAM's or AAME's senior management could delay or prevent AAM or AAME from fully implementing our investment strategy and, consequently, significantly and negatively impact our business. The unexpected loss of members of AAM's or AAME's senior management or other key employees could have a material adverse effect on AAM's or AAME's operations due to the loss of their skills, knowledge of AAM's or AAME's business and their years of industry experience as well as the potential difficulty of promptly finding qualified replacement employees. A loss of such employees could adversely impact AAM's or AAME's ability to execute key operational functions and could adversely affect our investment portfolio and results of operations.

Increased regulation or scrutiny of alternative investment advisers and certain trading methods may affect AAM's and AAME's ability to manage our investment portfolio or affect our business reputation.

The regulatory environment for investment managers is evolving, and changes in the regulation of investment managers may adversely affect the ability of AAM and AAME to effect transactions that utilize leverage or to pursue their strategies in managing our investment portfolio. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. Furthermore, our German Group Companies and their investments are subject to additional investment restrictions that may prevent our German Group

Companies from investing in assets with sufficient yields to meet our targeted returns. The Securities and Exchange Commission (SEC), other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. Due to our reliance on AAM and AAME to manage our investment portfolio, any regulatory action or enforcement against AAM or AAME could have an adverse effect on our financial condition. Additionally, the regulation of derivatives transactions is an evolving area of law and is subject to modification by government and judicial action. Any future regulatory change could have a significant negative impact on our financial condition and results of operations.

Risks Relating to Insurance and Other Regulatory Matters

Our industry is highly regulated and we are subject to significant legal restrictions, regulations and regulatory oversight in connection with the operations of our business, including the discretion of various governmental entities in applying such restrictions and regulations. These restrictions may have a material adverse effect on our business, financial condition, liquidity, results of operations, cash flows and prospects.

U.S. State Regulation

Our domestic insurance subsidiaries' businesses are subject to government regulation in each of the states in which they conduct business. Such regulation is vested in state agencies having broad administrative, and in some instances discretionary, authority with respect to many aspects of our business, which may include, among other things, the investments we can acquire and hold, reserve requirements, marketing practices, advertising, maintaining policyholder privacy, policy forms, restrictions on the ability of our subsidiaries to pay dividends or other distributions to us, reinsurance and other transactions with our affiliates, acquisitions, mergers and capital adequacy. These requirements are concerned primarily with the protection of policyholders rather than shareholders. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which could result, among other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm our results of operations and financial condition. If we fail to address, or appear to fail to address, appropriately any of these matters, our reputation could be harmed and we could be subject to additional legal risk, which could increase the size and number of claims and damages asserted against us or subject us to enforcement actions, fines and penalties.

Each state has legislation in place that requires U.S. insurers domiciled in such state to furnish certain information concerning their operations and the interrelationships and transactions among companies within their holding company systems and their respective affiliates that may materially affect the operations, management or financial condition of the insurers within the system. Generally, these laws require that all transactions between insurers and affiliates be fair and reasonable and sometimes require prior notice to the regulators and regulatory approval. Changes to these laws that result in more stringent requirements could negatively impact our ability to conduct transactions with our affiliates, including investments into funds managed by Apollo and its affiliates, dividends or distributions from our subsidiaries to us (as described more fully below) and by us to our shareholders, reinsurance agreements among our affiliates or our acquisition strategy. Such changes and any resulting inability to or increased cost associated with transactions with our affiliates could materially adversely impact our business, financial condition, results of operations and cash flows.

Current law of two of the domiciliary states of Athene, Delaware and Iowa, permits the payment of dividends or distributions which, together with dividends or distributions paid during the preceding twelve months, do not exceed the *greater* of (a) 10% of the insurer's surplus as regards policyholders as of the immediately preceding year end or (b) the net gain from operations of the insurer for the preceding twelve-month period ending as of the immediately preceding year end. Current law of New York permits the payment of dividends or distributions which, together with dividends or distributions paid during any calendar year, (1) do not exceed the *greater* of (a) 10% of the insurer's surplus as regards policyholders as of the end of the immediately preceding calendar year or (b) the net gain from operations of the insurer for the immediately preceding calendar year, not including realized capital gains, not to exceed 30% of the insurer's surplus as regards policyholders as of the end of the immediately preceding calendar year or (2) do not exceed the *lesser* of (a) 10% of the insurer's surplus as regards policyholders as of the end of the immediately preceding calendar year or (b) the net gain from operations of the insurer for the immediately preceding calendar year, not including realized capital gains. Any proposed dividend in excess of this amount is considered an extraordinary dividend or extraordinary distribution and may not be paid until it has been approved, or a 30-day waiting period has passed during which it has not been disapproved, by a Commissioner. These restrictions limit our U.S. insurance subsidiaries' ability to pay dividends to us. Any further changes to state regulations that further restrict our U.S. insurance subsidiaries' ability to declare and pay dividends or pay distributions to us could have a materially adverse effect on our financial condition and results of operations.

At any given time, we and our domestic insurance subsidiaries may be the subject of a number of ongoing financial or market conduct examinations, audits or inquiries. From time to time, regulators raise issues during such examinations that could, if determined adversely, have a material impact on our insurance subsidiaries' businesses or result in fines for improper market conduct. As part of their routine regulatory oversight process, state insurance departments conduct periodic detailed examinations, generally once every three to five years, of the books, records, accounts and operations of insurance companies that are domiciled in their states. Examinations are generally carried out in cooperation with the insurance departments of other, non-domiciliary states under guidelines promulgated by the NAIC. Financial examinations of our domestic insurance subsidiaries were recently completed in each domiciliary state of Athene with no findings that are expected to have a material adverse effect on our domestic insurance subsidiaries. Additionally, our domestic insurance subsidiaries are also subject to periodic market conduct examinations in each state in which they do business, pursuant to which state regulators examine an insurer's compliance with applicable insurance laws and regulations, including, among other things, the form and content of disclosure to consumers, illustrations, advertising, sales practices and complaint handling of any insurance company doing business in that state.

Another topic of which various regulators and state officials have had an interest in recent years is the topic of unclaimed property and the use of the Death Master File. In 2013, prior to our acquisition of the company, Aviva USA entered into multi-state settlement agreements with the insurance regulators and treasurers for 48 states in connection with certain of its subsidiaries' use of the Death Master File. As part of the settlement, AAIA and its subsidiary ALICNY agreed to pay a $4 million assessment for examination, compliance and monitoring costs without admitting any liability or wrongdoing, and further agreed to adopt policies and procedures reasonably designed to ensure timely payment of valid claims to beneficiaries in accordance with insurance laws and to timely report and remit unclaimed proceeds to the appropriate states in connection with unpaid property laws. Our U.S. insurance subsidiaries could continue to be subject to risks related to unpaid benefits, the Death Master File, and the procedures required by the prior multi-state settlement as they relate to our annuity business. Furthermore, administrative challenges associated with implementing the procedures described above may make compliance with the multi-state settlement and applicable law difficult and could have a material and adverse effect on our results of operations. Moreover, AADE is currently undergoing a multi-state unclaimed property examination led by Verus Financial, on behalf of California, Florida, Georgia, Indiana, Louisiana, North Carolina, Ohio, Pennsylvania, Tennessee and Texas. Further, AADE is a defendant in a lawsuit filed by the West Virginia Treasurer, State of West Virginia ex rel. John D. Perdue v. Liberty Life Ins. Co., Case No. 12-C-419, pursuant to which the Treasurer alleges that Liberty Life, now known as AADE, failed to adopt reasonable procedures, such as using the Death Master File, to identify deceased insureds with unpaid death benefits and timely escheat those unclaimed benefits to the state. The Treasurer accordingly seeks to recover unpaid death benefits, statutory interest and penalties. We are unable to determine with any certainty whether such unclaimed property examination and litigation could result in a finding of unpaid benefits or other liability, but given the nature of such examinations, litigation and past settlements at our other subsidiaries and within the life insurance industry in general, it is possible the examination could result in a material and adverse effect on our results of operations.

Another area of focus by state insurance regulators has been on the use of TPAs to administer insurance policies. Our U.S. insurance subsidiaries rely on TPAs to service certain annuity and life insurance policies and have experienced increased service and administration complaints related to the conversion and administration of the Aviva USA life insurance policies reinsured to affiliates of Global Atlantic by the TPA retained by such Global Atlantic affiliates to provide services on such policies, as well as on certain annuity policies that were on Aviva USA's life systems that were also converted to and are being administered by the same TPA. As a result of these increased complaints and service-related issues, our U.S. insurance subsidiaries may be subject to increased regulatory scrutiny, including fines and penalties, and policyholder litigation.

We are also subject to state regulation regarding any potential acquisitions or changes of control, both with regards to our own subsidiaries and to those companies or businesses which we may in the future acquire. Most state insurance holding company system acts require consents from applicable insurance departments prior to the direct or indirect acquisition or change of control of an insurer or its holding company. Generally, acquiring a 10% or greater voting interest in an insurance company or its parent company is presumptively considered a change of control under these statutes, and the acquirer is presumptively a controlling person of the insurer or its holding company. Current regulatory barriers to acquisitions of insurers and any new regulatory barriers adopted may increase the costs of implementing our acquisition strategy or may prevent certain acquisitions entirely. Additionally, these regulatory barriers and limitations on ownership that potential purchasers of our common shares may observe in order to avoid being deemed controlling persons may decrease the attractiveness of any future offering of our common shares and may delay, defer or prevent a change of control of us or impede a merger, takeover or other business combination which our shareholders may otherwise view favorably.

Most, if not all, of the states where we are licensed to transact business require that insurers doing business within the state participate in a guaranty association, which is organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations have the right to assess insurance companies doing business in their state in order to help pay the obligations of insolvent insurance companies to policyholders and claimants. Because the amount and timing of an assessment is beyond our control, liabilities we have currently established for these potential assessments may not be adequate.

Other U.S. Regulation

Our subsidiaries' insurance, annuity, retirement and investment products are subject to a complex and extensive array of laws that are administered and enforced by state securities administrators, state banking authorities, the SEC, FINRA, the DOL, the IRS and the Office of the Comptroller of the Currency. Failure to comply with these laws and limitations could subject us to administrative penalties imposed by a particular governmental or self-regulatory authority, unanticipated costs associated with remedying such failure or other claims, harm to our reputation, interruption of our operations or an adverse impact on our profitability.

We also may be subject to regulation by the DOL when providing a variety of products and services to employee benefit plans governed by ERISA. Severe penalties are imposed for breach of duties under ERISA. In addition, we will be subject to regulation by the DOL with respect to recommendations involving an IRA.

In addition to the foregoing risks, the financial services industry is the focus of increased regulatory scrutiny as various state and federal governmental agencies and self-regulatory organizations conduct inquiries and investigations into the products and practices of the financial services industries. The 2008 economic crisis has changed the way the financial services industry is regulated. Governmental authorities in the United States and worldwide have become increasingly interested in potential risks posed by the insurance industry as a whole, and to commercial and financial systems in general. Among the proposals that are at present being considered are the possible introduction of global regulatory standards for the amount of capital that insurance groups must maintain across the group. While we cannot predict the exact nature, timing or scope of possible governmental initiatives, there may be increased regulatory intervention in the insurance and financial services industry in the future.

Item 1A. Risk Factors

Bermuda Licensing

Because we are a Bermuda company, we are subject to changes in Bermuda law and regulation that may have an adverse impact on our operations, including through the imposition of tax liability or increased regulatory supervision. As a holding company, AHL is not subject to the laws of Bermuda governing insurance companies; however, ALRe is registered in Bermuda under the Bermuda Insurance Act as a Class E insurer and is subject to the Bermuda Insurance Act and the rules and regulations promulgated thereunder.

Additionally, the BMA sought regulatory equivalency, which enables Bermuda's commercial insurers to transact business with the EU on a "level playing field." In connection with its initial efforts to achieve equivalency under Solvency II, the BMA implemented and imposed additional requirements on the companies it regulates, such as ALRe. On November 26, 2015, via delegated act, the EC granted Bermuda's commercial insurers full equivalence in all areas of Solvency II for an indefinite period of time. The EC's act was reviewed and approved by the European Parliament and Council and no objection was made. On March 4, 2016, the delegated act was published in the official journal of the EU. The grant of full equivalence came into force on March 24, 2016, and applies from January 1, 2016.

Additionally, changes to applicable Bermuda laws and regulations regarding dividends or distributions from our subsidiaries to us could adversely affect us. All Bermuda companies must comply with the provisions of the Companies Act regulating the payment of dividends and distributions from contributed surplus. Under the Companies Act, a Bermuda company may not declare or pay a dividend or make a distribution out of contributed surplus if the company has reasonable grounds for believing that it is or will after the payment be unable to pay its liabilities as they become due or the realizable value of the company's assets would thereby be less than its liabilities. As ALRe is a licensed reinsurer and regulated by the BMA, it is additionally required to comply with the provisions of the Bermuda Insurance Act regarding payments of dividends and distributions. Under the Bermuda Insurance Act, an insurer is prohibited from declaring or paying a dividend if in breach of its ECR or MMS or if the declaration or payment of such dividend would cause such a breach. Where an insurer fails to meet its solvency margin on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA.

Under the Bermuda Insurance Act, ALRe is prohibited from paying a dividend in an amount exceeding 25% of the prior year's total statutory capital and surplus, unless at least two members of ALRe's board of directors and its principal representative in Bermuda sign and submit to the BMA an affidavit attesting that a dividend in excess of this amount would not cause ALRe to fail to meet its relevant margins. In certain instances, ALRe would also be required to provide prior notice to the BMA in advance of the payment of dividends. In the event that such an affidavit is submitted to the BMA in accordance with the Bermuda Insurance Act, and further subject to ALRe meeting its MMS and ECR, ALRe is permitted to distribute up to the sum of 100% of statutory surplus and an amount less than 15% of its total statutory capital. Distributions in excess of this amount require the approval of the BMA.

Further, ALRe must obtain the BMA's prior approval before reducing its total statutory capital as shown in its previous financial year statutory balance sheet by 15% or more. ALRe is also required to obtain a certification from its approved actuary prior to declaring or paying any dividends and such certificate will not be given unless the value of its long-term business assets exceeds its long-term business liabilities, as certified by its approved actuary, by the amount of the dividend and at least the MMS.

German Laws and Regulation

Our German Group Companies licensed as insurers are subject to the relevant laws and regulations applicable to insurers in Germany which regulate and mandate, among other things, eligibility criteria for investments, policyholder participation in income, accounting principles, corporate governance requirements, regulatory capital, reporting of insurance undertakings, insurance contracts, consumer protection laws, data protection requirements and anti-money-laundering requirements. Our German Group Companies are subject to supervision by BaFin. BaFin is the central financial regulatory authority for Germany and has wide powers to interpret and execute the insurance supervisory law in Germany, in particular via issuing regulatory ordinances and guidelines. Further, BaFin plays a significant role in interpreting the requirements of the Solvency II regime which became effective as of January 1, 2016. While we strive to ensure strict regulatory compliance, in particular compliance with all regulations and guidelines as issued by BaFin, we may be subject to non-compliance with these regulations which could result in unforeseen rectification costs and/or regulatory fines, which could adversely affect our business.

We are also subject to German laws and regulations regarding potential future acquisitions of German companies or businesses. Pursuant to German regulatory law, the direct or indirect acquisition of a significant interest in a German insurance undertaking or the increase of a qualified participating interest in a German insurance undertaking exceeding certain thresholds is subject to BaFin approval or the expiration of a statutory non-objection period. Generally, indirectly or directly acquiring a 10% or greater capital or voting interest in an insurance undertaking or obtaining the ability to significantly influence the management of the insurance undertaking is considered a qualified participating interest under German regulatory laws. Laws such as these prevent any person from directly or indirectly acquiring qualified participating interests in any of our German insurance subsidiaries unless that person has filed a notification requiring specified information with BaFin and has obtained BaFin's prior approval or waited for the expiration of a statutory non-objection period. Since we are indirectly holding a 100% capital and voting interest in German insurance undertakings, the acquisition of a capital or voting interest of 10% or more in AHL could qualify as an indirect acquisition of a qualified participating interest in German insurance undertakings. Persons directly or indirectly holding a qualified participating interest in a German insurance undertaking are subject to notification and other regulatory obligations imposed by BaFin.

Current and future regulatory barriers to acquisitions of insurers may increase the costs of implementing our acquisition strategy or may prevent certain acquisitions entirely. Additionally, regulatory barriers on acquisitions or the increase of qualified participating interests (among other

things, the avoidance of an acquisition of capital or voting interest of 10% or more in AHL) that potential purchasers of our common shares may be required to observe in order to avoid being deemed a person acquiring or increasing a qualified participating interest may decrease the attractiveness of purchasing our common shares, including in connection with a future offering thereof. These regulatory barriers may also delay, defer or prevent a change of control if the potential purchaser acquires a qualified participating interest, as BaFin effectively has the right to void such a purchase.

Further, purchases of our common shares significantly in excess of 10% may result in the formation of a Solvency II group, resulting in the application of Solvency II to the purchaser or its ultimate parent, thereby subjecting such entity to requirements including group solvency requirements and group corporate governance provisions. Formation of a Solvency II group may occur if the purchaser qualifies as an indirect parent of the German insurers (if the purchaser acquires more than 50% of capital or voting interest in AHL or otherwise controls AHL). This applies regardless of the home state of the ultimate parent, but excludes countries with regulatory regimes deemed equivalent to Solvency II.

Luxembourg Regulation

Our Luxembourg subsidiary is subject to supervision by the CSSF and Luxembourg regulation for management companies of investment funds. We do not believe that our Luxembourg subsidiary is governed by directive 2011/61/EU of the European Parliament and of the Council of June 8, 2011 on Alternative Investment Fund Managers and it is currently registered accordingly with the CSSF on the basis of a self-assessment. In the absence of a final decision by the relevant Luxembourg authorities and subject to any policy changes and changes in circumstances on which the self-assessment is based, namely regarding the holding and investment structure, we cannot eliminate the risk of our Luxembourg subsidiary qualifying as an Alternative Investment Fund Manager, which would subject our subsidiary to enhanced administrative and operating requirements and require us to support our subsidiary with more capital, and could thus adversely affect our financial condition and results of operations. The Luxembourg investment fund managed by our Luxembourg subsidiary is regulated as a specialized investment fund under Luxembourg law and thus is also subject to legislative and/or regulatory developments, which may impact, directly or indirectly, the position and performance of our Luxembourg subsidiary.

Our failure to obtain or maintain approval of insurance regulators and other regulatory authorities as required for the operations of our insurance subsidiaries may have a material adverse effect on our business, financial condition, results of operations, liquidity and prospects.

U.S. state regulators retain the authority to license insurers in their states and an insurer generally may not operate in a state in which it is not licensed. We have U.S. domiciled insurance subsidiaries that are currently licensed to do business in all 50 states and the District of Columbia. Our ability to retain these licenses depends on our and our subsidiaries' ability to meet requirements established by the NAIC and adopted by each state such as RBC standards and surplus requirements. Further, our German Group Companies operating insurance businesses are licensed by BaFin. Maintaining such licenses requires compliance with the relevant regulatory provisions, including in particular MCRs as set out under German law and under the Solvency II regime.

Some of the factors influencing these licensing requirements, particularly factors such as changes in equity market levels, the value of certain derivative instruments that do not receive hedge accounting, the value and credit ratings of certain fixed-income and equity securities in our investment portfolio, interest rate changes and changes to the RBC formulas and the interpretation of the NAIC's instructions with respect to RBC calculation methodologies, are out of our control. If these factors adversely affect us and we are unable to meet the requirements above, our subsidiaries could lose their licenses to do business in certain states, be subject to additional regulatory oversight, have their licenses suspended or be subject to seizure of assets. A loss or suspension of any of our subsidiaries' licenses may negatively impact our reputation in the insurance market and result in our subsidiaries' inability to write new business, distribute funds or pursue our investment/overall business strategy.

ALRe, as a Bermuda domiciled insurer, is also required to maintain licenses. ALRe is licensed as a reinsurer only in Bermuda. Bermuda insurance statutes and regulations and policies of the BMA require that ALRe, among other things, maintain a minimum level of capital and surplus, satisfy solvency standards, restrict dividends and distributions, obtain prior approval or provide notification to the BMA, as the case may be, of ownership, transfer and disposition of Shareholder Controller shares, maintain a head office, and have certain officers and a director resident in Bermuda, appoint and maintain a principal representative in Bermuda and provide for the performance of certain periodic examinations of itself and its financial conditions. A failure to meet these conditions may result in the suspension or revocation of ALRe's license to do business as a reinsurance company in Bermuda, which would mean that ALRe would not be able to enter into any new reinsurance contracts until the suspension ended or it became licensed in another jurisdiction. For any or a number of reasons, the BMA could revoke or suspend ALRe's license. Any such suspension or revocation of ALRe's license would negatively impact its and our reputation in the reinsurance marketplace and could have a material adverse effect on our results of operations.

The process of obtaining licenses is time consuming and costly, and we may not be able to become licensed in jurisdictions other than those in which our subsidiaries are currently licensed. The modification of the conduct of our business resulting from our and our subsidiaries becoming licensed in certain jurisdictions could significantly and negatively affect our business. In addition, our inability to comply with insurance statutes and regulations could significantly and adversely affect our business by limiting our ability to conduct business as well as subjecting us to penalties and fines.

Item 1A. Risk Factors

Changes in the laws and regulations governing the insurance industry or otherwise applicable to our business, including the DOL fiduciary regulation, may have a material adverse effect on our business, financial condition, liquidity, results of operations and prospects.

U.S. Federal Oversight

The 2008 economic crisis has resulted in numerous changes to regulation and oversight of the financial industry, the full impact of which has yet to be realized. The Dodd-Frank Act makes sweeping changes to the regulation of financial services entities, products and markets. Historically, the federal government has not regulated the insurance business, however, the Dodd-Frank Act generally provides for enhanced federal supervision of financial institutions, including insurance companies in certain circumstances, and financial activities that represent a systemic risk to financial stability or the economy. Certain provisions of the Dodd-Frank Act are or may become applicable to us, our competitors or those entities with which we do business, including, but not limited to: the establishment of a comprehensive federal regulatory regime with respect to derivatives; the establishment of consolidated federal regulation and resolution authority over SIFIs; the establishment of the Federal Insurance Office; changes to the regulation of broker-dealers and investment advisors; changes to the regulation of reinsurance; changes to regulations affecting the rights of shareholders; the imposition of additional regulation over credit rating agencies; the imposition of concentration limits on financial institutions that restrict the amount of credit that may be extended to a single person or entity; and mandatory on-facility execution and clearing of certain derivative contracts.

Numerous provisions of the Dodd-Frank Act require the adoption or implementation of rules or regulations. The process of adopting such implementing rules and/or regulations have in some instances been delayed beyond the timeframes imposed by the Dodd-Frank Act. Further, changes in general political, economic or market conditions, including as a result of the recent U.S. presidential and congressional elections, could affect the scope, timing and final implementation of the Dodd-Frank Act. Until the various final regulations are promulgated, the full impact of the regulations on the Company will remain unclear. In addition, the Dodd-Frank Act mandated multiple studies, which could result in additional legislation or regulation applicable to the insurance industry, us, our competitors or those entities with which we do business. Legislative or regulatory requirements imposed by or promulgated in connection with the Dodd-Frank Act may impact us in many ways, including, but not limited to: placing us at a competitive disadvantage relative to our competition or other financial services entities; changing the competitive landscape of the financial services sector or the insurance industry; making it more expensive for us to conduct our business; requiring the reallocation of significant company resources to government affairs; increasing our legal and compliance related activities and the costs associated therewith as the Dodd-Frank Act may permit the preemption of certain state laws when inconsistent with international agreements; and otherwise having a material adverse effect on the overall business climate as well as our financial condition and results of operations.

On April 6, 2016, the DOL issued a new regulation more broadly defining the circumstances under which a person is considered to be a fiduciary by reason of giving investment advice or recommendations to an employee benefit plan or a plan's participants or to IRA holders. In addition to releasing the investment advice regulation, the DOL: (1) issued a new prohibited transaction class exemption, referred to as BICE, to be used in connection with the sale of FIAs or variable annuities, and (2) updated the previously prohibited transaction class exemption 84-24, to be used in connection with the sale of traditional fixed rate annuities. The April 10, 2017 effective date for the DOL regulation may be delayed in response to a recent memorandum issued to the DOL by the President of the United States. For the year ended December 31, 2016, of our total deposits of approximately $8.8 billion from our organic channels, 42% was associated with sales of FIAs to employee benefit plans and IRAs and 14% was associated with traditional fixed annuities sold to employee benefit plans and IRAs. We cannot predict with any certainty the impact of the new regulation and exemptions, but the regulation and exemptions could alter the way our products and services are marketed and sold, particularly to purchasers of IRAs and individual retirement annuities. If implemented in its current form, the DOL regulation could have an adverse effect on our ability to write new business. The SEC also has indicated that it may propose rules creating a uniform standard of conduct applicable to broker-dealers and investment advisers, which, if adopted may affect the distribution of our products. Should the SEC rules, if adopted, not align with the finalized DOL regulations related to conflicts of interest in the provision of investment advice, the distribution of our products could be further complicated.

Heightened standards of conduct as a result of the DOL regulation, the SEC proposed rules or another similar proposed rule or regulation could also increase the compliance and regulatory burdens on our representatives, and could lead to increased litigation and regulatory risks, changes to our business model, a decrease in the number of our securities-licensed representatives and a reduction in the products we offer to our clients, any of which could have a material adverse effect on our business, financial condition and results of operations.

In addition, we expect the worldwide demographic trend of population aging will cause policymakers to continue to focus on the framework of U.S. and non-U.S. retirement systems, which may drive additional changes regarding the manner in which individuals plan for and fund their retirement, the extent of government involvement in retirement savings and funding, the regulation of retirement products and services and the oversight of industry participants. Any incremental requirements, costs and risks imposed on us in connection with such current or future legislative or regulatory changes, may constrain our ability to market our products and services to potential customers, and could negatively impact our profitability and make it more difficult for us to pursue our growth strategy.

Non-Bank SIFIs

Title I of the Dodd-Frank Act established the FSOC, which has authority to designate non-bank financial companies as SIFIs, thereby subjecting them to enhanced prudential standards and supervision by the Federal Reserve. The prudential standards for non-bank SIFIs include enhanced RBC requirements, leverage limits, liquidity requirements, single counterparty exposure limits, governance requirements for risk management, stress test requirements, special debt-to-equity limits for certain companies, early remediation procedures, and recovery and resolution planning.

Athene USA and certain of its subsidiaries are above the initial quantitative threshold for treatment as non-bank SIFIs (total consolidated assets of $50 billion, including the assets of its subsidiaries). If the FSOC were to designate Athene USA or any of its subsidiaries as a non-bank SIFI, Athene USA or the respective subsidiary would become subject to certain of these enhanced prudential standards.

FIAs

In recent years, the SEC and state securities regulators have questioned whether FIAs, such as those sold by us, should be treated as securities under the federal and state securities laws rather than as insurance products exempted from such laws. Under the Dodd-Frank Act, annuities that meet specific requirements are specifically exempted from being treated as securities by the SEC. We expect that the types of FIAs that we currently sell will meet applicable requirements for exemption from treatment as securities and therefore will remain exempt from being treated as securities by the SEC and state securities regulators. However, there can be no assurance that federal or state securities laws or state insurance laws and regulations will not be amended or interpreted to impose further requirements on FIAs. Treatment of these products as securities would require additional registration and licensing of these products and the agents selling them, as well as cause us to seek new or additional marketing relationships for these products, any of which may impose significant restrictions on our ability to conduct business as currently operated.

Regulation of Over-The-Counter (OTC) Derivatives

We use derivatives to mitigate a wide range of risks in connection with our businesses, including options purchased to hedge the derivatives embedded in the FIAs that we have issued, and swaps, futures and/or options may be used to manage the impact of increased benefit exposures from our annuity products that offer guaranteed benefits. Title VII of the Dodd-Frank Act creates a comprehensive framework for the federal oversight and regulation of the OTC derivatives market and entities, such as Athene, that participate in the market, and requires U.S. regulators to promulgate rules and regulations implementing its provisions. Regulations have been finalized and implemented in many areas and are being finalized for implementation in others.

The Dodd-Frank Act divides the regulatory responsibility for swaps in the United States between the SEC and the CFTC. The CFTC regulates swaps and swap entities, and the SEC regulates security-based swaps and security-based swap entities. The CFTC and the SEC have jointly finalized certain regulations under the Dodd-Frank Act, including critical rulemakings on the definitions of “swap,” “security-based swap,” “swap dealer,” “security-based swap dealer,” “major swap participant” and “major security-based swap participant.” In addition, the CFTC has substantially finalized its required rulemaking under the Dodd-Frank Act, including regulations relating to the registration and regulation of swap dealers, major swap participants and swap execution facilities, reporting, recordkeeping, mandatory clearing and mandatory on-facility trade execution. The SEC has yet to implement its regulatory regime for security-based swaps and market participants transacting in security-based swaps, including security-based swap dealers and major security-based swap participants subject to the SEC’s oversight. As a result of this bifurcation and the different pace at which the agencies have promulgated and implemented regulations, different transactions are subject to different levels of regulation.

The Dodd-Frank Act and the CFTC rules thereunder require us, in connection with certain swap transactions, to comply with mandatory clearing and on-facility trade execution requirements, and it is anticipated that the types of swaps subject to these requirements will be expanded over time. In addition, new regulations require us to comply with mandatory minimum margin requirements for uncleared swaps and, in some instances, uncleared security-based swaps. Uncleared swap variation margin regulations issued by U.S. bank prudential regulators, the CFTC and regulators in certain other jurisdictions, such as the European Union and Canada, are scheduled to take effect on March 1, 2017. These regulations require market participants to enter into agreements consistent with the requirements thereunder and a failure to do so could result in trading disruptions. Derivative clearing requirements and mandatory margin requirements could increase the cost of our risk mitigation and could have other implications. For example, increased margin requirements, combined with netting restrictions and restrictions on securities that qualify as eligible collateral, could reduce our liquidity and require increased holdings of cash and highly liquid securities with lower yields causing a reduction in income. In addition, the requirement that certain trades be centrally cleared through clearinghouses subjects us to documentation that is significantly more counterparty-favorable and may entitle counterparties to unilaterally change such terms as trading limits and the amount of margin required. The ability of any such counterparty to take such actions could create trading disruptions and liquidity concerns. Finally, the requirement that certain trades be centrally cleared through clearinghouses concentrates counterparty risk in both clearinghouses and clearing members. The failure of a clearinghouse could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on clearinghouse members during a financial crisis, which could lead clearinghouse members to default. Because clearinghouses are still developing and the related bankruptcy process is untested, it is difficult to anticipate or identify all actual risks related to the default of a clearinghouse.

The Dodd-Frank Act and new regulations thereunder and similar regulations issued by non-U.S. jurisdictions that may indirectly apply to us could significantly increase the cost of derivative contracts, reduce the availability of derivatives to protect against risks we encounter, reduce our ability to monetize or restructure our existing derivative contracts, and increase our credit risk exposure. If we reduce our use of derivatives as a result of the Dodd-Frank Act and the regulations thereunder and other similar regulations, our results of operations may become more volatile and our cash flows may be less predictable which could adversely affect our financial performance. Additionally, we have always been subject to the risk that hedging and other management procedures might prove ineffective in reducing the risks to which insurance policies expose us or that unanticipated policyholder behavior or mortality, combined with adverse market events, could produce economic losses beyond the scope of the risk management techniques employed. Any such losses could be increased by the increased cost of entering into derivatives and the reduced availability of customized derivatives that might result from the implementation of the Dodd-Frank Act.

Item 1A. Risk Factors

Notwithstanding the foregoing, the future of Title VII of the Dodd-Frank Act and the related regulations implemented by the CFTC and the SEC and their impact on us remain uncertain and unpredictable, particularly in light of actions taken by the Trump administration. On February 3, 2017, President Trump signed an Executive Order that establishes core principles for regulating the U.S. financial system and provides a framework for comprehensive change to current financial regulation, and on February 24, 2017, President Trump also signed an Executive Order that requires federal agencies to designate a "Regulatory Reform Officer" and a "Regulatory Reform Task Force" to evaluate existing regulations and make recommendations to repeal, replace or modify regulations that, among others, inhibit job creation, are ineffective or impose costs that exceed benefits. At this point it is difficult to predict the impact of these Executive Orders on Title VII of the Dodd-Frank Act, derivatives regulatory schemes in other jurisdictions and our derivatives activities.

U.S. Consumer Protection Laws and Privacy and Data Security Regulation

As part of the Dodd-Frank Act, Congress established the CFPB to supervise and regulate institutions that provide certain financial products and services to consumers. The consumer financial services subject to the CFPB's jurisdiction generally exclude insurance business of the kind in which we engage. The CFPB is, however, exploring the possibility of regulating the way Americans manage their retirement savings and is considering the extent of its authority in that area. We are unable at this time to predict the impact of these activities on our business.

We are subject to numerous federal and state laws and regulations governing the security and confidentiality of nonpublic personal information. The issues surrounding data security and the safeguarding of consumers' protected information are under increasing regulatory scrutiny by state and federal regulators, particularly in light of the number and severity of recent U.S. companies' data breaches. The Federal Trade Commission, the Federal Bureau of Investigation, the Federal Communications Commission, the NYSDFS and the NAIC have undertaken various studies, reports and actions regarding data security for entities under their respective supervision. Some states have recently enacted new insurance laws that require certain regulated entities to implement and maintain comprehensive information security programs to safeguard the personal information of insureds and enrollees. If the NAIC's model law is adopted in its current form, it could add another legal framework to which we would be subject and could thereby, upon the occurrence of a data breach, subject us to two separate and different data breach legal regimes. We cannot predict the effect or the compliance costs if state and federal regulators pursue investigations and increase the regulatory requirements for the security of protected information.

In addition to the NAIC's proposed model law, state lawmakers and regulatory bodies may consider additional or more detailed regulation regarding these subjects and the privacy and security of nonpublic personal information. The NYSDFS recently published a new regulation, which became effective on March 1, 2017, with ongoing compliance deadlines over the next 24 months. We are in the process of updating processes and procedures to comply with the new requirements. We cannot predict the effect or the amount of compliance costs that will be incurred if state and federal regulators pursue investigations and increase the regulatory requirements for the security of protected information.

NAIC

Although our businesses are subject to regulation in each state in which they conduct business, in many instances the state insurance laws and regulations emanate from the NAIC. State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Any proposed or future legislation or NAIC initiatives, if adopted, may be more restrictive on our ability to conduct business than current regulatory requirements or may result in higher costs or increased statutory capital and reserve requirements. Changes in these laws and regulations or interpretations thereof are often made for the benefit of the consumer and at the expense of the insurer and could have a material adverse effect on our domestic insurance subsidiaries' businesses, operations and financial conditions. We and they are also subject to the risk that compliance with any particular regulator's interpretation of a legal or accounting issue may not result in compliance with another regulator's interpretation of the same issue, particularly when compliance is judged in hindsight. There is an additional risk that any particular regulator's interpretation of a legal or accounting issue may change over time to our detriment, or that changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause us to change our views regarding the actions we need to take from a legal risk management perspective, which could necessitate changes to our practices that may, in some cases, limit our ability to grow and improve profitability.

Risks Relating to Taxation

AHL or ALRe may be subject to U.S. federal income taxation.

AHL and ALRe are incorporated under the laws of Bermuda and intend to operate in a manner that will not cause either to be treated as being engaged in a trade or business within the United States or subject to current U.S. federal income taxation on their net income. However, because there is considerable uncertainty as to when a foreign corporation is engaged in a trade or business within the United States, as the law is unclear and the determination is highly factual and must be made annually, there can be no assurance that the IRS will not contend successfully that AHL or ALRe is engaged in a trade or business in the United States. If AHL or ALRe were considered to be engaged in a trade or business in the United States, it could be subject to U.S. federal income taxation on a net basis on its income that is effectively connected with such U.S. trade or business (including branch profits tax on the portion of its earnings and profits that is attributable to such income). Any such U.S. federal income taxation could result in substantial tax liabilities and consequently could have a material adverse effect on our financial condition and results of future operations.

Item 1A. Risk Factors

U.S. persons who own our Class A common shares may be subject to U.S. federal income taxation at ordinary income rates on our undistributed earnings and profits.

AHL's bye-laws generally limit the voting power of our Class A common shares (and certain other of our voting securities) such that no person owns (or is treated as owning) more than 9.9% of the total voting power of our common shares (with certain exceptions). AHL's bye-laws also generally reduce the voting power of Class B common shares held by certain holders if (A) one or more U.S. persons that own (or are treated as owning) more than 9.9% of the total voting power of our common shares own (or are treated as owning) individually or in the aggregate more than 24.9% of the voting power or the value of our common shares or (B) a U.S. person that is classified as an individual, an estate or a trust for U.S. federal income tax purposes owns (or is treated as owning) more than 9.9% of the total voting power of our common shares. Additionally, AHL's bye-laws require the board of AHL to refer certain decisions with respect to our non-U.S. subsidiaries to our shareholders, and to vote our shares accordingly. These provisions are intended to reduce the likelihood that AHL, ALRe, or any of the German Group Companies will be treated as a controlled foreign corporation (CFC) in any taxable year, other than for purposes of taking into account related person insurance income (RPII). If these provisions were not in force or effective and AHL, ALRe or a German Group Company were treated as a CFC in a taxable year, each U.S. person treated as a "10% U.S. Shareholder" with respect to AHL, ALRe or such German Group Company that held our common shares directly or indirectly through non-U.S. entities as of the last day in such taxable year that AHL, ALRe or such German Group Company was a CFC would generally be required to include in gross income as ordinary income its pro rata share of AHL's, ALRe's or such German Group Company's insurance and reinsurance income and certain other investment income, regardless of whether that income was actually distributed to such U.S. person (with certain adjustments). For these purposes, a "10% U.S. Shareholder" of a non-U.S. corporation generally is any U.S. person that owns (or is treated as owning) stock of the non-U.S. corporation possessing 10% or more of the total voting power of such non-U.S. corporation's stock. In general, a non-U.S. corporation is a CFC if 10% U.S. Shareholders, in the aggregate, own (or are treated as owning) stock of the non-U.S. corporation possessing more than 50% of the voting power or value of such corporation's stock. However, this threshold is lowered to more than 25% for purposes of taking into account the insurance income of a non-U.S. corporation. Special rules apply for purposes of taking into account any RPII of a non-U.S. corporation, as described below.

In addition, if a U.S. person disposes of shares in a non-U.S. corporation and the U.S. person was a 10% U.S. Shareholder at any time when the corporation was a CFC during the five-year period ending on the date of disposition, any gain from the disposition will generally be treated as a dividend to the extent of the U.S. person's share of the corporation's undistributed earnings and profits that were accumulated during the period or periods that the U.S. person owned the shares while the corporation was a CFC (with certain adjustments). Also, a U.S. person may be required to comply with specified reporting requirements, regardless of the number of shares owned.

Because of the limitations in AHL's bye-laws referred to above, among other factors, we believe it is unlikely that any U.S. person that acquires our Class A common shares would thereby become a 10% U.S. Shareholder of AHL, ALRe or any German Group Company. However, because the relevant attribution rules are complex and there is no definitive legal authority on whether the voting provisions included in AHL's organizational documents are effective for purposes of the CFC provisions, there can be no assurance that this will be the case. Further, our ability to obtain information that would permit us to enforce the limitation described above may be limited. We will take reasonable steps to obtain such information, but there can be no assurance that such steps will be adequate or that we will be successful in this regard. Accordingly, we may not be able to fully enforce the limitation described above.

U.S. persons who own our Class A common shares may be subject to U.S. federal income taxation at ordinary income rates on a disproportionate share of our undistributed earnings and profits attributable to RPII.

If ALRe is treated as recognizing RPII in a taxable year and ALRe is treated as a CFC for such taxable year, each U.S. person that owns our Class A common shares directly or indirectly through non-U.S. entities as of the last day in such taxable year must generally include in gross income its pro rata share of the RPII, determined as if the RPII were distributed proportionately only to all such U.S. persons, regardless of whether that income is distributed (with certain adjustments). For this purpose, ALRe generally will be treated as a CFC if U.S. persons in the aggregate own (or are treated as owning) 25% or more of the total voting power or value of AHL's or ALRe's stock for an uninterrupted period of 30 days or more during the taxable year. We believe that ALRe will be treated as a CFC for this purpose based on the expected ownership of our shares.

RPII generally is any income of a non-U.S. corporation attributable to insuring or reinsuring risks of a U.S. person that owns (or is treated as owning) stock of such non-U.S. corporation, or risks of a person that is "related" to such a U.S. person. For this purpose, (1) a person is "related" to another person if such person "controls," or is "controlled" by, such other person, or if both are "controlled" by the same persons, and (2) "control" of a corporation means ownership (or deemed ownership) of stock possessing more than 50% of the total voting power or value of such corporation's stock and "control" of a partnership, trust or estate for U.S. federal income tax purposes means ownership (or deemed ownership) of more than 50% by value of the beneficial interests in such partnership, trust or estate.

Athene and Apollo have considerable overlap in ownership. If it is determined that the same persons "control" both us and Apollo through owning (or being treated as owning) more than 50% of the vote or value of Athene and Apollo, substantially all of ALRe's income might constitute RPII. This would trigger the adverse RPII consequences described above to all U.S. persons that hold our Class A common shares directly or indirectly through non-U.S. entities and would have a material adverse effect on the value of their investment in our Class A common shares.

Item 1A. Risk Factors

Existing voting restrictions set forth in AHL’s bye-laws are generally intended to prevent a person who owns (or is treated as owning) shares in Apollo from owning (or being treated as owning) any of the voting power of our Class A common shares, thus preventing persons who own (or are treated as owning) both AHL and Apollo from owning (or being treated as owning) more than 50% of the voting power of our stock. However, these restrictions do not prevent members of the Apollo Group from retaining the right to vote on newly acquired Class A common shares, should they choose to do so nor do they prevent persons who own (or are treated as owning) both AHL and Apollo from owning (or being treated as owning) more than 50% of the value of our stock. AHL’s bye-laws also generally provide that no person (nor certain direct or indirect beneficial owners or related persons to such person) who owns our common shares, other than a member of the Apollo Group, may acquire any shares of Apollo or otherwise make any investment that would cause such person, or any other person that is a U.S. person, to own (or be treated as owning) more than 50% of the vote or value of AHL’s stock. Any holder of our common shares that violates this provision may be required, at the board’s discretion, to sell its common shares or take any other reasonable action that the board deems necessary.

Because of the restrictions described above, among other factors, we believe it is likely that one or more exceptions under the RPII rules will apply such that U.S. persons will not be required to include any RPII in their gross income with respect to ALRe or the German Group Companies. However, there can be no assurance that this will be the case. Further, our ability to obtain information that would permit us to enforce the restrictions described above may be limited. We will take reasonable steps to obtain such information, but there can be no assurance that such steps will be adequate or that we will be successful in this regard. Accordingly, we may not be able to fully enforce these restrictions.

U.S. persons who dispose of our Class A common shares may be required to treat any gain as ordinary income for U.S. federal income tax purposes and comply with other specified reporting requirements.

If a U.S. person disposes of shares in a non-U.S. corporation that is an insurance company that had RPII and the 25% threshold described above is met at any time when the U.S. person owned any shares in the corporation during the five-year period ending on the date of disposition, any gain from the disposition will generally be treated as a dividend to the extent of the U.S. person’s share of the corporation’s undistributed earnings and profits that were accumulated during the period that the U.S. person owned the shares (possibly whether or not those earnings and profits are attributable to RPII). In addition, the shareholder will be required to comply with specified reporting requirements, regardless of the amount of shares owned. We believe that these rules should not apply to a disposition of our Class A common shares because AHL is not itself directly engaged in the insurance business. We cannot assure you, however, that the IRS will not successfully assert that these rules apply to a disposition of our Class A common shares.

U.S. tax-exempt organizations that own our Class A common shares may recognize unrelated business taxable income.

A U.S. tax-exempt organization that directly or indirectly owns our Class A common shares generally will recognize unrelated business taxable income and be subject to additional U.S. tax filing obligations to the extent such tax-exempt organization is required to take into account any of our insurance income or RPII pursuant to the CFC and RPII rules described above. U.S. tax-exempt organizations should consult their own tax advisors regarding the risk of recognizing unrelated business taxable income as a result of the ownership of our Class A common shares.

U.S. persons who own our Class A common shares may be subject to adverse tax consequences if AHL, ALRe or any of the German Group Companies is considered a passive foreign investment company for U.S. federal income tax purposes.

If AHL, ALRe or any of the German Group Companies is considered a passive foreign investment company (PFIC) for U.S. federal income tax purposes, a U.S. person who directly or, in certain cases, indirectly owns our Class A common shares could be subject to adverse tax consequences, including a greater tax liability than might otherwise apply, an interest charge on certain taxes that are deemed deferred as a result of AHL’s, ALRe’s or any of the German Group Companies’ non-U.S. status and additional U.S. tax filing obligations, regardless of the number of shares owned. We currently do not expect that AHL, ALRe or any of the German Group Companies will be a PFIC for U.S. federal income tax purposes in the current taxable year or the foreseeable future because ALRe, the German Group Companies, and, through its insurance subsidiaries, AHL each intend to be predominantly engaged in the active conduct of an insurance and reinsurance business. We cannot assure you, however, that AHL, ALRe and the German Group Companies will not be deemed to be PFICs by the IRS. No final or temporary regulations currently exist regarding the application of the PFIC provisions to an insurance company. Proposed regulations have recently been issued, which will not be effective until adopted in final form. At this time it is unclear whether and how such regulations would affect the characterization of AHL and its subsidiaries. Additionally, legislation has been introduced in a previous Congress that, if enacted, would have characterized a non-U.S. insurance company with insurance liabilities of 25% or less of such company’s assets as a PFIC unless it could qualify for a temporary exception based on both an asset test and a facts and circumstances test. Members of Congress may re-introduce similar legislation in the new Congress or introduce other legislation that could affect our status under the PFIC rules. We cannot predict what effect, if any, any new legislation would have on an investor that is subject to U.S. federal income taxation.

Changes in U.S. tax law might adversely affect us or our shareholders.

The tax treatment of non-U.S. companies and their U.S. and non-U.S. insurance subsidiaries has been the subject of Congressional discussion and legislative proposals. Legislative proposals relating to the tax treatment of non-U.S. companies have been introduced in the past that could, if enacted, materially affect us. One legislative proposal, the Stop Tax Haven Abuse Act (S. 174, H.R. 297), introduced in both the U.S. Senate and the U.S. House of Representatives in January 2015, would cause certain entities otherwise treated as non-U.S. corporations to be treated as U.S. corporations for U.S. federal income tax purposes if the “management and control” of such corporations occurs, directly or indirectly, primarily within the United States.

Both the U.S. Congress and President Trump's administration have indicated a desire to reform the Internal Revenue Code. Although the 2016 U.S. House of Representatives Blueprint, "A Better Way" and the tax plans proposed by President Trump during the presidential campaign do not align on all tax reform proposals, substantial proposed changes to the US corporate tax regime include: reduction of the maximum corporate tax rate, repeal of the corporate alternative minimum tax, elimination of net operating loss carryback, immediate expensing of business assets, and elimination of a deduction for net interest expense as well as substantial changes to the international tax system including border tax adjustments, a destination based cash flow tax and moving to a territorial based tax system.

A reduction in the corporate tax rate would have a positive impact on the earnings and cash flow of our U.S. companies, but it could also reduce the value of our deferred tax assets. Although it is not known at this time how border tax adjustments will (if enacted) be applied to insurers and reinsurers, it is possible that such adjustments will involve denying a deduction to U.S. insurance companies for reinsurance premiums paid to a foreign reinsurer, which would materially increase our overall U.S. tax expense. In addition, it is not yet known whether potential tax reform will include further changes impacting the current tax treatment of insurance companies under the Internal Revenue Code. At this time it is not possible to determine the impact of potential legislative changes on our financial condition and results of operations.

Additionally, interpretations of U.S. federal income tax law, including those regarding whether a company is engaged in a trade or business (or has a permanent establishment) within the United States or is a PFIC, or whether U.S. persons are required to include in their gross income "subpart F income" or RPII of a CFC, are subject to change, possibly on a retroactive basis. Regulations regarding the application of the PFIC rules to insurance companies and regarding RPII are only in proposed form. New regulations or pronouncements interpreting or clarifying such regulations may be forthcoming. We cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect.

We cannot assure you that future legislative, administrative or judicial developments will not result in an increase in the amount of U.S. tax payable by us or by an investor in our Class A common shares or reduce the attractiveness of our products. If any such developments occur, an investment in our common shares could be materially adversely affected.

Changes in U.S. tax law might adversely affect demand for our products.

Many of the products that we sell and reinsure benefit from one or more forms of tax-favored status under current U.S. federal and state income tax regimes. For example, we sell and reinsure annuity contracts that allow the policyholders to defer the recognition of taxable income earned within the contract. Changes in U.S. federal or state tax law could reduce or eliminate the attractiveness of such products, which could affect the sale of our products or increase the expected lapse rate with respect to products that have already been sold.

There is U.S. income tax risk associated with reinsurance between U.S. insurance companies and their Bermuda affiliates.

If a reinsurance agreement is entered into among related parties, the IRS is permitted to reallocate or recharacterize income, deductions or certain other items, and to make any other adjustment, to reflect the proper amount, source or character of the taxable income of each of the parties. If the IRS were to successfully challenge our reinsurance arrangements, our financial condition and results of operations could be adversely affected and the price of our Class A common shares could be adversely affected.

We may become subject to U.S. withholding tax under certain U.S. tax provisions commonly known as FATCA.

Certain U.S. tax provisions commonly known as the Foreign Account Tax Compliance Act (FATCA) impose a 30% withholding tax on certain payments of U.S. source income and the proceeds from the disposition after December 31, 2018, of property of a type that can produce U.S. source interest or dividends, in each case, to certain "foreign financial institutions" and "non-financial foreign entities." The withholding tax also applies to certain "foreign passthru payments" made by foreign financial institutions after December 31, 2018. The U.S. government has signed intergovernmental agreements to facilitate the implementation of FATCA with the governments of Bermuda and Germany (the Bermuda IGA and German IGA, respectively). AHL and its foreign subsidiaries intend to comply with the obligations imposed on them under FATCA and the Bermuda IGA and German IGA, as applicable, to avoid being subject to withholding under FATCA on payments made to them or penalties. To avoid any withholding under FATCA or penalties, we may be required to report the identity of, and certain other information regarding, certain U.S. persons that directly or indirectly own our common shares or exercise control over our shareholders to counterparties or governmental authorities, including the IRS or the Bermuda government. We may also be required to withhold on payments and/or take other actions with respect to holders of our common shares who do not provide us with certain information or documentation required to fully comply with FATCA. However, we expect that the shareholders who purchase our Class A common shares in the secondary market will not be subject to such requirements pursuant to an exception for equity interests that are regularly traded on an established securities market, provided that the shareholder (and any intermediaries through which the shareholder holds its shares) is not a foreign financial institution that is treated as a "nonparticipating FFI" under FATCA. However, no assurance can be provided in this regard. We may become subject to withholding tax or penalties if we are unable to comply with FATCA.

Item 1A. Risk Factors

If AHL is treated as engaged in a U.S. trade or business in any taxable year, all or a portion of the dividends on our Class A common shares may be treated as U.S. source income and may be subject to withholding and information reporting under FATCA unless a shareholder (and any intermediaries through which the shareholder holds its shares) establishes an exemption from such withholding and information reporting. In addition, any gross proceeds from the sale or other disposition of our Class A common shares after December 31, 2018, might also be subject to withholding and information reporting under FATCA in such circumstances, absent an exemption. As discussed above, we currently intend to limit our U.S. activities so that AHL is not considered to be engaged in a U.S. trade or business, although no assurances can be provided in this regard.

Our operations may be affected by the introduction of the Common Reporting Standard.

The Common Reporting Standard (CRS) has been introduced as an initiative by the Organisation for Economic Co-operation and Development (OECD). CRS is imposed on members of the EU by the European Directive on Administrative Co-operation. Countries outside the EU may enter into the Multilateral Competent Authority Agreement, in which they agree to exchange information with participating jurisdictions. Similar to FATCA introduced by the U.S., CRS requires financial institutions which are subject to the rules to report certain information in respect of account holders. German financial institutions are presently subject to certain requirements under CRS, and they must report information beginning in 2017. We intend to operate in compliance with CRS. Any inadvertent failure to do so may have an adverse effect on our results.

We are subject to the risk that Bermuda tax laws may change and that we may become subject to new Bermuda taxes following the expiration of a current exemption after 2035.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, has given us an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to us or any of our operations, shares, debentures or other obligations until March 31, 2035, except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property owned or leased by us in Bermuda. Given the limited duration of the Bermuda Minister of Finance’s assurance, we cannot assure you that we will not be subject to any Bermuda tax after March 31, 2035.

The impact of the OECD’s recommendations on base erosion and profit shifting is uncertain and could impose adverse tax consequences on us.

In 2015, the OECD published final recommendations on base erosion and profit shifting (BEPS). These BEPS recommendations propose the development of rules directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. Beginning with 2017, some countries in which we do business, including Bermuda, will require multinational enterprises, like ours, to report detailed information regarding allocation of revenue, profit, and other information, on a country-by-country basis, which could increase scrutiny by foreign tax authorities.

The BEPS recommendations also include revisions to the definition of a “permanent establishment” and the rules for attributing profit to a permanent establishment. Other recommended actions relate to the goal of ensuring that transfer pricing outcomes are in line with value creation, noting that the current rules may facilitate the transfer of risks or capital away from countries where the economic activity takes place. We expect many countries to change their tax laws in response to this project, and several countries have already changed or proposed changes to their tax laws. Changes to tax laws could increase their complexity and the burden and costs of compliance. Additionally, such changes could also result in significant modifications to the existing transfer pricing rules and could potentially have an impact on our taxable profits in various jurisdictions.

Risks Relating to Investment in Our Class A Common Shares

There may be sales of a substantial amount of our common shares by our current shareholders as certain restrictions on sale expire, and these sales could cause the price of our common shares to fall.

Our directors, executive officers and shareholders holding 100% of our common shares outstanding prior to our initial public offering (IPO) agreed that they would not sell any shares prior to the expiration of certain time periods after the date upon which the SEC declared the registration statement for our IPO effective (effective date). Lock-up expiration periods applicable to existing holders end with respect to one-third of the shares owned by such holders at each of 225 days, 365 days and 450 days after the effective date, provided that certain of our shareholders, executive officers, and directors representing approximately 6.5% and 8.0% of our common shares have agreed not to sell any shares for 450 days and two years, respectively, from the effective date. Approximately 45,463,664, 45,463,664, 59,161,548 and 15,134,346 of our common shares will be eligible for future sale at the expiration of such 225 day, 365 day, 450 day and two-year periods, respectively. These restrictions are subject to waiver by our board of directors, including in the event that holders are permitted to sell their shares in follow-on registered offerings by us after the date of the IPO. In addition, our executive officers, directors, the selling shareholders and the substantial majority of our existing shareholders holding common shares outstanding prior to the IPO are subject to a 180 day lock-up entered into with the underwriters in connection with the IPO. As these lock-up periods end, the market price of our common shares could decline if the holders of those shares sell them or are perceived by the market as intending to sell them. Additionally, existing holders of our common shares have registration rights under the Third Amended and Restated Registration Rights Agreement (Registration Rights Agreement), subject to certain conditions, which require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other shareholders in the future.

Item 1A. Risk Factors

The interest of the Apollo Group, which controls and is expected to continue to control 45% of the total voting power of AHL and holds a number of the seats on our board of directors, may conflict with those of other shareholders and could make it more difficult for you and other shareholders to influence significant corporate decisions.

The Apollo Group controls and is expected to continue to control 45% of the total voting power of AHL. As a result, the Apollo Group could exercise significant influence over all matters requiring shareholder approval for the foreseeable future, including approval of significant corporate transactions, appointment of members of our management, election of directors, approval of the termination of our IMAs and determination of our corporate policies, which may reduce the market price of our common shares. Even if the Apollo Group reduces its beneficial ownership below its current holdings or we raise additional equity from investors other than members of the Apollo Group, because of its control over 45% of our aggregate voting power, for so long as any member of the Apollo Group owns at least one Class B common share, such member will still be able to assert significant influence over our board of directors and certain corporate actions.

The interests of our existing shareholders, particularly members of the Apollo Group, may conflict with the interests of our other shareholders. Actions that members of the Apollo Group take as shareholders may not be favorable to our other shareholders. For example, the concentration of voting power held by the Apollo Group, the significant representation on our board of directors by the Apollo Group or the limitations on our ability to terminate any IMA with AAM or AAME could delay, defer or prevent a change of control of us or impede a merger, takeover or other business combination which another shareholder may otherwise view favorably. Members of the Apollo Group may, in their role as shareholders, vote in favor of a merger, takeover or other business combination transaction which our other shareholders might not consider in their best interests. In addition, as long as a business combination transaction were deemed to be in the best interests of the Company, our charter and bye-laws would not prevent us from entering into a business combination transaction that provided for the payment of differential consideration to holders of the Class B common shares, which are held by the Apollo Group or its affiliates, and the Class A common shares. Our conflicts committee and our disinterested directors with respect to a transaction analyze certain of these conflicts to protect against potential harm resulting from conflicts of interest in connection with transactions that we have entered into or will enter into with Apollo or its affiliates. Specifically, our bye-laws require that the conflicts committee (in accordance with its charter and procedures) must approve of certain material transactions by and between us and Apollo or its affiliates, including entering into material agreements or the imposition of any new fee or increase in the rate at which fees are charged to us, subject to certain exceptions. See *Item 13. Certain Relationships and Related Transactions, and Director Independence.* In addition, our conflicts committee may exclusively rely on information provided by AAM, including with respect to fees charged by AAM or Apollo or its affiliates, and with respect to the historical performance or fees of unrelated service providers used for comparison purposes, and may not independently verify the information so provided. However, these conflicts guidelines will not, by themselves, prohibit transactions with Apollo or its affiliates.

Additionally, our investment manager, AAM, and our investment adviser, AAME, are indirect subsidiaries of Apollo and charge us management fees that are based on our assets. Under our IMAs with AAM and AAME, substantially all of our invested assets are managed by AAM and AAME. Our investment policies permit AAM to invest in securities of issuers affiliated with Apollo, including funds managed by Apollo, and to retain on our behalf and at our cost sub-advisors, including Apollo. AAM may make such investments or retain such sub-advisors at its discretion, subject only to the approval of our conflicts committee in certain cases and/or certain regulatory approvals. Accordingly, AAM may have a conflict of interest in managing our investments, including by retaining its affiliate, Apollo, to act as its sub-advisor, which would increase amounts payable by us for investment advisory services or could cause us to receive less return on our investments than if our investment portfolio was managed by another party. In addition, asset management fees are paid based on the amount of our AUM regardless of the results of our operations. Therefore, Apollo could be incentivized to exercise its influence to cause us to increase our AUM, which may have an adverse impact on our financial condition or results of operations.

Certain of our investments are managed by other Apollo affiliates retained as sub-advisors by AAM to manage such investments. Currently, substantially all of the assets subject to sub-advisory arrangements are managed by Apollo affiliates. In addition, we have made investments in collective investment vehicles managed by Apollo affiliates, including seed investments in new investment vehicles or investment strategies offered by Apollo which have limited track records, as well as junior and subordinated tranches of structured investment vehicles which may assist Apollo in meeting certain regulatory requirements applicable to Apollo as the sponsor of such vehicles. Such Apollo affiliates charge us a sub-advisory fee, or charge such vehicles management fees, that independently, or when taken together with the fees charged by AAM, may not be the lowest fee available for similar sub-advisory or investment management services offered by unrelated managers. In addition, it is possible that such unrelated managers may perform better than the Apollo affiliates retained by AAM as sub-advisors or which manage such collective investment funds. Apollo is not obligated to devote any specific amount of time to the affairs of our company, or to the funds in which we are invested and we have limited rights to terminate any IMA or sub-advisory arrangement. Affiliates of Apollo manage and expect to continue to manage other client accounts, some of which have objectives similar to ours, including collective investment vehicles managed by Apollo and in which Apollo may have an equity interest. We will compete with other Apollo clients not only in terms of time spent on management of our portfolio, but also for allocation of assets that do not have significant supply. In addition, there may be different investment teams for AAM and Apollo investing in the same strategies for different clients, including us. As a result, we may compete with other Apollo clients for the same investment opportunities, potentially disadvantaging us. Apollo may also manage accounts whose advisory fee schedules, investment objectives and policies differ from ours, which may cause Apollo to allocate securities in a manner that may have an adverse effect on our ability to source appropriate assets and meet our strategic objectives. In addition, where AAM has retained an Apollo affiliate as our sub-advisor, it is possible that due to the fees charged by such sub-advisor in addition to the AAM fees that we pay, we may either experience a reduced return on an investment or may forego purchasing an investment that we would have purchased if such investment opportunity were sourced directly by AAM.

Item 1A. Risk Factors

From time to time, AAM or Apollo may acquire investments on our behalf which are senior or junior to other instruments of the same issuer that are held by, or acquired for, another AAM or Apollo client (for example, we may acquire junior debt while another Apollo client may acquire senior debt). In the event such an issuer enters bankruptcy or becomes otherwise insolvent, the client holding securities which are senior in preference may have the right to aggressively pursue the issuer's assets to fully satisfy the issuer's indebtedness to the client, and the client holding the investment which is junior in the capital structure may not have access to sufficient assets of the issuer to completely satisfy its claim against the issuer and may suffer a loss. AAM and Apollo have adopted procedures that are designed to enable AAM and Apollo to address such conflicts and to ensure that clients are treated fairly and equitably in these situations. However, given AAM's or Apollo's fiduciary obligations to the other client, AAM and Apollo may be unable to manage our investment in the same manner as would have been possible without the conflict of interest. In such event, we may receive less return on such investment than if another AAM or Apollo client was not in a different part of the capital structure of the issuer.

Apollo and its affiliates have diverse and expansive private equity, credit and real estate investment platforms, investing in numerous companies across many industries. If Apollo acquires or forms a company with a business strategy competing with ours, additional conflicts may arise between us and Apollo or between us and such company in executing our plans, including with respect to the allocation of investments or the ability to execute on corporate opportunities. Our bye-laws provide that Apollo and its members and affiliates (including certain of our directors) generally have no duty to refrain from engaging, directly or indirectly, in the same or similar business activities or lines of business that we do.

Apollo and its affiliates regularly obtain material non-public information regarding various potential acquisition or trading targets. When Apollo and its affiliates obtain material non-public information regarding a potential acquisition or trading target, AAM and Apollo become restricted from trading such acquisition or trading target's outstanding securities. Some of such securities may be potential investment opportunities for us, or may be owned by us and be potential disposition opportunities. The inability of AAM or Apollo to purchase or sell such investments on our behalf as a result of these restrictions may result in us acquiring investments that may otherwise underperform the restricted investments that AAM or Apollo would have acquired, or incurring losses on investments that AAM or Apollo would have sold, on our behalf, had such restrictions not been in place.

Certain of AAM's executives and employees have incentive compensation tied to our financial performance. This compensation arrangement may incentivize such executives and employees to invest in riskier assets in an attempt to achieve higher returns.

James R. Belardi, our Chief Executive Officer, also serves as Chief Executive Officer of AAM, owns a profits interest in the equity of AAM and receives compensation from AAM for services he provides to AAM. Accordingly, his involvement as a member of our board of directors and management team and as an officer and director of AAM may lead to a conflict of interest. Furthermore, certain members of our board of directors also serve on the board of directors of AAM or are employees of Apollo or its affiliates, which could also lead to potential conflicts of interest. See *Item 13. Certain Relationships and Related Transactions, and Director Independence.*

Our bye-laws contain provisions that cause a holder of Class A common shares to lose the right to vote the shares if the holder owns an equity interest in Apollo, AP Alternative Assets, L.P. (AAA) or certain other entities.

Our bye-laws contain provisions that impose restrictions on certain Class A common shares in order to reduce the likelihood that U.S. persons that directly or indirectly own our common shares will experience adverse tax consequences attributable to RPII. These provisions could cause a holder to lose the right to vote its Class A common shares if the holder or one of its affiliates owns (or is treated as owning) any equity interests (or instruments treated as equity interests) in Apollo or AAA, if the holder or one of its affiliates owns (or is treated as owning) any of our Class B common shares or if the holder or one of its affiliates is a member of the Apollo Group. These restrictions do not affect the transferability of Class A common shares and do not apply unless the holder or one of its affiliates meets one of these conditions.

Investors may experience dilution in the future.

We have issued restricted Class M common shares to certain of our employees and to employees of AAM which enable them, upon meeting certain vesting criteria, to acquire Class A common shares at prices below the NYSE trading price of our Class A common shares. To the extent the outstanding restricted Class M common shares are ultimately exercised and/or to the extent we issue additional equity in the future, there may be dilution to investors.

Item 1A. Risk Factors

Our bye-laws contain provisions that could discourage takeovers and business combinations that our shareholders might consider in their best interests, including provisions that prevent a holder of Class A common shares from having a significant stake in Athene.

Our bye-laws include certain provisions that could have the effect of delaying, deferring, preventing or rendering more difficult a change of control that holders of our Class A common shares might consider in their best interests. For example, our bye-laws prohibit holders of our Class A common shares and certain other classes of our common shares (other than those owned by the Apollo Group) from having more than 9.9% of the total voting power of our common shares. Subject to certain exceptions determined by our board on the basis set forth in our bye-laws, the votes attributable to a holder of Class A common shares above 9.9% of the total voting power of our common shares are redistributed to other holders of Class A common shares *pro rata* based on the then current voting power of each holder. Such adjustments are likely to result in a shareholder having voting rights in excess of its *pro rata* share of the voting power of our Class A common shares. Therefore, a shareholder's voting rights may increase above 5% of the aggregate voting power of the outstanding common shares, thereby possibly resulting in the shareholder becoming a reporting person subject to Schedule 13D or 13G filing requirements under the Securities Exchange Act of 1934, as amended (Exchange Act). These requirements could discourage any potential investment in our Class A common shares. In addition, our board is classified into three classes of directors, with directors of each class serving staggered three-year terms. Any change in the number of directors is required by our bye-laws to be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class or from the removal of a director will hold such directorship for a term that coincides with the remaining term of that class. Moreover, our bye-laws require specific advance notice procedures and other protocols for holders of common shares to make shareholder proposals and nominate directors. Among other requirements, a shareholder must meet the minimum requirements for eligible shareholders to submit shareholder proposals under Rule 14a-8 of the Exchange Act, and submit specific information and make specific undertakings in relation to the shareholder proposal or director nomination.

Any or all of these provisions could prevent holders of our Class A common shares from receiving the benefit from any premium to the market price of our Class A common shares offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of any of these provisions could adversely affect the prevailing market price of our Class A common shares if they were viewed as discouraging takeover attempts in the future.

AHL is a holding company with limited operations of its own. As a consequence, AHL's ability to pay dividends on its common shares and to make timely payments on its debt obligations will depend on the ability of its subsidiaries to make distributions or other payments to it, which may be restricted by law.

AHL is a holding company with limited business operations of its own. AHL's primary subsidiaries are insurance and reinsurance companies that own substantially all of its assets and conduct substantially all of its operations. Accordingly, AHL's payment of dividends and ability to make timely payments on its debt obligations is dependent, to a significant extent, on the generation of cash flow by its subsidiaries and their ability to make such cash or other assets available to it, by dividend or otherwise. Dividends or distributions that may be paid by AHL's insurance subsidiaries to it are limited or restricted by applicable insurance or other laws that are based in part on the prior year's statutory income and surplus, or other sources. See *Risks Relating to Insurance and Other Regulatory Matters.* AHL's subsidiaries may not be able to, or may not be permitted to, make distributions to enable AHL to meet its obligations and pay dividends. In particular, as a condition to the New York State Department of Financial Services' (NYSDFS) approval of our acquisition of ALICNY in connection with the broader Aviva USA acquisition, we have agreed not to cause ALICNY to declare, distribute or pay any dividend for five years from the date of acquisition of control of ALICNY without the prior written consent of the NYSDFS, which period expires on October 2, 2018. Similarly, as a condition to the approval of the Iowa Insurance Division (IID) of our acquisition of Aviva USA's Iowa-domiciled subsidiaries, we have agreed not to cause AAIA to pay any dividend or other distribution to shareholders for five years, which period expires on August 15, 2018, without the prior approval of the IID. Further, any dividends paid to AHL by its U.S. subsidiaries would be subject to a 30% withholding tax under the Internal Revenue Code, which creates a significant disincentive for AHL's subsidiaries to pay such dividends and could have the effect of significantly reducing dividends or other amounts payable to AHL by its U.S. subsidiaries. These limitations on AHL's U.S. subsidiaries' abilities to pay dividends to it as a shareholder may negatively impact its financial condition, results of operations and cash flows.

Each subsidiary is a distinct legal entity and legal and contractual restrictions may also limit AHL's ability to obtain cash from its subsidiaries. In addition to the specific restrictions described above, AHL's subsidiaries, as members of its insurance holding company system, are subject to various statutory and regulatory restrictions on their ability to pay dividends to AHL, as further described in *Item 1. Business*.

AHL may in the future incur indebtedness in order to pay dividends to shareholders. If AHL did determine to incur additional indebtedness in order to pay dividends, such dividends would be subject to the terms of AHL's existing indebtedness as well as any credit agreement that AHL may enter into in the future. AHL does not currently anticipate paying any regular cash dividends on its common shares. Any decision to declare and pay dividends in the future will be made at the discretion of AHL's board of directors and will depend on, among other things, AHL's results of operations, financial condition, cash requirements, contractual restrictions and other factors that AHL's board of directors may deem relevant. Therefore, any return on investment in AHL's common stock may be solely dependent upon the appreciation of the price of AHL's common stock on the open market, which may not occur.

Item 1A. Risk Factors

Fulfilling our obligations with respect to the requirements of and related rules under the Sarbanes-Oxley Act of 2002 will be expensive and time-consuming, and any delays or difficulties in satisfying these obligations could have a material adverse effect on our future results of operations and our share price.

We completed the IPO for our Class A common shares in December 2016. Following the transition period established by the rules of the Securities and Exchange Commission for newly public companies, the Sarbanes-Oxley Act of 2002 will require us to document and test the effectiveness of our internal control over financial reporting in accordance with an established internal control framework, and to report on our conclusions as to the effectiveness of our internal controls. Likewise, our independent registered public accounting firm will be required to provide an attestation report on the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002, starting with the filing of our annual report on Form 10-K for the year ended December 31, 2017. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we are unable to conclude that we have effective internal control over financial reporting, investors could lose confidence in the reliability of our financial statements. This could result in a decrease in the value of our common shares. Failure to comply with the Sarbanes-Oxley Act of 2002 could potentially subject us to sanctions or investigations by the SEC, the NYSE or other regulatory authorities.

Holders of our shares may have difficulty effecting service of process on us or enforcing judgments against us in the United States.

AHL is incorporated pursuant to the laws of Bermuda and is domiciled in Bermuda. In addition, certain of our directors and officers reside outside the United States, and a substantial portion of our assets are located in jurisdictions outside the United States. As such, we have been advised that there is doubt as to whether:

- a holder of our shares would be able to enforce, in the courts of Bermuda, judgments of U.S. courts against us or against persons who reside in Bermuda based upon the civil liability provisions of the U.S. federal securities laws; or
- a holder of our shares would be able to bring an original action in the Bermuda courts to enforce liabilities against us or our directors and officers who reside outside the United States based solely upon U.S. federal securities laws.

Further, we have been advised that there is no treaty in effect between the United States and Bermuda providing for the enforcement of judgments of U.S. courts, and there are grounds upon which Bermuda courts may not enforce judgments of U.S. courts. Because judgments of U.S. courts are not automatically enforceable in Bermuda, it may be difficult for you to recover against us based upon such judgments. Additionally, we have been advised that the United States and Bermuda do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. A Bermuda court may, however, impose civil liability on us or our directors or officers in a suit brought in the Supreme Court of Bermuda provided that the facts alleged constitute or give rise to a cause of action under Bermuda law. Certain remedies available under the laws of U.S. jurisdictions, including certain remedies under the U.S. federal securities laws, would not be allowed in Bermuda courts to the extent that they are contrary to public policy.

Our choice of forum provisions in our bye-laws may limit your ability to bring suits against us or our directors and officers.

Our bye-laws currently provide that if any dispute arises concerning the Companies Act or out of or in connection with our bye-laws, including any question regarding the existence and scope of any bye-law and/or whether there has been a breach of the Companies Act or our bye-laws by an officer or director (whether or not such a claim is brought in the name of a shareholder or in the name of the Company), any such dispute shall be subject to the exclusive jurisdiction of the Supreme Court of Bermuda. This choice of forum provision may limit a shareholder’s ability to bring a claim in a judicial forum that the shareholder believes is favorable for disputes with us or our directors or officers, which may discourage lawsuits against us and our directors and officers. Alternatively, if a court were to find this provision of our bye-laws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition.

U.S. persons who own our shares may have more difficulty in protecting their interests than U.S. persons who are shareholders of a U.S. corporation.

The Companies Act, which applies to AHL, differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. Set forth below is a summary of certain significant provisions of the Companies Act and our bye-laws which differ in certain respects from provisions of Delaware corporate law. Because the following statements are summaries, they do not discuss all aspects of Bermuda law that may be relevant to us and our shareholders.

Interested Directors

Bermuda law provides that we cannot void any transaction we enter into in which a director has an interest, nor can such director be liable to us for any profit realized pursuant to such transaction, provided the nature of the interest is disclosed at the first opportunity at a meeting of directors, or in writing, to the directors. Under Delaware law such transaction would not be voidable if:

- the material facts as to such interested director’s relationship or interests were disclosed or were known to the board of directors and the board of directors had in good faith authorized the transaction by the affirmative vote of a majority of the disinterested directors;

- such material facts were disclosed or were known to the shareholders entitled to vote on such transaction and the transaction was specifically approved in good faith by vote of the majority of shares entitled to vote thereon; or
- the transaction was fair to the corporation as of the time it was authorized, approved or ratified.

Under Delaware law, the interested director could be held liable for a transaction in which the director derived an improper personal benefit.

Shareholders' Suits

The rights of shareholders under Bermuda law are not as extensive as the rights of shareholders in many U.S. jurisdictions. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. However, the Bermuda courts ordinarily would be expected to follow English case law precedent, which would permit a shareholder to commence an action in the name of the company to remedy a wrong done to the company where an act is alleged to be beyond the corporate power of the company, is illegal or would result in the violation of our memorandum of association or bye-laws. Furthermore, a court would consider acts that are alleged to constitute a fraud against the minority shareholders or acts requiring the approval of a greater percentage of our shareholders than actually approved it. The winning party in such an action generally would be able to recover a portion of attorneys' fees incurred in connection with such action. Class actions and derivative actions generally are available to shareholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions, the court has discretion to permit the winning party to recover attorneys' fees incurred in connection with such action.

Indemnification of Directors

We have entered into indemnification agreements with our directors and officers which provide that we will indemnify our directors and officers or any person appointed to any committee by the board of directors acting in their capacity as such for any loss arising or liability attaching to them by virtue of any rule of law in respect of any negligence, default, breach of duty or breach of trust of which such person may be guilty in relation to Athene other than in respect of his own fraud or dishonesty. However, we are required to indemnify our directors and officers in any proceeding in which they are successful. The indemnification agreements are limited to those payments that are lawful under Bermuda law.
Furthermore, pursuant to our bye-laws, our shareholders have agreed to waive any claim or right of action such shareholder may have, whether individually or by or in right of AHL, against any director or officer of AHL on account of any action taken by such director or officer, or the failure of such director or officer to take any action in the performance of his or her duties with or for AHL or any subsidiary of AHL; provided that such waiver does not extend to any matter in respect of any fraud or dishonesty which may attach to such director or officer.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own our headquarters for U.S. operations, which is located in West Des Moines, IA. We lease our head office for Bermuda operations, which is located in Pembroke, Bermuda, and we lease our office for our German operations, which is located in Wiesbaden, Germany. Our Retirement Services segment includes our Iowa and Bermuda offices, whereas our German office is included in a non-reportable segment within Corporate and other. We believe that for the foreseeable future our West Des Moines, Bermuda and German properties will be sufficient for us to conduct our current operations.

Item 3. Legal Proceedings

We are subject to litigation arising in the ordinary course of our business, including litigation principally relating to our FIA business. We cannot assure you that our insurance coverage will be adequate to cover all liabilities arising out of such claims. We are not engaged in any legal proceeding that we believe will be material to our business, financial condition, results of operations or cash flows. From time to time, in the ordinary course of business and like others in the insurance and financial services industries, we receive requests for information from government agencies in connection with such agencies' regulatory or investigatory authority. Such requests can include financial or market conduct examinations, subpoenas or demand letters for documents to assist the government in audits or investigations. We and each of our U.S. insurance subsidiaries review such requests and notices and take appropriate action. We have been subject to certain requests for information and investigations in the past and could be subject to them in the future.

For a description of certain legal proceedings affecting us, refer to *Note 18 - Commitments and Contingencies* to the consolidated financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our Class A common shares began trading on the NYSE under the symbol "ATH" on December 9, 2016.

The following table summarizes high and low closing prices for our Class A common shares on the NYSE for the periods indicated:

	2016			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$ -	$ -	$ -	$ 47.99
Low	$ -	$ -	$ -	$ 44.05

Shareholders

As of March 1, 2017, there were 77,410,448 Class A common shares outstanding and held of record by 311 shareholders, 111,852,897 Class B common shares outstanding and held of record by 17 shareholders, 3,445,767 Class M-1 common shares outstanding and held of record by 5 shareholders, 1,005,625 Class M-2 common shares outstanding and held of record by 12 shareholders, 1,293,200 Class M-3 common shares are outstanding and held of record by 24 shareholders, and 5,348,992 Class M-4 common shares outstanding and held of record by 119 shareholders.

Dividends

We do not currently pay dividends on any of our common shares and we currently intend to retain all available funds and any future earnings for use in the operation of our business. We may, however, pay cash dividends on our common shares, including our Class A common shares, in the future. Any future determination to pay dividends will be made at the discretion of our board of directors and will depend upon many factors, including our financial condition, earnings, legal and regulatory requirements, restrictions in our debt agreements and other factors our board of directors deems relevant. While we do not currently have any preference shares, if we issue such shares in the future, our board of directors may declare and pay a dividend on one or more classes of shares to the extent one or more classes of shares ranks senior to or has a priority over another class of shares. Our ability to pay dividends on our Class A common shares is limited by the terms of our existing indebtedness and may be restricted by the terms of any future credit agreement or any future debt or preferred securities of ours or of our subsidiaries. See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources* and *Note 10 - Debt* of the consolidated financial statements for further discussion.

Furthermore, AHL is a holding company and has no direct operations. All of AHL's business operations are conducted through its subsidiaries. Any dividends AHL pays will depend upon its funds legally available for distribution, including dividends from its subsidiaries. AHL's U.S. insurance subsidiaries are highly regulated and are required to comply with various conditions before they are able to pay dividends or make distributions to AHL. See *Item 1. Business-Regulation* and *Note 16 - Statutory Requirements* of the consolidated financial statements for further discussion. In addition, any dividends payable to AHL by its U.S. insurance subsidiaries, if permitted, would be subject to a 30% withholding tax.

Securities Authorized for Issuance under Equity Compensation Plans

See *Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* for information regarding our equity compensation plans.

Recent Sales of Unregistered Securities

During the year ended December 31, 2016, we issued the following unregistered equity instruments to our employees and employees of AAM in connection with our equity and long-term incentive plans: 104,758 Class A common shares, 990,650 Class M-4 and M-4 Prime common shares convertible to our Class A common shares at a weighted average conversion price of $33.78 per share, 28,250 restricted stock units (RSUs) at a weighted average conversion price of $28.74 per share, and 470,644 options at a weighted average exercise price of $33.95 per share.

During the year ended December 31, 2016, we issued 3,065,461 unregistered Class A common shares upon the conversion of equity instruments initially issued to our employees and employees of AAM in connection with our equity and long-term incentive plans.

During the year ended December 31, 2016, we issued 129,985 unregistered Class A common shares to members of our board of directors as compensation for their board service.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

On March 14, 2016, we issued and sold an aggregate of 20,750 Class M-4 Prime common shares with a conversion price of $28.26 per share and 2,500 Class M-4 Prime RSUs with a conversion price of $28.26 per share to AAM for approximately $217,466.

During the year ended December 31, 2016, we also issued and sold to certain of our employees fully-paid unregistered Class A common shares as follows: (1) on February 19, 2016, approximately 23,000 shares for approximately $650,000 and (2) on August 16, 2016, 4,120 shares for approximately $150,000.

No underwriters were involved in the foregoing sales of securities.

The sales and issuances of shares described above were effected in reliance on the exemptions for sales of securities not involving a public offering, as set forth in Rule 506 promulgated under the Securities Act and in Section 4(a)(2) of the Securities Act, based on the following: (1) the investors confirmed to us that they were either “accredited investors,” as defined in Rule 501 of Regulation D promulgated under the Securities Act or had such background, education and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in the securities; (2) the investors acknowledged that all securities being purchased were “restricted securities” for purposes of the Securities Act, and agreed to transfer such securities only in a transaction registered under the Securities Act or exempt from registration under the Securities Act; and (3) a legend was placed on the certificates representing each such security stating that it was restricted and could only be transferred if subsequently registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

Issuer Purchases of Securities

Purchases of common stock made by or on behalf of us or our affiliates during the three months ended December 31, 2016 are set forth below:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced programs[1]	(d) Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs[1]
October 1 - October 31, 2016[2]	261,194	$ 19.01	-	$ -
November 1 - November 30, 2016	-	$ -	-	$ -
December 1 - December 31, 2016[3]	3,776	$ 40.00	-	$ -

[1] *As of December 31, 2016, our Board of Directors had not authorized any purchases of common stock in connection with a publicly announced plan or program.*

[2] *Purchases relate to Class A common shares purchased from employees upon the occurrence of a termination event.*

[3] *Purchases relate to shares withheld (under the terms of employee stock compensation plans) to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying restricted stock units or upon the exercise of stock options.*

Item 6. Selected Financial Data

The following tables set forth our selected historical consolidated financial and operating data, which should be read in conjunction with *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Item 8. Financial Statements and Supplementary Data*. The information has been derived from our historical consolidated financial statements. Our historical results are not necessarily indicative of future operating results.

	Years ended December 31,				
(In millions, except percentages, share, and per share data)	**2016**[1]	**2015**[1,2]	**2014**	**2013**[2]	**2012**[2]
Consolidated Statements of Income Data					
Total revenues	$ 4,107	$ 2,616	$ 4,100	$ 1,749	$ 1,017
Total benefits and expenses	3,354	2,024	3,568	760	653
Income before income taxes	753	592	532	989	365
Net income available to AHL shareholders	805	562	463	916	377
Operating income, net of tax (a non-GAAP measure)	760	740	793	777	232
ROE	13.1%	11.3%	12.7%	39.6%	30.0%
ROE excluding AOCI (a non-GAAP measure)	13.3%	11.8%	14.0%	42.2%	32.9%
Operating ROE excluding AOCI (a non-GAAP measure)	12.5%	15.6%	24.0%	35.8%	20.3%
Earnings per share[3]					
Basic	$ 4.31	$ 3.21	$ 3.58	$ 8.07	$ 5.59
Diluted - Class A common shares	$ 4.21	$ 3.21	$ 3.52	$ 7.96	$ 5.59
Operating earnings per share (a non-GAAP measure)					
Operating diluted Class A common shares	$ 3.93	$ 4.23	$ 6.03	$ 6.75	$ 3.45
Weighted average common shares outstanding					
Basic[3]	186,751,109	175,091,802	129,519,108	113,506,457	67,343,297
Diluted - Class A common shares[3]	53,530,476	41,301,248	131,608,464	115,110,030	67,343,297
Operating diluted Class A common shares (a non-GAAP measure)[4]	193,371,496	175,178,648	131,608,464	115,110,030	67,343,297

(Continued)

Item 6. Selected Financial Data

	December 31,				
	2016[1]	2015[1,2]	2014	2013[2]	2012[2]
Consolidated Balance Sheets Data					
Investments, including related parties	$ 72,433	$ 64,525	$ 60,631	$ 58,156	$ 13,911
Investments of consolidated variable interest entities	901	1,565	3,409	4,348	2,478
Total assets	86,720	80,854	82,710	80,807	19,315
Interest sensitive contract liabilities	61,532	57,296	60,641	60,386	13,264
Future policy benefits	14,569	14,540	11,137	10,712	2,462
Notes payable, including related party notes payable	-	-	-	351	153
Borrowings of consolidated variable interest entities	-	500	2,017	2,413	1,225
Total liabilities	79,814	75,491	78,122	77,952	17,452
Total AHL shareholders' equity	6,905	5,362	4,555	2,761	1,863
Book value per share	$ 35.91	$ 28.81	$ 32.29	$ 23.99	$ 16.61
Book value per share, excluding AOCI (a non-GAAP measure)	$ 33.29	$ 30.09	$ 27.28	$ 22.36	$ 14.66
Common shares outstanding[5]	192,315,819	186,115,240	141,035,628	115,099,947	112,088,679
Operating diluted Class A common shares outstanding (a non-GAAP measure)[4]	196,400,281	186,115,240	143,347,480	120,341,882	112,088,679

[1] *Effective August 1, 2015, AAIA agreed to novate certain open blocks of business ceded to Accordia, an affiliate of Global Atlantic, and amended portions of reinsurance agreements between ALICNY and FAFLIC, an affiliate of Global Atlantic, which changed the reinsurance agreements from funds withheld coinsurance to coinsurance agreements. Refer to Note 7 - Reinsurance of the consolidated financial statements.*

[2] *Reflects the acquisition of DLD from October 1, 2015, the acquisition of Aviva USA from October 2, 2013, and the acquisition of Presidential Life Corporation from December 28, 2012.*

[3] *Basic earnings per share, including basic weighted average shares outstanding, includes all classes eligible to participate in dividends for each period presented. Diluted earnings per share on Class A common shares, including diluted Class A weighted average shares outstanding, includes the dilutive impacts, if any, of Class B common shares, Class M common shares and any other stock-based awards. Refer to Note 13 - Earnings Per Share of the consolidated financial statements for additional information regarding basic and diluted earnings per share.*

[4] *Represents Class A common shares outstanding or weighted average common shares outstanding assuming conversion or settlement of all outstanding items that are able to be converted to or settled in Class A common shares, including the impacts of Class B common shares, Class M common shares and any other stock-based awards. For December 31, 2015 and prior, Class M common shares were not included due to issuance restrictions which were contingent upon our IPO. Refer to Note 12 - Stock-based Compensation of the consolidated financial statements for additional information regarding the IPO issuance restriction.*

[5] *Represents common shares outstanding for all classes eligible to participate in dividends for each period presented. Refer to Note 13 - Earnings Per Share of the consolidated financial statements for additional information regarding classes eligible to participate in dividends as of each period.*

(Concluded)

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Item 6. Selected Financial Data

Non-GAAP Measures-In addition to our results presented in accordance with GAAP, our results of operations include certain non-GAAP measures commonly used in our industry. Management believes the use of these non-GAAP measures, together with the relevant GAAP measures, provides a better understanding of our results of operations and the underlying profitability drivers of our business. These measures should be considered supplementary to our results in accordance with GAAP and should not be viewed as a substitute for the GAAP measures. See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Key Operating and Non-GAAP Measures* for additional discussions regarding non-GAAP measures.

The following are reconciliations of operating income, net of tax, weighted average shares outstanding - operating diluted Class A common shares and operating income, net of tax - per operating diluted Class A common share to their corresponding GAAP measures, net income available to AHL shareholders, basic weighted average shares outstanding - Class A common shares and basic earnings per share - Class A common shares, respectively:

	Years ended December 31,				
(In millions)	2016	2015	2014	2013	2012
Operating income, net of tax	$ 760	$ 740	$ 793	$ 777	$ 232
Non-operating adjustments					
Investment gains (losses), net of offsets	47	(56)	151	(4)	228
Change in fair values of derivatives and embedded derivatives - FIAs, net of offsets	97	(27)	(30)	154	(38)
Integration, restructuring and other non-operating expenses	(22)	(58)	(279)	(184)	(38)
Stock compensation expense	(79)	(67)	(148)	-	-
Bargain purchase gain	-	-	-	152	(2)
Income tax (expense) benefit - non-operating	2	30	(24)	21	(5)
Total non-operating adjustments	45	(178)	(330)	139	145
Net income available to AHL shareholders	$ 805	$ 562	$ 463	$ 916	$ 377

	Years ended December 31,				
	2016	2015	2014	2013	2012
Basic weighted average shares outstanding - Class A	52,086,945	41,214,402	11,105,082	494,201	388,126
Conversion of Class B shares to Class A shares	134,445,840	133,877,400	118,414,026	113,012,256	66,955,171
Conversion of Class M shares to Class A shares	6,609,590	-	-	-	-
Effect of other stock compensation plans	229,121	86,846	11	9	-
Effect of equity swap	-	-	2,089,345	1,603,564	-
Weighted average shares outstanding - operating diluted Class A common shares	193,371,496	175,178,648	131,608,464	115,110,030	67,343,297

	Years ended December 31,				
	2016	2015	2014	2013	2012
Operating income, net of tax - per operating diluted Class A common share	$ 3.93	$ 4.23	$ 6.03	$ 6.75	$ 3.45
Non-operating adjustments					
Investment gains (losses), net of offsets	0.24	(0.33)	1.15	(0.03)	3.38
Change in fair values of derivatives and embedded derivatives - FIAs, net of offsets	0.51	(0.15)	(0.24)	1.33	(0.56)
Integration, restructuring and other non-operating expenses	(0.12)	(0.33)	(2.12)	(1.61)	(0.57)
Stock compensation expense	(0.41)	(0.38)	(1.12)	-	-
Bargain purchase gain	-	-	-	1.33	(0.03)
Income tax (expense) benefit - non-operating	0.01	0.17	(0.18)	0.19	(0.08)
Total non-operating adjustments	0.23	(1.02)	(2.51)	1.21	2.14
Effect of items convertible to or settled in Class A common shares	0.15	-	0.06	0.11	-
Basic earnings per share - Class A common shares	$ 4.31	$ 3.21	$ 3.58	$ 8.07	$ 5.59

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Item 6. Selected Financial Data

The following is a reconciliation of total AHL shareholders' equity excluding AOCI, which is used in calculating ROE excluding AOCI and book value per share excluding AOCI, to its corresponding GAAP measure, total AHL shareholders' equity:

	December 31,				
(In millions)	2016	2015	2014	2013	2012
Total AHL shareholders' equity	$ 6,905	$ 5,362	$ 4,555	$ 2,761	$ 1,863
Less: AOCI	367	(237)	644	70	219
Total AHL shareholders' equity excluding AOCI	$ 6,538	$ 5,599	$ 3,911	$ 2,691	$ 1,644

The following is a reconciliation of operating diluted Class A common shares outstanding to its corresponding GAAP measure, Class A common shares outstanding.

	December 31,				
	2016	2015	2014	2013	2012
Class A common shares outstanding	77,035,785	50,151,265	15,752,736	494,200	494,200
Conversion of Class B shares to Class A shares	111,805,829	135,963,975	125,282,892	114,605,747	111,594,479
Conversion of Class M shares to Class A shares	6,809,252	-	-	-	-
Effect of other stock compensation plans	749,415	-	-	-	-
Effect of equity swap	-	-	2,311,852	5,241,935	-
Operating diluted Class A common shares outstanding	196,400,281	186,115,240	143,347,480	120,341,882	112,088,679

The following is a reconciliation of book value per share excluding AOCI to its corresponding GAAP measure, book value per share.

	December 31,				
	2016	2015	2014	2013	2012
Book value per share	$ 35.91	$ 28.81	$ 32.29	$ 23.99	$ 16.61
AOCI	(1.91)	1.28	(4.56)	(0.60)	(1.95)
Effect of items convertible to or settled in Class A common shares	(0.71)	-	(0.45)	(1.03)	-
Book value per share, excluding AOCI	$ 33.29	$ 30.09	$ 27.28	$ 22.36	$ 14.66

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Index to Management's Discussion and Analysis of Financial Condition and Results of Operations

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the *Forward-Looking Statements, Item 1A. Risk Factors, Item 6. Selected Financial Data, and Item 8. Financial Statements* included within this report.

Overview

We are a leading retirement services company that issues, reinsures and acquires retirement savings products designed for the increasing number of individuals and institutions seeking to fund retirement needs. We generate attractive financial results for our policyholders and shareholders by combining our two core competencies of (1) sourcing long-term, generally illiquid liabilities and (2) investing in a high quality investment portfolio, which takes advantage of the illiquid nature of our liabilities. Our steady and significant base of earnings generates capital that we opportunistically invest across our business to source attractively-priced liabilities and capitalize on opportunities. Our differentiated investment strategy benefits from our strategic relationship with Apollo and its indirect subsidiary, AAM. AAM provides a full suite of services for our investment portfolio, including direct investment management, asset allocation, mergers and acquisition asset diligence and certain operational support services, including investment compliance, tax, legal and risk management support. Our relationship with Apollo and AAM also provides us with access to Apollo’s investment professionals across the world as well as Apollo’s global asset management infrastructure that, as of December 31, 2016, supported more than $191 billion of AUM across a broad array of asset classes. We are led by a highly skilled management team with extensive industry experience. We are based in Bermuda with our U.S. subsidiaries' headquarters located in Iowa.

We began operating in 2009 when the burdens of the financial crisis and resulting capital demands caused many companies to exit the retirement market, creating the need for a well-capitalized company with an experienced management team to fill the void. Taking advantage of this market dislocation, we have been able to acquire substantial blocks of long-duration liabilities and reinvest the related investments to produce profitable returns. We have established a significant base of earnings and as of December 31, 2016, have an expected annual investment margin of 2-3% over the 7.8 year weighted-average life of our deferred annuities, which make up a substantial portion of our reserve liabilities. Even as we have grown to $72.4 billion in investments, including related parties, $71.8 billion in invested assets and $86.7 billion of total assets as of December 31, 2016, we have continued to approach both sides of the balance sheet with an opportunistic mindset because we believe quickly identifying and capitalizing on market dislocations allows us to generate attractive, risk-adjusted returns for our shareholders. Further, our multiple distribution channels support growing origination across market environments and better enable us to achieve continued balance sheet growth while maintaining attractive profitability. We believe that in a typical market environment, we will be able to profitably grow through our organic channels, including retail, flow reinsurance and institutional products. In more challenging market environments, we believe that we will see additional opportunities to grow through our inorganic channels, including acquisitions and block reinsurance, due to market stress during those periods.

As a result of our focus on issuing, reinsuring and acquiring attractively-priced liabilities, our differentiated investment strategy and our significant scale, for the year ended December 31, 2016, in our Retirement Services segment described below, we generated an investment margin on deferred annuities of 2.77% and operating ROE excluding AOCI of 19.1%. We currently maintain what we believe to be high capital ratios for our rating and hold more than $1.5 billion of excess capital, and view this excess as strategic capital available to reinvest into organic and inorganic growth opportunities. Because we hold such strategic capital to implement our opportunistic strategy and to enable us to explore deployment opportunities as they arise, and because we are investing for future growth, our consolidated ROE for the year ended December 31, 2016 was 13.1% and our consolidated operating ROE excluding AOCI was 12.5%.

We operate our core business strategies out of one reportable segment, Retirement Services. In addition to Retirement Services, we report certain other operations in Corporate and Other. Retirement Services is comprised of our U.S. and Bermuda operations which issue and reinsure retirement savings products and institutional products. Corporate and Other includes certain other operations related to our corporate activities and our German operations, which is primarily comprised of participating long-duration savings products.

We have developed organic and inorganic channels to address the retirement services market and grow our assets and liabilities. By focusing on the retirement services market, we believe that we will benefit from several demographic and economic trends, including the increasing number of retirees in the United States, the lack of tax advantaged alternatives for people trying to save for retirement and expectations of a rising interest rate environment. To date, most of our products sold and acquired have been fixed annuities, which offer people saving for retirement a product that is tax advantaged, has a minimum guaranteed rate of return or minimum cash value and provides protection against investment loss. Our policies often include surrender charges (86% of our deferred annuity products, as of December 31, 2016) or MVAs (73% of our deferred annuity products, as of December 31, 2016), both of which increase persistency and protect our ability to meet our obligations to policyholders. Our organic channels, including retail, flow reinsurance and institutional products, provided deposits of $8.8 billion, $3.9 billion and $2.9 billion for the years ended December 31, 2016, 2015 and 2014, respectively. We believe the 2015 upgrade of our financial strength ratings to A- by each of S&P, Fitch and A.M. Best, as well as our 2016 outlook upgrade to positive by A.M. Best and our recent FIA and MYGA new product launches, have enabled and will continue to enable us to increase penetration in our existing organic channels, and access new markets within our retail channel, such as financial institutions. This increased penetration will allow us to source additional volumes of profitably underwritten liabilities. Our inorganic channels, including acquisitions and block reinsurance, have contributed significantly to our growth. We believe our internal acquisitions team, with support from Apollo, has an industry-leading ability to source, underwrite, and expeditiously close transactions, which makes us a competitive counterparty for acquisition or block reinsurance transactions. The aggregate purchase price of our acquisitions was less than the aggregate statutory book value of the businesses acquired.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

We plan to grow organically by expanding our retail, reinsurance and institutional product distribution channels. We believe that we have the right people, infrastructure and scale to position us for continued growth. Within our retail channel we had fixed annuity sales of $5.3 billion, $2.5 billion and $2.5 billion for the years ended December 31, 2016, 2015 and 2014, respectively. We aim to grow our retail channel in the United States by deepening our relationships with our approximately 60 IMOs and approximately 28,000 independent agents. Our strong financial position and capital efficient products allow us to be a dependable partner with IMOs and consistently write new business. We work with our IMOs to develop customized, and at times exclusive, products that help drive sales. We expect our retail channel to continue to benefit from the ratings upgrade in 2015, our improving credit profile and recent product launches. We believe this should support growth in sales at our desired cost of crediting through increased volumes via current IMOs and access to new distribution channels, including small to mid-sized banks and regional broker-dealers. We are implementing the necessary technology platform, hiring and training a specialized sales force, and have created products to capture new potential distribution opportunities. Our reinsurance channel also benefited from the 2015 ratings upgrade. We target reinsurance business consistent with our preferred liability characteristics, and as such, reinsurance provides another opportunistic channel for us to source long-term liabilities with attractive crediting rates. We generated deposits through our flow reinsurance channel of $3.5 billion, $1.1 billion and $349 million for the years ended December 31, 2016, 2015 and 2014, respectively. In addition, after having sold our first funding agreement under our FABN program in 2015 and funding agreements in the aggregate principal amount of $650 million in the first quarter of 2017, we expect to grow this channel over time.

Acquisition Summary Included in Results of Operations

On October 1, 2015, we acquired 100% of the outstanding shares of DLD from Delta Lloyd N.V., an Amsterdam-based financial services provider. As a result of the acquisition, we acquired $5.9 billion of assets and $5.9 billion of liabilities (as of the acquisition date) and began operating in Germany. The impact of this transaction has an effect on the comparability of our historical results. For this reason in particular, historical discussions of changes between periods are not necessarily indicative of future results. To enhance comparability of December 31, 2016, 2015 and 2014 results, we highlight the financial results applicable to the acquisition of DLD where meaningful.

Industry Trends and Competition

Market Conditions

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. A general economic slowdown could adversely affect us in the form of changes in consumer behavior and decreases in the returns on and value of our investment portfolio. Concerns over the slow economic recovery, the level of U.S. national debt, currency fluctuations and volatility, the stability of the EU, Brexit and the potential exit of certain other EU members, the rate of growth of China and other Asian economies, unemployment, the availability and cost of credit, the U.S. housing market, inflation levels, low or negative interest rates, energy costs and geopolitical issues have contributed to increased volatility and diminished expectations for the economy and the markets. Declining economic growth rates globally and resultant diverging paths of monetary policy could increase volatility in the credit markets, potentially impacting the availability and cost of credit. Factors such as equity prices, equity market volatility, interest rates, counterparty risks, availability of credit, inflation rates, economic uncertainty, changes in laws or regulations (including laws relating to the financial markets generally or the taxation or regulation of the insurance industry), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including governmental instability, wars, terrorist acts or security operations) can have a material impact on the value of our investment portfolio and our ability to sell our products. We adjust the structure of our products depending on the economic environment, the behavior of customers and other factors, including mortality rates, morbidity rates, cap rates, rollup rates, annuitization rates and lapse rates, which can vary in response to changes in market conditions. We believe continued economic growth, stable financial markets and a potentially rising interest rate environment may ultimately enhance the attractiveness of our product portfolio. However, we remain exposed to potential slowdowns in economic activity, which could be characterized by rising unemployment, falling interest rates, widening credit spreads and an increase in corporate credit and real estate-related defaults.

Interest Rate Environment

As a retirement services company focused on issuing and reinsuring fixed annuities, we are affected by the monetary policy of the Federal Reserve in the United States as well as other central banks around the world. In spite of the Federal Reserve increasing federal funds rates in December 2015 for the first time in almost a decade and again in December 2016, interest rates in the United States remain lower than historical levels. The lower interest rates in part are due to a number of actions taken in recent years by the Federal Reserve in an effort to stimulate economic activity. Any future increases in federal funds rates are uncertain and will depend on the economic outlook.

Our investment portfolio consists predominantly of fixed maturity investments. See *Consolidated Investment Portfolio*. If prevailing interest rates were to rise, we believe the yield on our new investment purchases would also rise and our investment income from floating rate investments would increase while the value of our existing investments may decline. If prevailing interest rates were to decline, it is likely that the yield on our new investment purchases would decline and our investment income from floating rate investments would decrease while the value of our existing investments may increase. We address interest rate risk through managing the duration of the liabilities we source with assets we acquire and through ALM modeling. We endeavor to limit reinvestment risk related to cash flows by managing our asset portfolio to ensure it provides adequate cash flows to meet our expected policyholder benefit cash flows to within tolerable risk management limits. Our strategy is to achieve sustainable yields that allow us to maintain an attractive investment margin. As part of our investment strategy, we purchase floating rate investments, which we expect will perform well in a rising interest rate environment. Our investment portfolio includes $20.8 billion of floating rate investments, or approximately 29% of our total invested assets as of December 31, 2016. As part of our reinvestment strategy for the investment portfolios of our acquired companies, we generally seek to reinvest assets at yields higher than the related assets being liquidated for reinvestment. We continuously seek to optimize our investment portfolio to achieve favorable returns over the long term.

If prevailing interest rates were to rise, we believe our products would be more attractive to consumers and our sales would likely increase. In periods of prolonged low interest rates, the investment margin earned on deferred annuities may be negatively impacted by reduced investment income and to the extent our ability to reduce policyholder crediting rates are limited by policyholder guarantees in the form of minimum crediting rates. As of December 31, 2016, most of our products were fixed annuities with approximately 35% of our FIAs at the minimum guarantees and approximately 51% of our fixed rate annuities at the minimum crediting rates. As of December 31, 2016, minimum guarantees on all of our deferred annuities, including those with crediting rates already at their minimum guarantees, were, on average, 75 to 85 basis points below the crediting rates on such deferred annuities, allowing us room to reduce rates before reaching the minimum guarantees. The remaining liabilities are associated with immediate annuities, funding agreements or life contracts which have crediting rates or costs that are less sensitive or insensitive to interest rate movements. A significant majority of our products have crediting rates that we may reset annually upon renewal following the expiration of the current guaranteed period. While we have the contractual ability to lower these crediting rates to the guaranteed minimum levels, our willingness to do so may be limited by competitive pressures.

See *Item 7A. Quantitative and Qualitative Disclosures About Market Risk* for more detail on market risk, which includes interest rate and other significant risks and our strategies for managing these risks.

Demographics

Over the next four decades, the retirement-age population is expected to experience unprecedented growth. Technological advances and improvements in healthcare are projected to continue to contribute to increasing average life expectancy, and aging individuals must be prepared to fund retirement periods that will last longer than ever before. Further, many working households in the United States do not have adequate retirement savings. As a tool for addressing the unmet need for retirement planning, we believe that many Americans have begun to look to tax-efficient savings products with low-risk or guaranteed return features and potential equity market upside, particularly as federal, state and local marginal tax rates have increased. Our tax-efficient savings products are well positioned to meet this increasing customer demand. The impact of this growth in demand may be offset to some extent by asset outflows as an increasing percentage of the population begins withdrawing assets to convert their savings into income.

We believe that our strong presence in the FIA market and strength of our relationships with IMOs position us to effectively serve consumers' demand in the rapidly growing retirement savings market. We expect our retail channel to continue to benefit from the ratings upgrade in 2015, our improving credit profile and recent product launches. We believe this should help us to grow sales at our desired cost of crediting through increased volumes via current IMOs and access to new distribution channels, including small to mid-sized banks and regional broker-dealers. We also believe that the 2015 financial strength ratings upgrades and our 2016 outlook upgrade to positive by A.M. Best have enabled and will continue to enable us to increase penetration in our existing organic channels, such as flow reinsurance and the FABN market, while also helping us enter into the pension risk transfer market.

Competition

We operate in highly competitive markets. We face a variety of large and small industry participants, including diversified financial institutions and insurance and reinsurance companies. These companies compete in one form or another for the growing pool of retirement assets driven by a number of external factors such as the continued aging of the population and the reduction in safety nets provided by governments and private employers. In many segments, product differentiation is difficult as product development and life cycles have shortened. In addition, we have experienced pressure on fees as product unbundling and lower cost alternatives have emerged. As a result, scale and the ability to provide value-added services and build long-term relationships are important factors to compete effectively. We believe that our leading presence in the retirement market, diverse range of capabilities and broad distribution network uniquely position us to effectively serve consumers' increasing demand for retirement solutions, particularly in the FIA market.

According to LIMRA, total fixed annuity market sales in the United States were $117.4 billion for the twelve months ended December 31, 2016, a 14.0% increase from the same time period in 2015. This increase was driven by an increase in traditional fixed rate deferred annuities of $7.8 billion, or 25.2%, and an increase in FIA products of $6.4 billion, or 11.7%. In the total fixed annuity market, for the nine months ended September 30, 2016 (the most recent period for which specific market share data is available), we were the 7th largest company based on sales

with a 4.2% market share and $3.8 billion in sales. For the nine months ended September 30, 2015, our market share was 2.6% with sales of $1.9 billion.

FIAs are one of the fastest growing annuity products having grown from $27.3 billion in 2005 to $60.9 billion in sales for the year ended December 31, 2016. According to LIMRA, for the nine months ended September 30, 2016 (the most recent period for which specific market share data is available), we were the 3rd largest provider of FIAs in terms of sales, and our market share for the same period was 6.9% with sales of $3.2 billion. For the nine months ended September 30, 2015, our market share was 4.9% with sales of $1.9 billion.

Regulatory Developments

On April 6, 2016, the DOL issued a new regulation more broadly defining the circumstances under which a person is considered to be a fiduciary by reason of giving investment advice or recommendations to an employee benefit plan or a plan's participants or to IRA holders. In addition to releasing the investment advice regulation, the DOL: (1) issued a new prohibited transaction class exemption titled the "Best Interest Contract Exemption," to be used in connection with the sale of FIAs or variable annuities, and (2) updated the previously prohibited transaction class exemption 84-24, to be used in connection with the sale of traditional fixed rate annuities. On February 3, 2017, the President of the United States issued an executive memorandum directing the DOL to examine the fiduciary rule to determine whether the fiduciary rule has harmed or is likely to cause harm to investors by limiting access to certain retirement products or related financial advice, whether the fiduciary rule has resulted in dislocations in the retirement services industry that may adversely affect investors or retirees, or whether the fiduciary rule is likely to cause increased litigation and increased costs for investors and retirees. In direct response to the memorandum, the acting secretary of the DOL stated that the DOL will consider its legal options to delay the applicability date of the rule in order to comply with the memorandum. The DOL has published a proposed amendment to the fiduciary rule that will delay the applicability date for 60-days to allow the DOL to fully review the rule in light of the executive memorandum. The DOL has provided a 15-day comment period to respond to the proposed delay and it is anticipated it will issue the final rule officially delaying the applicability date in late March 2017. In addition to the 15-day comment period relating to the delay, the DOL has opened a 45-day comment period to collect responses to the questions raised in the executive memorandum. We anticipate a delay, with a possible replacement of the rule that is less burdensome but still requires sales to be in the best interest of clients. However, until the rule is officially delayed, we continue to move forward in preparation for the April 10, 2017 applicability date.

Both the U.S. Congress and President Trump's administration have indicated a desire to reform the Internal Revenue Code. Although the 2016 U.S. House of Representatives Blueprint, "A Better Way" and the tax plans proposed by President Trump during the presidential campaign do not align on all tax reform proposals, substantial proposed changes to the U.S. corporate tax regime include: reduction of the maximum corporate tax rate, repeal of the corporate alternative minimum tax, elimination of net operating loss carryback, immediate expensing of business assets, and elimination of a deduction for net interest expense as well as substantial changes to the international tax system including border tax adjustments, a destination based cash flow tax and moving to a territorial based tax system. A reduction in the corporate tax rate would have a positive impact on the earnings and cash flow of our U.S. companies, but it could also reduce the value of our deferred tax assets. Although it is not known at this time how border tax adjustments will (if enacted) be applied to insurers and reinsurers, it is possible that such adjustments will involve denying a deduction to U.S. insurance companies for reinsurance premium paid to a foreign reinsurer, which would materially increase our overall U.S. tax expense. In addition, it is not yet known whether potential tax reform will include further changes impacting the current tax treatment of insurance companies under the Internal Revenue Code. At this time it is not possible to determine the impact of potential legislative changes on our financial condition and results of operations.

Key Operating and Non-GAAP Measures

In addition to our results presented in accordance with GAAP, our results of operations include certain non-GAAP measures commonly used in our industry. Management believes the use of these non-GAAP measures, together with the relevant GAAP measures, provides a better understanding of our results of operations and the underlying profitability drivers of our business. The majority of these non-GAAP measures are intended to remove from the results of operations the impact of market volatility (other than with respect to alternative investments) as well as integration, restructuring and certain other expenses which are not part of our underlying profitability drivers or likely to re-occur in the foreseeable future, as such items fluctuate from period-to-period in a manner inconsistent with these drivers. These measures should be considered supplementary to our results in accordance with GAAP and should not be viewed as a substitute for the GAAP measures. See *Non-GAAP Measure Reconciliations* for the appropriate reconciliations to the GAAP measures.

Operating Income, Net of Tax

Operating income, net of tax, a commonly used operating measure in the life insurance industry, is a non-GAAP measure used to evaluate our financial performance excluding market volatility and expenses related to integration, restructuring, stock compensation, and other expenses. Our operating income, net of tax, equals net income available to AHL's shareholders adjusted to eliminate the impact of the following (collectively, the "non-operating adjustments"):

- **Investment Gains (Losses), Net of Offsets-**Investment gains (losses), net of offsets, consist of the realized gains and losses on the sale of AFS securities, the change in assumed modco and funds withheld reinsurance embedded derivatives, unrealized gains and losses, impairments, and other investment gains and losses. Unrealized, impairments and other investment gains and losses are comprised of the fair value adjustments of trading securities (other than CLOs) and investments held under the fair value

option, derivative gains and losses not hedging FIA index credits, and the net OTTI impacts recognized in operations net of the change in AmerUs Closed Block fair value reserve related to the corresponding change in fair value of investments and the change in unit linked reserves related to the corresponding trading securities. Investment gains and losses are net of offsets related to DAC, DSI, and VOBA amortization and changes to GLWB and guaranteed minimum death benefits (GMDB) reserves (together, GLWB and GMDB reserves represent rider reserves) as well as the MVAs associated with surrenders or terminations of contracts.

- **Change in Fair Values of Derivatives and Embedded Derivatives - FIAs, Net of Offsets-**Impacts related to the fair value accounting for derivatives hedging the FIA index credits and the related embedded derivative liability fluctuate from period-to-period. The index reserve is measured at fair value for the current period and all periods beyond the current policyholder index term. However, the FIA hedging derivatives are purchased to hedge only the current index period. Upon policyholder renewal at the end of the period, new FIA hedging derivatives are purchased to align with the new term. The difference in duration between the FIA hedging derivatives and the index credit reserves creates a timing difference in earnings. This timing difference of the FIA hedging derivatives and index credit reserves is included as a non-operating adjustment, net of offsets related to DAC, DSI, and VOBA amortization and changes to rider reserves.

We primarily hedge with options that align with the index terms of our FIA products (typically 1-2 years). From an economic basis, we believe this is suitable because policyholder accounts are credited with index performance at the end of each index term. However, because the “value of an embedded derivative” in an FIA contract is longer-dated, there is a duration mismatch which may lead to mismatches for accounting purposes.

- **Integration, Restructuring, and Other Non-operating Expenses-**Integration, restructuring, and other non-operating expenses consist of restructuring and integration expenses related to mergers and acquisitions as well as certain other expenses which are not part of our core operations or likely to re-occur in the foreseeable future.

- **Stock Compensation Expense-**To date, stock compensation expenses associated with our share incentive plans, excluding our long term incentive plan, are not part of our core operating expenses and fluctuate from time to time due to the structure of our plans.

- **Bargain Purchase Gain-**Bargain purchase gains associated with acquisitions are adjustments to net income as they are not consistent with our core operations.

- **Income Taxes (Expense) Benefit - Non-operating-**The non-operating income tax expense is comprised of the appropriate jurisdiction's tax rate applied to the non-operating adjustments that are subject to income tax.

We consider these non-operating adjustments to be meaningful adjustments to net income available to AHL's shareholders for the reasons discussed in greater detail above. Accordingly, we believe using a measure which excludes the impact of these items is effective in analyzing the trends in our results of operations. Together with net income available to AHL's shareholders, we believe operating income, net of tax, provides a meaningful financial metric that helps investors understand our underlying results and profitability. Operating income, net of tax, should not be used as a substitute for net income available to AHL's shareholders.

ROE Excluding AOCI and Operating ROE Excluding AOCI

ROE excluding AOCI and operating ROE excluding AOCI are non-GAAP measures used to evaluate our financial performance excluding the impacts of AOCI. AOCI fluctuates period-to-period in a manner inconsistent with our underlying profitability drivers as the majority of such fluctuation is related to the market volatility of the unrealized gains and losses associated with our AFS securities. Once we have reinvested acquired blocks of businesses, we typically buy and hold AFS investments to maturity throughout the duration of market fluctuations, therefore, the period-over-period impacts in unrealized gains and losses are not necessarily indicative of current operating fundamentals or future performance. Accordingly, we believe using measures which exclude AOCI is more effective in analyzing the trends of our operations. To enhance the ability to analyze these measures across periods, interim periods are annualized. ROE excluding AOCI and operating ROE excluding AOCI should not be used as a substitute for ROE. However, we believe the adjustments to equity are significant to gaining an understanding of our overall results of operations.

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Operating Earnings Per Share - Operating Diluted Class A, Weighted Average Shares Outstanding - Operating Diluted Class A Common Shares and Book Value Per Share Excluding AOCI

Operating earnings per share - operating diluted Class A, weighted average shares outstanding - operating diluted Class A common shares and book value per share excluding AOCI are non-GAAP measures used to evaluate our financial performance and financial condition. The non-GAAP measures adjust the number of shares included in the corresponding GAAP measures to reflect the conversion or settlement of all shares and other stock-based awards outstanding. We believe using these measures represent an economic view of our share counts and provide a simplified and consistent view of our outstanding shares. Operating earnings per share - operating diluted Class A is calculated as the operating income, net of tax over the weighted average shares outstanding - operating diluted Class A common shares. Book value per share excluding AOCI is calculated as the ending AHL shareholders' equity excluding AOCI divided by the operating diluted Class A common shares outstanding. Our Class B common shares are economically equivalent to Class A common shares and can be converted to Class A common shares on a one-for-one basis at any time. Our Class M common shares are in the legal form of shares but economically function as options as they are convertible into Class A shares after vesting and settlement of the conversion price. In calculating Class A diluted earnings per share on a GAAP basis, we are required to apply sequencing rules to determine the dilutive impacts, if any, of our Class B common shares, Class M common shares and any other stock-based awards. To the extent our Class B common shares, Class M common shares and/or any other stock-based awards are not dilutive they are excluded. Weighted average shares outstanding - operating diluted Class A common shares and operating diluted Class A common shares outstanding assume conversion or settlement of all outstanding items that are able to be converted to or settled in Class A common shares, including the impacts of Class B common shares on a one-for-one basis, the impacts of all Class M common shares net of the conversion price and any other stock-based awards. For December 31, 2015 and prior, Class M shares were not included due to issuance restrictions which were contingent upon our IPO. Operating earnings per share - operating diluted Class A, weighted average shares outstanding - operating diluted Class A common shares and book value per share excluding AOCI should not be used as a substitute for basic earnings per share - Class A common shares, basic weighted average shares outstanding - Class A or book value per share. However, we believe the adjustments to the shares and equity are significant to gaining an understanding of our overall results of operations and financial condition.

Retirement Services Net Investment Earned Rate, Cost of Crediting and Investment Margin on Deferred Annuities

Investment margin is a key measurement of the financial health of our Retirement Services core deferred annuities. Investment margin on our deferred annuities is generated from the excess of our net investment earned rate over the cost of crediting to our policyholders. Net investment earned rate is a key measure of investment returns and cost of crediting is a key measure of the policyholder benefits on our deferred annuities.

Net investment earned rate is a non-GAAP measure we use to evaluate the performance of our invested assets that does not correspond to GAAP net investment income. Net investment earned rate is computed as the income from our invested assets divided by the average invested assets for the relevant period. To enhance the ability to analyze these measures across periods, interim periods are annualized. The adjustments to arrive at our net investment earned rate add alternative investment gains and losses, gains and losses related to trading securities for CLOs, net VIE impacts (revenues, expenses and noncontrolling interest) and the change in reinsurance embedded derivatives. We include the income and assets supporting our assumed reinsurance by evaluating the underlying investments of the funds withheld at interest receivables and we include the net investment income from those underlying investments which does not correspond to the GAAP presentation of reinsurance embedded derivatives. We exclude the income and assets supporting business that we have exited through ceded reinsurance including funds withheld agreements. We believe the adjustments for reinsurance provide a net investment earned rate on the assets for which we have economic exposure.

Cost of crediting is the interest credited to the policyholders on our fixed strategies as well as the option costs on the index annuity strategies. With respect to FIAs, the cost of providing index credits includes the expenses incurred to fund the annual index credits, and where applicable, minimum guaranteed interest credited. The interest credited on fixed strategies and option costs on index annuity strategies are divided by the average account value of our deferred annuities. Under GAAP, deposits and withdrawals for fixed indexed and fixed rate annuities are reported as deposit liabilities (or policyholder funds). Our average account values are averaged over the number of quarters in the relevant period to obtain our cost of crediting for such period. To enhance the ability to analyze these measures across periods, interim periods are annualized.

Net investment earned rate, cost of crediting and investment margin on deferred annuities are non-GAAP measures we use to evaluate the profitability of our core deferred annuities business. Deferred annuities include our fixed rate annuities and FIAs, which account for approximately 80% of our Retirement Services reserve liabilities as of December 31, 2016. We believe measures like net investment earned rate, cost of crediting and investment margin on deferred annuities are effective in analyzing the trends of our core business operations, profitability and pricing discipline. While we believe net investment earned rate, cost of crediting and investment margin on deferred annuities are meaningful financial metrics and enhance our understanding of the underlying profitability drivers of our business, they should not be used as a substitute for net investment income and interest sensitive contract benefits presented under GAAP.

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Invested Assets

In managing our business we analyze invested assets, which do not correspond to total investments, including investments in related parties, as disclosed in our consolidated financial statements and notes thereto. Invested assets represent the investments that directly back our policyholder liabilities as well as surplus assets. Invested assets is used in the computation of net investment earned rate, which allows us to analyze the profitability of our investment portfolio. Invested assets includes (a) total investments on the consolidated balance sheets with AFS securities at cost or amortized cost, excluding derivatives, (b) cash and cash equivalents and restricted cash, (c) investments in related parties, (d) accrued investment income, (e) the consolidated VIE assets, liabilities and noncontrolling interest and (f) policy loans ceded (which offset the direct policy loans in total investments). Invested assets also excludes assets associated with funds withheld liabilities related to business exited through reinsurance agreements and derivative collateral (offsetting the related cash positions). We include the underlying investments supporting our assumed funds withheld and modco agreements in our invested assets calculation in order to match the assets with the income received. We believe the adjustments for reinsurance provide a view of the assets for which we have economic exposure. Our invested assets are averaged over the number of quarters in the relevant period to compute our net investment earned rate for such period.

Reserve Liabilities

In managing our business we also analyze reserve liabilities, which does not correspond to total liabilities as disclosed in our consolidated financial statements and notes thereto. Reserve liabilities represents our policyholder liability obligations net of reinsurance. Reserve liabilities is used to analyze the costs of our liabilities. Reserve liabilities includes (a) the interest sensitive contract liabilities, (b) future policy benefits, (c) dividends payable to policyholders, and (d) other policy claims and benefits, offset by reinsurance recoverables, excluding policy loans ceded. Reserve liabilities is net of the ceded liabilities to third-party reinsurers as the costs of the liabilities are passed to such reinsurers and therefore we have no net economic exposure to such liabilities, assuming our reinsurance counterparties perform under our agreements. The majority of our ceded reinsurance is a result of reinsuring large blocks of life business following acquisitions. For such transactions, GAAP requires the ceded liabilities and related reinsurance recoverables to continue to be recorded in our consolidated financial statements despite the transfer of economic risk to the counterparty in connection with the reinsurance transaction.

Sales

Sales statistics do not correspond to revenues under GAAP, but are used as relevant measures of understanding our business performance. Our sales statistics include fixed rate annuities and FIAs and align with the LIMRA definition of all money paid into an individual annuity, including money paid into new contracts with initial purchase occurring in the specified period and existing contracts with initial purchase occurring prior to the specified period (excluding internal transfers).

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Consolidated Results of Operations

The following summarizes the consolidated results of operations:

(In millions, except percentages)	Years ended December 31, 2016	2015	2014
Revenues	$ 4,107	$ 2,616	$ 4,100
Benefits and expenses	3,354	2,024	3,568
Income before income taxes	753	592	532
Income tax expense (benefit)	(52)	14	54
Net income	805	578	478
Less: Net income attributable to noncontrolling interests	-	16	15
Net income available to AHL shareholders	$ 805	$ 562	$ 463
Operating income, net of tax by segment			
Retirement Services	$ 809	$ 769	$ 764
Corporate and Other	(49)	(29)	29
Operating income, net of tax	760	740	793
Non-operating adjustments			
Realized gains (losses) on sale of AFS securities	77	83	199
Unrealized, impairments, and other investment gains (losses)	(56)	(30)	1
Assumed modco and funds withheld reinsurance embedded derivatives	68	(75)	(1)
Offsets to investment gains (losses)	(42)	(34)	(48)
Investment gains (losses), net of offsets	47	(56)	151
Change in fair values of derivatives and embedded derivatives - FIAs, net of offsets	97	(27)	(30)
Integration, restructuring and other non-operating expenses	(22)	(58)	(279)
Stock compensation expense	(79)	(67)	(148)
Income tax (expense) benefit - non-operating	2	30	(24)
Total non-operating adjustments	45	(178)	(330)
Net income available to AHL shareholders	$ 805	$ 562	$ 463
ROE	13.1%	11.3%	12.7%
ROE excluding AOCI	13.3%	11.8%	14.0%
Operating ROE excluding AOCI	12.5%	15.6%	24.0%

We operate our core business strategies out of one reportable segment, Retirement Services. In addition to Retirement Services, we report certain other operations in Corporate and Other. See *Results of Operations by Segment* for further detail on the results of the segments.

Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

In this section, references to 2016 refer to the year ended December 31, 2016 and references to 2015 refer to the year ended December 31, 2015.

Net Income Available to AHL Shareholders

Net income available to AHL shareholders increased by $243 million, or 43%, to $805 million in 2016 from $562 million in 2015. ROE and ROE excluding AOCI increased to 13.1% and 13.3%, respectively, from 11.3% and 11.8% in 2015, respectively, benefiting from the increase in net income available to AHL shareholders. ROE and ROE excluding AOCI were each adversely impacted by our drawing of the remaining $1.1 billion of capital raise proceeds in April 2015, catalyzing a ratings upgrade and providing us with significant excess capital to reinvest into market opportunities. The increase in net income available to AHL shareholders was driven by a strong increase in net investment income, a favorable net change in FIA derivatives, a favorable change in assumed reinsurance embedded derivatives and a release of a deferred tax valuation allowance. The increase in net investment income was primarily driven by higher bond call and mortgage prepayment income, earnings from growth in our investment portfolio reflecting strong growth in deposits, the reinvestment of the Aviva USA acquired investments into higher yielding investments during 2015 and an increase in alternative investment income. The net change in FIA derivatives was primarily driven by the performance of the equity indices to which our FIA policies are linked. The change in assumed reinsurance embedded derivatives was driven by credit spreads tightening in 2016 compared to credit spreads widening in 2015.

These increases were partially offset by an unfavorable change in the rider reserves, an increase in DAC, DSI and VOBA amortization, the change in VIE investment related gains and losses and higher expenses. The unfavorable change in the rider reserves and an increase in DAC, DSI and VOBA amortization were driven by the unfavorable change in unlocking of assumptions of our rider reserves and our DAC, DSI and VOBA assets as well as growth in the FIA block. The VIE investment related gains and losses decrease was attributed to the decline in market value of public equity positions in one of our funds. Expenses were higher primarily attributed to growing our business and expanding our distribution channels.

Operating Income, Net of Tax

Operating income, net of tax increased by $20 million, or 3%, to $760 million in 2016 from $740 million in 2015. Operating ROE excluding AOCI was 12.5%, down from 15.6% in the prior period, as we drew the remaining $1.1 billion of capital raise proceeds in April 2015, catalyzing a ratings upgrade and providing us with significant excess capital to reinvest into market opportunities. The increase in operating income, net of tax was primarily driven by an increase in fixed income and other investment income, an increase in alternative investment income and a tax benefit of $102 million related to the release of a deferred tax valuation allowance. The increase in fixed income and other investment income was due to higher bond call and mortgage prepayment income, earnings from growth in our Retirement Services invested assets of $4.9 billion over the prior period reflecting strong growth in deposits, and the reinvestment of the Aviva USA acquired investments. The increase in alternative investment income was driven by higher credit fund income due to credit spread tightening in 2016 compared to credit spreads widening in 2015 and a $60 million favorable increase in the fair value of certain underlying investments in three of our funds, reflecting the removal of liquidity discounts related to marketability assumptions used in the determination of the fair value of certain of the investments, resulting in $82 million of gains in 2016 compared to $22 million of gains in 2015, which were partially offset by the decline in market value of public equity positions in one of our funds.

These increases were partially offset by an unfavorable change of $182 million attributed to our annual unlocking of assumptions in our rider reserves and our DAC, DSI and VOBA assets, combining for an expense of $158 million in 2016 compared to a benefit of $24 million in 2015. A higher cost of crediting due to higher option costs and a change in the mix of business related to MYGA growth, an increase in DAC and VOBA amortization related to growth in our FIA block of business, an unfavorable change in rider reserves primarily due to higher than expected persistency as well as higher operating expenses attributed to growing our business and expanding our distribution channels, also partially offset the increase in operating income, net of tax.

Our consolidated net investment earned rate was 4.35% in 2016, an increase from 4.24% in 2015, primarily attributed to a strong increase in our fixed income and other investment portfolios driven by higher bond call and mortgage prepayment income and the reinvestment of the Aviva USA acquired investments into higher yielding investments. These increases were partially offset by a decrease of approximately 18 basis points related to the acquisition of DLD which contributed lower net investment earned rates reflecting the different economic environment and the yield adjustments related to purchase accounting. Our alternative investment net investment earned rate was 7.70% in 2016, an increase from 6.16% in 2015, primarily attributed to higher credit fund income and a favorable increase in the fair value of three of our investment funds, reflecting the removal of liquidity discounts related to marketability assumptions used in the determination of the fair value of certain of the investments, partially offset by the decline in market value of public equity positions in one of our funds.

Revenues

Total revenue increased by $1.5 billion to $4.1 billion in 2016 from $2.6 billion in 2015. The increase was driven by favorable changes in investment related gains and losses, an increase in net investment income and an increase in premiums. These increases were partially offset by the unfavorable change in VIE investment related gains and losses.

The change in investment related gains and losses increased by $1.1 billion to $652 million in 2016 from $(430) million in 2015, primarily due to the change in fair value of FIA hedging derivatives, the change in assumed reinsurance embedded derivatives and the change in unrealized gains and losses on trading securities. The change in fair value of FIA hedging derivatives increased by $691 million driven by the performance of the indices upon which our call options are based. The majority of our call options are based on the S&P 500 index which experienced a 9.5% increase in 2016, compared to an 0.7% decrease in 2015. The assumed reinsurance embedded derivatives are based on the change in the fair value of the underlying investments held in modco and funds withheld portfolios (see *Note 3 - Derivative Instruments* to the consolidated financial statements) which increased by $251 million as a result of $141 million of net unrealized gains during the year ended December 31, 2016, primarily due to credit spreads tightening in 2016 compared to credit spreads widening in 2015 as well as significant growth in the flow reinsurance channel. The favorable change in unrealized gains and losses on trading securities was primarily attributed to an increase in AmerUs Closed Block assets of $166 million primarily driven by credit spreads tightening in 2016 compared to credit spreads widening in 2015.

Net investment income increased by $408 million to $2.9 billion in 2016 from $2.5 billion in 2015, primarily driven by a strong increase in fixed income and other investment income, an increase in alternative investment income and the acquisition of DLD in October 2015 contributing $72 million of higher net investment income in 2016 compared to one quarter in 2015. The increase in fixed income and other investment income was driven by higher bond call and mortgage prepayment income of $74 million in 2016 compared to 2015, earnings from growth in our investment portfolio attributed to strong growth in deposits and the reinvestment of the Aviva USA acquired investments into higher yielding strategies. The increase in alternative investment income was primarily driven by higher credit fund income due to credit spread tightening in 2016 compared to compared to credit spreads widening in 2015.

Premiums increased by $45 million to $240 million in 2016 from $195 million in 2015, primarily due to the acquisition of DLD contributing an increase of $113 million of premiums in 2016, compared to one quarter in 2015. The increase was partially offset by a decrease in AmerUs Closed Block premiums as well as a decrease in other life premiums.

The change in VIE investment related gains and losses decreased by $86 million to $(53) million in 2016 from $33 million in 2015, primarily driven by a decline in market value of public equity positions in one of our funds, as the share prices of these public equity positions decreased in 2016 compared to 2015. The decrease was partially offset by a $60 million favorable increase in the fair value of certain underlying investments in three of our consolidated VIEs, reflecting the removal of liquidity discounts related to marketability assumptions used in the determination of the fair value of certain of the investments, resulting in $82 million of gains in 2016 compared to $22 million of gains in 2015.

Benefits and Expenses

Total benefits and expenses increased by $1.4 billion to $3.4 billion in 2016 from $2.0 billion in 2015. The increase was driven by an unfavorable change in interest sensitive contract benefits, an unfavorable increase in future policy and other policy benefits, an increase in DAC, DSI and VOBA amortization and higher policy and other operating expenses.

Interest sensitive contract benefits increased by $603 million to $1.3 billion in 2016 from $690 million in 2015, primarily due to the change in FIA fair value embedded derivatives and higher interest credited to policyholders related to strong growth in deposits and a change in the mix of business related to MYGA growth. The change in FIA fair value embedded derivatives increased by $556 million primarily driven by the performance of the equity indices to which our FIA policies are linked, primarily the S&P 500 index, which experienced a 9.5% increase in 2016, compared to a 0.7% decrease in 2015. Also contributing to the increase was a decrease in the discount rates used in our embedded derivative calculations which increased the FIA embedded derivatives in 2016 compared to an increase in discount rates in 2015 partially offset by a decrease in the credit spread, included in the discount rate determination, following our rating upgrades to A- in the second quarter of 2015.

Future policy and other policy benefits increased by $526 million to $1.0 billion in 2016 from $517 million in 2015, primarily attributable to an unfavorable change in the rider reserves, an increase in the change in AmerUs Closed Block fair value liability, 2015 benefiting from favorable mortality experience and the acquisition of DLD, which increased our benefits by $163 million in 2016 compared to one quarter in 2015. The unfavorable change in rider reserves of $242 million was driven by the unfavorable change of $181 million attributed to our annual unlocking of assumptions. The unlocking impacts in 2016 of $133 million related to a decrease in projected net investment earned rates and lower projected lapse rate assumptions while the 2015 unlocking impacts were favorable by $48 million. The remaining unfavorable change in rider reserves was attributed to an increase in gross profits in 2016 and higher than expected persistency increasing the projected excess benefits, partially offset by favorable equity market performance in 2016 compared to 2015. The increase in the change in AmerUs Closed Block fair value liability of $159 million was primarily driven by the increase in unrealized gains on the underlying investments driven by credit spreads tightening in 2016 compared to credit spreads widening in 2015. We have elected the fair value option to value the AmerUs Closed Block whereby the fair value of liabilities is the sum of the fair value of the assets plus our cost of capital in the AmerUs Closed Block.

DAC, DSI and VOBA amortization increased by $121 million to $344 million in 2016 from $223 million in 2015, primarily attributable to growth in the FIA block increasing our DAC asset, an increase in gross profits in 2016 and the $3 million unfavorable change in unlocking of assumptions of our DAC, DSI and VOBA assets. The unlocking impacts in 2016 of $38 million primarily related to a decrease in projected net investment earned rates partially offset by lower projected lapse rate assumptions while the 2015 unlocking impacts were unfavorable by $35 million.

Policy and other operating expenses increased by $83 million to $615 million in 2016 from $532 million in 2015, primarily attributed to growing our business, expanding our distribution channels, an increase in stock compensation expense, project spend and expenses attributable to our Germany operations. These increases were partially offset by lower integration expenses related to the acquisition of DLD in the prior period.

Taxes

Income tax expense (benefit) decreased by $66 million to $(52) million in 2016 from $14 million in 2015. The decrease was primarily driven by the change in deferred tax valuation allowance of $110 million in 2016 compared to 2015. The decrease in income tax expense was partially offset by an increase in U.S. income subject to U.S. income tax of $67 million, or approximately $23 million of tax based on a 35% U.S. statutory rate, primarily driven by an increase in net investment income and the favorable net change in FIA derivatives. During 2016, we identified a tax plan that, when implemented, will allow us to use a significant portion of the U.S. non-life insurance companies' net operating losses, which are scheduled to expire beginning in 2022, and other deductible temporary differences. As a result, we released $102 million of deferred tax valuation allowance, as it is more likely than not that these attributes will be realized. During 2016, we also released $11 million of deferred tax valuation allowance related to our Germany operations as a result of an increase in future projected income for such operations.

Our effective tax rates were (7)% in 2016 and 2% in 2015. Our effective tax rates may vary year-to-year depending upon the relationship of income and loss subject to tax compared to consolidated income and loss before income taxes.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

In this section, references to 2015 refer to the year ended December 31, 2015, and references to 2014 refer to the year ended December 31, 2014.

Net Income Available to AHL Shareholders

Net income available to AHL shareholders increased by $99 million, or 21%, to $562 million in 2015 from $463 million in 2014. ROE and ROE excluding AOCI declined to 11.3% and 11.8%, respectively, from 12.7% and 14.0% in 2014, respectively, as we drew the remaining $1.1 billion of capital raise proceeds in April 2015, catalyzing a ratings upgrade and providing us with significant excess capital to reinvest into market opportunities. The increase in net income available to AHL shareholders was driven by the reduction of expenses as a result of the termination of the Transaction Advisory Services Agreement (TASA) with Apollo at the end of 2014, strong fixed investment income performance, lower stock compensation expense and lower income tax expense. Net investment income increased by $175 million driven primarily by the reinvestment of Aviva USA acquired investments into higher yielding investments, which continued to increase our net investment earned rates on our fixed income and other investment portfolio (as further discussed in the comparative year section within *Retirement Services*) as well as the income from capital raise proceeds. Stock compensation expense decreased by $81 million primarily due to a $131 million expense in 2014 triggered by amendments to the stock plan and assumption changes which was partially offset by an increase in the valuation of our common share price in 2015.

These increases were partially offset by lower investment gains and losses as well as an increase in the amortization of DAC, DSI and VOBA. Investment gains and losses decreased from elevated levels in 2014, which were primarily due to recognizing gains on investments acquired in the Aviva USA transaction as we reinvested such acquired investments to align with our investment strategy which benefited from a favorable market in 2014. Also contributing to the decline in investment gains and losses was an unfavorable change in assumed reinsurance embedded derivatives driven by market movements in 2015. Amortization of DAC, DSI and VOBA increased primarily due to the unfavorable change in unlocking of assumptions and the growth in the FIA block.

Operating Income, Net of Tax

Operating income, net of tax decreased by $53 million, or 7%, to $740 million in 2015 from $793 million in 2014. Operating ROE excluding AOCI declined to 15.6% from 24.0% in 2014, as we drew the remaining $1.1 billion of capital raise proceeds in April 2015, catalyzing a ratings upgrade and providing us with significant excess capital to reinvest into market opportunities. The decrease in operating income, net of tax was primarily driven by the increase in amortization of DAC, DSI, and VOBA due to the unfavorable unlocking of assumptions and growth in the FIA block. The decreases were partially offset by the favorable increase in net investment income resulting from the reinvestment of Aviva USA acquired investments and income from capital raise proceeds.

Our consolidated net investment earned rate was 4.24% in 2015, down slightly from 4.29% in 2014, attributed to lower alternative investment performance partially offset by an increase in the fixed income and other investment portfolios due to reinvestment of Aviva USA's acquired investments and income from capital raise proceeds. Our alternative investment net investment earned rate was 6.16% in 2015, down from 8.78% in 2014, attributed to market value volatility in public equity positions in one of our funds as well as the widening of credit spreads in 2015. We underwrite alternative investments over the long term, and as such, believe it is appropriate to evaluate their performance over the long term rather than on an annual basis. The average of our alternative investment net investment earned rate over the three year period ending December 31, 2015, was 14.32%, which benefited from strong alternative investment income in 2013 related to the initial public offerings of two underlying investments.

Revenues

Total revenue decreased by $1.5 billion to $2.6 billion in 2015 from $4.1 billion in 2014. The decrease was driven by lower investment related gains and losses as well as a decrease in VIE net investment income. These decreases were partially offset by the favorable increase in net investment income as well as an increase in premiums.

The change in investment related gains and losses decreased by $1.6 billion from elevated levels in 2014, to $(430) million in 2015 from $1.2 billion in 2014, which were primarily due to recognizing gains on investments acquired in the Aviva USA transaction as we reinvested such acquired investments to align with our investment strategy. The change in fair value of FIA hedging derivatives decreased by $1.1 billion driven by the performance of the indices upon which our call options are based. The majority of our call options are based on the S&P 500 index which experienced a 0.7% decrease in 2015, compared to an 11.4% increase in 2014. Unrealized gains and losses on trading securities related to our AmerUs Closed Block investments decreased by $234 million primarily driven by the widening of credit spreads and an increase in U.S. treasury rates during 2015. The assumed reinsurance embedded derivatives are based on the change in the fair value of the underlying investments held in modco and funds withheld portfolios which decreased by $124 million as a result of net unrealized losses during 2015 primarily due to credit spreads widening and the increase in U.S. treasury rates during 2015. FIA option cost amortization increased by $72 million driven by the higher cost of options acquired to hedge our FIA index credits as well as growth in our FIA block of business. The remaining decrease in investment related gains and losses was primarily due to the reinvestment of the investments acquired in the Aviva USA acquisition producing gains in 2014 when the market was favorable.

VIE net investment income decreased by $107 million to $67 million in 2015 from $174 million in 2014, which is primarily attributable to the deconsolidation of MidCap Financial at the beginning of 2015. At that time, we contributed our ownership interest in MidCap Financial to MidCap, and with significant ownership by other investors in MidCap, the activities of MidCap are not considered to be conducted substantially on our behalf.

Net investment income increased by $175 million to $2.5 billion in 2015 from $2.3 billion in 2014, which was primarily driven by the reinvestment of Aviva USA acquired investments into higher yielding strategies and the income contribution from the capital raise proceeds of $1.1 billion in April 2015. Also contributing to the increase in net investment income was the acquisition of DLD in October 2015 contributing $23 million of investment income in the fourth quarter.

Premiums increased by $95 million to $195 million in 2015 from $100 million in 2014, primarily due to the acquisition of DLD contributing $74 million of premiums. The remaining increase was driven by the increase in annuitizations with life contingencies in our Retirement Services segment.

Benefits and Expenses

Total benefits and expenses decreased by $1.6 billion to $2.0 billion in 2015 from $3.6 billion in 2014. The decrease was driven by the change in FIA embedded derivatives, $226 million related to the reduction of expenses as a result of the termination of the TASA with Apollo at the end of 2014, a favorable decrease in future policy benefits and the decrease in consolidated VIE expenses due to the deconsolidation of MidCap Financial. These decreases were partially offset by an increase in DAC, DSI and VOBA amortization.

The change in FIA fair value embedded derivatives, included in our interest sensitive contract benefits, decreased by $1.1 billion compared to 2014 primarily due to the performance of the equity indices to which our FIA policies are linked, primarily the S&P 500 index, which experienced a 0.7% decrease in 2015, compared to a 11.4% increase in 2014. Also contributing to the change was an increase in discount rates used in our embedded derivative calculations compared to 2014, resulting in an overall favorable impact. This was partially offset by unfavorable impacts to our embedded derivatives due to a decrease in the credit spread, included in the discount rate determination, following our rating agency upgrades to an A- rating.

Future policy benefits decreased by $179 million to $517 million in 2015 from $696 million in 2014, primarily attributable to the $236 million decrease in the change in AmerUs Closed Block fair value liability, which was related to unrealized losses on the underlying investments attributable to the decrease in U.S. treasury rates. Additionally, gains recognized from favorable mortality experience contributed to the decrease in future policy benefits which were partially offset by an increase in benefits from the DLD acquisition. The rider reserves change was consistent with 2014 as the increase from equity market performance and higher than expected persistency was offset by favorable unlocking of lapse rate assumptions and the decrease related to changes in FIA embedded derivatives and investment related gains and losses.

Amortization of DAC, DSI and VOBA increased by $100 million to $223 million in 2015 from $123 million in 2014, due to the unfavorable change in unlocking of assumptions of $71 million, the growth in DAC and DSI asset balance from growth in the FIA block, and a slight increase in gross profits during 2015. The unlocking impacts in 2015 increased amortization by $35 million primarily related to a decrease in net investment earned rate projections, while the 2014 impacts decreased amortization by $36 million.

Taxes

Income tax expense decreased by $40 million to $14 million in 2015 from $54 million in 2014. The decrease was mainly attributed to lower investment and derivative income, which decreased U.S. income subject to U.S. income tax by $187 million, or approximately $65 million of tax based on a 35% U.S. statutory rate. This was partially offset by an increase of $3 million of expense related to our German operations as a result of the DLD acquisition. The decrease in income subject to tax was also partially offset by unfavorable provision adjustments of $23 million in 2015 when compared to 2014 related to the change in valuation allowance of $16 million, prior year true-ups of $14 million and other adjustments of $(7) million. The change in valuation allowance was primarily driven by favorable life capital loss carryforwards of $15 million in 2014 as well as the reduction in the allowance against non-life deferred tax assets of $1 million in 2014.

Our effective tax rates were 2% in 2015 and 10% in 2014. Our effective tax rates may vary year-to-year depending upon the relationship of income and loss subject to tax compared to consolidated income and loss before income taxes. The decrease in the effective tax rate was mainly attributed to the decrease in income subject to U.S. income tax, partially offset by the unfavorable provision adjustments noted above.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations by Segment

The following summarizes our operating income, net of tax by segment:

(In millions, except percentages)	Years ended December 31, 2016	2015	2014
Operating income, net of tax by segment			
Retirement Services	$ 809	$ 769	$ 764
Corporate and Other	(49)	(29)	29
Operating income, net of tax	$ 760	$ 740	$ 793
Retirement Services operating ROE excluding AOCI	19.1%	22.7%	32.2%

Retirement Services

Retirement Services is comprised of our United States and Bermuda operations which issue and reinsure retirement savings products and institutional products. Retirement Services has retail operations, which provide annuity retirement solutions to our policyholders. Retirement Services also has reinsurance operations, which reinsure MYGAs, FIAs, traditional one year guarantee fixed deferred annuities, immediate annuities and institutional products from our reinsurance partners. In addition, our FABN program is included in our Retirement Services segment.

Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

Operating Income, Net of Tax

Operating income, net of tax increased by $40 million, or 5%, to $809 million in 2016, from $769 million in 2015. Operating ROE excluding AOCI was 19.1%, down from 22.7% in the prior period, reflecting the increase in equity allocated to Retirement Services as we increased our capital within Retirement Services which management considered necessary to support the segment's growth and ratings aspirations, partially offset by an increase in operating income. The increase in operating income, net of tax was primarily driven by the increase in net investment income related to higher bond call and mortgage prepayment income, earnings from growth in the segment's invested assets, reinvestment of the Aviva USA acquired investments throughout 2015 and an increase in alternative investment income. Additionally, we recognized a tax benefit of $102 million related to the release of a deferred tax valuation allowance. The increases in operating income, net of tax were partially offset by an unfavorable change of $182 million attributed to our annual unlocking of assumptions in our rider reserves and our DAC, DSI and VOBA assets, an increase in cost of crediting due to a change in the mix of business related to MYGA growth and an increase in option costs, an increase in DAC, DSI and VOBA amortization, the unfavorable change in rider reserves and higher operating expenses of $40 million primarily attributed to growing our business, expanding our distribution channels and project spend.

Net investment income increased $383 million primarily driven by a $286 million increase in fixed income and other investment income attributed to higher bond call and mortgage prepayment income of $74 million in 2016 compared to 2015, earnings from growth in the segment's invested assets of $4.9 billion over prior period reflecting strong growth in deposits and the favorable reinvestment of the Aviva USA acquired investments into higher yielding strategies. Alternative investment income increased $97 million related to higher credit fund income due to credit spread tightening in 2016 compared to credit spreads widening in 2015 and a $41 million favorable increase in the fair value of two of the segment's investment funds, reflecting the removal of liquidity discounts related to marketability assumptions used in the determination of the fair value of certain of the investments, resulting in $52 million of gains in 2016 compared to $11 million of gains in 2015. Additionally, an increase in the value of our equity investment in A-A Mortgage contributed to the higher alternative income.

The change in rider reserves increased by $211 million driven by the unfavorable change of $178 million attributed to our annual unlocking of assumptions. The unlocking impact in 2016 of $126 million related to a decrease in projected net investment earned rates and lower projected lapse rate assumptions while the 2015 unlocking impacts were favorable by $52 million. Additionally, the change in rider reserves increased due to an increase in gross profits in 2016 and higher than expected persistency increasing the projected excess benefits, partially offset by favorable equity market performance in 2016 compared to 2015.

Amortization of DAC, DSI and VOBA increased by $51 million driven by the growth in DAC and DSI asset balance from growth in the FIA block, an increase in gross profits in 2016 and the unfavorable change of $4 million attributed to our annual unlocking of assumptions. The unlocking impact in 2016 of $32 million related to a decrease in projected net investment earned rates partially offset by lower projected lapse rate assumptions while the 2015 unlocking impacts were unfavorable by $28 million.

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Investment Margin on Deferred Annuities

	Years ended December 31,	
	2016	2015
Net investment earned rate	4.73%	4.37%
Cost of crediting	1.96%	1.92%
Investment margin on deferred annuities	2.77%	2.45%

Investment margin on deferred annuities increased by 32 basis points to 2.77% in 2016, from 2.45% in 2015. The increase in the investment margin on deferred annuities was driven by the increase in net investment earned rate of 36 basis points, showing strength in our investment portfolio, partially offset by an unfavorable increase in cost of crediting of 4 basis points.

Net investment earned rate increased due to the increase in our fixed income and other investment income as well as an increase in alternative investment income. The fixed income and other net investment earned rate increased throughout 2016, to 4.41% from 4.17% in 2015 primarily driven by higher bond call and mortgage prepayment income and the reinvestment of the Aviva USA acquired investments into higher yielding strategies with a focus on liquidity and complexity risk rather than assuming solely credit risk. Although we were substantially complete with our reinvestment of the Aviva USA acquired investments as of December 31, 2015, our net investment earned rates for 2016 were impacted as we reinvested sizable portions of the portfolio throughout the year. The net investment earned rates continue to reflect impacts of holding approximately 29% of total invested assets in floating rate investments and 2% of invested assets in cash holdings to opportunistically capitalize on market dislocations. The alternative investments net investments earned rate increased to 12.34% in 2016, from 9.40% in 2015 driven by higher credit fund income due to credit spread tightening in 2016 compared to credit spreads widening in 2015 and a favorable increase in the fair value of two of the segment's investment funds related to the removal of liquidity discounts related to marketability assumptions used in the determination of the fair value of certain of the investments.

Cost of crediting on deferred annuities increased by 4 basis points to 1.96% in 2016, from 1.92% in 2015. The increase in cost of crediting was driven by a change in the mix of business related to MYGA growth and an increase in option costs on our index annuity strategies. We continue to focus on pricing discipline, managing interest rates credited to policyholders and managing the cost of options to fund the annual index credits on our FIA products.

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

Operating Income, Net of Tax

Operating income, net of tax increased by $5 million, or 1%, to $769 million in 2015 from $764 million in 2014. Operating ROE excluding AOCI declined to 22.7% in 2015 from 32.2% in 2014, reflecting the increase in equity allocated to Retirement Services as we increased our capital within Retirement Services which management considered necessary to support the segment's growth and our ratings aspirations. The increase in operating income, net of tax was primarily driven by the increase in net investment income as we continued to reinvest the Aviva USA acquired investments during 2015 as well as an increase in rider charges over the change in rider reserves. The increases in operating income, net of tax were offset by an increase in amortization of DAC, DSI, and VOBA.

Net investment income increased by $89 million primarily driven by a $152 million increase in fixed income and other investment income attributed to the favorable reinvestment of the Aviva USA acquired investments into higher yielding strategies as well as income from investing the capital raise proceeds as a portion was allocated to the Retirement Services segment when increasing our capital to support the segment's growth and our ratings aspirations. Additionally, the volatility in our alternative investment portfolio resulted in a decrease of $56 million primarily due to our credit funds' performance as credit spreads widened in 2015.

The increase in rider charges of $46 million was partially offset by the increase in the change in rider reserves of $22 million. The increase in charges was driven by new product offerings with rider charges. The change in rider reserves was primarily due to the unfavorable equity market performance in 2015 as well as higher than expected persistency increasing projected benefits partially offset by favorable change in unlocking of assumptions of $79 million. The change in unlocking in 2015 decreased rider reserves by $52 million primarily related to favorable updates to lapse assumptions partially offset by a decrease in net investment earned rate projections, while the 2014 impacts increased reserves by $27 million.

Amortization of DAC, DSI and VOBA increased by $107 million primarily due to the unfavorable change in unlocking of assumptions of $64 million, the growth in DAC and DSI asset balance from growth in the FIA block and a slight increase in gross profits during 2015. The unlocking impacts in 2015 increased amortization by $28 million primarily related to a decrease in net investment earned rate projections, while the 2014 impacts decreased amortization by $36 million.

Investment Margin on Deferred Annuities

	Years ended December 31,	
	2015	2014
Net investment earned rate	4.37%	4.26%
Cost of crediting	1.92%	1.94%
Investment margin on deferred annuities	2.45%	2.32%

Investment margin on deferred annuities increased by 13 basis points to 2.45% in 2015 from 2.32% in 2014. The increase in investment margin was driven by the increase in net investment earned rate of 11 basis points, showing strength in our investment portfolio, combined with a favorable decrease in cost of crediting of 2 basis points due to our disciplined pricing platform.

Net investment earned rate increased primarily due to the increase in our fixed income and other investment income partially offset by the decrease in alternative investment income. The fixed income and other net investment earned rate increased throughout 2015 to 4.17% from 4.00% in 2014 as we continued to reinvest the Aviva USA acquired investments under our preferred investment strategies. We reinvested a substantial portion of the investment portfolio acquired in the Aviva USA acquisition to align the acquired investments with our investment strategy of investing in higher yielding assets with an emphasis on liquidity and complexity risk rather than assuming solely credit risk. The reinvestment of the acquired investments contributed to the increase in fixed income and other net investment earned rates of 62 basis points to 4.12% in 2015 from 3.50% (on an annualized basis) for the fourth quarter of 2013 for this block of Aviva USA acquired investments. The net investment earned rates reflect continuing impacts of holding approximately 27% of total invested assets in floating rate investments, 3% of invested assets in cash holdings to opportunistically capitalize on market dislocations, and the yield adjustments from recognition of the higher overall amortized cost basis of the Aviva USA acquired investments as part of purchase accounting lowering yields. The alternative investments net investments earned rate decreased to 9.40% in 2015 from 9.77% in 2014 primarily due to market conditions unfavorably impacting our credit and CMBS funds as credit spreads widened, as well as fund liquidations. These unfavorable impacts were partially offset by the increase in alternative investment income from MidCap during 2015.

Cost of crediting on deferred annuities decreased by 2 basis points to 1.92% in 2015 reflecting continued discipline in pricing, managing interest rates credited to policyholders and managing the cost of options to fund the annual index credits on our FIA products.

Corporate and Other

Corporate and Other includes certain other operations related to our corporate activities and our German operations, which is primarily comprised of participating long-duration savings products. In addition to our German operations, included in Corporate and Other are corporate allocated expenses, merger and acquisition costs, debt costs, certain integration and restructuring costs, certain stock-based compensation and intersegment eliminations. In Corporate and Other we also hold capital in excess of the level of capital we hold in Retirement Services to support our operating strategy.

Operating Income (Loss), Net of Tax

Operating (loss), net of tax increased by $20 million, or 69%, to $(49) million in 2016, from $(29) million in 2015. The increase in operating (loss), net of tax was driven by lower alternative investment income partially offset by a $9 million increase in Germany's operating income, net of tax. Alternative investment income decreased by $40 million primarily due to decline in market value of public equity positions in one of our funds, as the share prices of these public equity positions decreased in 2016 compared to 2015. Partially offsetting the decrease in alternative investment income was the higher credit fund income, mainly CLOs, as a result of credit spreads tightening in 2016 compared to credit spreads widening in 2015 and a $19 million favorable increase in the fair value of one of our investment funds, reflecting the removal of liquidity discounts related to marketability assumptions used in the determination of the fair value of certain of the investments.

Operating income (loss), net of tax decreased by $58 million, or 200%, to $(29) million in 2015 from $29 million in 2014. The decrease in operating income (loss), net of tax was driven by a decrease in alternative investment income and an increase in expenses. Alternative investment income decreased by $51 million primarily driven by market value volatility in public equity positions in one of our funds reflecting unfavorable market conditions in 2015 as well as unfavorable earnings in CMBS funds impacted by the widening of credit spreads in 2015. The increase in operating expenses was primarily driven by an increase in corporate employee expenses as well as acquisition expenses. Our German operations’ operating income, net of tax, related to the acquisition of DLD partially offset the unfavorable decreases.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Consolidated Investment Portfolio

We had consolidated investments, including related parties, of $72.4 billion and $64.5 billion as of December 31, 2016 and 2015, respectively. Our investment strategy seeks to achieve sustainable risk-adjusted returns through disciplined managing of investment characteristics with our long-duration liabilities and the diversification of risk. The investment strategies utilized by our investment managers focus primarily on a buy and hold asset allocation strategy that may be adjusted periodically in response to changing market conditions and the nature of our liability profile. The majority of our investment portfolio, excluding investments of our German subsidiary, are managed by AAM, an indirect subsidiary of Apollo founded for the express purpose of managing Athene's portfolio. AAM provides a full suite of services for our investment portfolio, including direct investment management, asset allocation, mergers and acquisition asset diligence, and certain operational support services, including investment compliance, tax, legal and risk management support. Our relationship with AAM and Apollo allows us to take advantage of our generally illiquid liability profile by identifying investment opportunities with an emphasis on earning incremental yield by taking liquidity and complexity risk rather than assuming solely credit risk. The deep experience of the AAM investment team and Apollo's credit portfolio managers assist us in sourcing and underwriting complex asset classes. AAM has selected a diverse array of corporate bonds and more structured, but highly rated asset classes. We also maintain holdings in floating rate and less rate-sensitive instruments, including CLOs, non-agency RMBS and various types of structured products. In addition to our fixed income portfolio, we opportunistically allocate 5-10% of our portfolio to alternative investments where we primarily focus on fixed income-like, cash flow-based investments.

Our invested assets, which are those which directly back our policyholder liabilities as well as surplus assets (as previously discussed in *Key Operating and Non-GAAP Measures*), were $71.8 billion and $67.0 billion as of December 31, 2016 and 2015, respectively. AAM manages, directly and indirectly, approximately $65.8 billion and AAME sub-advises approximately $4.6 billion, which in the aggregate constitute the vast majority of our investment portfolio as of December 31, 2016, comprising a diversified portfolio of fixed maturity and other securities. Through our relationship with Apollo, AAM has identified unique investment opportunities for us. AAM's knowledge of our funding structure and regulatory requirements allows it to design customized strategies and investments for our portfolio.

Our asset portfolio is managed within the limits and constraints set forth in our Investment and Credit Risk Policy. Under this policy, we set limits on investments in our portfolio by asset class, such as corporate bonds, emerging markets securities, municipal bonds, non-agency RMBS, CMBS, CLOs, commercial mortgage whole loans and mezzanine loans and investment funds. We also set credit risk limits for exposure to a single issuer that vary based on ratings. In addition, our investment portfolio is constrained by its scenario-based capital ratio limit and its stressed liquidity limit.

The following table presents the carrying values of our total investments and investments in related parties:

	December 31,			
	2016		2015	
(In millions, except percentages)	Carrying Value	Percent of Total	Carrying Value	Percent of Total
AFS securities, at fair value				
Fixed maturity securities	$ 52,033	71.8%	$ 47,816	74.1%
Equity securities	353	0.5%	407	0.6%
Trading securities, at fair value	2,581	3.6%	2,468	3.8%
Mortgage loans, net of allowances	5,470	7.5%	5,500	8.5%
Investment funds	689	1.0%	733	1.1%
Policy loans	602	0.8%	642	1.0%
Funds withheld at interest	6,538	9.0%	3,482	5.4%
Derivative assets	1,370	1.9%	871	1.3%
Real estate	542	0.7%	566	0.9%
Short-term investments	189	0.3%	135	0.2%
Other investments	81	0.1%	83	0.3%
Total investments	70,448	97.2%	62,703	97.2%
Investment in related parties				
AFS securities at fair value				
Fixed maturity securities	335	0.5%	308	0.5%
Equity securities	20	-%	-	-%
Trading securities, at fair value	195	0.3%	217	0.3%
Investment funds	1,198	1.7%	997	1.5%
Other investments	237	0.3%	245	0.4%
Short-term investments	-	-%	55	0.1%
Total related party investments	1,985	2.8%	1,822	2.8%
Total investments, including related party	$ 72,433	100.0%	$ 64,525	100.0%

The increase in our total investments, including related parties, as of December 31, 2016 of $7.9 billion compared to December 31, 2015 was driven by the strong growth in deposits and $1.1 billion of primarily non-agency RMBS purchased from Apollo Commercial Real Estate Finance, Inc. (ARI) in the third quarter of 2016. The strong growth in deposits was attributed to significant flow reinsurance business of $3.5 billion and retail sales of $5.3 billion in 2016, partially offset by withdrawals on our deferred annuities of $4.2 billion. Additionally, unrealized gains on investments during 2016 contributed to the increase in total investments, including related parties, by $1.4 billion, primarily attributed to credit spreads tightening during 2016.

Our investment portfolio consists largely of high quality fixed maturity securities, loans and short-term investments, as well as additional opportunistic holdings in investment funds and other instruments, including a small amount of equity holdings. Fixed maturity securities and loans include publicly issued corporate bonds, government and other sovereign bonds, privately placed corporate bonds and loans, mortgage loans, CMBS, RMBS, CLOs, and other asset-backed securities (ABS).

While the substantial majority of our investment portfolio has been allocated to corporate bonds and structured credit products, a key component of our investment strategy is the opportunistic acquisition of investment funds with attractive risk and return profiles. Our investment fund portfolio consists of funds that employ various strategies including mortgage and real estate funds, credit funds, private equity funds and hedge funds. We currently target investments that are fixed-income-like or income producing and that have embedded downside protection. We also prefer investment funds that have a high degree of co-investment, have a stated maturity value or have reduced volatility versus pure equity. A majority of our investments in traditional private equity investments and hedge funds are a result of the acquisition of Aviva USA, which had existing private equity and hedge fund investment portfolios at the time of acquisition. We also acquired certain investment funds from the AAA Investor (which are classified as private equity investments and consolidated VIEs) as a one-time capital contribution by our largest shareholder in advance of the Aviva USA acquisition. With respect to investment fund portfolios that we receive in these transactions, we actively reinvest these investments in our preferred credit-oriented strategies over time as we liquidate these holdings.

We hold derivatives for economic hedging purposes to reduce our exposure to the cash flow variability of assets and liabilities, equity market risk, interest rate risk, credit risk, and to a lesser extent, foreign exchange risk. Our primary use of derivative instruments relates to providing the income needed to fund the annual indexed credits on our FIA products. We use fixed indexed options primarily to economically hedge FIA products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specific market index.

With respect to derivative positions, we transact with highly rated counterparties, and do not expect the counterparties to fail to meet their obligations under the contracts. We generally use industry standard agreements and annexes with bilateral collateral provisions to further reduce counterparty credit exposure.

AFS Securities

We invest with the intent to hold investments to maturity. In selecting investments we attempt to source investments that match our future cash flow needs. However, we may sell any of our investments in advance of maturity in order to timely satisfy our liabilities as they become due or in order to respond to a change in the credit profile or other characteristics of the particular investment.

AFS fixed maturity securities are carried at fair value on our consolidated balance sheets. Changes in fair value for our AFS portfolio, net of related DAC, DSI and VOBA amortization and the change in rider reserves, are charged or credited to other comprehensive income, net of tax. Declines in fair value that are other than temporary are recorded as realized losses in the consolidated statements of income, net of any applicable non-credit component of the loss, which is recorded as an adjustment to other comprehensive income.

The distribution of our AFS securities, including related parties, by type is as follows:

	December 31, 2016				
(In millions, except percentages)	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value	Percent of Total
Fixed maturity securities					
U.S. government and agencies	$ 59	$ 1	$ -	$ 60	0.1%
U.S. state, municipal, and political subdivisions	1,024	117	(1)	1,140	2.2%
Foreign governments	2,098	143	(6)	2,235	4.2%
Corporate	29,433	901	(314)	30,020	57.0%
CLO	4,950	14	(142)	4,822	9.1%
ABS	2,980	25	(69)	2,936	5.6%
CMBS	1,835	38	(26)	1,847	3.5%
RMBS	8,731	313	(71)	8,973	17.0%
Total fixed maturity securities	51,110	1,552	(629)	52,033	98.7%
Equity securities	319	35	(1)	353	0.7%
Total AFS securities	51,429	1,587	(630)	52,386	99.4%
Fixed maturity securities - related parties					
CLO	284	1	(6)	279	0.5%
ABS	57	-	(1)	56	0.1%
Total fixed maturity securities - related party	341	1	(7)	335	0.6%
Equity securities - related party	20	-	-	20	-%
Total AFS securities - related parties	361	1	(7)	355	0.6%
Total AFS securities, including related parties	$ 51,790	$ 1,588	$ (637)	$ 52,741	100.0%

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	December 31, 2015				
(In millions, except percentages)	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value	Percent of Total
Fixed maturity securities					
U.S. government and agencies	$ 44	$ 1	$ -	$ 45	0.1%
U.S. state, municipal, and political subdivisions	1,075	100	(10)	1,165	2.4%
Foreign governments	2,467	17	(20)	2,464	5.1%
Corporate	26,979	523	(566)	26,936	55.5%
CLO	4,943	4	(392)	4,555	9.4%
ABS	2,944	33	(59)	2,918	6.0%
CMBS	1,725	33	(20)	1,738	3.6%
RMBS	8,050	128	(183)	7,995	16.5%
Total fixed maturity securities	48,227	839	(1,250)	47,816	98.6%
Equity securities	367	40	-	407	0.8%
Total AFS securities	48,594	879	(1,250)	48,223	99.4%
Fixed maturity securities - related parties					
CLO	271	-	(23)	248	0.5%
ABS	61	-	(1)	60	0.1%
Total AFS securities - related parties	332	-	(24)	308	0.6%
Total AFS securities, including related parties	$ 48,926	$ 879	$ (1,274)	$ 48,531	100.0%

Fixed Maturity Securities

We maintain a diversified AFS portfolio of corporate fixed maturity securities across industries and issuers, and a diversified portfolio of structured securities. The composition of our AFS fixed maturity securities, including related parties, is as follows:

	December 31,			
	2016		2015	
(In millions, except percentages)	Fair Value	Percent of Total	Fair Value	Percent of Total
Corporate				
Industrial other[1]	$ 10,645	20.3%	$ 9,918	20.6%
Financial	9,156	17.5%	7,941	16.5%
Utilities	6,588	12.6%	5,864	12.2%
Communication	2,235	4.3%	1,820	3.8%
Transportation	1,396	2.7%	1,393	2.9%
Total corporate	30,020	57.4%	26,936	56.0%
Other government-related securities				
State, municipal and political subdivisions	1,140	2.2%	1,165	2.4%
Foreign governments	2,235	4.3%	2,464	5.1%
U.S. treasuries	60	0.1%	45	0.1%
Total non-structured securities	33,455	64.0%	30,610	63.6%
Structured securities				
CLO	5,101	9.7%	4,803	10.0%
ABS	2,992	5.7%	2,978	6.2%
CMBS	1,847	3.5%	1,738	3.6%
RMBS				
Agency	112	0.2%	142	0.3%
Non-agency	8,861	16.9%	7,853	16.3%
Total structured securities	18,913	36.0%	17,514	36.4%
Total fixed maturity securities, including related parties	$ 52,368	100.0%	$ 48,124	100.0%

[1] *Includes securities within various industry segments including capital goods, basic industry, consumer cyclical, consumer non-cyclical, industrial, and technology.*

The fair value of our total fixed maturity securities, including related parties, was $52.4 billion and $48.1 billion as of December 31, 2016 and 2015, respectively. The increase was driven by the strong growth in deposits attributed to growth in our retail sales in 2016, $1.1 billion of primarily non-agency RMBS purchased in the third quarter of 2016 and unrealized gains on fixed maturity securities during 2016 primarily attributed to credit spreads tightening.

The Securities Valuation Office (SVO) of the NAIC is responsible for the credit quality assessment and valuation of securities owned by state regulated insurance companies. Insurance companies report ownership of securities to the SVO when such securities are eligible for filing on the relevant schedule of the NAIC Financial Statement Blank. The SVO conducts credit analysis on these securities for the purpose of assigning an NAIC designation and/or unit price. Typically, if a security has been rated by an NRSRO, the SVO utilizes that rating and assigns an NAIC designation based upon the following system:

NAIC designation	NRSRO equivalent rating
1	AAA/AA/A
2	BBB
3	BB
4	B
5	CCC
6	CC and lower

The SVO's loan-backed and structured securities (LBaSS) methodology is focused on determining the risk associated with the recovery of the amortized cost of each security. In contrast, the NRSRO ratings methodology is focused on the likelihood of recovery of all contractual payments, including principal at par regardless of entry price. The NRSRO rating assumes that the holder is the original purchaser at par whereas the modeled and non-modeled LBaSS ratings are focused on the recovery of current amortized cost. As the NAIC ratings methodology considers our investment and amortized cost, and the likelihood of recovery of that book value as opposed to the likelihood of default of the security, we view the NAIC ratings methodology as the most appropriate way to view our fixed maturity portfolio from a ratings perspective since a large portion of our holdings were purchased at a significant discount to par.

Specific to LBaSS, the SVO has developed a ratings process and provides instruction on both modeled and non-modeled LBaSS. The modeled LBaSS process is specific to the RMBS and CMBS asset classes. In order to establish ratings at the individual security level, the SVO obtains loan-level analysis of each RMBS and CMBS using a selected vendor's proprietary financial model. The SVO ensures that the vendor has extensive internal quality-control processes in place and the SVO conducts its own quality-control checks of the selected vendor's valuation process. The SVO has retained the services of Blackrock to model non-agency RMBS and CMBS owned by U.S. insurers for all years presented. Blackrock provides five prices (breakpoints), based on each U.S. insurer's statutory book value price, to utilize in determining the NAIC designation for each modeled LBaSS. For non-modeled LBaSS (ABS and CLOs) with the initial rating of NAIC 1 or NAIC 6, the rating remains the same through the life of the security. For non-modeled LBaSS with the initial rating of NAIC 2 through NAIC 5, the selected vendors are not utilized and the NAIC designations are set using a standardized table of breakpoints provided by the SVO for application to the insurer's statutory book value price. The NAIC designation determines the associated level of RBC that an insurer is required to hold for modeled LBaSS owned by the insurer. In general, under both the modeled and non-modeled LBaSS processes, the larger the discount to par value, the stronger the NAIC rating the LBaSS will have.

A summary of our AFS fixed maturity securities, including related parties, by NAIC designation (with our German operations applying NRSRO ratings to map to NAIC ratings as noted above) is as follows:

	December 31,					
	2016			2015		
(In millions, except percentages)	Amortized Cost	Fair Value	Percent of Total	Amortized Cost	Fair Value	Percent of Total
NAIC designation						
1	$ 29,477	$ 30,211	57.7%	$ 28,961	$ 29,022	60.3%
2	18,348	18,617	35.5%	16,983	16,696	34.7%
Total investment grade	47,825	48,828	93.2%	45,944	45,718	95.0%
3	2,871	2,812	5.4%	2,358	2,182	4.6%
4	647	622	1.2%	216	194	0.4%
5	87	82	0.2%	23	14	-%
6	21	24	-%	18	16	-%
Total below investment grade	3,626	3,540	6.8%	2,615	2,406	5.0%
Total fixed maturity securities, including related parties	$ 51,451	$ 52,368	100.0%	$ 48,559	$ 48,124	100.0%

Substantially all of our AFS fixed maturity portfolio, 93.2% and 95.0% as of December 31, 2016 and 2015, respectively, was invested in assets considered investment grade with a NAIC rating of 1 or 2.

A summary of our AFS fixed maturity securities, including related parties, by NRSRO ratings is set forth below:

	December 31,					
	2016			2015		
(In millions, except percentages)	Fair Value		Percent of Total	Fair Value		Percent of Total
NRSRO rating agency designation						
AAA/AA/A	$	18,791	35.9%	$	17,906	37.2%
BBB		18,002	34.4%		16,481	34.2%
Non-rated[1]		5,650	10.8%		5,325	11.1%
Total investment grade		42,443	81.1%		39,712	82.5%
BB		3,286	6.3%		2,937	6.1%
B		1,372	2.6%		729	1.5%
CCC		2,374	4.5%		2,104	4.4%
CC and lower		2,404	4.6%		2,211	4.6%
Non-rated[1]		489	0.9%		431	0.9%
Total below investment grade		9,925	18.9%		8,412	17.5%
Total fixed maturity securities, including related parties	$	52,368	100.0%	$	48,124	100.0%

[1] *Securities denoted as non-rated by the NRSRO were classified as investment or non-investment grade according to the security's respective NAIC rating.*

Consistent with the NAIC Process and Procedures Manual, an NRSRO rating was assigned based on the following criteria: (a) the equivalent S&P rating where the security is rated by one NRSRO; (b) the equivalent S&P rating of the lowest NRSRO when the security is rated by two NRSROs; and (c) the equivalent S&P rating of the second lowest NRSRO if the security is rated by three or more NRSROs. If the lowest two NRSRO ratings are equal, then such rating will be the assigned rating. NRSRO ratings available for the periods presented were S&P, Fitch, Moody's Investor Service (Moody's), DBRS, and Kroll Bond Rating Agency, Inc. (KBRA).

The portion of our AFS fixed maturity portfolio that was considered below investment grade based on NRSRO ratings was 18.9% and 17.5% as of December 31, 2016 and 2015, respectively. The primary driver of the difference in the percentage of securities considered below investment grade by NRSROs as compared to the securities considered below investment grade by the NAIC relates to the difference in ratings methodologies between the NRSRO and NAIC for RMBS due to investments acquired at a discount to par value, as discussed above. The primary driver of the increase in the percentage of NRSRO below investment grade securities and the corresponding increase in NAIC below investment grade securities as of December 31, 2016 from December 31, 2015 was the purchase of $1.1 billion of primarily non-agency RMBS in the third quarter of 2016, many of which were purchased at a discount to par.

As of December 31, 2016 and 2015, the non-rated securities shown above were comprised of 43% and 52%, respectively, of corporate private placement securities for which we have not sought individual ratings from the NRSROs and 44% and 43%, respectively, of RMBS, many of which were acquired at a significant discount to par. We rely on internal analysis of credit risk and ratings assigned by the NAIC. As of December 31, 2016 and 2015, 92% and 93%, respectively, of the non-rated securities were designated NAIC 1 or 2.

Asset-backed Securities - We invest in ABS which are securitized by pools of assets such as consumer loans, student loans, insurance-linked securities, and corporate debt. These holdings were $3.0 billion as of December 31, 2016 and 2015. As of December 31, 2016 and 2015, our ABS portfolio included approximately $2.7 billion (91% of the total) and $2.8 billion (95% of the total), respectively, of securities that are considered investment grade based on NAIC ratings, while approximately $2.5 billion (85% of the total) and $2.6 billion (86% of the total), respectively, of securities were considered investment grade based on NRSRO ratings.

Collateralized Loan Obligations - We also invest in CLOs which pay principal and interest from cash flows received from underlying corporate loans. These holdings were $5.1 billion and $4.8 billion as of December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, our CLO portfolio included approximately $4.2 billion (83% of the total) and $4.1 billion (86% of the total), respectively, of securities that are considered investment grade based on NAIC ratings while approximately $4.2 billion (82% of the total) and $3.9 billion (81% of the total), respectively, of securities were considered investment grade based on NRSRO ratings.

Commercial Mortgage-backed Securities - A portion of our fixed maturity AFS portfolio is invested in CMBS. CMBS are constructed from pools of commercial mortgages. These holdings were $1.8 billion and $1.7 billion as of December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, our CMBS portfolio included approximately $1.8 billion (97% of the total) and $1.7 billion (100% of the total), respectively, of securities that are considered investment grade based on NAIC ratings while approximately $1.1 billion (60% of the total) and $1.0 billion (60% of the total), respectively, of securities were considered investment grade based on NRSRO ratings.

Residential Mortgage-backed Securities - As part of our core investment strategy, a portion of our fixed maturity AFS portfolio is invested in RMBS. RMBS are securities constructed from pools of residential mortgages and backed by payments from those pools. Excluding limitations on access to lending and other extraordinary economic conditions, prepayments of principal on the underlying loans can be expected to accelerate with decreases in market interest rates and diminish with increases in interest rates. Our investments in RMBS are primarily non-agency RMBS having a significant focus on assets with attractive entry prices, which in general results in investment grade ratings by the NAIC given the likelihood that we ultimately receive principal and interest distributions in an amount at least equal to our cost. These holdings were $9.0 billion and $8.0 billion as of December 31, 2016 and 2015, respectively. The increase as of December 31, 2016 from 2015 was primarily related to $1.1 billion of primarily non-agency RMBS purchased in the third quarter of 2016.

A summary of our AFS RMBS portfolio by NAIC and NRSRO quality ratings is as follows:

	December 31,			
	2016		2015	
(In millions, except percentages)	Fair Value	Percent of Total	Fair Value	Percent of Total
NAIC designation				
1	$ 8,652	96.4%	$ 7,351	91.9%
2	140	1.6%	463	5.8%
Total investment grade	8,792	98.0%	7,814	97.7%
3	96	1.1%	157	2.0%
4	29	0.3%	20	0.3%
5	54	0.6%	1	-%
6	2	-%	3	-%
Total below investment grade	181	2.0%	181	2.3%
Total RMBS	$ 8,973	100.0%	$ 7,995	100.0%
NRSRO rating agency designation				
AAA/AA/A	$ 345	3.8%	$ 315	3.9%
BBB	245	2.7%	227	2.8%
Non-rated[1]	2,638	29.5%	2,366	29.6%
Total investment grade	3,228	36.0%	2,908	36.3%
BB	419	4.7%	328	4.2%
B	567	6.3%	417	5.2%
CCC	2,280	25.4%	2,048	25.6%
CC and lower	2,395	26.7%	2,211	27.7%
Non-rated[1]	84	0.9%	83	1.0%
Total below investment grade	5,745	64.0%	5,087	63.7%
Total RMBS	$ 8,973	100.0%	$ 7,995	100.0%

[1] *Securities denoted as non-rated by the NRSRO were classified as investment or non-investment grade according to the security's respective NAIC rating.*

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A significant majority of our RMBS portfolio, 98.0% and 97.7% as of December 31, 2016 and 2015, respectively, was invested in assets considered investment grade by the NAIC, with a NAIC rating of 1 or 2. As NRSRO ratings are focused on the likelihood of recovery of all contractual payments including principal at par, instead of the recovery of the amortized cost, the portion considered investment grade by NRSRO rating agencies of 36.0% and 36.3% as of December 31, 2016 and 2015, respectively, were lower than the NAIC ratings. As we focus on acquiring RMBS assets with attractive entry prices, some of these assets have experienced deterioration in credit quality since their issuance, the vast majority of which we purchased after the deterioration. Many of these securities were acquired at a discount to par value that resulted in a statutory book price that yields an investment grade NAIC rating. As a result of deterioration in credit quality since issuance, these securities are generally considered below investment grade based on NRSRO ratings methodologies. As a result, we have a significant difference in the number of securities considered below investment grade when evaluated under the NRSRO ratings methodologies when compared with the ratings evaluated under the NAIC ratings methodology.

Unrealized Losses

Our investments in fixed maturity securities, including related parties, are reported at fair value with changes in fair value recorded in other comprehensive income. Certain of our fixed maturity securities, including related parties, have experienced declines in fair value that we consider temporary in nature. As of December 31, 2016, our fixed maturity securities, including related parties, had a fair value of approximately $52.4 billion, which was approximately 1.8% above amortized cost of approximately $51.5 billion. As of December 31, 2015, our fixed maturity securities, including related parties, had a fair value of approximately $48.1 billion, which was approximately 0.9% below amortized cost of approximately $48.6 billion. These investments are held to support our product liabilities and we currently have the intent and ability to hold these securities until sale or maturity, and believe the securities will recover the amortized cost basis prior to sale or maturity.

The following tables reflect the unrealized losses on the AFS fixed maturity portfolio, including related parties, by NAIC quality ratings:

	December 31, 2016					
(In millions, except percentages)	Amortized Cost of Securities with Unrealized Loss	Gross Unrealized Loss	Fair Value of Securities with Unrealized Loss	Fair Value to Amortized Cost Ratio	Fair Value of Total AFS Fixed Maturity Securities	Percent of Loss to Total AFS Fair Value NAIC Rating
NAIC designation						
1	$ 8,805	$ (272)	$ 8,533	96.9%	$ 30,211	(0.9)%
2	6,156	(220)	5,936	96.4%	18,617	(1.2)%
Total investment grade	14,961	(492)	14,469	96.7%	48,828	(1.0)%
3	1,769	(103)	1,666	94.2%	2,812	(3.7)%
4	329	(35)	294	89.4%	622	(5.6)%
5	34	(6)	28	82.4%	82	(7.3)%
6	1	-	1	100.0%	24	-%
Total below investment grade	2,133	(144)	1,989	93.2%	3,540	(4.1)%
Total	$ 17,094	$ (636)	$ 16,458	96.3%	$ 52,368	(1.2)%

	December 31, 2015					
(In millions, except percentages)	Amortized Cost of Securities with Unrealized Loss	Gross Unrealized Loss	Fair Value of Securities with Unrealized Loss	Fair Value to Amortized Cost Ratio	Fair Value of Total AFS Fixed Maturity Securities	Percent of Loss to Total AFS Fair Value NAIC Rating
NAIC designation						
1	$ 13,818	$ (496)	$ 13,322	96.4%	$ 29,022	(1.7)%
2	7,600	(542)	7,058	92.9%	16,696	(3.2)%
Total investment grade	21,418	(1,038)	20,380	95.2%	45,718	(2.3)%
3	1,772	(196)	1,576	88.9%	2,182	(9.0)%
4	185	(29)	156	84.3%	194	(14.9)%
5	23	(9)	14	60.9%	14	(64.3)%
6	6	(2)	4	66.7%	16	(12.5)%
Total below investment grade	1,986	(236)	1,750	88.1%	2,406	(9.8)%
Total	$ 23,404	$ (1,274)	$ 22,130	94.6%	$ 48,124	(2.6)%

The gross unrealized losses on AFS fixed maturity securities, including related parties, were $636 million and $1.3 billion as of December 31, 2016 and 2015, respectively. The decrease in unrealized losses was driven by credit spreads tightening during 2016 resulting in an increase in unrealized gains, while credit spreads widened during 2015 resulting in higher unrealized losses.

As of December 31, 2016 and 2015, we held $3.6 billion and $3.1 billion, respectively, in energy sector fixed maturity securities, or 7% and 6% of the total fixed maturity securities, respectively, including related parties for each period. The gross unrealized capital losses on these securities were $73 million and $300 million, or 11% and 24% of the total unrealized losses, respectively.

Other-Than-Temporary Impairments

For our OTTI policy and the identification of securities that could potentially have impairments, see *Note 1 - Business, Basis of Presentation and Significant Accounting Policies* and *Note 2 - Investments* to the consolidated financial statements, as well as *Critical Accounting Estimates and Judgments*.

During the year ended December 31, 2016, we recorded $30 million of OTTI losses comprised of $13 million related to state, municipal and political subdivisions, $6 million related to corporate fixed maturities, $6 million related to ABS, $2 million related to RMBS, $2 million related to CLOs and $1 million related to other assets. Of the OTTI losses recognized, $4 million related to the energy sector. During the year ended December 31, 2015, we recorded $30 million of OTTI losses comprised of $20 million related to corporate fixed maturities, $8 million related to state, municipal, and other political subdivisions, $1 million related to RMBS and $1 million related to mortgage loans. Of the OTTI losses recognized, $17 million related to the energy sector. During the year ended December 31, 2014, we recorded $6 million of OTTI losses comprised of $4 million related to corporate fixed maturities and $2 million related to mortgage loans. There were no OTTI losses related to the energy sector for the year ended December 31, 2014. The OTTI losses we have experienced for the years ended December 31, 2016, 2015 and 2014, translate into 4 basis points, 5 basis points and 1 basis point, respectively, of average invested assets.

International Exposure

A portion of our fixed maturity securities are invested in securities with international exposure. As of December 31, 2016 and 2015, 32% and 31%, respectively, of the carrying value of our fixed maturity securities, including related parties was comprised of securities of issuers based outside of the United States and debt securities of foreign governments. These securities are either denominated in U.S. dollars or do not expose us to significant foreign currency risk as a result of foreign currency swap arrangements.

The following table presents our international exposure in our fixed maturity securities portfolio, including related parties, by country or region:

	December 31,					
	2016			2015		
(In millions, except percentages)	Amortized Cost	Fair Value	Percent of Total	Amortized Cost	Fair Value	Percent of Total
Country of risk						
Ireland	$ 510	$ 516	3.1%	$ 553	$ 547	3.7%
Italy	90	92	0.6%	244	250	1.7%
Spain	175	190	1.1%	197	201	1.3%
Total Portugal, Ireland, Italy, Greece and Spain[1]	775	798	4.8%	994	998	6.7%
Other Europe	6,336	6,512	39.2%	6,417	6,442	43.1%
Total Europe	7,111	7,310	44.0%	7,411	7,440	49.8%
Non-U.S. North America	7,185	7,105	42.8%	5,752	5,399	36.1%
Australia & New Zealand	1,283	1,304	7.9%	1,211	1,215	8.1%
Central & South America	456	467	2.8%	385	365	2.4%
Africa & Middle East	164	167	1.0%	133	134	0.9%
Asia/Pacific	216	218	1.3%	388	381	2.5%
Supranational	26	27	0.2%	28	27	0.2%
Total	$ 16,441	$ 16,598	100.0%	$ 15,308	$ 14,961	100.0%

[1] *As of each of December 31, 2016 and 2015, we had no holdings in Portugal or Greece.*

Approximately 89.7% and 92.0% of these securities are investment grade by NAIC designation as of December 31, 2016 and 2015, respectively. As of December 31, 2016, 9% of our fixed maturity securities, including related parties, were invested in CLOs of Cayman Islands issuers (for which underlying investments are largely loans to U.S. issuers), 6% were invested in securities of non-U.S. issuers by our German Group Companies and 17% were invested in other non-U.S. issuers.

Portugal, Ireland, Italy, Greece and Spain continue to represent credit risk as economic conditions in these countries continue to be volatile, especially within the financial and banking sectors. We had $798 million and $998 million as of December 31, 2016 and 2015, respectively, of exposure in these countries. As of December 31, 2016 and 2015, we had $237 million and $547 million, respectively, of exposure to sovereign issuers in Spain, Ireland and Italy as a result of investments acquired in the DLD acquisition.

The effects on our investments in non-U.S. securities as a result of Brexit is unknown at this time, but the effects of Brexit are likely to lead to greater volatility in global financial markets in the near term. As of December 31, 2016, we held United Kingdom and Channel Islands fixed maturity securities of $1.5 billion, or 2.9% of the total fixed maturities including related parties. As of December 31, 2016, these securities were in an unrealized gain position of $21 million. Our investment managers analyze each holding for credit risk by economic and other factors of each country and industry.

Trading Securities

Trading securities, including related parties, were $2.8 billion and $2.7 billion as of December 31, 2016 and 2015, respectively. Trading securities are primarily comprised of AmerUs Closed Block securities for which we have elected the fair value option valuation, CLO equity tranche securities, structured securities with embedded derivatives, and investments which support various reinsurance arrangements.

Mortgage Loans

The following is a summary of our mortgage loan portfolio by collateral type:

	December 31,			
	2016		2015	
(In millions, except percentages)	Net Carrying Value	Percent of Total	Net Carrying Value	Percent of Total
Property type				
Hotels	$ 1,025	18.7%	$ 877	15.9%
Retail	1,135	20.7%	1,230	22.4%
Office building	1,217	22.2%	1,274	23.2%
Industrial	742	13.6%	821	14.9%
Apartment	616	11.3%	907	16.5%
Other commercial [1]	397	7.3%	291	5.3%
Total net mortgage loans	5,132	93.8%	5,400	98.2%
Residential loans	338	6.2%	100	1.8%
Total mortgage loans, net of allowances	$ 5,470	100.0%	$ 5,500	100.0%

[1] *Other commercial loans include investments in nursing homes, parking garages, restaurants, mobile home parks and other commercial properties.*

We invest a portion of our investment portfolio in mortgage loans, which are generally comprised of high quality commercial first lien and mezzanine real estate loans. Our mortgage loan holdings were $5.5 billion as of December 31, 2016 and 2015. This included $1.5 billion and $1.1 billion of mezzanine mortgage loans for the respective periods. We have acquired mortgage loans through acquisitions and reinsurance arrangements, as well as through an active program to invest in new mortgage loans. We invest in mortgage loans on income producing properties including hotels, apartments, retail and office buildings, and other commercial and industrial properties. Loan-to-value ratios at the time of loan approval are generally 75% or less.

Our mortgage loans are primarily stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Amortization of premiums and discounts is recorded using the effective interest method. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income.

It is our policy to cease to accrue interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is our general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. As of December 31, 2016, we had $21 million of mortgage loans that were 90 days past due and $20 million in the process of foreclosure. As of December 31, 2015, we had $39 million of mortgage loans that were 90 days past due and $18 million in the process of foreclosure.

See *Note 2 - Investments* to the consolidated financial statements for information regarding valuation allowance for collection loss, impairments, loan-to-value, and debt service coverage.

As of December 31, 2016 and 2015, we recorded OTTI through net income of $0 million and $1 million. Additionally, we have established a general and specific loan valuation allowance of $2 million as of December 31, 2016 and 2015, attributable to loans acquired in connection with the acquisition of Aviva USA.

Investment Funds and Variable Interest Entities

Our investment funds investment strategy primarily focuses on funds with core holdings of credit assets, real assets, real estate, preferred equity and income producing assets. Our investment strategy focuses on sourcing assets with the following characteristics: (1) investments that constitute a direct investment or an investment in a fund with a high degree of co-investment; (2) investments with debt-like characteristics, or alternatively, investments with reduced volatility when compared to pure equity; and (3) investments including some element of downside protection as compared to a pure directional investment. Our current investment funds and VIE holdings are significantly influenced by the contribution of certain investment funds from the AAA Investor (AAA Contribution) as further described in *Note 4 - Variable Interest Entities* to the consolidated financial statements, and investment funds we acquired in the Aviva USA acquisition.

At the time of the AAA Contribution, the contributed assets largely consisted of co-investments with Apollo private equity funds. However, the attributes of the contributed assets have changed significantly since the initial transaction primarily due to the initial public offering of two underlying fund investment holdings. As of December 31, 2016, the assets consisted of $234 million of publicly-traded equity securities, a substantial portion of which is in the process of being liquidated. These public equity securities have resulted in volatility in our statement of income in recent periods. At the end of the third quarter of 2016, Norwegian Cruise Line Holdings Ltd. (NCLH) was distributed from CoInvest VI to NCL Athene, LLC (NCL LLC), whereby the investment is classified as an AFS security with any unrealized gains and losses recognized in AOCI, thereby reducing further volatility in our statement of income from this fund. See *Note 4 - Variable Interest Entities* to the consolidated financial statements for further discussion of NCL LLC.

Our investment funds generally meet the definition of a VIE, and in certain cases these investment funds are consolidated in our financial statements because we meet the criteria of the primary beneficiary. See *Note 4 - Variable Interest Entities* to the consolidated financial statements for further discussion on our investment funds that meet the criteria for consolidation and the accounting treatment for them.

The following table illustrates our consolidated VIE positions:

	December 31,			
	2016		2015	
(In millions, except percentages)	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Assets of consolidated VIEs				
Investments				
Available-for-sale securities				
Equity securities	$ 161	17.5%	$ -	-%
Trading securities				
Fixed maturity securities	50	5.4%	722	45.4%
Equity securities	117	12.7%	309	19.4%
Investment funds	573	62.2%	534	33.6%
Cash and cash equivalents	14	1.5%	6	0.4%
Other assets	6	0.7%	20	1.2%
Total assets of consolidated VIEs	$ 921	100.0%	$ 1,591	100.0%
Liabilities of consolidated VIEs				
Borrowings	$ -	-%	$ 500	96.7%
Other liabilities	34	100.0%	17	3.3%
Total liabilities of consolidated VIEs	$ 34	100.0%	$ 517	100.0%

The assets of consolidated VIEs were $921 million and $1.6 billion as of December 31, 2016 and 2015, respectively. The decrease as of December 31, 2016 from 2015 was primarily attributed to the sale of invested assets by CMBS Funds to fully settle the borrowings under their respective repurchase agreements in the fourth quarter of 2016.

The liabilities of consolidated VIEs were $34 million and $517 million as of December 31, 2016 and 2015, respectively. The decrease as of December 31, 2016 from 2015 was primarily attributed to the CMBS Funds fully settling the borrowings under their respective repurchase agreements in the fourth quarter of 2016.

The following table illustrates our investment funds, including related party positions of our non-consolidated VIEs and investment funds owned by consolidated VIEs:

	December 31,			
	2016		2015	
(In millions, except percentages)	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Investment funds				
Private equity	$ 268	10.9%	$ 263	11.6%
Mortgage and real estate	118	4.8%	101	4.5%
Natural resources	5	0.2%	6	0.3%
Hedge funds	72	2.9%	86	3.8%
Credit funds	226	9.2%	277	12.3%
Total investment funds	689	28.0%	733	32.5%
Investment funds - related parties				
Private equity - A-A Mortgage	343	13.9%	225	9.9%
Private equity	131	5.3%	36	1.6%
Mortgage and real estate	247	10.1%	234	10.3%
Natural resources	49	2.0%	46	2.0%
Hedge funds	192	7.8%	256	11.3%
Credit funds	236	9.6%	200	8.8%
Total investment funds - related parties	1,198	48.7%	997	43.9%
Investment funds owned by consolidated VIEs				
Private equity - MidCap[1]	524	21.3%	482	21.3%
Credit funds	38	1.6%	34	1.5%
Mortgage and real assets	11	0.4%	18	0.8%
Total investment funds owned by consolidated VIEs	573	23.3%	534	23.6%
Total investment funds, including related parties and VIEs	$ 2,460	100.0%	$ 2,264	100.0%

[1] *MidCap is an underlying investment of one of our consolidated VIE investment funds.*

Overall, the total investment funds, including related parties and consolidated VIEs, were $2.5 billion and $2.3 billion as of December 31, 2016 and 2015, respectively. See *Note 4 - Variable Interest Entities* to the consolidated financial statements for further discussion regarding how we account for our investment funds. Our investment fund portfolio is subject to a number of market related risks including interest rates and equity market risk. Interest rate risk represents the potential for changes in the investment fund's net asset values resulting from changes in the general level of interest rates. Equity market risk represents potential for changes in the investment fund's net asset values resulting from changes in equity markets or from other external factors which influence equity markets. We actively monitor our exposure to the risks inherent in these investments which could materially and adversely affect our results of operations and financial condition. The interest and equity market risks expose us to potential volatility in our earnings year-over-year related to these investment funds.

Funds Withheld at Interest

Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with modco and funds withheld reinsurance agreements in which we act as the reinsurer. Generally, assets equal to statutory reserves are withheld and legally owned by the ceding company. As of December 31, 2016, the ceding companies holding the assets pursuant to such reinsurance agreements had a financial strength rating of A- or better.

The funds withheld at interest is comprised of the host contract and an embedded derivative. We are subject to the investment performance on the withheld assets with the total return directly impacting the host contract and the embedded derivative. Interest accrues at a risk free rate on the host receivable and is recorded as net investment income in the consolidated statements of income. The change in the embedded derivative in our reinsurance agreements are similar to a total return swap on the income generated by the underlying assets held by the ceding companies and is recorded in investment related gains (losses). Although we do not directly control the underlying investments in the funds withheld at interest, in each instance the ceding company has hired AAM to manage the withheld assets in accordance with our investment guidelines.

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The following summarizes the underlying investment composition of the funds withheld at interest:

	December 31,			
	2016		2015	
(In millions, except percentages)	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Fixed maturity securities				
U.S. state, municipal, and political subdivisions	$ 118	1.8%	$ 118	3.4%
Corporate	1,800	27.6%	734	21.1%
CLO	591	9.0%	432	12.4%
ABS	736	11.3%	402	11.5%
CMBS	292	4.5%	132	3.8%
RMBS	1,551	23.7%	672	19.3%
Equity securities	29	0.4%	28	0.8%
Mortgage loans	773	11.8%	469	13.5%
Investment funds	329	5.0%	273	7.8%
Derivative assets	53	0.8%	15	0.4%
Short-term investments	80	1.2%	51	1.5%
Cash and cash equivalents	105	1.6%	162	4.7%
Other assets and liabilities	81	1.3%	(6)	(0.2)%
Total funds withheld at interest	$ 6,538	100.0%	$ 3,482	100.0%

As of December 31, 2016 and 2015, we held $6.5 billion and $3.5 billion of funds withheld at interest receivables, respectively. The increase as of December 31, 2016 from 2015 was primarily due to the strong growth in deposits attributed to a significant increase in flow reinsurance business during 2016.

Approximately 93.6% and 90.3% of the fixed maturity securities within the funds withheld at interest are investment grade by NAIC designation as of December 31, 2016 and 2015, respectively.

Derivative Instruments

We hold derivative instruments for economic hedging purposes to reduce our exposure to cash flow variability of assets and liabilities, equity market risk, interest rate risk, credit risk and foreign exchange risk. The types of derivatives we may use include interest rate swaps, foreign currency swaps and forward contracts, total return swaps, credit default swaps, variance swaps, futures and fixed indexed options.

A presentation of our derivative instruments along with a discussion of the business strategy involved with our derivatives is included in *Note 3 - Derivative Instruments* to the consolidated financial statements. This includes:

- a comprehensive description of the derivatives instruments as well as the strategies to manage risk;
- the notional amounts and estimated fair value by derivative instruments; and
- impacts on the consolidated statement of net income.

As part of our risk management strategies, management continually evaluates our derivative instrument holdings and the effectiveness of such holdings in addressing risks identified in our operations.

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Invested Assets

The following summarizes our invested assets:

	December 31,							
	2016				2015			
(In millions, except percentages)	U.S. and Bermuda Invested Asset Value	Germany Invested Asset Value	Total Invested Asset Value[1]	Percent of Total	U.S. and Bermuda Invested Asset Value	Germany Invested Asset Value	Total Invested Asset Value[1]	Percent of Total
Corporate	$ 31,000	$ 1,682	$ 32,682	45.4%	$ 27,677	$ 1,614	$ 29,291	43.7%
CLO	5,798	-	5,798	8.1%	5,648	-	5,648	8.4%
Credit	36,798	1,682	38,480	53.5%	33,325	1,614	34,939	52.1%
RMBS	10,619	-	10,619	14.8%	8,870	-	8,870	13.2%
Mortgage loans	6,145	95	6,240	8.7%	5,826	140	5,966	8.9%
CMBS	2,202	-	2,202	3.1%	1,951	-	1,951	2.9%
Real estate held for investment	-	542	542	0.8%	-	566	566	0.8%
Real estate	18,966	637	19,603	27.4%	16,647	706	17,353	25.8%
State, municipal, political subdivisions and foreign government	1,387	1,936	3,323	4.6%	1,401	2,343	3,744	5.6%
Alternative investments	3,297	128	3,425	4.8%	3,441	54	3,495	5.2%
ABS	3,873	-	3,873	5.4%	3,504	-	3,504	5.2%
Short-term investments	250	-	250	0.3%	186	-	186	0.3%
Unit linked assets	-	363	363	0.5%	-	391	391	0.6%
Equity securities	199	185	384	0.5%	179	217	396	0.6%
U.S. government and agencies	32	27	59	0.1%	44	-	44	0.1%
Other investments	9,038	2,639	11,677	16.2%	8,755	3,005	11,760	17.6%
Cash and equivalents	1,111	111	1,222	1.7%	2,009	114	2,123	3.2%
Policy loans and other	631	221	852	1.2%	577	207	784	1.3%
Total invested assets	$ 66,544	$ 5,290	$ 71,834	100.0%	$ 61,313	$ 5,646	$ 66,959	100.0%

[1] Refer to *Key Operating and Non-GAAP Measures* for the definition of invested assets.

Our total invested assets were $71.8 billion and $67.0 billion as of December 31, 2016 and 2015, respectively. As of December 31, 2016, our total invested assets were mainly comprised of 45.4% of corporate securities, 31.4% of structured securities, 8.7% of mortgage loans and 4.8% of alternative investments. Corporate securities within our U.S. and Bermuda portfolio included $8.2 billion of private placements, which represented approximately 12% of our total U.S. and Bermuda invested assets. The increase as of December 31, 2016 from 2015 was primarily due to the strong growth in deposits attributed to a significant increase in flow reinsurance business during 2016 as well as growth in our retail sales during 2016.

In managing our business we utilize invested assets as presented in the above table. Invested assets do not correspond to the total investments, including related parties, on our consolidated balance sheets, as discussed previously in *Key Operating and Non-GAAP Measures*. Invested assets represent the investments that directly back our policyholder liabilities and surplus assets. We believe this view of our portfolio provides a view of the assets for which we have economic exposure. We adjust the presentation for funds withheld and modco transactions to include or exclude the underlying investments based upon the contractual transfer of economic exposure to such underlying investments. We also deconsolidate any VIEs in order to show the net investment in the funds, which therefore are included in the alternative investments line above.

The Germany investment portfolio composition differs from the U.S. and Bermuda portfolio primarily due to the geographic location, regulatory environment and participating nature of the German products and therefore the portfolio is managed separately from our U.S. and Bermuda portfolios. The German invested assets are predominantly invested in foreign government securities, corporate fixed income securities, real estate held for investment and assets backing our unit linked policies. The German invested assets are predominantly invested in Euro-denominated securities and investments.

Invested assets are utilized by management to evaluate our investment portfolio. Invested asset figures are used in the computation of net investment earned rate, which allows us to analyze the profitability of our investment portfolio. Invested assets are also used in our risk management processes for asset purchases, product design and underwriting, stress scenarios, liquidity, and ALM.

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The following summarizes our alternative investments:

	December 31,			
	2016		2015	
(In millions, except percentages)	Invested Asset Value	Percent of Total	Invested Asset Value	Percent of Total
Credit funds	$ 834	24.3%	$ 1,135	32.5%
Private equity - MidCap	524	15.3%	482	13.8%
Private equity - A-A Mortgage	417	12.2%	252	7.2%
Private equity - other	519	15.2%	430	12.3%
Mortgage and real assets	470	13.7%	408	11.7%
Hedge funds	311	9.1%	383	10.9%
Public equities	215	6.3%	270	7.7%
Natural resources and other real assets	135	3.9%	135	3.9%
Total alternative investments	$ 3,425	100.0%	$ 3,495	100.0%

Alternative investments were $3.4 billion and $3.5 billion as of December 31, 2016 and 2015, respectively, representing 4.8% and 5.2% of our total invested assets portfolio as of December 31, 2016 and 2015, respectively.

Alternative investments do not correspond to the total investment funds, including related parties and VIEs, on our consolidated balance sheets. As discussed above in the invested assets section, we adjust the GAAP presentation for funds withheld and modco and de-consolidate VIEs. We also include CLO equity tranche securities in alternative investments due to their underlying characteristics and equity-like features.

Two of our largest alternative investments are in asset originators, MidCap and A-A Mortgage, both of which, from time to time, provide us with access to assets for our investment portfolio. As of December 31, 2016, we held equity positions in MidCap of $524 million. MidCap is a leading originator of senior debt capital in the middle-market with expertise in asset-backed loans, leveraged loans, real estate loans, discount loans and venture loans. MidCap represents a unique investment in an origination platform made available to us through our relationship with Apollo. As of December 31, 2016, we held an equity position in A-A Mortgage of $417 million. A-A Mortgage has an indirect investment in AmeriHome, which originates RMLs and mortgage servicing rights.

Non-GAAP Measure Reconciliations

The reconciliations to the nearest GAAP measure for operating income, net of tax is included in the *Consolidated Results of Operations* section.

The reconciliation of AHL shareholders’ equity to AHL shareholders’ equity excluding AOCI included in the ROE excluding AOCI and operating income ROE excluding AOCI is as follows:

	December 31,		
(In millions)	2016	2015	2014
Total AHL shareholders' equity	$ 6,905	$ 5,362	$ 4,555
Less: AOCI	367	(237)	644
Total AHL shareholders' equity excluding AOCI	$ 6,538	$ 5,599	$ 3,911
Retirement Services	$ 4,495	$ 3,974	$ 2,807
Corporate and Other	2,043	1,625	1,104
Total AHL shareholders' equity excluding AOCI	$ 6,538	$ 5,599	$ 3,911

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The reconciliation of net investment income to net investment earnings and earned rate is as follows:

	Years ended December 31,					
	2016		2015		2014	
(In millions, except percentages)	Dollar	Rate	Dollar	Rate	Dollar	Rate
GAAP net investment income	$ 2,916	4.19%	$ 2,508	4.06%	$ 2,333	3.95%
Reinsurance embedded derivative impacts	189	0.27%	84	0.15%	67	0.10%
Net VIE earnings	1	-%	67	0.11%	146	0.25%
Alternative income gain (loss)	(39)	(0.06)%	(42)	(0.07)%	4	0.01%
Other	(35)	(0.05)%	(9)	(0.01)%	(12)	(0.02)%
Total adjustments to arrive at net investment earnings/earned rate	116	0.16%	100	0.18%	205	0.34%
Total net investment earnings/earned rate	$ 3,032	4.35%	$ 2,608	4.24%	$ 2,538	4.29%
Retirement Services	$ 2,955	4.73%	$ 2,572	4.37%	$ 2,483	4.26%
Corporate and Other	77	1.08%	36	1.38%	55	5.91%
Total net investment earnings/earned rate	$ 3,032	4.35%	$ 2,608	4.24%	$ 2,538	4.29%
Retirement Services average invested assets	$ 62,509		$ 58,917		$ 58,284	
Corporate and Other average invested assets	7,113		2,567		923	
Consolidated average invested assets	$ 69,622		$ 61,484		$ 59,207	

The reconciliation of interest sensitive contract benefits to Retirement Services' cost of crediting on deferred annuities, and the respective rates, is as follows:

	Years ended December 31,					
	2016		2015		2014	
(In millions, except percentages)	Dollar	Rate	Dollar	Rate	Dollar	Rate
GAAP interest sensitive contract benefits	$ 1,293	2.48%	$ 690	1.42%	$ 1,822	3.77%
Interest credited other than deferred annuities	(110)	(0.21)%	(94)	(0.19)%	(107)	(0.22)%
FIA option costs	559	1.08%	510	1.04%	442	0.92%
Product charges (strategy fees)	(53)	(0.10)%	(33)	(0.07)%	(11)	(0.02)%
Reinsurance embedded derivative impacts	29	0.06%	18	0.04%	14	0.03%
Change in fair value of embedded derivatives - FIAs	(730)	(1.41)%	(174)	(0.36)%	(1,294)	(2.68)%
Negative VOBA amortization	48	0.09%	68	0.14%	73	0.15%
Unit linked change in reserves	(15)	(0.03)%	(27)	(0.06)%	-	-%
Other changes in interest sensitive contract liabilities	(2)	-%	(18)	(0.04)%	(3)	(0.01)%
Total adjustments to arrive at cost of crediting on deferred annuities	(274)	(0.52)%	250	0.50%	(886)	(1.83)%
Retirement Services cost of crediting on deferred annuities	$ 1,019	1.96%	$ 940	1.92%	$ 936	1.94%
Average account value	$ 51,921		$ 48,956		$ 48,353	

The reconciliation of total investments, including related parties, to invested assets is as follows:

	December 31,	
(In millions)	2016	2015
Total investments, including related parties	$ 72,433	$ 64,525
Derivative assets	(1,370)	(871)
Cash and cash equivalents (including restricted cash)	2,502	2,830
Accrued investment income	554	520
Payables for collateral on derivatives	(1,383)	(867)
Reinsurance funds withheld and modified coinsurance	(414)	(214)
VIE assets, liabilities and noncontrolling interest	886	1,073
AFS unrealized (gain) loss	(1,030)	362
Ceded policy loans	(344)	(399)
Total adjustments to arrive at invested assets	(599)	2,434
Total invested assets	$ 71,834	$ 66,959

The reconciliation of total investment funds, including related parties and VIEs, to alternative investments within invested assets is as follows:

	December 31,	
(In millions)	2016	2015
Investment funds, including related parties and VIEs	$ 2,460	$ 2,264
CLO equities included in trading securities	260	337
Investment funds within funds withheld at interest	329	273
Royalties, other assets included in other investments and other assets	81	83
Net assets of the VIE, excluding investment funds	295	538
Total adjustments to arrive at alternative investments	965	1,231
Alternative investments	$ 3,425	$ 3,495

The reconciliation of total liabilities to reserve liabilities is as follows:

	December 31,	
(In millions)	2016	2015
Total liabilities	$ 79,814	$ 75,491
Derivative liabilities	(40)	(17)
Payables for collateral on derivatives	(1,383)	(867)
Funds withheld liability	(380)	(388)
Other liabilities	(685)	(776)
Liabilities of consolidated VIEs	(34)	(517)
Reinsurance ceded receivables	(6,001)	(7,257)
Policy loans ceded	(344)	(399)
Other	4	1
Total adjustments to arrive at reserve liabilities	(8,863)	(10,220)
Total reserve liabilities	$ 70,951	$ 65,271

Liquidity and Capital Resources

Liquidity is the ability to generate sufficient cash flows to meet the cash requirements of business operations or to rebalance our investment portfolio without incurring significant costs. Funding liquidity relates to the ability to fund operations. Balance sheet liquidity reflects the ability to liquidate or rebalance the company’s balance sheet without incurring significant costs from fees, bid-offer spreads, or market impact. We manage our liquidity position by matching projected cash demands with adequate sources of cash and other liquid assets. Our principal sources of liquidity are operating cash flows and holdings of cash, cash equivalents and other readily marketable assets.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our investment portfolio is structured to ensure a strong liquidity position over time in order to permit timely payment of policy and contract benefits without requiring asset sales at inopportune times or at depressed prices. In general, liquid assets include cash and cash equivalents, highly rated corporate bonds, unaffiliated preferred stock and unaffiliated public common stock, all of which generally have liquid markets with a large number of buyers. The carrying value of these assets as of December 31, 2016 was approximately $44.0 billion. Although our investment portfolio does contain assets that are generally considered illiquid for liquidity monitoring purposes (primarily mortgage loans, policy loans, real estate, investment funds, and affiliated common stock), there is some ability to raise cash from these assets if needed. Along with these liquid assets, in periods of economic downturn we may maintain higher cash balances than required to manage our liquidity risk and to take advantage of market dislocations as they arise. We have an additional liquidity cushion through a $1.0 billion revolving credit facility, which is undrawn as of the date hereof. In addition, through our membership in the FHLBDM and the FHLBI we are eligible to borrow under variable rate short-term federal funds arrangements to provide additional liquidity.

We proactively manage our liquidity position to meet cash needs while minimizing adverse impacts on investment returns. We analyze our cash-flow liquidity over the upcoming 12 months under a variety of scenarios modeling potential demands on liquidity, taking into account the provisions of our policies and contracts in force, our cash flow position, and the volume of cash and readily marketable securities in our portfolio. By policy, we maintain sufficient liquidity not only to meet our cash-flow requirements over the succeeding 12-month period in a moderately severe scenario (for example, a recessionary environment), but also to have excess liquidity available to invest into potential investment opportunities created from market dislocations. We also monitor our liquidity profile under more severe scenarios.

We perform a number of stress tests and analyses to assess our ability to meet our cash flow requirements as well as the ability of our reinsurance and insurance subsidiaries to meet their collateral obligations. Among these analyses, we manage to the following ALM limits:

- our projected net cumulative cash flows including both new business and target levels of new investments under a “plan scenario” and a “moderately severe scenario” event are non-negative over a rolling 12-month horizon;
- we hold at least $250 million in cash and cash equivalents across the group; and at least $150 million in the aggregate in securities with the following characteristics:
    - public corporate bonds rated A- or above;
    - liquid ABS (defined as prime auto, auto floorplan, Tier 1 subprime auto, auto lease, prime credit cards, equipment lease or utility stranded assets) and RMBS with weighted average lives less than three years rated A- or above; or
    - CMBS with weighted average lives less than three years rated AAA- or above;
- we maintain assets that can be liquidated in one quarter under normal market conditions equal to 25% of the policyholder obligations that are deemed to be most liquid, which is defined as policies with a cash surrender value, no income rider, no MVA, with lower than 5% surrender charge protection and lower than 3% minimum floor guarantee, if any; and
- we maintain sufficient capital and surplus at ALRe to meet collateral calls from modco and third-party reinsurance contracts under a substantial stress event, such as the failure of a major financial institution (Lehman event).

Insurance Subsidiaries' Liquidity

The primary cash flow sources for our insurance subsidiaries include retirement services product inflows (premiums), investment income, principal repayments on our investments, and net transfers from separate accounts and financial product deposits. Uses of cash include investment purchases, payments to policyholders for surrenders and withdrawals, policy acquisition costs, and general operating costs.

Our policyholder obligations are generally long-term in nature. However, one liquidity risk is an extraordinary level of early policyholder withdrawals. We include provisions within our annuity policies, such as surrender charges and MVAs, which are intended to protect us from early withdrawals. As of December 31, 2016 and 2015, approximately 86% and 85%, respectively, of our deferred annuity liabilities were subject to penalty upon surrender. In addition, as of December 31, 2016 and 2015, approximately 73% and 71% of policies contained MVAs that also have the effect of limiting early withdrawals if interest rates increase.

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Cash Flows

Our cash flows were as follows:

	Years ended December 31,		
(In millions)	2016	2015	2014
Net income	$ 805	$ 578	$ 478
Non-cash revenues and expenses	394	471	121
Net cash provided by operating activities	1,199	1,049	599
Sales, maturities, and repayment of investments	13,783	14,512	15,855
Purchases and acquisitions of investments	(16,293)	(14,991)	(14,376)
Other investing activities	(92)	427	(147)
Net cash (used in) provided by investing activities	(2,602)	(52)	1,332
Capital contributions	1	1,116	305
Deposits on investment-type policies and contracts	5,791	3,460	3,393
Withdrawals on investment-type policies and contracts	(4,617)	(4,783)	(5,551)
Net changes of cash collateral posted for derivative transactions	516	(535)	661
Net proceeds and repayment of debt	-	(4)	(300)
Consolidated VIE net borrowings	(500)	-	(404)
Other financing activities	(36)	(165)	(432)
Net cash provided by (used in) financing activities	1,155	(911)	(2,328)
Effect of exchange rate changes on cash and cash equivalents[1]	(13)	(4)	-
Net (decrease) increase in cash and cash equivalent[1]	$ (261)	$ 82	$ (397)

[1] *Includes cash and cash equivalents of consolidated VIEs*

Cash flows from operating activities

The primary cash inflows from operating activities include net investment income, annuity considerations and insurance premiums. The primary cash outflows from operating activities are comprised of benefit payments, interest credited to policyholders, operating expenses and tax expenses. Our operating activities generated cash flows totaling $1.2 billion, $1.0 billion and $599 million for the years ended December 31, 2016, 2015 and 2014, respectively. The increase in cash provided by operating activities for both the years ended December 31, 2016 compared to 2015 and for 2015 compared to 2014 was primarily driven by the increase in net investment income reflecting an increase in our investment portfolio attributed to the growth in deposits as well as bond call income in 2016.

Cash flows from investing activities

The primary cash inflows from investing activities are the sales, maturities and repayments of investments. The primary cash outflows from investing activities are the purchases and acquisitions of new investments. The cash flows from investing activities reflect the reinvestment of our Aviva USA acquired investments for the years ended December 31, 2015 and 2014. Our investing activities used cash flows totaling $2.6 billion, $52 million, and provided cash flows of $1.3 billion for the years ended December 31, 2016, 2015 and 2014, respectively. The increase in cash used from investing activities for the year ended December 31, 2016, was primarily attributed to $1.1 billion of primarily non-agency RMBS purchased in the third quarter of 2016, as well as an increase in our investment portfolio attributed to the growth in retail sales surpassing withdrawals. The change in cash flows from investing activities in 2015 as compared to 2014 reflects the continued reinvestment of our Aviva USA and Presidential Life Corporation acquired investments and the investment of $1.1 billion of capital raise proceeds during 2015.

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Cash flows from financing activities

The primary cash inflows from financing activities are deposits on our investment-type policies, changes of cash collateral posted for derivative transactions, capital contributions and proceeds from borrowing activities. The primary cash outflows from financing activities are withdrawals on our investment-type policies, changes of cash collateral posted for derivative transactions and repayments from borrowing activities. Our financing activities provided cash flows totaling $1.2 billion for the year ended December 31, 2016, and used cash flows totaling $911 million and $2.3 billion for the years ended December 31, 2015 and 2014, respectively. The increase in cash provided from financing activities in 2016 was primarily attributed to the growth in retail sales surpassing withdrawals and the favorable change in cash collateral posted for derivative transactions, partially offset by capital raise proceeds drawn and funded in April 2015 and the settling of borrowing of our CMBS VIE funds. The decrease in cash used in 2015 compared to 2014 was driven by the capital raise proceeds of $1.1 billion, a decrease in withdrawals for the year and the deconsolidation of MidCap Financial at the beginning of 2015, partially offset by the unfavorable change in cash collateral posted for derivative transactions.

Holding Company Liquidity

AHL is a holding company whose primary liquidity needs include the cash-flow requirements of its insurance subsidiaries to support retail annuity sales, reinsurance transactions, acquisition opportunities and new investments, and interest payments. The primary source of AHL’s cash flow is dividends from its subsidiaries, which are expected to be adequate to fund cash flow requirements based on current estimates of future obligations. As of December 31, 2016, AHL had no financial leverage.

The ability of AHL’s insurance subsidiaries to pay dividends is limited by applicable laws and regulations of the jurisdictions where the subsidiaries are domiciled, as well as agreements entered into with regulators. These laws and regulations require, among other things, the insurance subsidiaries to maintain minimum solvency requirements and limit the amount of dividends these subsidiaries can pay.

Subject to these limitations, the U.S. insurance subsidiaries are permitted to pay ordinary dividends based on calculations specified under insurance laws of the relevant state of domicile, subject to prior notification to the appropriate regulatory agency. Any distributions above the amount permitted by statute in any twelve month period are considered to be extraordinary dividends, and the approval of the appropriate regulator is required prior to payment. In addition, dividends from U.S. insurance subsidiaries to AHL would result in a 30% withholding tax. AHL does not currently plan on having the U.S. subsidiaries pay any dividends to AHL. ALV and APK (the life insurance entities of our German Group Companies) are regulated by BaFin. ALV and APK are restricted as to the payment of dividends pursuant to calculations, which are based upon the analysis of current euro swap rates against existing policyholder guarantees. As of December 31, 2016, ALV and APK did not exceed this threshold and, therefore, no amounts are available for distribution to AHL. As a result, dividends from ALRe are projected to be the primary source of AHL’s liquidity.

Under the Bermuda Insurance Act, ALRe is prohibited from paying a dividend in an amount exceeding 25% of the prior year’s statutory capital and surplus, unless at least two members of ALRe’s board of directors and its principal representative in Bermuda sign and submit to the BMA an affidavit attesting that a dividend in excess of this amount would not cause ALRe to fail to meet its relevant margins. In certain instances, ALRe would also be required to provide prior notice to the BMA in advance of the payment of dividends. In the event that such an affidavit is submitted to the BMA in accordance with the Bermuda Insurance Act, and further subject to ALRe meeting its relevant margins, ALRe is permitted to distribute up to the sum of 100% of statutory surplus and an amount less than 15% of its total statutory capital. Distributions in excess of this amount require the approval of the BMA.

The following table summarizes the dividends and other distributions our insurance subsidiaries were permitted to pay to AHL without the need for insurance regulatory approval and without regard to any withholding tax, subject to meeting solvency requirements when applicable:

	December 31,	
(In millions)	2016	2015
Subsidiary name (jurisdiction of domicile)		
Athene Life Re Ltd. (Bermuda)	$ 2,479	$ 3,529
Athene Annuity & Life Assurance Company (Delaware)	127	125
Athene Lebensversicherung (Germany)	-	-
Athene Pensionskasse AG (Germany)	-	-

As of December 31, 2016, the maximum dividend that AADE could pay absent regulatory approval from the Delaware Department of Insurance was $127 million. However, another regulation requiring AADE to hold surplus outside of surplus in subsidiaries effectively limits the amount that AADE can dividend while staying in compliance with such state regulations. Pursuant to such regulations and requirements, AADE could dividend up to $80 million as of December 31, 2016. Any dividends from AHL's other U.S. statutory entities in excess of the amounts allowed for AADE would not be able to be remitted to AHL without regulatory approval from the Delaware Department of Insurance. Additionally, we have agreed with the IID not to cause AAIA to pay dividends until August 15, 2018; therefore, we currently consider AAIA's dividend capacity as zero.

The maximum distribution permitted by law or contract is not necessarily indicative of an insurer's actual ability to pay such distributions, which may be constrained by business and other considerations, such as imposition of withholding tax, the impact of such distributions on surplus, which could affect the insurer's ratings or competitive position, the amount of premiums that can be written and the ability to pay future dividends or make other distributions. Further, state insurance laws and regulations require that the statutory surplus of our insurance subsidiaries following any dividend or distribution must be reasonable in relation to their outstanding liabilities and adequate for the insurance subsidiaries' financial needs. Along with solvency regulations, another primary consideration in determining the amount of capital used for dividends is the level of capital needed to maintain desired financial strength ratings from rating agencies, including S&P, A.M. Best and Fitch. Given recent economic events that have affected the insurance industry, both regulators and rating agencies could become more conservative in their methodology and criteria, including increasing capital requirements for insurance subsidiaries. AHL believes its insurance subsidiaries have sufficient statutory capital and surplus, combined with additional capital available to be provided by AHL, to meet this financial strength rating objective.

Other Sources of Funding

If needed, we may seek to secure additional funding at the holding company level by means other than dividends from subsidiaries such as by drawing on our undrawn $1.0 billion Credit Facility and by pursuing future issuances of debt or equity securities to third-party investors. However, such additional funding may not be available on terms favorable to us or at all, depending on our financial condition or results of operations or prevailing market conditions. In addition, certain covenants in our Credit Facility prohibit us from incurring any debt not expressly permitted thereby, which may limit our ability to pursue future issuances of debt.

Membership in Federal Home Loan Bank

We are a member of the FHLBDM and the FHLBI. Membership in a FHLB requires the member to purchase FHLB common stock based on a percentage of the dollar amount of advances outstanding, subject to the investment being greater than or equal to a minimum level. We owned a total of $40 million and $56 million of FHLB common stock as of December 31, 2016 and 2015, respectively.

Through our membership in the FHLBDM and FHLBI, we are eligible to borrow under variable rate short-term federal funds arrangements to provide additional liquidity. The borrowings must be secured by eligible collateral such as mortgage loans, eligible CMBS or RMBS, government or agency securities and guaranteed loans. There were no outstanding borrowings under these arrangements as of December 31, 2016 or 2015.

On August 11, 2016, we provided notice to the FHLBI that ALIC is withdrawing its membership thereto. The FHLBI confirmed receipt of our request on the following day. Pursuant to the FHLBI's capital plan, ALIC's membership will be withdrawn as of the fifth anniversary of the FHLBI's receipt of our notice. Until such time that ALIC's membership is withdrawn, ALIC continues to have all of the rights and obligations of being a member of the FHLBI, except that with respect to some or all of the FHLBI stock that ALIC owns, we will be entitled to a lower dividend amount, to the extent that the FHLBI declares a dividend. ALIC may continue to borrow from the FHLBI, provided that without the consent of the FHLBI, the transaction must mature or otherwise terminate prior to ALIC's withdrawal of membership.

In addition, we have issued funding agreements to the FHLB in exchange for cash advances. These funding agreements were issued in an investment spread strategy, consistent with other investment spread operations. As of December 31, 2016 and 2015, we had an aggregate of $691 million and $1.1 billion, respectively, of outstanding FHLB funding agreements. Refer to *Note 18 - Commitments and Contingencies* to the consolidated financial statements for details of issued funding agreements and related collateral.

The maximum FHLB indebtedness by a member is determined by the amount of collateral pledged, and cannot exceed a specified percentage of the member's total statutory assets dependent on the internal credit rating assigned to the member by the FHLB. As of December 31, 2016 and 2015, the total maximum borrowings under the FHLBDM facility were limited to $14.0 billion and $13.1 billion, respectively. However, our ability to borrow under the facility is constrained by the availability of assets that qualify as eligible collateral under the facility and by the Iowa Code requirement that we maintain funds equivalent to our legal reserve in certain permitted investments, from which we exclude pledged assets. Considering these limitations, we estimate that as of December 31, 2016 and 2015, we had the ability to draw up to a total of approximately $4.5 billion, inclusive of borrowings then outstanding. Drawing such amounts would have an adverse impact on AAIA's RBC ratio, which may further restrict our ability or willingness to draw up to our estimated capacity.

Use of Captives

While our business strategy does not involve the use of captives, as a result of the Aviva USA acquisition, we acquired a captive reinsurer that was formed in 2011 and domiciled in the state of Vermont and we ceded certain liabilities to this captive reinsurer, as further discussed in *Note 9 - Closed Block* to the consolidated financial statements. The statutory reserves of the affiliated captive reinsurer are supported by a combination of funds withheld receivable assets and letters of credit issued by an unaffiliated financial institution. The reinsurance activities within the captive reinsurer are eliminated in consolidation. As discussed in *Note 16 - Statutory Requirements* to the consolidated financial statements, a prescribed practice of the state of Vermont allows the captive to include the face amount of issued and outstanding letters of credit in the amount of $153 million as of December 31, 2016 and 2015, as admitted assets in its statutory financial statements.

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Recently, the NAIC and certain state insurance departments have scrutinized insurance companies' use of affiliated captive reinsurers. It is uncertain what, if any, regulatory changes will result from this heightened scrutiny. A potential outcome, although not considered likely, is the prohibition on the continued use of captive reinsurance subsidiaries. If the use of existing captive reinsurance subsidiaries were discontinued, we would likely incur early termination fees with respect to the financing structure and diminished statutory capital position. The effect of potential regulatory changes regarding the use of captives on our consolidated financial condition and results of operations, although believed unlikely to be material, is uncertain at this time.

Capital Resources

As of December 31, 2016 and 2015, our U.S. insurance companies' TAC, as defined by the NAIC, was $1.8 billion and $1.7 billion, respectively, and our ALRe statutory capital as defined by the BMA, was $6.1 billion and $5.7 billion, respectively. As of December 31, 2016 and 2015, our U.S. RBC ratio was 478% and 552%, respectively, and our BSCR ratio was 228% and 323%, respectively, all above our internal targets. The change in our U.S. RBC as of December 31, 2016 compared to December 31, 2015 was primarily driven by our investment of capital to organically grow our retail channel, which increased significantly during 2016. Each U.S. domestic insurance subsidiary’s state of domicile imposes minimum RBC requirements that were developed by the NAIC. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of TAC to ACL. Our TAC was significantly in excess of all regulatory standards and above our internal targets as of December 31, 2016 and 2015, respectively. ALRe adheres to BMA regulatory capital requirements to maintain statutory capital and surplus to meet the MMS and maintain minimum EBS capital and surplus to meet the ECR. Effective January 1, 2016, in connection with the implementation of its broader regulatory regime, the BMA integrated the EBS framework into the determination of BSCR. The European Commission has granted the BMA's regulatory regime for reinsurance, group solvency calculation and group supervision full equivalence to Solvency II. Under the EBS framework, ALRe's assets are recorded at market value and its insurance reserves are determined by reference to nine prescribed scenarios, with the scenario resulting in the highest reserve balance being ultimately required to be selected. The ALRe EBS capital and surplus was $4.4 billion resulting in a BSCR ratio of 228%, as of December 31, 2016. Although the calculation of the ECR was unchanged from prior year, the BSCR ratios for December 31, 2016 and 2015 are not comparable as the 2015 calculation applied to ALRe's statutory capital and the 2016 calculation now applies to the EBS capital and surplus. Consistent with the previous regime the MRC ratio to be considered solvent by the BMA is 100%. As of December 31, 2016 and 2015, ALRe held the appropriate capital to adhere to these regulatory standards. In evaluating our capital position and the amount of capital needed to support our Retirement Services segment, we review our ALRe capital by applying the NAIC RBC factors. As of December 31, 2016 and 2015, our ALRe RBC ratio was 529% and 468%, respectively, both above our internal targets. Our German Group Companies adhere to the regulatory capital requirements set forth by BaFin. Our German Group Companies held the appropriate capital to adhere to these regulatory standards as of December 31, 2016. Effective January 1, 2016, our German Group Companies became subject to Solvency II MCR requirements interpreted by the relevant regulatory authorities. We believe that we enjoy a strong capital position in light of our risks and that we are well positioned to meet policyholder and other obligations. We also believe that our strong capital position, as well as operating with excess capital, provides us the opportunity to take advantage of market dislocations as they arise.

Balance Sheet and Other Arrangements

Balance Sheet Arrangements

Contractual Obligations

The following table displays our contractual obligations as of December 31, 2016:

	Payments Due by Period				
(In millions)	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
Interest sensitive contract liabilities	$ 61,532	$ 4,967	$ 11,021	$ 11,207	$ 34,337
Future policy benefits	14,569	326	779	781	12,683
Other policy claims and benefits	217	217	-	-	-
Dividends payable to policyholders	974	152	94	44	684
Total	$ 77,292	$ 5,662	$ 11,894	$ 12,032	$ 47,704

We also have other obligations related to collateral on derivatives and investment fund commitments which have not been included in the above table as the timing and amount of both the return on the collateral and the fulfillment of the commitments are uncertain. See *Note 18 - Commitments and Contingencies* to the consolidated financial statements for further discussion on the investment fund commitments.

Other

In the normal course of business, we invest in various investment funds which are considered VIEs, and we consolidate a VIE when we are considered the primary beneficiary of the entity. For further discussion of our involvement with VIEs, see *Note 4 - Variable Interest Entities* to the consolidated financial statements.

Off Balance Sheet Arrangements

Collateral for Derivatives

We enter into derivatives for risk management purposes. We hold non-cash collateral from counterparties for our derivatives, which has not been recorded on our consolidated balance sheets. These amounts were $26 million and $57 million as of December 31, 2016 and 2015, respectively.

Collateral for Reinsurance

We hold collateral for and provide collateral to counterparties for our reinsurance agreements. We held $49 million and $62 million as of December 31, 2016 and 2015, respectively, of collateral on behalf of our reinsurers. As of December 31, 2016 and 2015, our reinsurers held collateral of $4 million and $6 million, respectively, on our behalf.

Critical Accounting Estimates and Judgments

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Amounts based on such estimates involve numerous assumptions subject to varying and potentially significant degrees of judgment and uncertainty, particularly related to the future performance of the underlying business, and will likely change in the future as additional information becomes available. Critical estimates and assumptions are evaluated on an ongoing basis based on historical developments, market conditions, industry trends and other information that is reasonable under the circumstances. There can be no assurance that actual results will conform to estimates and assumptions and that reported results of operations will not be materially affected by the need to make future accounting adjustments to reflect periodic changes in these estimates and assumptions. Critical accounting estimates are impacted significantly by our methods, judgments and assumptions used in the preparation of the consolidated financial statements and should be read in conjunction with our significant accounting policies described in *Note 1 - Business, Basis of Presentation and Significant Accounting Policies* to the consolidated financial statements. The following summary of our critical accounting estimates is intended to enhance the ability to assess our financial condition and results of operations and the potential volatility due to changes in estimates.

Investments

We are responsible for the fair value measurement of certain investments presented in our consolidated financial statements. We perform regular analysis and review of our valuation techniques, assumptions and inputs utilized in determining fair value to evaluate if the valuation approaches are appropriate and consistently applied, and the various assumptions are reasonable. We also perform quantitative and qualitative analysis and review of the information and prices received from commercial pricing services and broker-dealers, to verify it represents a reasonable estimate of the fair value of each investment. In addition, we utilize both internally-developed and commercially-available cash flow models to analyze the reasonableness of fair values utilizing credit spread and other market assumptions, where appropriate.

Valuation of Fixed Maturity and Equity Investments

The following table presents the fair value of fixed maturity and equity securities, including those with related parties, by pricing source and fair value hierarchy:

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	December 31, 2016			
(In millions)	Total	Level 1	Level 2	Level 3
AFS securities				
Priced via commercial pricing services	$ 34,410	$ 108	$ 34,302	$ -
Priced via independent broker-dealer quotations	18,087	20	16,334	1,733
Priced via other methods	244	-	40	204
Total AFS securities, including related parties	52,741	128	50,676	1,937
Trading securities				
Priced via commercial pricing services	2,106	3	2,103	-
Priced via independent broker-dealer quotations	670	-	319	351
Total trading securities, including related parties	2,776	3	2,422	351
Total AFS and trading securities, including related parties	$ 55,517	$ 131	$ 53,098	$ 2,288
Percent of total, including related parties	100.0%	0.2%	95.7%	4.1%

In addition to the table above, our consolidated VIEs have fixed maturity and equity securities. As of December 31, 2016, our consolidated VIEs had fixed maturity and equity securities classified in the fair value hierarchy as Level 1 of $235 million, Level 2 of $0 million, and Level 3 of $93 million.

We measure the fair value of our investments based on assumptions used by market participants in pricing the assets, which may include inherent risk, restrictions on the sale or use of an asset, or nonperformance risk. The estimate of fair value is the price that would be received to sell an investment in an orderly transaction between market participants in the principal market, or the most advantageous market in the absence of a principal market, for that investment. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange while not under duress. The valuation of investments involves considerable judgment, is subject to considerable variability and is revised as additional information becomes available. As such, changes in, or deviations from, the assumptions used in such valuations can significantly affect our consolidated financial statements. Financial markets are susceptible to severe events evidenced by rapid depreciation in investment values accompanied by a reduction in asset liquidity. Our ability to sell investments, or the price ultimately realized for investments, depends upon the demand and liquidity in the market and increases the use of judgment in determining the estimated fair value of certain investments. Accordingly, estimates of fair value are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

As of December 31, 2016, fixed maturity securities, including those with related parties, totaled $54.7 billion. For fixed maturity securities, we obtain the fair values, when available, based on quoted prices in active markets that are regularly and readily obtainable. Generally, these are liquid investments and the valuation does not require significant management judgment. When quoted prices in active markets are not available, fair value is based on market standard valuation techniques, giving priority to observable inputs. We obtain the fair value for most marketable bonds without an active market from several commercial pricing services. The pricing services incorporate a variety of market observable information in their valuation techniques, including benchmark yields, broker-dealer quotes, credit quality, issuer spreads, bids, offers, and other reference data. For certain fixed maturity securities without an active market, an internally-developed discounted cash flow or other approach is utilized to calculate the fair value. A discount rate is used, which adjusts a market comparable base rate for securities with similar characteristics for credit spread, market illiquidity or other adjustments. The fair value of privately placed fixed maturity securities are based on the credit quality and duration of comparable marketable securities, which may be securities of another issuer with similar characteristics. In some instances, we use a matrix-based pricing model, which considers the current level of risk-free interest rates, corporate spreads, credit quality of the issuer, and cash flow characteristics of the security. We also consider additional factors, such as net worth of the borrower, value of collateral, capital structure of the borrower, presence of guarantees, and our evaluation of the borrower's ability to compete in its relevant market.

As of December 31, 2016, equity securities, including those with related parties, totaled $798 million. For equity securities, we obtain the fair value, when available, based on quoted market prices. Other equity securities, typically private equities or equity securities not traded on an exchange, are valued based on other sources, such as analytics or broker-dealer quotes.

Valuation of Investment Funds

Investment funds, including those with related parties and of our consolidated VIEs, for which we elect the fair value option, are valued based on net asset value information provided by the general partner or related asset manager. As of December 31, 2016, we had investment funds, including those with related parties and of our consolidated VIEs, of $661 million carried at fair value on the consolidated balance sheet. These partnership interests usually include multiple underlying investments for which either observable market prices or other valuation methods are used to determine the fair value. Investment funds include several private equity and debt funds that typically invest in a diverse pool of investments, using investment strategies including leveraged buyouts, energy, real estate, hedge funds, mezzanine debt, and senior debt.

The underlying investments may have significant unobservable inputs for comparable multiples and weighted average cost of capital rates applied in valuation models. These inputs in isolation can cause significant increases or decreases in fair value. Specifically, the comparable

multiples are multiplied by the underlying investment's earnings before interest, tax, depreciation, and amortization to establish the total enterprise value of the underlying investments. We use a comparable multiple consistent with the implied trading multiple of public industry peers. Similarly, for certain underlying investments we may use a discounted cash flow model. An increase in the discount rate can significantly lower the fair value; a decrease in the discount rate can significantly increase the fair value. We determine the discount rate by considering the weighted average cost of capital of companies in similar industries with comparable debt to equity ratios.

Other-Than-Temporary Impairments

The evaluation of investments for OTTIs is a quantitative and qualitative process done on a case-by-case basis, which is subject to risks and uncertainties and involves significant estimates and judgments by management. Changes in the estimates and judgments used in such analysis can have a significant impact on our consolidated results of operations.

We review and analyze all investments on an ongoing basis for changes in market interest rates, credit issues, changes in business climate, management changes, litigation, government actions, and other similar factors. Indicators of impairment may include changes in the issuers' credit ratings and outlook, the frequency of late payments, pricing levels, key financial ratios, financial statements, revenue forecasts and cash flow projections. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other-than-temporary. Relevant facts and circumstances include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in fair value; (3) the issuer's financial position and access to capital; and (4) for fixed maturity securities, our ability and intent to sell a security or whether it is more-likely-than-not we will be required to sell the security before the recovery of its cost or amortized cost which, in some cases, may extend to maturity and for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value. An extended and severe unrealized loss position on a fixed maturity security may not have any impact on the ability of the issuer to service all scheduled principal and interest payments. Accordingly, such an unrealized loss position may not impact our evaluation of recoverability of all contractual cash flows or the ability to recover an amount at least equal to the investment's cost or amortized cost based on the present value of the expected future cash flows to be collected. To the extent we determine a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized.

Impairment losses on equity securities are recognized in investment related gains (losses) on the consolidated statements of income. The recognition of impairment losses on fixed maturity securities on the consolidated financial statements is dependent on the facts and circumstances related to the specific security. If we intend to sell a security or it is more-likely-than-not that we would be required to sell a security before the recovery of its cost or amortized cost, less any recorded credit loss, we recognize an OTTI in investment related gains (losses) on the consolidated statements of income for the difference between cost or amortized cost and fair value. If neither of these two conditions exists, then the recognition of the OTTI is bifurcated and we recognize the credit portion in investment related gains (losses) on the consolidated statements of income and the non-credit loss portion in AOCI on the consolidated balance sheets.

We estimate the amount of the credit loss component of a fixed maturity security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using estimated cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating-rate security. The techniques and assumptions for establishing the estimated cash flows vary depending on the type of security. The structured security's cash flow estimates are based on security-specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity, prepayments and structural support, including subordination and guarantees. The non-structured security's cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using security specific facts and circumstances including timing, security interests and loss severity.

For equity method investments, we consider financial and other information provided by the investee, other known information and inherent risks in the underlying investments, as well as future capital commitments, in determining whether an impairment has occurred. Declines in value of equity method investments not expected to be recovered are reflected through impairment in other investment related gains (losses) on the consolidated statements of income.

Future Policy Benefits

The future policy benefit liabilities associated with long duration contracts include endowment contracts, term and whole-life products, accident and health, disability, and deferred and immediate annuities with life contingencies. Liabilities for non-participating long duration contracts are established using accepted actuarial valuation methods which require us to make certain assumptions regarding expenses, investment yields, mortality, morbidity, and persistency, with a provision for adverse deviation, at the date of issue or acquisition. As of December 31, 2016, the reserve investment yield assumptions for non-participating contracts range from 3.31% to 5.44% and are specific to our expected earned rate on the asset portfolio supporting the reserves. Liabilities for participating long duration contracts are established using acceptable actuarial valuation methods, which require the use of guaranteed interest and mortality assumptions. As of December 31, 2016, the reserve guaranteed interest assumptions range from 1.25% to 4.00% and are based on interest rates guaranteed to policyholders. We base other key assumptions, such as mortality and morbidity, on industry standard data adjusted to align with actual company experience, if necessary. Premium deficiency tests are performed periodically using current assumptions, without provisions for adverse deviation, in order to test the appropriateness of the established reserves. If the reserves using current assumptions are greater than the existing reserves, the excess is recorded and the initial assumptions are revised.

Liabilities for Guaranteed Living Withdrawal Benefits and Guaranteed Minimum Death Benefits

We issue and reinsure deferred annuity contracts which contain GLWB and GMDB riders. We establish future policy benefits for GLWB and GMDB by estimating the expected value of withdrawal and death benefits in excess of the projected account balance and recognizing the excess proportionally over the accumulation period based on total expected assessments. The methods we use to estimate the liabilities have assumptions about policyholder behavior, which includes lapses, withdrawals and utilization of the benefit riders; mortality; and market conditions affecting the account balance growth.

Policyholder lapses and withdrawal assumptions are set at the product level by grouping individual policies sharing similar features and guarantees and reviewed periodically against experience. Base lapse rates consider the level of surrender charges and are dynamically adjusted based on the level of current interest rates relative to the guaranteed rates and the amount by which any rider guarantees are in a net positive position. Rider utilization assumptions consider the number and timing of policyholders electing the riders. We track this assumption as experience emerges and update our assumption as experience deviates. Mortality assumptions are set at the product level and generally based on standard industry tables, adjusted for historical experience and a provision for mortality improvement. Projected guaranteed benefit amounts in excess of the underlying account balances are considered over a range of scenarios in order to capture our exposure to the guaranteed withdrawal and death benefits.

The assessments used to accrue liabilities are based on interest margins, rider charges, surrender charges and realized gains (losses). As such, future reserve changes are sensitive to changes in investment results and the impacts of shadow adjustments, which represent the impact of assuming unrealized gains (losses) are realized in future periods. As of December 31, 2016, the GLWB and GMDB liability balance, including the impacts of shadow adjustments, totaled $1.9 billion. The increase (decrease) to the GLWB and GMDB liability balance, including the impacts of shadow adjustments from hypothetical changes in projected assessments, changes in the discount rate and annual equity growth is summarized as follows:

(In millions)		December 31, 2016
+10% assessments	$	(72)
-10% assessments		82
+100 bps discount rate		74
-100 bps discount rate		(83)
1% lower annual equity growth		35

Derivatives

Valuation of Embedded Derivatives on FIAs

We issue and reinsure products, primarily FIA products, or purchase investments that contain embedded derivatives. If we determine the embedded derivative has economic characteristics not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately. Embedded derivatives are carried on the consolidated balance sheets at fair value in the same line item as the host contract. Changes in the fair value of embedded derivatives associated with FIAs are reflected in interest sensitive contract benefits on the consolidated statements of income. Embedded derivatives that are not clearly and closely related to the host contract within a financial asset are required to be bifurcated and recorded at fair value unless the fair value option is elected on the host contract. Under the fair value option, bifurcation of the embedded derivative is not necessary as all related gains (losses) on the host contract and derivative will be reflected within investment related gains (losses) on the consolidated statements of income.

FIA and indexed universal life insurance contracts allow the policyholder to elect a fixed interest rate return or an equity market component where interest credited is based on the performance of common stock market indices. The equity market option is an embedded derivative, similar to a call option. The benefit reserve is equal to the sum of the fair value of the embedded derivative and the host (or guaranteed) component of the contracts. The fair value of embedded derivatives is computed as the present value of benefits attributable to the excess of the projected policy contract values over the projected minimum guaranteed contract values. The projections of policy contract values are based on assumptions for future policy growth, which include assumptions for expected index credits on the next policy anniversary date, future equity option costs, volatility, interest rates, and policyholder behavior. The projections of minimum guaranteed contract values include the same assumptions for policyholder behavior as were used to project policy contract values. For contracts we issue to policyholders, the embedded derivative cash flows are discounted using a rate that reflects our own credit rating. For funds withheld reinsurance contracts, we do not use a credit spread as the funds are backed by the cedant's collateral. The host contract is established at contract inception as the initial account value less the initial fair value of the embedded derivative and accreted over the policy's life. The host contract accretion rate is updated each quarter so that the present value of actual and expected guaranteed cash flows is equal to the initial host value.

In general, the change in the fair value of the embedded derivatives will not directly correspond to the change in fair value of the hedging derivative assets. The derivatives are intended to hedge the index credits expected to be granted at the end of the current term, typically one year. The options valued in the embedded derivatives represent the rights of the policyholder to receive index credits over the entire period the FIAs are expected to be in force, which are typically much longer than the current term of the options. From an economic basis we believe it is

suitable to hedge with options that align with index terms of our FIA products because policyholder accounts are credited with index performance at the end of each index term. However, because the value of an embedded derivative in an FIA contract is longer-dated, there is a duration mismatch which may lead to mismatches for accounting purposes.

The most sensitive assumption in determining policy liabilities for FIAs is the vector of rates used to discount the excess projected contract values. The change in risk free rates is expected to drive most of the movement in the discount rates between periods. Changes to credit spreads for a given credit rating as well as any change to our credit rating requiring a revised level of non-performance risk would also be factors in the changes to the discount rate. If the discount rates used to discount the excess projected contract values were to fluctuate, there would be a resulting change in reserves for FIAs recorded through the consolidated statements of income.

As of December 31, 2016, we had embedded derivative liabilities classified as Level 3 in the fair value hierarchy of $5.3 billion. The increase (decrease) to the embedded derivatives on FIA products from hypothetical changes in discount rates is summarized as follows:

(In millions)	December 31, 2016	
+100 bps discount rate	$	(393)
-100 bps discount rate		444

However, these estimated effects do not take into account potential changes in other variables, such as equity price levels and market volatility, which can also contribute significantly to changes in carrying values. Therefore, the table does not necessarily reflect the ultimate impact on the consolidated financial statements under the discount rate variance scenarios presented above. In determining the ranges, we have considered current market conditions, as well as the market level of discount rates that can reasonably be anticipated over the near-term. For additional information regarding sensitivities to the embedded derivative balance, see *Item 7A. Quantitative and Qualitative Disclosures About Market Risks*.

Valuation of Embedded Derivatives in Modco or Funds Withheld

Reinsurance agreements written on a modco or funds withheld basis contain embedded derivatives. The right to receive or obligation to pay the total return on the assets supporting the funds withheld at interest or funds withheld liability, respectively, represents a total return swap with a floating rate leg. The fair value of the embedded derivatives on modco and funds withheld agreements is computed as the unrealized gain (loss) on the underlying assets and is included in funds withheld at interest and funds withheld liability on the consolidated balance sheets for assumed and ceded agreements, respectively. The change in the fair value of the embedded derivatives is recorded in investment related gains (losses) on the consolidated statements of income.

Valuation of Derivative Contracts

Derivative contracts can be exchange-traded or OTC. Exchange-traded derivative contracts (for example, futures) typically fall within Level 1 of the fair value hierarchy depending on trading activity. OTC derivative contracts (for example, swaps) are valued using valuation models or an income approach using third-party broker-dealer valuations. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, and correlation of the inputs. We consider and incorporate counterparty credit risk in the valuation process through counterparty credit rating requirements and monitoring of overall exposure. We also evaluate and include our own nonperformance risk in valuing derivative liabilities. The majority of our derivatives trade in liquid markets; therefore, we can verify model inputs and model selection does not involve significant judgment. As of December 31, 2016, we had derivative contract assets classified in the fair value hierarchy as Level 1 of $9 million, Level 2 of $1,361 million and Level 3 of $0 million. As of December 31, 2016, we had derivative contract liabilities classified in the fair value hierarchy as Level 1 of $0 million, Level 2 of $33 million and Level 3 of $7 million.

Deferred Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired

Costs related to direct and successful efforts of acquiring new business are deferred to the extent they are recoverable from future premiums or gross profits. These costs consist of commissions and policy issuance costs, as well as sales inducements credited to policyholder account balances. We adjust the DAC, DSI and VOBA balances due to the other comprehensive income effects of net unrealized investment gains (losses) on AFS securities. We perform periodic tests to determine if the deferred costs remain recoverable, including at issue. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we record a cumulative charge to the current period. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process for the interest sensitive policies. We also periodically revise the key assumptions used in the calculation of the amortization of DAC and DSI, which results in revisions to the estimated future gross profits. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

Deferred costs related to interest sensitive life and investment-type policies, with significant revenue streams from sources other than investment of the policyholder funds, are amortized over the lives of the policies, in relation to the present value of gross profits including investment spread margins, surrender charge income, policy administration, changes in the GLWB and GMDB reserves, and realized gains (losses) on investments. Current period gross profits for FIAs also include the impact of amounts for the change in fair value of the derivatives and the

change in fair value of the embedded derivatives. Estimates of the future gross profits are based on assumptions using accepted actuarial methods.

Current period amortization includes retrospective adjustments when actual gross profits and margins differ from prior estimates and may include further adjustments due to revisions of estimates of future gross profits and margins. Our estimates of future gross profits and margins are based on assumptions using accepted actuarial methods related to policyholder behavior and mortality, yields on investments supporting the liabilities, future interest credited amounts (including indexed related credited amounts on FIA products), surrender and other policy charges as applicable, and the level of expenses necessary to maintain the policies over their entire lives. Revisions to the gross profits are made each period based on historical results and also periodically through changing our assumptions to reflect our estimate of future experience.

We establish VOBA for insurance contract blocks assumed with the acquisition of insurance entities. The fair value of the liabilities purchased is determined using market participant assumptions at the time of acquisition and represents the amount an acquirer would expect to be compensated to assume the contracts. We record the fair value of the liabilities assumed in two components: reserves and VOBA. Reserves are established using our best estimate assumptions, as previously discussed in future policy benefits. VOBA is the difference between the fair value and the reserves. VOBA can be either positive or negative. For interest sensitive life and investment-type contracts, any negative VOBA is recorded in interest sensitive contract liabilities on the consolidated balance sheets. For long duration and insurance contracts, any negative VOBA is recorded as part of future policy benefits on the consolidated balance sheets. Positive VOBA is recorded in DAC, DSI and VOBA on the consolidated balance sheets. VOBA associated with funding agreements and immediate annuity contracts classified as investment contracts is amortized using the interest method. VOBA associated with immediate annuity contracts classified as long-duration contracts is amortized at a constant rate in relation to net policyholder liabilities. For accumulation products, which include interest sensitive life and investment-type contracts with significant non-investment sources of revenue, VOBA is amortized in relation to the present value of estimated gross profits using methods consistent with those used to amortize DAC. Negative VOBA is amortized at a constant rate in relation to applicable net policyholder liabilities.

Estimated future gross profits vary based on a number of factors, but are typically most sensitive to changes in investment spread margins, which are the most significant component of gross profits. If estimated gross profits for all future years on business in force were to change, including the impacts of shadow adjustments, there would be a resulting increase or decrease to the balances of DAC, DSI and VOBA recorded as an increase or decrease to amortization of DAC, DSI, and VOBA on the consolidated statements of income or AOCI.

Actual gross profits will depend on actual margins, including the changes in the value of embedded derivatives. The most sensitive assumption in determining the value of the embedded derivative is the vector of rates used to discount the excess projected contract values. If the discount rates used to discount the excess projected contract values were to change, there would be a resulting increase or decrease to the balances of DAC, DSI and VOBA recorded as an increase or decrease in amortization of DAC, DSI, and VOBA on the consolidated statements of income.

As of December 31, 2016, DAC, DSI and VOBA totaled $3.0 billion. The increases (decreases) to DAC, DSI and VOBA from hypothetical changes in estimated future gross profits and the embedded derivative discount rate are summarized as follows:

	December 31, 2016			
(In millions)	DAC	DSI	VOBA	Total
+10% estimated future gross profits	$ 21	9	$ 46	$ 76
-10% estimated future gross profits	(26)	(11)	(51)	(88)
+100 bps discount rate	(35)	(18)	(38)	(91)
-100 bps discount rate	40	21	43	104

Stock-based Compensation

We have adopted various stock-based compensation plans in order to align incentive compensation to our employees, our directors and employees of AAM with the long term performance of our company. For more information regarding our stock-based compensation plans, refer to *Note 11 - Common Stock* and *Note 12 - Stock-based Compensation* of the consolidated financial statements, and, regarding our relationship with AAM, *Note 17 - Related Parties* of the consolidated financial statements. Under these stock-based compensation plans, we may issue non-qualified stock options, incentive stock options, rights to purchase shares, restricted shares, restricted stock units (RSUs), and other awards which may be settled in, or based upon, our Class A common shares.

We have issued Class M common shares and RSUs, which will be settled in Class A common shares assuming that such awards are exchanged for Class A common shares upon payment of a conversion price. Under the terms of the plans, a portion of the Class M common shares and RSUs is subject to time-based vesting conditions (Tranche 1), and the remainder (Tranche 2) is subject to vesting conditions based on the proceeds realized or deemed to be realized by certain holders of our Class A common shares, as defined in each incentive plan (Relevant Investors), except for the Tranche 2 Class M-1, M-2 and M-3 common shares, which became fully vested upon modification. Additionally, certain Class M-4 common shares were issued with time-based vesting conditions and market hurdles based on the price of our Class A common shares attaining certain targets following our initial public offering. We have also issued long-term incentive plan (LTIP) awards that consist of time and performance-based RSUs and time-based stock options for Class A common shares. The performance-based LTIP awards vest upon the Company meeting certain operating income and ROE targets.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

We recognize the fair value of stock-based compensation over a participant's requisite service period through a charge to compensation expense and a corresponding entry to equity or a liability based on the vesting criteria and other pertinent terms of the awards. The compensation expense for Tranche 1 Class M common shares, Tranche 1 Class M RSUs and LTIP awards is generally recognized ratably over the vesting period. The compensation expense for Tranche 2 Class M common shares, other than those vested upon modification, and Tranche 2 Class M RSUs is recognized based on a combination of the probability of the Relevant Investors achieving certain performance hurdles and the assumed period to attain those performance hurdles. The Class M-4 common shares with share price market hurdles were entirely contingent on the completion of our initial public offering, therefore, expense recognition commenced upon completion of our initial public offering over the derived service period. Changes in our estimates and assumptions, including the number of stock awards that ultimately vest, may cause us to realize material changes in stock-based compensation expense in the future.

Our stock-based compensation plans also allow for the purchase by certain of our employees and directors and our affiliates of Class A common shares at either fair market value or a discounted price as approved by our compensation committee. Additionally, we may issue restricted Class A common shares to management and our affiliates. Class A common shares are accounted for as equity awards and the related compensation expense is recognized ratably over the vesting period, if any. The compensation expense for Class A common shares is calculated based on the grant date fair value of the Class A common shares less the purchase price, multiplied by the number of shares awarded.

Valuation Methodology and Assumptions

We determine the fair value of the Class M common shares, RSUs and LTIP stock options using the Black-Scholes option pricing model, with application of a Monte Carlo simulation to determine the value of the Tranche 2 Class M-4 common shares and Tranche 2 Class M RSUs. The Monte Carlo simulation uses a statistical formula underlying the Black-Scholes model and binomial formulas, and is further described under *Tranche 2 Vesting Estimate* below.

To estimate an award's fair value using the Black-Scholes option pricing model, it is necessary to develop assumptions of the expected term, expected volatility, expected dividend yield and the risk-free interest rate. The expected term and expected volatility assumptions are generally the most sensitive of the assumptions in the Black-Scholes model with variability in these assumptions having a more significant impact on the award's fair value than the assumptions on the expected dividend yield or risk-free interest rate, if all other assumptions are held equal. We have assumed no dividends as we have not declared any common stock dividends to date and do not expect to declare common stock dividends in the near future. The risk-free interest rate is derived from the U.S. Constant Maturity Treasury yield at the valuation date, with maturity corresponding to the weighted-average expected term. In addition, we have made assumptions concerning forfeitures and the probability that certain vesting conditions will be met.

Expected Term

The Black-Scholes model uses a single input for the award's expected term (the weighted average expected term), the anticipated time period between the valuation date and the exercise date or post-vesting cancellation date, to estimate an employee award's fair value. Developing the expected term assumption is highly subjective as employees may exercise options at widely varying times. A change in the expected term may have a significant effect on the fair value of the award. For more information regarding our expected term assumptions, refer to *Note 12 - Stock-based Compensation* to the consolidated financial statements.

Expected Volatility

Volatility is a statistical measurement of the magnitude of stock's price variance over a given historical period and is used to determine the expected variability of the returns on a company's stock. Volatility may have a significant impact on the fair value of a share-based event. Given that a more volatile stock has greater upside potential than a less volatile stock, an award tied to a high volatility stock has greater value than an award tied to a low-volatility stock, assuming all other assumptions are equal.

Absent an established history in a public market for our shares, we have estimated volatility of our share price based on the published historical volatilities of publicly-traded insurance company peers. For more information regarding our expected volatility assumptions, refer to *Note 12 - Stock-based Compensation* to the consolidated financial statements.

Pre-Vesting Forfeitures

In determining our pre-vesting forfeiture assumption we considered employee classification, economic environment, and historical experience. Based on these considerations, we estimate that 5% of the granted awards will have been forfeited at the end of the vesting period. We expect the number of vesting shares, as a percent of total shares granted, to decrease each year, with the lowest vesting percentage to occur in the last year during the vesting period. As such, an annual forfeiture rate of 1.7% was determined to result in the overall 5% forfeiture rate for the entire vesting life. Changes in assumptions used to estimate the forfeiture rate could have a significant impact of the amount and timing of the compensation expense recognized in each period.

Tranche 2 Vesting Estimate

The Tranche 2 Class M-4 common shares and Tranche 2 Class M RSUs include vesting assumptions developed using a Monte-Carlo simulation. The Monte-Carlo simulation uses large samples of possible outcomes through a randomly generated process that reflects the proportional distribution of each outcome's probability and formula-based rules regarding the expected exercise patterns to generate the possible future value of the shares at a liquidity event. The fair value is then estimated by averaging the value for all simulated paths and discounting the results at the risk-free interest rate to the valuation date. In developing this estimate using a Monte-Carlo simulation it is critical that an appropriately large sample of possible outcomes is used. We are currently running 100,000 scenarios of our equity value.

Consolidation

We consolidate all entities in which we hold a controlling financial interest as of the financial statement date whether through a majority voting interest or otherwise, including those investment funds that meet the definition of a VIE in which we are determined to be the primary beneficiary. If we are not the primary beneficiary, generally the general partner or another limited partner consolidates the investment fund, and we record the investment as an equity-method investment. Refer to *Note 4 - Variable Interest Entities* to the consolidated financial statements.

The determination as to whether an entity qualifies as a VIE depends on the underlying facts and circumstances surrounding each entity. Our assessment of whether an entity is a VIE and the determination of whether we should consolidate such VIE may require significant judgment. Those judgments include, but are not limited to: (1) determining whether the total equity investment at risk is sufficient to permit the entity to finance its activities without additional subordinated financial support; (2) evaluating whether the holders of the equity investment at risk, as a group, can make decisions that have a significant effect on the success of the entity; (3) determining whether two or more parties' equity interests should be aggregated; (4) determining whether the equity investors have proportionate voting rights to their obligations to absorb losses or rights to receive the expected residual returns from an entity; and (5) evaluating the nature of the relationship and activities of the parties involved in determining which party within a related-party group is most closely associated with the VIE in situations where related parties share power or are under common control. Judgments are also made in determining whether we, as a member in the equity group have a controlling financial interest, including power to direct activities that most significantly impact the VIE's economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE. This analysis includes any interests we may have through related parties.

In addition, whether fees paid to the decision maker in the VIE are customary and commensurate with the level of services provided impacts whether the decision maker holds a variable interest, after factoring in all other economic interests including proportionate interests through related parties. Since Apollo is an affiliate and often is the decision maker for VIEs in which we have invested, this determination can be significant to our consolidation conclusion.

Determining which party is more closely associated with an entity is only performed when the related party group that has a controlling financial interest, shares power or is under common control. When the related party group holding a controlling financial interest is not under common control, then we would only be deemed to be the primary beneficiary if substantially all the activities of the entity are performed on our behalf. There is also judgment involved in the determination of whether substantially all of the activities of a VIE investment are conducted on our behalf. This assessment is primarily qualitative and focused on relationships between us and the investment fund being evaluated, but also includes an analysis of the quantitative impacts of the investment fund on the economics we receive.

Additionally, determining whether a VIE meets the criteria of an investment company is qualitative in nature and may involve significant judgment. The significance of this distinction relates to whether the investment fund retains the specialized accounting afforded investment companies.

To be deemed an investment company an entity must, at a minimum, meet the following fundamental criteria: (1) obtain funds from one or more investors and provides the investor(s) with defined investment management services, (2) commit to its investor(s) that its business purpose and only substantive activities are investing funds solely for returns from capital appreciation, investment income, or both, and (3) it or its affiliates do not obtain or have the objective of obtaining returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests or that are other than capital appreciation or investment income.

If the three fundamental characteristics are met, we evaluate whether the entity possesses some or all of the following typical characteristics that are generally associated with an investment company: (1) has more than one investment, (2) has more than one investor, (3) has investors that are not related parties of the parent entity (if there is a parent) and the investment manager, (4) has ownership interests in the form of equity or partnership interests, and (5) manages substantially all of its investments on a fair value basis. Lacking one or more of these characteristics does not preclude an entity from being considered an investment company. All relevant facts and circumstances are taken into consideration in making a final determination.

Income Taxes

In determining our income taxes, management is required to interpret complex income tax laws and regulations. We are subject to examinations by federal, state, local and foreign income tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. We recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the relevant taxing authorities based on the technical merits of our position. The aggregate amount of any additional income tax liabilities that may result from these examinations, if any, is not expected to have a material impact on our consolidated financial results. For more information regarding income taxes, refer to *Note 15 - Income Taxes* to the consolidated financial statements.

Accounting for income taxes represents our estimate of various events and transactions based on management's judgment and interpretation of the laws and regulations enacted as of the reporting date. Deferred tax assets and liabilities resulting from temporary differences between the financial reporting and tax basis of assets and liabilities are measured at the balance sheet date using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse. We routinely evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, we determine that it is more-likely-than-not some portion of the tax benefit will not be realized. We have deferred tax assets primarily related to reserve valuation differences, net operating losses, DAC and employee benefit plans.

On a quarterly basis, we test the value of deferred tax assets for impairment at the taxpaying-component level within each tax jurisdiction. Significant judgment and estimates are required in determining whether valuation allowances should be established as well as the amount of such allowances. When making such determination, consideration is given to, among other things, the following:

- sufficient taxable income within the allowed carryback or carryforward periods;
- future reversals of existing taxable temporary differences, including any tax planning strategies that could be utilized;
- nature or character (e.g., ordinary vs. capital) of the deferred tax assets and liabilities; and
- future taxable income exclusive of reversing temporary differences and carryforwards.

We may be required to change the provision for income taxes in certain circumstances. Examples of such circumstances include when the ultimate deductibility of certain items is challenged by taxing authorities, when it becomes clear that certain items will not be challenged, when forecasted results used in determining valuation allowances on deferred tax assets significantly change, or when receipt of new information indicates the need for adjustment in valuation allowances. Additionally, future events such as changes in tax legislation could have an impact on the provision for income tax and the effective tax rate. Any such changes could significantly affect the amounts reported in our consolidated financial statements in the period to which these changes apply.

We have not provided for withholding taxes on undistributed earnings of our U.S. and German subsidiaries on our consolidated financial statements as of December 31, 2016. Although withholding taxes may apply in the event a dividend is paid by our U.S. or German subsidiaries, we have not accrued withholding taxes as we do not intend to remit these earnings. The cumulative amount subject to withholding tax, if distributed, as well as the determination of the associated tax liability, is not practicable to compute; however, it may be material to our consolidated financial condition and results of operations. Any dividends remitted to AHL from ALRe are not subject to withholding tax.

Impact of Recent Accounting Pronouncements

For a discussion of new accounting pronouncements affecting us, refer to *Note 1 - Business, Basis of Presentation and Significant Accounting Policies* to the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

Risk Management Framework

The function of our risk management framework is to identify, assess and prioritize risks to ensure that both senior management and the board of directors understand and can manage our risk profile. The processes supporting risk management are designed to ensure that our risk profile is consistent with our stated risk appetite and that we maintain sufficient capital to support our corporate plan while meeting the requirements imposed by our policyholders, shareholders, and regulators. Risk management strives to enable us to maximize the value of our existing business platform to shareholders, preserve our ability to realize business and market opportunities under moderately stressful market conditions, and to withstand the impact of severely adverse events.

The risk management framework includes a governance committee structure that supports accountability in current risk-based decision making, and effective risk management. Governance committees are established at three levels: the board of directors, AHL management, and subsidiary management. We utilize a host of assessment tools to monitor and assess our risk profile, results of which are shared with senior management periodically at management level committees such as the management risk committee (MRC) and the management investment committee (MIC) and with the board of directors quarterly. Business management retains the primary responsibility for day-to-day management of risk. See *Item 1A. Risk Factors* for further detail.

Risk Management

The risk management team structure consists of an ERM team, a derivatives trading team and an asset risk team. The risk management team is led by our Chief Risk Officer, who reports functionally to the board of directors, and administratively (day-to-day operations), to our President. Our risk management team is comprised of approximately 30 dedicated, full-time employees.

Asset and Liability Management

Asset and liability risk management is a joint effort that spans business management and the entire risk management team. Processes established to analyze and manage the risks of our assets and liabilities include but are not limited to:

- analyzing our liabilities to ascertain their sensitivity to behavioral variations and changes in market conditions and actuarial assumptions;
- analyzing interest rate risk, cash flow mismatch, and liquidity risk management;
- performing scenario and stress analyses to examine their impacts on capital and earnings;
- performing cash flow testing and capital modeling;
- modeling the values of the derivatives embedded in our policy liabilities so that they can be effectively hedged;
- hedging unwanted risks, including from embedded derivatives, interest rate exposures and currency risks;
- reviewing our corporate plan and strategic objectives, and identifying prospective risks to those objectives under normal and stressed economic, behavioral and actuarial conditions; and
- providing appropriate risk reports that show consolidated risk exposures from assets and liabilities as well as the economic consequences of stress events and scenarios.

Product Development

Risk management is involved in all stages of the product development process and each newly proposed product undergoes review by our risk management team before a product may be launched. In the idea generation stage, our product, sales, legal and risk management teams discuss and screen new product ideas. Our risk management team is involved early on in the process in order to understand the risk inherent in each new product. If a product advances to the initial design stage, it undergoes preliminary pricing and model development. At this stage, our risk management team ensures the product design incorporates management levers to the extent practicable and that any potential risks are those that we believe we can properly manage. In the detailed design stage, pricing and risk analysis must be completed. Our risk management team then reviews the product's pricing assumptions and must approve the product before it can advance to the implementation phase. At the implementation stage, our risk management team evaluates the pricing analysis and underlying assumptions (particularly assumptions with respect to economic and policyholder behavior), performs stress testing to evaluate tail risk exposure and performs further analysis to identify additional information necessary to gain a detailed understanding of the product's capital implications. Our risk management team must provide approval again before the product can advance to the final stage. Before a new product may be launched, a detailed pricing memorandum is developed and the risk management team must provide final approval.

Market Risk and Management of Market Risk Exposures

Market risk is the risk of incurring losses due to adverse changes in market rates and prices. Included in market risk are potential losses in value due to credit and counterparty risk, interest rate risk, currency risk, commodity price risk and equity price risk. We are primarily exposed to credit risk, interest rate risk and, to a lesser extent, equity price risk.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

Credit Risk and Counterparty Risk

In order to operate our business model, which is based on earning spread income, we must bear credit risk. However, as we assume credit risk through our investment, reinsurance and hedging activities, we endeavor to ensure that risk exposures remain diversified, that we are adequately compensated for the risks we assume and that the level of risk is consistent with our risk appetite and objectives.

Credit risk is a key risk taken in the asset portfolio, as the credit spread on our investments is what drives our spread income. We manage credit risk by avoiding idiosyncratic risk concentrations, understanding and managing our systematic exposure to economic and market conditions through stress testing, monitoring investment activity daily and distinguishing between price and default risk from credit exposures. Concentration and portfolio limits are designed to ensure that exposure to default and impairment risk is sufficiently modest so as to not represent a solvency risk to us, even in severe economic conditions.

The investment teams within AAM, which manage substantially all of our fixed income assets, except those of our German operations, focus on in-depth, bottom-up portfolio construction, and disciplined risk management. Their approach to taking credit risk is formulated based on:

- a fundamental view on existing and potential opportunities at the security level;
- an assessment of the current risk/reward proposition for each market segment;
- identification of downside risks and assigning a probability for those risks; and
- establishing a plan for best execution of the investment action.

A dedicated set of AHL risk managers, who are on-site with AAM, monitor the asset risks to ensure that such risks are consistent with our risk appetite, standards for committing capital, and overall strategic objectives. Our risk management team is also a key contributor to the OTTI/credit impairment evaluation process.

In addition to credit-risk exposures from our investment portfolio, we are also exposed to credit risk from our counterparty exposures from our derivative hedging and reinsurance activities. Derivative counterparty risk is managed by trading on a collateralized basis with counterparties under International Swaps and Derivatives Association (“ISDA”) documents with a credit support annex having low or zero-dollar collateral thresholds.

We utilize reinsurance to mitigate risks that are inconsistent with our strategy or objectives. For example, we have reinsured much of the mortality risk we would otherwise have accumulated through our various acquisitions, allowing us to focus on our core annuity business. These reinsurance agreements expose us to the credit risk of our counterparties. We manage this risk to avoid counterparty risk concentrations through various mechanisms: utilization of reinsurance structures such as funds withheld or modco so as to retain ownership of the assets and limit counterparty risk to the cost of replacing the counterparty; diversification across counterparties; and when possible, novating policies to eliminate counterparty risk altogether.

Interest Rate Risk

Significant interest rate risk may arise from mismatches in the timing of cash flows from our assets and liabilities. Management of interest rate risk at the company-wide level, and at the various operating company levels, is one of the main risk management activities in which senior management engages.

Depending upon the materiality of the risk and our assessment of how we would perform across a spectrum of interest rate environments, we may seek to mitigate interest rate risk using on-balance-sheet strategies (portfolio management) and off-balance-sheet strategies (derivative hedges such as interest rate swaps and futures). We monitor ALM metrics (such as key-rate durations and convexity) and employ quarterly cash flow testing requirements across all of our insurance companies to assure the asset and liability portfolios are managed to maintain net interest rate exposures at levels that are consistent with our risk appetite. We have established a set of exposure and stress limits to communicate our risk tolerance and to ensure adherence to those risk tolerance levels. Risk management personnel and the MRC and MIC (together, management committees) are notified in the event that risk tolerance levels are exceeded. Depending on the specific risk threshold that is exceeded, the appropriate management committee then makes a decision as to what actions, if any, should be undertaken.

Active portfolio management is performed by our investment managers at AAM, with direction from the management committees. ALM risk is also managed by the management committees. The performance of our investment portfolio managed by AAM is reviewed periodically by the management committees and the board of directors. The management committees strive to improve returns to shareholders and protect policyholders, while dynamically managing the risk within our expectations.

Equity Risk

Our FIAs require us to make payments to policyholders that are dependent on the performance of equity market indices. In addition, our investment portfolio can be invested in strategies involving public and private equity positions. In general, we have limited appetite for passive, public equity investments. We seek to minimize the equity risk from our liabilities by economically defeasing this equity exposure with granular, policy-level-based hedging.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

The equity index hedging framework implemented is one of static core hedges with dynamic overlays. Unique policy-level liability options are matched with static OTC options. Residual risk arising from policyholder behavior and other trading constraints (for example minimum trade size) are managed dynamically by decomposing the risk of the portfolio (asset and liability positions) into market risk measures which are managed to pre-established risk limits. The portfolio risks are measured overnight and rebalanced daily to ensure that the risk profile remains within risk appetite. Valuation is done at the position level, and risks are aggregated and shown at the level of each underlying index. Risk measures that have term structure sensitivity, such as index volatility risk, and interest rate risk, are monitored and risk managed along the term structure.

We are also exposed to equity risk in our alternative investment portfolio. The form of those investments is typically a limited partnership interest in a fund. We currently target fund investments that have characteristics resembling fixed income investments versus those resembling pure equity investments, but as holders of partnership positions, our investments are generally held as equity positions. The alternative investments are decomposed into several sub-types, including at the most liquid end of the spectrum “liquid strategies,” (which is mostly exposure to publicly traded equities), followed by “hedge funds,” “credit funds,” “private equity,” and “real assets.” Direct public equity market exposure is concentrated mostly in the liquid strategies segment.

Our investment mandate in our alternative investment portfolio is inherently opportunistic. Each investment is examined and analyzed on its own merits to gain a full understanding of the risks present, and with a view toward determining likely return scenarios, including the ability to withstand stress in a downturn. We have a strong preference for alternative investments that have the following characteristics, among others: (1) investments that constitute a direct investment or an investment in a fund with a high degree of co-investment; (2) investments with debt-like characteristics (for example, a stipulated maturity and par value), or alternatively, investments with reduced volatility when compared to pure equity; and (3) investments that have less downside risk.

Alternative investments are monitored in real-time across the variety of markets that they span. The alternative investment portfolio is monitored to ensure diversification across asset classes and strategy, and the portfolio’s performance under stress scenarios is evaluated routinely as part of management and board of director reviews. Since alternative investments are marked-to-market on our balance sheet, risk analyses focus on potential changes in market value across a variety of market stresses. In cases where investment performance has not met expectations, or where the balance of risk and reward has shifted against it, we will seek to exit the investment as quickly as possible, and minimize its downside exposure in doing so.

Currency Risk

We manage our currency risk so as to maintain minimal exposure to currency fluctuations. We attempt to hedge completely the currency risk arising in our investment portfolio or FIA products. In general, we match currency exposure of assets and liabilities. When the currency denominations of the assets and liabilities do not match, we generally undertake hedging activities to eliminate or mitigate currency mismatch risk.

Scenario Analysis

We evaluate our exposure to market risk through internally defined modeling of our portfolio performance during times of economic stress. We manage our business, capital and liquidity needs to withstand stress scenarios and target capital we believe will maintain our current ratings in a moderate recession scenario and will remain investment grade under a substantially severe financial crisis akin to the Lehman scenario in 2008. In the recession scenario, we calibrate recessionary shocks to several key risk factors (including but not limited to, S&P 500, BBB corporate spreads, high yield corporate spreads, 2 year and 10 year U.S. Treasury yields) using data from the 1991, 2001, and 2008 recessions, and estimate mark to market impacts to the various sectors in our portfolio using regression analysis of their credit spreads to the key risk factors. To estimate OTTI impacts, we use historical default, stressed recovery, and ratings migration rates from the aforementioned recessionary periods. In the Lehman scenario, we use credit spread and interest rate movements between September 12, 2008 and December 15, 2008 to estimate mark to market changes, and we use one-year default probabilities from 2008, along with stressed recovery and ratings migration rates, to estimate OTTI impacts. We review the impacts of our stress test analyses quarterly with management.

Sensitivities

Interest Rate Risk

We assess interest rate exposures for financial assets, liabilities and derivatives using hypothetical stress tests and exposure analyses. Assuming all other factors are constant, if there was an immediate, parallel increase in interest rates of 25 basis points from levels as of December 31, 2016, the estimated point-in-time impact to our pre-tax consolidated statements of income would be an increase of $5 million as of December 31, 2016 compared to an increase of $23 million as of December 31, 2015. The decrease compared to prior year was driven primarily by growth of the assumed reinsurance embedded derivative. An immediate, parallel decline in interest rates of 25 basis points is estimated to decrease our pre-tax consolidated statements of income as of December 31, 2016 and 2015 by similar amounts to the increases shown above.

Assuming the 25 basis points increase in interest rates persists for a 12-month period, the estimated impact to operating income, net of tax, would be an increase of $25 million. This is driven by an increase in investment income from floating rate assets, offset by DAC, DSI and VOBA amortization and rider reserve change, all calculated without regard to future changes to assumptions.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

The models used to estimate the impact of a 25 basis point change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate change in interest rates without any discretionary management action to counteract such a change. Consequently, potential changes in our valuations indicated by these simulations will likely be different from the actual changes experienced under any given interest rate scenarios and these differences may be material. Because we actively manage our assets and liabilities, the net exposure to interest rates can vary over time. However, any such decreases in the fair value of fixed maturity securities, unless related to credit concerns of the issuer requiring recognition of an OTTI, would generally be realized only if we were required to sell such securities at losses to meet liquidity needs.

Public Equity Risk

Assuming all other factors are constant, we estimate that a decline in public equity market prices of 10% would cause a decrease to our pre-tax consolidated statements of income of $118 million as of December 31, 2016 compared to $112 million as of December 31, 2015.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Athene Holding Ltd.:

In our opinion, the accompanying consolidated balance sheets as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income (loss), equity, and cash flows for the years then ended present fairly, in all material respects, the financial position of Athene Holding Ltd. and its subsidiaries and the results of their operations and their cash flows in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules as of December 31, 2016 and 2015, and for the years then ended, listed in the index appearing under Item 15.2 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Des Moines, Iowa

March 16, 2017

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Athene Holding Ltd.:

In our opinion, the accompanying consolidated statements of income, comprehensive income (loss), equity, and cash flows for the year ended December 31, 2014 present fairly, in all material respects, the results of operations and cash flows of Athene Holding Ltd. and its subsidiaries for the year ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules for the year ended December 31, 2014 listed in the index appearing under Item 15.2 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers Ltd.
Hamilton, Bermuda

May 6, 2016, except for the effects of the revision discussed in Note 2 (not presented herein) to the consolidated financial statements appearing in the F pages of the Company’s Amendment No. 6 to Form S-1, as to which the date is October 25, 2016

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ATHENE HOLDING LTD.
Consolidated Balance Sheets

(In millions)	December 31, 2016	December 31, 2015
Assets		
Investments		
Available-for-sale securities, at fair value		
Fixed maturity securities (amortized cost: 2016 - $51,110 and 2015 - $48,227)	$ 52,033	$ 47,816
Equity securities (cost: 2016 - $319 and 2015 - $367)	353	407
Trading securities, at fair value	2,581	2,468
Mortgage loans, net of allowances (portion at fair value: 2016 - $44 and 2015 - $48)	5,470	5,500
Investment funds (portion at fair value: 2016 - $99 and 2015 - $152)	689	733
Policy loans	602	642
Funds withheld at interest (portion at fair value: 2016 - $140 and 2015 - $36)	6,538	3,482
Derivative assets	1,370	871
Real estate (portion held for sale: 2016 - $23 and 2015 - $0)	542	566
Short-term investments, at fair value (cost: 2016 - $189 and 2015 - $135)	189	135
Other investments	81	83
Total investments	70,448	62,703
Cash and cash equivalents	2,445	2,714
Restricted cash	57	116
Investments in related parties		
Available-for-sale securities, at fair value		
Fixed maturity securities (amortized cost: 2016 - $341 and 2015 - $332)	335	308
Equity securities (cost: 2016 - $20 and 2015 - $0)	20	-
Trading securities, at fair value	195	217
Investment funds	1,198	997
Short-term investments	-	55
Other investments	237	245
Accrued investment income (related party: 2016 - $9 and 2015 - $9)	554	520
Reinsurance recoverable (portion at fair value: 2016 - $1,692 and 2015 - $2,377)	6,001	7,257
Deferred acquisition costs, deferred sales inducements and value of business acquired	2,964	2,663
Current income tax recoverable	107	113
Deferred tax assets	369	606
Other assets	869	749
Assets of consolidated variable interest entities		
Investments		
Available-for-sale securities, at fair value		
Equity securities - related party (cost: 2016 - $143 and 2015 - $0)	161	-
Trading securities, at fair value		
Fixed maturity securities (related party: 2016 - $50 and 2015 - $53)	50	722
Equity securities - related party	117	309
Investment funds (related party, at fair value: 2016 - $562 and 2015 - $516)	573	534
Cash and cash equivalents	14	6
Other assets	6	20
Total assets	$ 86,720	$ 80,854

(Continued)

See accompanying notes to consolidated financial statements

ATHENE HOLDING LTD.
Consolidated Balance Sheets

	December 31,	
(In millions, except share and per share data)	2016	2015
Liabilities and Equity		
Liabilities		
Interest sensitive contract liabilities (portion at fair value: 2016 - $6,574 and 2015 - $6,359)	$ 61,532	$ 57,296
Future policy benefits (portion at fair value: 2016 - $2,400 and 2015 - $2,478)	14,569	14,540
Other policy claims and benefits	217	234
Dividends payable to policyholders	974	856
Derivative liabilities	40	17
Payables for collateral on derivatives	1,383	867
Funds withheld liability (portion at fair value: 2016 - $6 and 2015 - $35)	380	388
Other liabilities (related party: 2016 - $56 and 2015 - $63)	685	776
Liabilities of consolidated variable interest entities		
Borrowings	-	500
Other liabilities	34	17
Total liabilities	79,814	75,491
Equity		
Common stock		
Class A - par value $0.001 per share; authorized: 2016 and 2015 - 425,000,000 shares; issued and outstanding: 2016 - 77,319,381 and 2015 - 50,151,265 shares	-	-
Class B - par value $0.001 per share; convertible to Class A; authorized: 2016 and 2015 - 325,000,000 shares; issued and outstanding: 2016 - 111,805,829 and 2015 - 135,963,975 shares	-	-
Class M-1 - par value $0.001 per share; contingently convertible to Class A; authorized: 2016 and 2015 - 7,109,560 shares; issued and outstanding: 2016 - 3,474,205 and 2015 - 5,198,273 shares	-	-
Class M-2 - par value $0.001 per share; contingently convertible to Class A; authorized: 2016 and 2015 - 5,000,000 shares; issued and outstanding: 2016 - 1,067,747 and 2015 - 3,125,869 shares	-	-
Class M-3 - par value $0.001 per share; contingently convertible to Class A; authorized: 2016 and 2015 - 7,500,000 shares; issued and outstanding: 2016 - 1,346,300 and 2015 - 3,110,000 shares	-	-
Class M-4 - par value $0.001 per share; contingently convertible to Class A; authorized: 2016 and 2015 - 7,500,000 shares; issued and outstanding: 2016 - 5,397,802 and 2015 - 5,038,443 shares	-	-
Additional paid-in capital	3,421	3,281
Retained earnings	3,117	2,318
Accumulated other comprehensive income (loss) (related party: 2016 - $12 and 2015 - $(24))	367	(237)
Total Athene Holding Ltd. shareholders' equity	6,905	5,362
Noncontrolling interest	1	1
Total equity	6,906	5,363
Total liabilities and equity	$ 86,720	$ 80,854

(Concluded)

See accompanying notes to consolidated financial statements

ATHENE HOLDING LTD.
Consolidated Statements of Income

	Years ended December 31,		
(In millions, except per share data)	2016	2015	2014
Revenues			
Premiums	$ 240	$ 195	$ 100
Product charges	281	248	218
Net investment income (related party investment income: 2016 - $226, 2015 - $168 and 2014 - $77; and related party investment expense: 2016 - $295, 2015 - $268 and 2014 - $258)	2,916	2,508	2,333
Investment related gains (losses) (related party: 2016 - $(38), 2015 - $(19) and 2014 - $(1))	652	(430)	1,210
Other-than-temporary impairment investment losses			
Other-than-temporary impairment losses	(32)	(40)	(7)
Other-than-temporary impairment losses recognized in other comprehensive income	2	10	1
Net other-than-temporary impairment losses	(30)	(30)	(6)
Other revenues	34	25	20
Revenues of consolidated variable interest entities			
Net investment income (related party: 2016 - $44, 2015 - $37 and 2014 - $(5))	67	67	174
Investment related gains (losses) (related party: 2016 - $(25), 2015 - $46 and 2014 - $46)	(53)	33	51
Total revenues	4,107	2,616	4,100
Benefits and Expenses			
Interest sensitive contract benefits	1,293	690	1,822
Amortization of deferred sales inducements	40	20	4
Future policy and other policy benefits	1,043	517	696
Amortization of deferred acquisition costs and value of business acquired	304	203	119
Interest expense	9	17	22
Dividends to policyholders	37	28	44
Policy and other operating expenses (related party: 2016 - $22, 2015 - $18 and 2014 - $240)	615	532	797
Operating expenses of consolidated variable interest entities			
Interest expense	12	15	17
Other operating expenses	1	2	47
Total benefits and expenses	3,354	2,024	3,568
Income before income taxes	753	592	532
Income tax expense (benefit)	(52)	14	54
Net income	805	578	478
Less: Net income attributable to noncontrolling interests	-	16	15
Net income available to Athene Holding Ltd. shareholders	$ 805	$ 562	$ 463
Earnings per share			
Basic - Classes A, B and M-1[1]	$ 4.31	$ 3.21	$ 3.58
Diluted - Class A	4.21	3.21	3.52
Diluted - Class B	4.31	3.21	3.52
Diluted - Class M-1[1]	0.21	*N/A*	*N/A*

N/A - Not applicable

[1] *Basic and diluted earnings per Class M-1 share was applicable only for the year ended December 31, 2016. Refer to Note 13 - Earnings Per Share for further discussion.*

See accompanying notes to consolidated financial statements

ATHENE HOLDING LTD.
Consolidated Statements of Comprehensive Income (Loss)

	Years ended December 31,		
(In millions)	2016	2015	2014
Net income	$ 805	$ 578	$ 478
Other comprehensive income (loss), before tax			
Change in unrealized investment gains (losses) on available-for-sale securities, net of offsets	878	(1,314)	899
Change in noncredit component of other-than-temporary impairment losses, available-for-sale	(2)	(10)	(1)
Comprehensive income (loss) on hedging instruments	(5)	11	10
Comprehensive income (loss) on pension adjustments	-	12	(17)
Comprehensive loss on foreign currency translation adjustments	(8)	(4)	-
Other comprehensive income (loss), before tax	863	(1,305)	891
Income tax expense (benefit) related to other comprehensive income	259	(424)	317
Other comprehensive income (loss), after tax	604	(881)	574
Comprehensive income (loss)	1,409	(303)	1,052
Less: comprehensive income attributable to noncontrolling interests	-	16	15
Comprehensive income (loss) available to Athene Holding Ltd. shareholders	$ 1,409	$ (319)	$ 1,037

See accompanying notes to consolidated financial statements

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ATHENE HOLDING LTD.
Consolidated Statements of Equity

(In millions)	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Athene Holding Ltd. shareholders' equity	Noncontrolling interest	Total equity
Balance at December 31, 2013	$ -	$ 1,348	$ 1,343	$ 70	$ 2,761	$ 94	$ 2,855
Net income	-	-	463	-	463	15	478
Other comprehensive income	-	-	-	574	574	-	574
Issuance of shares, net of expenses	-	719	-	-	719	-	719
Stock-based compensation	-	116	-	-	116	-	116
Retirement or repurchase of shares	-	(30)	(48)	-	(78)	-	(78)
Change in equity of noncontrolling interests	-	-	-	-	-	(76)	(76)
Balance at December 31, 2014	-	2,153	1,758	644	4,555	33	4,588
Net income	-	-	562	-	562	16	578
Other comprehensive loss	-	-	-	(881)	(881)	-	(881)
Issuance of shares, net of expenses	-	1,112	-	-	1,112	-	1,112
Stock-based compensation	-	17	-	-	17	-	17
Retirement or repurchase of shares	-	(1)	(2)	-	(3)	-	(3)
Change in equity of noncontrolling interests	-	-	-	-	-	(48)	(48)
Balance at December 31, 2015	-	3,281	2,318	(237)	5,362	1	5,363
Net income	-	-	805	-	805	-	805
Other comprehensive income	-	-	-	604	604	-	604
Issuance of shares, net of expenses	-	1	-	-	1	-	1
Stock-based compensation	-	153	-	-	153	-	153
Retirement or repurchase of shares	-	(14)	(6)	-	(20)	-	(20)
Balance at December 31, 2016	$ -	$ 3,421	$ 3,117	$ 367	$ 6,905	$ 1	$ 6,906

See accompanying notes to consolidated financial statements

ATHENE HOLDING LTD.
Consolidated Statements of Cash Flows

	Years ended December 31,		
(In millions)	2016	2015	2014
Cash flows from operating activities			
Net income	$ 805	$ 578	$ 478
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred acquisition costs and value of business acquired	304	203	119
Amortization of deferred sales inducements	40	20	4
Amortization (accretion) of net investment premiums, discounts, and other (related party: 2016 - $(6), 2015 - $(8) and 2014 - $0)	(172)	(77)	92
Payment at inception of coinsurance agreement	-	(10)	-
Stock-based compensation	81	67	373
Net investment (income) loss (related party: 2016 - $(51), 2015 - $(6) and 2014 - $(53))	(25)	8	(134)
Net recognized (gains) losses on investments and derivatives (related party: 2016 - $34, 2015 - $42 and 2014 - $0)	(342)	520	(1,463)
Policy acquisition costs deferred	(601)	(288)	(250)
Deferred income tax expense (benefit)	(19)	33	138
Changes in operating assets and liabilities:			
Accrued investment income	(34)	38	4
Interest sensitive contract liabilities	918	879	2,144
Future policy benefits, other policy claims and benefits, dividends payable to policyholders and reinsurance recoverable	328	(574)	(702)
Current income tax recoverable	8	15	(77)
Funds withheld assets and liabilities	(128)	(278)	-
Other assets and liabilities	(20)	(58)	(37)
Consolidated variable interest entities related:			
Amortization (accretion) of net investment premiums, discounts, and other	3	4	(14)
Net investment loss	3	3	1
Net recognized (gains) losses on investments and derivatives (related party: 2016 - $3, 2015 - $(46) and 2014 - $(46))	25	(35)	(67)
Change in other assets and liabilities	25	1	(10)
Net cash provided by operating activities	1,199	1,049	599

(Continued)

See accompanying notes to consolidated financial statements

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ATHENE HOLDING LTD.
Consolidated Statements of Cash Flows

	Years ended December 31,		
(In millions)	2016	2015	2014
Cash flows from investing activities			
Sales, maturities, and repayments of:			
Available-for-sale securities			
Fixed maturity securities (related party: 2016 - $78, 2015 - $65 and 2014 - $259)	$ 9,211	$ 10,424	$ 9,909
Equity securities	350	53	11
Trading securities (related party: 2016 - $26, 2015 - $72 and 2014 - $271)	748	1,226	807
Mortgage loans	1,176	788	1,062
Investment funds (related party: 2016 - $293, 2015 - $99 and 2014 - $228)	420	343	793
Derivative instruments and other invested assets (related party: 2016 - $8, 2015 - $0 and 2014 - $0)	468	1,151	1,863
Real estate	36	63	-
Short-term investments (related party: 2016 - $55, 2015 - $130 and 2014 - $0)	870	207	-
Purchases of:			
Available-for-sale securities			
Fixed maturity securities (related party: 2016 - $(82), 2015 - $(64) and 2014 - $(527))	(11,797)	(11,069)	(11,000)
Equity securities (related party: 2016 - $(20), 2015 - $0 and 2014 - $0)	(319)	(239)	(51)
Trading securities (related party: 2016 - $(39), 2015 - $(52) and 2014 - $(320))	(868)	(1,409)	(551)
Mortgage loans	(1,157)	(672)	(908)
Investment funds (related party: 2016 - $(441), 2015 - $(510) and 2014 - $(517))	(535)	(614)	(676)
Derivative instruments and other invested assets	(686)	(698)	(682)
Real estate	(39)	(6)	-
Short-term investments (related party: 2016 - $0, 2015 - $(85) and 2014 - $0)	(873)	(267)	(17)
Consolidated variable interest entities related:			
Sales, maturities, and repayments of investments (related party: 2016 - $22, 2015 - $244 and 2014 - $1,401)	504	257	1,410
Purchases of investments (related party: 2016 - $(19), 2015 - $(17) and 2014 - $(482))	(19)	(17)	(491)
Change in restricted cash	-	-	23
Acquisition of subsidiaries, net of cash acquired	-	162	33
Cash settlement of derivatives	34	25	1
Change in restricted cash	59	(39)	37
Other investing activities, net	(185)	279	(241)
Net cash (used in) provided by investing activities	(2,602)	(52)	1,332

(Continued)

See accompanying notes to consolidated financial statements

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ATHENE HOLDING LTD.
Consolidated Statements of Cash Flows

(In millions)	Years ended December 31, 2016	2015	2014
Cash flows from financing activities			
Capital contributions	$ 1	$ 1,116	$ 305
Repayment of note payables	-	(4)	(300)
Deposits on investment-type policies and contracts	5,791	3,460	3,393
Withdrawals on investment-type policies and contracts	(4,617)	(4,783)	(5,551)
Payments for coinsurance agreements on investment-type contracts, net	(89)	(153)	(320)
Consolidated variable interest entities related:			
Proceeds from borrowings	-	-	319
Repayment on borrowings	(500)	-	(723)
Capital contributions from noncontrolling interests	-	-	21
Capital distributions to noncontrolling interests	-	(30)	(97)
Net change in cash collateral posted for derivative transactions	516	(535)	661
Repurchase of common stock	(20)	(3)	(78)
Other financing activities, net	73	21	42
Net cash provided by (used in) financing activities	1,155	(911)	(2,328)
Effect of exchange rate changes on cash and cash equivalents	(13)	(4)	-
Net (decrease) increase in cash and cash equivalents	(261)	82	(397)
Cash and cash equivalents at beginning of year[1]	2,720	2,638	3,035
Cash and cash equivalents at end of period[1]	$ 2,459	$ 2,720	$ 2,638
Supplementary information			
Cash (refunded) paid for taxes	$ (31)	$ (34)	$ 59
Cash paid for interest	9	22	56
Non-cash transactions			
Deposits on investment-type policies and contracts through reinsurance agreements	3,441	1,182	418
Withdrawals on investment-type policies and contracts through reinsurance agreements	448	373	219
Investments received from settlements on reinsurance agreements	47	75	6
Investment funds acquired in exchange for non-cash assets and liabilities	-	473	-
Issuance of capital for payment of liabilities	-	-	199
Reduction in investments and other assets and liabilities relating to reinsurance	-	920	-

[1] *Includes cash and cash equivalents of consolidated variable interest entities*

(Concluded)

See accompanying notes to consolidated financial statements

ATHENE HOLDING LTD.
Notes to Consolidated Financial Statements

1. Business, Basis of Presentation and Significant Accounting Policies

Athene Holding Ltd. (AHL), a Bermuda exempted company, together with its subsidiaries (collectively, Athene, we, our, us, or the Company), is a leading retirement services company that issues, reinsures and acquires retirement savings products in all U.S. states, the District of Columbia and Germany.

We conduct business primarily through the following consolidated subsidiaries:

- Athene Life Re Ltd., a Bermuda exempted company to which AHL's other insurance subsidiaries and third party ceding companies directly and indirectly reinsure a portion of their liabilities (ALRe);
- Athene USA Corporation, an Iowa corporation and its subsidiaries (Athene USA); and
- Athene Deutschland GmbH & Co. KG, a German partnership and its subsidiaries (ADKG).

In addition, we consolidate certain variable interest entities (VIEs), for which we determined we are the primary beneficiary, as discussed in *Note 4 - Variable Interest Entities*.

Consolidation and Basis of Presentation-Our consolidated financial statements include our wholly-owned subsidiaries, investees we control and any VIEs where we are the primary beneficiary. Investments in entities that we do not control, but have the ability to exercise significant influence over operating and financing decisions, other than investments for which we have elected the fair value option, are accounted for under the equity method. Intercompany balances and transactions have been eliminated.

For entities that are consolidated, but not 100% owned, we allocate a portion of the income or loss and corresponding equity to the owners other than the Company. We include the aggregate of the income or loss and corresponding equity that is not owned by the Company in noncontrolling interests in the consolidated financial statements.

We report investments in related parties and assets and liabilities of consolidated VIEs separately, as further described in the accounting policies that follow.

We have prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual experience could materially differ from these estimates and assumptions. Our principal estimates impact:

- fair value of investments;
- impairment of investments and valuation allowances;
- derivatives valuation, including embedded derivatives;
- deferred acquisition costs (DAC), deferred sales inducements (DSI) and value of business acquired (VOBA);
- future policy benefit reserves;
- valuation allowances on deferred tax assets; and
- stock-based compensation.

Additional details around these principal estimates and assumptions are discussed in the significant accounting policies that follow and the related footnote disclosures.

Summary of Significant Accounting Policies

Investments

Fixed Maturity and Equity Securities - Fixed maturity securities includes bonds, collateralized loan obligations (CLO), asset-backed securities (ABS), residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and redeemable preferred stock. Equity securities includes common stock, mutual funds and non-redeemable preferred stock. We classify fixed maturity and equity securities as available-for-sale (AFS) or trading at the time of purchase and subsequently carry them at fair value. Fair value hierarchy and valuation methodologies are discussed in *Note 5 - Fair Value*. Classification is dependent on a variety of factors including our expected holding period, election of the fair value option and asset and liability matching.

AFS Securities - Unrealized gains and losses on AFS securities, net of tax and adjustments to DAC, DSI, VOBA and future policy benefits, if applicable, are generally reflected in accumulated other comprehensive income (loss) (AOCI) on the consolidated balance sheets. Unrealized gains or losses relating to identified risks within AFS securities in fair value hedging relationships are reflected in investment related gains (losses) on the consolidated statements of income.

Trading Securities - We elected the fair value option for certain fixed maturity securities. These fixed maturity securities are classified as trading, with changes to fair value included in investment related gains (losses) on the consolidated statements of income. Although the securities are classified as trading, the trading activity related to these investments is primarily focused on asset and liability matching activities and is not intended to be an income strategy based on active trading. As such, the activity related to these investments on the consolidated statements of cash flows is classified as investing activities. Trading securities include mutual funds supporting unit-linked investment contracts.

We generally record security transactions on a trade date basis, with any unsettled trades recorded in other assets or other liabilities on the consolidated balance sheets. For those security transactions not recorded on a trade date basis, such as private placement and investment fund purchases, we record on a settlement date basis.

Purchased Credit Impaired (PCI) Investments - We purchase certain structured securities, primarily RMBS and re-performing mortgage loans, having deterioration in credit quality since their issuance which meet the definition of PCI investments. We determined, based on our expectations as to the timing and amount of cash flows expected to be received, that it was probable at acquisition that we would not collect all contractually required payments, including both principal and interest, while also considering the effects of any prepayments for these PCI investments. Based on these assumptions, the difference between the undiscounted expected future cash flows of the PCI investments and the recorded investment represents the initial accretable yield, which is accreted into investment income, net of related expenses, over their remaining lives on a level-yield basis. The difference between the contractually required payments on the PCI investment and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. Over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, the accretable yield and the non-accretable difference can change.

Quarterly, we evaluate the undiscounted expected future cash flows associated with PCI investments based on updates to key assumptions. Changes to undiscounted expected future cash flows due solely to the changes in the contractual benchmark interest rates on variable rate PCI investments will change the accretable yield prospectively. Declines in undiscounted expected future cash flows due to further credit deterioration, as well as changes in the expected timing of the cash flows, can result in the recognition of an other-than-temporary impairment (OTTI) charge for PCI securities or a valuation allowance for PCI loans. Significant increases in undiscounted expected future cash flows are recognized prospectively as an adjustment to the accretable yield.

Mortgage Loans - Mortgage loans are primarily stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on its contractual interest rate. We record amortization of premiums and discounts using the effective yield method and contractual cash flows on the underlying loan. We accrue interest on loans until it is probable we will not receive interest or the loan is 90 days past due. Interest income, amortization of premiums and discounts and prepayment fees are reported in net investment income on the consolidated statements of income. We have also elected the fair value option on a portion of our mortgage loans.

Investment Funds - We invest in certain non-fixed income, alternative investments in the form of limited partnerships or similar legal structures (investment funds). For investment funds in which we have determined we are not the primary beneficiary, and therefore not required to consolidate, we typically record these investments using the equity method of accounting, where the cost is recorded as an investment in the fund. Adjustments to the carrying amount reflect our pro rata ownership percentage of the operating results as indicated by net asset value (NAV) in the investment fund financial statements, which can be on a lag of up to three months when investee information is not received in a timely manner.

We record our proportionate share of investment fund income within net investment income on the consolidated statements of income. Contributions paid or distributions received by us are recorded directly to the investment fund balance as an increase to carrying value or as a return of capital, thus reducing our carrying value.

Policy Loans - Policy loans are funds provided to policyholders in return for a claim on the policy's account value. The funds provided are limited to a specified percentage of the account balance. The majority of policy loans do not have a stated maturity and the balances and accrued interest are repaid with proceeds from the policy account balance. Policy loans are reported at the unpaid principal balance. Interest income is recorded as earned using the contract interest rate and is reported in net investment income on the consolidated statements of income.

Funds Withheld at Interest - Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which we act as reinsurer. Assets equal to statutory reserves are withheld and legally owned by the ceding company. We periodically settle interest accruing to those assets at rates defined by the terms of the agreement. The underlying agreements contain embedded derivatives as discussed below.

Real Estate - Real estate investments are stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful life of the asset, which is typically 40 years, and is included in net investment income on the consolidated statements of income. We periodically review our real estate investments for impairment and test for recoverability when events or changes in circumstances indicate the carrying value may not be recoverable and exceeds its estimated fair value. We recognize an impairment to fair value if the carrying amount of a property exceeds the expected undiscounted cash flows.

Real estate investments we commit to a plan to sell within one year and actively market are classified as held for sale. Real estate held for sale is stated at the lower of depreciated cost or estimated fair value less expected disposition costs and is not depreciated.

Short-term Investments - Short-term investments consists of financial instruments with maturities of greater than three months but less than twelve months when purchased. Short-term debt securities are accounted for as trading or AFS consistent with our policies for those investments. Short-term loans are carried at amortized cost. Fair values are determined consistent with policies described in *Note 5 - Fair Value* for the respective investment type.

Investment Income - We recognize investment income as it accrues or is legally due, net of investment management and custody fees. Investment income on fixed maturity securities includes coupon interest, as well as the amortization of any premiums and the accretion of any discount. Investment income on equity securities represents dividend income and preferred coupons. Realized gains and losses on sales of investments are included on the consolidated statements of income in investment related gains (losses). Realized gains and losses on investments sold are determined based on a first-in first-out method.

Other-Than-Temporary Impairment - We identify fixed maturity and equity securities that could potentially have impairments that are other-than-temporary by monitoring market events for changes in market interest rates, credit issues, changes in business climate, management changes, litigation, government actions and other similar factors. Indicators of impairment may include changes in the issuers' credit ratings and outlook, frequency of late payments, pricing levels, key financial ratios, financial statements, revenue forecasts and cash flow projections.

We review all securities on a case-by-case basis to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other-than-temporary. Relevant facts and circumstances include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in fair value; (3) the issuer's financial position and access to capital; and (4) for fixed maturity securities, our ability and intent to sell a security or whether it is more likely than not that we will be required to sell the security before the recovery of its cost or amortized cost which, in some cases, may extend to maturity and for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value. To the extent we determine that a security is other-than-temporarily impaired, an impairment loss is recognized.

The recognition of impairment losses on fixed maturity securities is dependent upon the facts and circumstances related to the specific security. If we intend to sell a security or it is more likely than not that we would be required to sell a security before the recovery of its cost or amortized cost less any recorded credit loss, we recognize an OTTI in other-than-temporary impairment losses on the consolidated statements of income for the difference between amortized cost and fair value. If neither of these two conditions exists, then the recognition of the OTTI is bifurcated and we recognize the credit loss portion in income and the non-credit loss portion in AOCI on the consolidated balance sheets.

We estimate the amount of the credit loss component of a fixed maturity security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the estimated cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The techniques and assumptions for establishing the estimated cash flows vary depending on the type of security. The structured security's cash flow estimates are based on security-specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity, prepayments and structural support, including subordination and guarantees. The non-structured security's cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using security-specific facts and circumstances including timing, security interests and loss severity.

In periods after an OTTI is recognized on a fixed maturity security, we report the impaired security as if it had been purchased on the date it was impaired and continue to estimate the present value of the estimated cash flows of the security. Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into net investment income over the remaining term of the fixed maturity security in a prospective manner based on the amount and timing of estimated future cash flows.

For equity method investments, we consider financial and other information provided by the investee, other known information and inherent risks in the underlying investments, as well as future capital commitments, in determining whether an impairment has occurred. Declines in value of equity method investments not expected to be recovered are reflected through impairment in other-than-temporary impairment losses on the consolidated statements of income.

We impair a mortgage loan when it is probable we will not collect all amounts due under the agreement. We establish a general valuation allowance on mortgage loans based on loss history. Additionally, we establish a valuation allowance on individual loans based on expected losses from future dispositions or settlement, including foreclosures. We calculate the allowance based on how much the carrying value exceeds one of these values:

- the present value of expected future cash flows discounted at the loan's original effective interest rate;
- the value of the loan's collateral if it is in the process of foreclosure or otherwise collateral dependent; or
- the loan's fair value if the loan is being sold.

We first apply any interest accrued or received on the net carrying amount of the impaired loan to the principal of the loan, and once the principal is repaid, we include amounts received in net investment income. We limit accrued interest income on impaired loans to 90 days of interest. Once accrued interest on the impaired loan is received, we recognize interest income on a cash basis. Loans deemed uncollectible or in foreclosure are charged off against the valuation allowances, and subsequent recoveries, if any, are credited to the valuation allowances. Changes in valuation allowances are reported in investment related gains (losses) on the consolidated statements of income.

The cost of other invested assets is adjusted for impairments in value deemed to be other-than-temporary in the period in which the determination is made. These impairments are included within other-than-temporary impairment losses, and the cost basis of the investment securities is reduced accordingly. We do not change the revised cost basis for subsequent recoveries in value.

Derivative Instruments-We invest in derivatives to hedge the risks experienced in our ongoing operations, such as equity risk, interest rate risk, cash flow risks or for other risk management purposes, which primarily involve managing liability risks associated with our indexed annuity products and reinsurance agreements. Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or other underlying notional amounts. Derivative assets and liabilities are carried at fair value on the consolidated balance sheets. We elect to present any derivatives subject to master netting provisions as a gross asset or liability and gross of collateral. Disclosures regarding balance sheet presentation of derivatives subject to master netting agreements are discussed in *Note 3 - Derivative Instruments*. We may designate derivatives as cash flow or fair value hedges.

Hedge Documentation and Hedge Effectiveness - To qualify for hedge accounting, at the inception of the hedging relationship, we formally document our risk management objective and strategy for undertaking the hedging transaction, as well as our designation of the hedge as a cash flow or fair value hedge. In this documentation, we identify how the hedging instrument is expected to hedge the designated risks related to the hedged item, the method that will be used to retrospectively and prospectively assess the hedging instrument's effectiveness and the method which will be used to measure ineffectiveness. A derivative designated as a hedging instrument must be assessed as being highly effective in offsetting the designated risk of the hedged item. Hedge effectiveness is formally assessed at inception and periodically throughout the life of the designated hedging relationship.

For a cash flow hedge, changes in the fair value of the hedging derivative measured as effective are reported within AOCI, and the related gains or losses on the derivative are reclassified into the consolidated statements of income when the cash flows of the hedged item affect earnings. Any ineffectiveness is reported in investment related gains (losses) on the consolidated statements of income each reporting period as effectiveness is assessed.

For a fair value hedge, changes in the fair value of the hedging derivative, including any amounts measured as ineffective, and changes in the fair value of the hedged item related to the designated risk being hedged, are reported on the consolidated statements of income according to the nature of the risk being hedged.

We discontinue hedge accounting prospectively when: (1) we determine the derivative is no longer highly effective in offsetting changes in the estimated cash flows or fair value of a hedged item; (2) the derivative expires, is sold, terminated, or exercised; or (3) the derivative is de-designated as a hedging instrument. When hedge accounting is discontinued, the derivative continues to be carried on the consolidated balance sheets at fair value, with changes in fair value recognized in investment related gains (losses) on the consolidated statements of income.

For a derivative not designated as a hedge, changes in the derivative's fair value and any income received or paid on derivatives at the settlement date are included in investment related gains (losses) on the consolidated statements of income.

Embedded Derivatives - We issue and reinsure products, primarily fixed indexed annuity products, or purchase investments that contain embedded derivatives. If we determine the embedded derivative has economic characteristics not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately. Embedded derivatives are carried on the consolidated balance sheets at fair value in the same line item as the host contract. Changes in the fair value of embedded derivatives associated with fixed indexed annuities are reflected in interest sensitive contract benefits on the consolidated statements of income. Embedded derivatives that are not clearly and closely related to the host contract within a financial asset are required to be bifurcated and recorded at fair value unless the fair value option is elected on the host contract. Under the fair value option, bifurcation of the embedded derivative is not necessary as all related gains and losses on the host contract and derivative will be reflected within investment related gains (losses) on the consolidated statements of income.

Fixed indexed annuity and indexed universal life insurance contracts allow the policyholder to elect a fixed interest rate return or an equity market component where interest credited is based on the performance of common stock market indices. The equity market option is an embedded derivative, similar to a call option. The benefit reserve is equal to the sum of the fair value of the embedded derivative and the host (or guaranteed) component of the contracts. The fair value of embedded derivatives is computed as the present value of benefits attributable to the excess of the projected policy contract values over the projected minimum guaranteed contract values. The projections of policy contract values are based on assumptions for future policy growth, which include assumptions for expected index credits on the next policy anniversary date, future equity option costs, volatility, interest rates and policyholder behavior. The projections of minimum guaranteed contract values include the same assumptions for policyholder behavior as were used to project policy contract values. For contracts we issue to policyholders, the embedded derivative cash flows are discounted using a rate that reflects our credit rating. For funds withheld reinsurance contracts, we do not use a credit spread as the funds are backed by the cedant's collateral. The host contract is established at contract inception as the initial account value less the initial fair value of the embedded derivative and accreted over the policy's life. The host contract accretion rate is updated each quarter so that the present value of actual and expected guaranteed cash flows is equal to the initial host value.

Additionally, reinsurance agreements written on a modified coinsurance (modco) or funds withheld coinsurance (funds withheld) basis contain embedded derivatives. The right to receive or obligation to pay the total return on the assets supporting the funds withheld at interest or funds withheld liability, respectively, represent a total return swap with a floating rate leg. The fair value of embedded derivatives on modco and funds withheld agreements is computed as the unrealized gain (loss) on the underlying assets and is included in the funds withheld at interest and funds withheld liability lines on the consolidated balance sheets for assumed and ceded agreements, respectively. The change in the fair value of the embedded derivatives is recorded in investment related gains (losses) on the consolidated statements of income. Assumed and ceded earnings from funds withheld at interest, funds withheld liability and changes in the fair value of embedded derivatives are reported in operating activities on the consolidated statements of cash flows. Contributions to and withdrawals from funds withheld at interest and funds withheld liability are reported in operating activities on the consolidated statements of cash flows.

Variable Interest Entities-An entity that does not have sufficient equity to finance its activities without additional financial support, or in which the equity investors, as a group, do not have the characteristics of a controlling financial interest is a VIE. The determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and may require significant judgment. Our investment funds generally qualify as VIEs and are evaluated for consolidation under the VIE model.

We are required to consolidate a VIE if we are the primary beneficiary, defined as the variable interest holder with both the power to direct the activities that most significantly impact the VIE's economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE. We determine whether we are the primary beneficiary of an entity based on a qualitative assessment of the VIE's capital structure, contractual terms, nature of the VIE's operations and purpose and our relative exposure to the related risks of the VIE. Since affiliates of Apollo Global Management, LLC (AGM and, together with its subsidiaries, Apollo), a related party, are the decision makers in certain of the investment funds, we and a member of our related party group may together have the characteristics of the primary beneficiary of an investment fund. In this situation, we have concluded we are not under common control, as defined by GAAP, with the related party, and therefore consolidate in the circumstances when substantially all of the activities of the VIE are conducted on our behalf. We reassess the VIE and primary beneficiary determinations on an ongoing basis.

If we are not the primary beneficiary, but are able to exert significant influence over the VIE’s operations, we record the VIE as an equity method investment. If we are not able to exercise significant influence, generally on investment funds in which we own a less than a 3% interest, we elect the fair value option.

See *Note 4 - Variable Interest Entities* for discussion of our interest in entities that meet the definition of a VIE.

Business Combinations and Goodwill-Business combination transactions are accounted for under the acquisition method. Accordingly, the purchase consideration is allocated to assets and liabilities based on their estimated fair value at the acquisition date. The consideration for the net assets acquired is determined prior to the assessment of the fair value of the net assets at the acquisition date. We have identified several intangible assets acquired in business combinations including VOBA, acquired distribution channels and state licenses. We value VOBA as described below under *Deferred Acquisition Costs, Deferred Sales Inducements and Value of Business Acquired*. We value distribution channels using the multi-period excess earnings method under the income approach and the state licenses using the market approach. Distribution channels and state licenses are included in other assets on the consolidated balance sheets.

Goodwill represents the excess of purchase consideration over the acquisition date fair value of net assets acquired and is included in the other assets on the consolidated balance sheets. Goodwill is not amortized but reviewed for impairment annually or more frequently if events occur or circumstances change indicating potential impairment has occurred. If the acquisition date fair value of the net assets acquired exceeds the purchase consideration in a business combination, a bargain purchase gain is recorded on the consolidated statements of income. See *Note 6 - Business Combinations* for details of business combination transactions.

Reinsurance-We assume and cede insurance and investment contracts under coinsurance, funds withheld and modco. We follow reinsurance accounting for transactions that provide indemnification against loss or liability relating to insurance risk (risk transfer). To meet risk transfer requirements, a reinsurance agreement must include insurance risk consisting of underwriting, investment, timing risk and any other significant risks. Cessions under reinsurance do not discharge our obligations as the primary insurer, unless the requirements of assumption reinsurance have been met. We generally have the right of offset on reinsurance contracts, but have elected to present reinsurance settlement amounts due to and from the Company on a gross basis.

For investment contracts, assets and liabilities assumed or ceded under coinsurance, funds withheld, or modco are presented gross on the consolidated balance sheets. The change in assumed and ceded reserves, deposits and withdrawals are presented net in the interest sensitive contract benefits line on the consolidated statements of income. For insurance contracts, assets and liabilities assumed or ceded are presented gross on the consolidated balance sheets. The change in assumed and ceded reserves and benefits are presented net in the future policy and other policy benefits line on the consolidated statements of income. Assumed or ceded premiums are included in the premiums line of the consolidated statements of income.

Accounting for reinsurance requires the use of assumptions upon agreement inception, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. We attempt to minimize our counterparty credit risk through the structuring of the terms of our reinsurance agreements, including the use of trusts, and we monitor credit ratings of counterparties for signs of declining credit quality. When a ceding company does not report information on a timely basis, we record accruals based on the best available information at the time, which includes the reinsurance agreement terms and historical experience. We periodically compare actual and anticipated experience to the assumptions used to establish reinsurance assets and liabilities. Refer to *Note 7 - Reinsurance* for more information.

Funds Withheld - For business assumed or ceded on a funds withheld basis, a funds withheld segregated portfolio comprised of invested assets and other assets is maintained by the ceding entity, which are sufficient to support the current balance of policy benefit liabilities of the ceded business on a statutory basis. The fair value of the funds withheld account is recorded as a funds withheld asset or liability and accrues interest payable at rates defined by the agreement terms and is settled periodically.

Modco - Modco is similar to funds withheld, except that the policy benefit liabilities are also not transferred to the assuming entity. For business assumed or ceded on a modco basis, the fair value of the funds withheld is accounted for under the same method described for funds withheld reinsurance above. Assumed policy benefit liabilities are included in interest sensitive contract benefits and ceded policy benefit liabilities are included in reinsurance recoverable on the consolidated balance sheets.

Cash and Cash Equivalents-Cash and cash equivalents include deposits and short-term highly liquid investments with a maturity of less than 90 days from the date of acquisition. Amounts included are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Restricted Cash-Restricted cash primarily consists of cash and cash equivalents held in funds in trust as part of certain coinsurance agreements to secure statutory reserves and liabilities of the coinsured parties. Restricted cash is reported separately on the consolidated balance sheets. Changes in the restricted cash balance are reported in investing activities on the consolidated statements of cash flows.

Investments in Related Parties-Investments in related parties and associated earnings, other comprehensive income and cash flows are separately identified on the consolidated financial statements and accounted for consistently with the policies described above for each category of investment.

Deferred Acquisition Costs, Deferred Sales Inducements and Value of Business Acquired

Deferred Acquisition Costs and Deferred Sales Inducements - Costs related to direct and successful efforts of acquiring new business are deferred to the extent they are recoverable from future premiums or gross profits. These costs consist of commissions and policy issuance costs, as well as sales inducements credited to policyholder account balances, and are included in deferred acquisition costs, deferred sales inducements and value of business acquired on the consolidated balance sheets. We adjust the DAC and DSI balances due to the effects of net unrealized investment gains and losses on AFS securities. We perform periodic tests to determine if the deferred costs remain recoverable, including at issue. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we record a cumulative charge to the current period. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process for the interest sensitive policies. We also periodically revise the key assumptions used in the calculation of the amortization of DAC and DSI which results in revisions to the estimated future gross profits. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

Deferred costs related to interest sensitive life and investment-type policies, with significant revenue streams from sources other than investment of the policyholder funds, are amortized over the lives of the policies, in relation to the present value of gross profits including investment spread margins, surrender charge income, policy administration, changes in the guaranteed lifetime withdrawal benefit (GLWB) and guaranteed minimum death benefit (GMDB) reserves and realized gains and losses on investments. Current period gross profits for fixed indexed annuities also include the impact of amounts for the change in fair value of the derivatives and the change in fair value of the embedded derivatives. Estimates of the future gross profits are based on assumptions using accepted actuarial methods.

Deferred costs related to contracts with only investment related sources of revenues are amortized using the effective interest method. The effective interest method amortizes the deferred costs by discounting the future liability cash flows at a break-even rate. The break-even rate is solved such that the present value of future liability cash flows is equal to the net liability at the inception of the contract.

Value of Business Acquired - We establish VOBA for insurance contract blocks assumed with the acquisition of insurance entities. We record the fair value of the liabilities assumed in two components: reserves and VOBA. Reserves are established using our best estimate assumptions, and are further described in future policy benefits and interest sensitive contract liabilities. VOBA is the difference between the fair value and the reserves. VOBA can be either positive or negative. For interest sensitive life and investment-type contracts, any negative VOBA is recorded in interest sensitive contract liabilities on the consolidated balance sheets. For long duration and insurance contracts, any negative VOBA is recorded as part of future policy benefits on the consolidated balance sheets. Positive VOBA is recorded in deferred acquisition costs, deferred sales inducements and value of business acquired on the consolidated balance sheets.

VOBA associated with funding agreements and immediate annuity contracts classified as investment contracts is amortized using the interest method. VOBA associated with immediate annuity contracts classified as long duration contracts is amortized at a constant rate in relation to net policyholder liabilities. For accumulation products, which include interest sensitive life and investment-type contracts with significant non-investment sources of revenue, VOBA is amortized in relation to the present value of estimated gross profits using methods consistent with those used to amortize DAC. Negative VOBA is amortized at a constant rate in relation to applicable net policyholder liabilities.

We adjust the VOBA balance due to the OCI effects of unrealized investment gains or losses on AFS securities. We perform periodic tests to determine if the VOBA remains recoverable. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we record a cumulative charge to the current period. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process for the interest sensitive policies. We also periodically revise the key assumptions used in the calculation of the amortization of the VOBA which results in updates to the estimated future gross profits. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

See *Note 8 - Deferred Acquisition Costs, Deferred Sales Inducements and Value of Business Acquired* for further discussion.

Interest Sensitive Contract Liabilities-Interest sensitive life and investment-type contracts include fixed indexed and traditional fixed annuities in the accumulation phase, funding agreements, universal life insurance, fixed indexed universal life insurance, unit-linked contracts and immediate annuities without significant mortality risk. We carry liabilities for fixed annuities, universal life insurance, unit-linked contracts and funding agreements at the account balances without reduction for potential surrender or withdrawal charges, except for a block of universal life business ceded to Global Atlantic Financial Group Limited (together with its subsidiaries, Global Atlantic) which we carry at fair value. Liabilities for immediate annuities without significant mortality risk are calculated as a present value of future liability cash flows at contractual interest rates.

Changes in the interest sensitive contract liabilities, excluding deposits and withdrawals, are recorded in interest sensitive contract benefits or product charges on the consolidated statements of income. Interest sensitive contract liabilities are not reduced for amounts ceded under reinsurance agreements which are reported as reinsurance recoverable on the consolidated balance sheets. See *Note 7 - Reinsurance* for more information on reinsurance.

Future Policy Benefits-We issue contracts classified as long-duration, which includes endowments, term and whole life, accident and health, disability, and deferred and immediate annuit ies with life contingencies. Liabilities for non-participating long-duration contracts are established using accepted actuarial valuation methods which require the use of assumptions related to expenses, investment yields, mortality, morbidity and persistency, with a provision for adverse deviation, at the date of issue or acquisition. As of December 31, 2016, the reserve investment yield assumptions for non-participating contracts range from 3.31% to 5.44% and are specific to our expected earned rate on the asset portfolio supporting the reserves. Liabilities for participating long-duration contracts are established using accepted actuarial valuation methods, which require the use of guaranteed interest and mortality assumptions. As of December 31, 2016, the reserve guaranteed interest assumptions for participating contracts range from 1.25% to 4.00% and are based on interest rates guaranteed to our policyholders. We base other key assumptions, such as mortality and morbidity, on industry standard data adjusted to align with actual company experience, if necessary.

For long-duration contracts, the assumptions are locked in at contract inception and only modified if we deem the reserves to be inadequate. We periodically review actual and anticipated experience compared to the assumptions used to establish policy benefits. If the net GAAP liability (gross reserves less DAC, DSI and VOBA) is less than the gross premium liability, impairment is deemed to have occurred, and the DAC, DSI and VOBA asset balances are reduced until the net GAAP liability is equal to the gross premium liability. If the DAC, DSI and VOBA asset balances are completely written off and the net GAAP liability is still less than the gross premium liability, then an additional liability is posted to arrive at the gross premium liability.

We issue and reinsure deferred annuity contracts which contain GLWB and GMDB riders. We establish future policy benefits for GLWB and GMDB by estimating the expected value of withdrawal and death benefits in excess of the projected account balance. We recognize the excess proportionally over the accumulation period based on total expected assessments. The methods we use to estimate the liabilities have assumptions about policyholder behavior, mortality and market conditions affecting the account balance growth.

Future policy benefits includes liabilities for no-lapse guarantees on universal life insurance and fixed indexed universal life insurance. We establish future policy benefits for no-lapse guarantees by estimating the expected value of death benefits paid after policyholder account balances have been exhausted. We recognize these benefits proportionally over the life of the contracts based on total expected assessments. The methods we use to estimate the liabilities have assumptions about policyholder behavior, mortality and market conditions affecting the account balance growth.

Changes in future policy benefits are recorded in future policy and other policy benefits on the consolidated statements of income. Future policy benefits are not reduced for amounts ceded under reinsurance agreements which are reported as reinsurance recoverable on the consolidated balance sheets. See *Note 7 - Reinsurance* for more information on reinsurance.

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Closed Block Business-Two closed blocks of policies were established in connection with the reorganization of two predecessor subsidiaries from mutual companies to stock companies, collectively referred to as the Closed Blocks, and individually referred to as the AmerUs Life Insurance Company (AmerUs) closed block (AmerUs Closed Block) and the Indianapolis Life Insurance Company (ILICO) closed block (ILICO Closed Block). Insurance policies which had a dividend scale in effect as of each closed block establishment date were included in the respective closed block. The Closed Blocks were designed to give reasonable assurance to owners of insurance policies included therein that, after the reorganization, assets would be available to maintain the dividend scales and interest credits in effect prior to the reorganization, if the experience underlying such scales and crediting continued. The assets, including related revenue, allocated to the Closed Blocks will accrue solely to the benefit of the policyholders included in the Closed Blocks until they no longer exist. A policyholder dividend obligation is required to be established for earnings in the Closed Blocks that are not available to the shareholders. See *Note 9 - Closed Block* for more information on the Closed Blocks.

Other Policy Claims and Benefits-Other policy claims and benefits include amounts payable relating to in course of settlements (ICOS) and incurred but not reported (IBNR) liabilities associated with interest sensitive contract liabilities and future policy benefits. For traditional life and universal life policies, ICOS claim liabilities are established when we are notified of the death of the policyholder but the claim has not been paid as of the reporting date. For immediate annuities and supplemental contracts, ICOS claim liabilities are established to accrue suspended benefit payments between the date of notification of death and the date of verification of death.

We determine IBNR claim liabilities using studies of past experience. The time that elapses from the death or claim date to when the claim is reported to us can vary significantly by product type, but generally ranges between one to six months for life business. We estimate IBNR claims on an undiscounted basis, using actuarial estimates of historical claims expense, adjusted for current trends and conditions. These estimates are continually reviewed and the ultimate liability may vary significantly from the amount recognized.

Dividends Payable to Policyholders-Participating policies entitle the policyholders to receive dividends based on actual interest, mortality, morbidity and expense experience for the year. Dividends are distributed to the policyholders through annual or terminal dividends which the Board of Directors of the applicable insurance subsidiary approves. As of December 31, 2016 and 2015, 88% and 78%, respectively, of traditional life policies inclusive of ceded policies were paying dividends, and the related liability is recorded in dividends payable to policyholders on the consolidated balance sheets. Premiums related to policies paying dividends represented 45%, 22% and 11% of total life insurance direct premiums and deposits for the years ended December 31, 2016, 2015 and 2014, respectively. Traditional life policies inclusive of ceded policies represented 81% and 78% of the Company's individual life policies in force as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, all of the non-separate account unit-linked policies were paying dividends, and the related liability is recorded in dividends payable to policyholders on the consolidated balance sheets. There were no material deposits related to non-separate account unit-linked policies paying dividends for the years ended December 31, 2016 and 2015. Non-separate account unit-linked policies represented an insignificant percentage of our interest sensitive contracts in force as of December 31, 2016 and 2015.

Policyholder dividend liabilities are recorded in dividends payable to policyholders on the consolidated balance sheets and policyholder dividends are recorded in dividends to policyholders on the consolidated statements of income. For participating policies issued by our German subsidiaries, dividends payable to policyholders includes an adjustment to recognize timing differences between GAAP and local statutory earnings that reverse and enter into future calculations of dividends to policyholders. Except for changes due to unrealized gains or losses on AFS securities, the change in this adjustment is recorded in dividends to policyholders on the consolidated statements of income. Changes in this adjustment due to unrealized gains or losses on AFS securities are recorded in OCI.

Stock-Based Compensation-We have stock-based compensation plans under which restricted, incentive compensation share awards may be granted to our employees and directors and employees of Athene Asset Management, L.P. (AAM) as described in *Note 12 - Stock-based Compensation*. We recognize the fair value of stock-based compensation over a participant's requisite service period through a charge to compensation expense and a corresponding entry to equity or a liability based on vesting criteria and other pertinent terms of the awards. Stock-based awards are accounted for as equity awards in instances where the awards' vesting are linked to a market, performance or service condition. Equity awards to employees are generally expensed based on the grant date fair value. For equity awards issued to non-employees, the fair value is remeasured through completion of counterparty performance. Employee and non-employee stock-based awards are accounted for as liabilities in instances where the awards' vesting criteria are linked to a factor other than a market, performance or service condition. Liability awards are remeasured each reporting period until settlement. In the event that awards are reclassified from liability to equity due to modification or other changes in circumstances, they are remeasured at fair value through the date of reclassification.

Earnings Per Share-We compute basic earnings per share (EPS) by dividing unrounded net income available to Athene Holding Ltd. shareholders by the weighted average number of common shares eligible for earnings and outstanding for the period. As a result, it may not be possible to recalculate EPS as presented in our consolidated financial statements. Diluted earnings per share includes the effect of all potentially dilutive common shares, options and restricted stock units (RSUs) outstanding during the period. See *Note 13 - Earnings Per Share* for further information.

Foreign Currency-The accounts of foreign-based subsidiaries are measured using the functional currency of the subsidiary. Revenue and expenses of these businesses are translated into United States dollars at the average exchange rate for the period. Assets and liabilities are translated at the exchange rate as of the end of the reporting period. The resulting translation adjustments are included in equity as a component of AOCI. Gains or losses arising from transactions denominated in a currency other than the functional currency of the entity that is party to the transaction are included in net income.

Recognition of Revenues and Related Expenses-Revenues for annuity and universal life-type products, including surrender and market value adjustments, costs of insurance, policy administration, GMDB, GLWB and no-lapse guarantee charges, are earned when assessed against policyholder account balances during the period. Interest sensitive contract benefits related to annuity products include interest credited to policyholder account balances. In addition, the change in fair value of embedded derivatives within fixed indexed annuity contracts is included in interest sensitive contract benefits on the consolidated statements of income.

For certain assumed reinsurance transactions involving in force blocks of business, the ceding company may pay a premium equal to the initial required reserve (future policy benefit). In such transactions, we net the expense associated with the establishment of the reserve against the premiums from the transaction in interest sensitive contract benefits on the consolidated statements of income.

Premiums for traditional life insurance products, including products with fixed and guaranteed premiums and benefits, are recognized as revenues when due from policyholders.

All insurance related revenue is reported net of reinsurance ceded.

Income Taxes-We compute income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial statement carrying amounts and the tax basis of our assets and liabilities using estimated tax rates expected to be in effect for the year in which the differences are expected to reverse. Changes in deferred tax assets and liabilities attributable to changes in enacted income tax rates are recorded in the period of enactment. Such temporary differences are primarily due to the tax basis of reserves, DAC, unrealized investment gains/losses, reinsurance related differences, embedded derivatives and net operating loss carryforwards. Changes in deferred income tax assets and liabilities associated with components of OCI are recorded directly to OCI. We evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, we determine that it is more likely than not that some portion of the tax benefit will not be realized. We adjust the valuation allowance if, based on our evaluation, there is a change in the amount of deferred income tax assets that are deemed more likely than not to be realized. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the relevant taxing authorities, based on the technical merits of our position. We recognize any income tax interest and penalties in income tax expense.

See *Note 15 - Income Taxes* for discussion on withholding taxes for undistributed earnings of subsidiaries.

Adopted Accounting Pronouncements

Fair Value Measurement - Net Asset Value (ASU 2015-07)
This update has a disclosure-only impact for entities that measure investments using NAV per share under the practical expedient in the fair value measurement guidance. We adopted this standard effective January 1, 2016, and have removed investments that are measured at NAV as a practical expedient from the fair value hierarchy in all periods presented in the notes to the consolidated financial statements.

Cloud Computing Arrangements (ASU 2015-05)
This update clarifies whether a cloud computing arrangement is an intangible asset or a service contract. We adopted this standard effective January 1, 2016, and the adoption of this update did not have a material effect on our consolidated financial statements.

Stock-Based Compensation (ASU 2014-12)
This update requires a performance target in a share-based payment arrangement that affects vesting and that could be achieved after the requisite service period to be treated as a performance condition. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. We adopted this standard effective January 1, 2016, and the adoption of this update did not have a material effect on our consolidated financial statements.

Recently Issued Accounting Pronouncements

Gains and Losses from the Derecognition of Nonfinancial Assets (ASU 2017-05)
The amendments in this update clarify the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets. We will be required to adopt this standard on a retrospective or modified retrospective basis effective January 1, 2018. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Intangibles - Simplifying the Test for Goodwill Impairment (ASU 2017-04)
The amendments in this update simplify the subsequent measurement of goodwill by eliminating the comparison of the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill to determine the goodwill impairment loss. With the adoption of this guidance, a goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of the goodwill allocated to that reporting unit. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. We will be required to adopt this standard prospectively effective January 1, 2020. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Business Combinations - Clarifying the Definition of a Business (ASU 2017-01)
The amendments in this update clarify the definition of a business with the objective of assisting entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. We will be required to adopt this standard effective January 1, 2018. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Statement of Cash Flows - Restricted Cash (ASU 2016-18)
This update requires amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the consolidated statements of cash flows. We will be required to adopt this standard retrospectively for each period presented effective January 1, 2018. Early adoption is permitted. The adoption of this update will require us to change the presentation on the consolidated statements of cash flows for restricted cash or restricted cash equivalents; however, we do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Consolidation - Interest Held through Related Parties under Common Control (ASU 2016-17)
This update amends the consolidation guidance to change how indirect interests in VIEs are evaluated by a reporting entity when determining whether or not it is the primary beneficiary of that VIE. The primary beneficiary of a VIE is the reporting entity that has a controlling financial interest in a VIE and, therefore, consolidates the VIE. A reporting entity has an indirect interest in a VIE if it has a direct interest in a related party that, in turn, has a direct interest in the VIE. Currently, if a single decision maker and its related parties are under common control, the single decision maker is required to consider indirect interests held through related parties to be the equivalent of direct interests in their entirety. The amendments change the evaluation of indirect interests to be considered on a proportionate basis. We will be required to adopt this standard retrospectively for each period presented effective January 1, 2017. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Income Taxes - Intra-Entity Transfers (ASU 2016-16)
This update requires the immediate recognition of current and deferred income tax effects of intra-entity transfers of assets, other than inventory. Currently, recognition of the income tax consequence was not recognized until the asset was sold to an outside party. We will be required to adopt this standard on a modified retrospective basis effective January 1, 2018. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Statement of Cash Flows (ASU 2016-15)
This update provides specific guidance to clarify how entities should classify certain cash receipts and cash payments on the statement of cash flows. The update also clarifies the application of the predominance principle when cash receipts and cash payments have aspects of more than one class of cash flows. We will be required to adopt this standard effective January 1, 2018. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Financial Instruments - Credit Losses (ASU 2016-13)
This update is designed to reduce complexity by limiting the number of credit impairment models used for different assets. The model will result in accelerated credit loss recognition on assets held at amortized cost, which includes our commercial and residential mortgage investments. The identification of credit-deteriorated securities will include all assets that have experienced a more-than-insignificant deterioration in credit since origination. Additionally, any changes in the expected cash flows of credit-deteriorated securities will be recognized immediately in the income statement. Available-for-sale fixed maturity securities are not in scope of the new credit loss model, but will undergo targeted improvements to the current reporting model including the establishment of a valuation allowance for credit losses versus the current direct write down approach. We will be required to adopt this standard effective January 1, 2020. Early adoption is permitted effective January 1, 2019. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Revenue Recognition (ASU 2016-20, ASU 2016-12, ASU 2016-11, ASU 2016-10, ASU 2016-08, ASU 2015-14 and ASU 2014-09)
ASU 2014-09 indicates an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 provided for a one-year deferral of the effective date, which will require us to adopt this standard effective January 1, 2018. ASU 2016-08 amends the principal-versus-agent implementation guidance and illustrations in ASU 2014-09. ASU 2016-10 clarifies the identification of performance obligations as well as licensing implementation guidance. ASU 2016-11 brings existing Securities and Exchange Commission (SEC) guidance into conformity with revenue recognition accounting guidance of ASU 2014-09 discussed above. ASU 2016-12 provides clarification on assessing collectability, presentation of sales tax, non-cash consideration and transition. ASU 2016-20 addresses necessary technical corrections and improvements to clarify codification amended by ASU 2014-09 within Topic 606. The revenue recognition updates replace all general and most industry-specific revenue recognition guidance, excluding insurance contracts, leases, financial instruments and guarantees, which have been scoped out of the update. Since the guidance does not apply to revenue on contracts accounted for under the financial instruments or insurance contracts standards, only a portion of our revenues are impacted by this guidance. Our evaluation process includes, but is not limited to, identifying contracts within the scope of the guidance, reviewing and documenting our accounting for these contracts, and identifying and determining the accounting for any related contract costs.

Improvements to Employee Share-Based Payment Accounting (ASU 2016-09)
This update simplifies several aspects of the accounting for share-based payment award transactions, including income tax consequences, forfeitures and classification on the statement of cash flows. We will be required to adopt this standard effective January 1, 2017. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Equity Method and Joint Ventures (ASU 2016-07)
This update eliminates the retroactive adjustments to an investment upon it qualifying for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence by the investor. We will be required to adopt this standard effective January 1, 2017. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Derivatives and Hedging - Contingent Put and Call Options (ASU 2016-06)
This update is intended to clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to debt hosts. We will be required to adopt this standard effective January 1, 2017. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Derivatives and Hedging - Effects of Derivative Contract Novation (ASU 2016-05)
This update is intended to clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require a de-designation of that hedging relationship provided all other hedge accounting criteria continue to be met. We will be required to adopt this standard effective January 1, 2017. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Leases (ASU 2016-02)
This update is intended to increase transparency and comparability for lease transactions. A lessee is required to recognize an asset and a liability for all lease arrangements longer than 12 months. Lessor accounting is largely unchanged. We will be required to adopt this standard on a modified retrospective basis effective January 1, 2019. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Financial Instruments - Recognition and Measurement (ASU 2016-01)
This update retains the current accounting for classifying and measuring investments in debt securities and loans, but requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. We currently recognize changes in fair value related to AFS equity securities in AOCI on the consolidated balance sheets. We will be required to adopt this standard with a cumulative-effect adjustment to beginning retained earnings effective January 1, 2018. Refer to *Note 2 - Investments* for further information on the unrealized gains and losses of our AFS equity securities.

2. Investments

Available-for-sale Securities-The following table represents the cost or amortized cost, gross unrealized gains and losses, fair value and OTTI in AOCI of our AFS investments by asset type. Our AFS investment portfolio includes direct investments in affiliates of Apollo where Apollo can exercise significant influence over the affiliates. These investments are presented as investments in related parties on the consolidated balance sheets, and are separately disclosed below.

	December 31, 2016				
(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 59	$ 1	$ -	$ 60	$ -
U.S. state, municipal and political subdivisions	1,024	117	(1)	1,140	-
Foreign governments	2,098	143	(6)	2,235	-
Corporate	29,433	901	(314)	30,020	2
CLO	4,950	14	(142)	4,822	-
ABS	2,980	25	(69)	2,936	-
CMBS	1,835	38	(26)	1,847	-
RMBS	8,731	313	(71)	8,973	15
Total fixed maturity securities	51,110	1,552	(629)	52,033	17
Equity securities	319	35	(1)	353	-
Total AFS securities	51,429	1,587	(630)	52,386	17
Fixed maturity securities - related party					
CLO	284	1	(6)	279	-
ABS	57	-	(1)	56	-
Total fixed maturity securities - related party	341	1	(7)	335	-
Equity securities - related party	20	-	-	20	-
Total AFS securities - related party	361	1	(7)	355	-
Total AFS securities including related party	$ 51,790	$ 1,588	$ (637)	$ 52,741	$ 17

	December 31, 2015				
(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 44	$ 1	$ -	$ 45	$ -
U.S. state, municipal and political subdivisions	1,075	100	(10)	1,165	7
Foreign governments	2,467	17	(20)	2,464	-
Corporate	26,979	523	(566)	26,936	2
CLO	4,943	4	(392)	4,555	-
ABS	2,944	33	(59)	2,918	-
CMBS	1,725	33	(20)	1,738	-
RMBS	8,050	128	(183)	7,995	6
Total fixed maturity securities	48,227	839	(1,250)	47,816	15
Equity securities	367	40	-	407	-
Total AFS securities	48,594	879	(1,250)	48,223	15
Fixed maturity securities - related party					
CLO	271	-	(23)	248	-
ABS	61	-	(1)	60	-
Total AFS securities - related party	332	-	(24)	308	-
Total AFS securities including related party	$ 48,926	$ 879	$ (1,274)	$ 48,531	$ 15

The amortized cost and fair value of fixed maturity AFS securities, including related party, are shown by contractual maturity below:

	December 31, 2016	
(In millions)	Amortized Cost	Fair Value
Due in one year or less	$ 831	$ 835
Due after one year through five years	6,958	7,092
Due after five years through ten years	11,299	11,520
Due after ten years	13,526	14,008
CLO, ABS, CMBS and RMBS	18,496	18,578
Total AFS fixed maturity securities	51,110	52,033
Fixed maturity securities - related party, CLO and ABS	341	335
Total AFS fixed maturity securities including related party	$ 51,451	$ 52,368

Actual maturities can differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Unrealized Losses on AFS Securities-The following summarizes the fair value and gross unrealized losses for AFS securities, including related party, aggregated by class of security and length of time the fair value has remained below cost or amortized cost:

	December 31, 2016					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. government and agencies	$ 1	$ -	$ -	$ -	$ 1	$ -
U.S. state, municipal and political subdivisions	85	(1)	2	-	87	(1)
Foreign governments	137	(5)	9	(1)	146	(6)
Corporate	6,136	(228)	1,113	(86)	7,249	(314)
CLO	388	(2)	3,102	(140)	3,490	(142)
ABS	865	(17)	767	(52)	1,632	(69)
CMBS	576	(18)	183	(8)	759	(26)
RMBS	1,143	(19)	1,727	(52)	2,870	(71)
Total fixed maturity securities	9,331	(290)	6,903	(339)	16,234	(629)
Equity securities	179	(1)	-	-	179	(1)
Total AFS securities	9,510	(291)	6,903	(339)	16,413	(630)
Fixed maturity securities - related party						
CLO	68	-	100	(6)	168	(6)
ABS	-	-	56	(1)	56	(1)
Total fixed maturity securities - related party	68	-	156	(7)	224	(7)
Equity securities - related party	14	-	-	-	14	-
Total AFS securities - related party	82	-	156	(7)	238	(7)
Total AFS securities including related party	$ 9,592	$ (291)	$ 7,059	$ (346)	$ 16,651	$ (637)

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	December 31, 2015					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. government and agencies	$ 4	$ -	$ 2	$ -	$ 6	$ -
U.S. state, municipal and political subdivisions	63	(9)	8	(1)	71	(10)
Foreign governments	711	(20)	-	-	711	(20)
Corporate	7,810	(450)	554	(116)	8,364	(566)
CLO	2,934	(169)	1,555	(223)	4,489	(392)
ABS	1,484	(37)	371	(22)	1,855	(59)
CMBS	577	(11)	119	(9)	696	(20)
RMBS	4,672	(128)	995	(55)	5,667	(183)
Total AFS securities	18,255	(824)	3,604	(426)	21,859	(1,250)
Fixed maturity securities - related party						
CLO	139	(14)	72	(9)	211	(23)
ABS	60	(1)	-	-	60	(1)
Total AFS securities - related party	199	(15)	72	(9)	271	(24)
Total AFS securities including related party	$ 18,454	$ (839)	$ 3,676	$ (435)	$ 22,130	$ (1,274)

As of December 31, 2016, we held 2,117 AFS securities that were in an unrealized loss position. Of this total, 899 were in an unrealized loss position longer than 12 months. As of December 31, 2016, we held 14 related party AFS securities that were in an unrealized loss position. Of this total, 10 were in an unrealized loss position longer than 12 months. The unrealized losses on AFS securities can primarily be attributed to changes in market interest rates since acquisition. We did not recognize the unrealized losses in income as we intend to hold these securities and it is not more likely than not we will be required to sell a security before the recovery of its amortized cost.

Other-Than-Temporary Impairments-For the year ended December 31, 2016, we incurred $30 million of net OTTI, of which $5 million related to intent-to-sell impairments. These securities were impaired to fair value as of the impairment date. The remainder of net OTTI of $25 million related to credit impairments, of which $14 million related to credit loss impairments that we impaired to fair value and did not bifurcate a portion of the impairment in AOCI. The credit loss impairments not bifurcated in AOCI are excluded from the rollforward below.

The following table represents a rollforward of the cumulative amounts recognized on the consolidated statements of income for OTTI related to pre-tax credit loss impairments on AFS fixed maturity securities, for which a portion of the securities' total OTTI was recognized in AOCI:

	Years ended December 31,		
(In millions)	2016	2015	2014
Beginning balance	$ 22	$ 8	$ 3
Initial impairments - credit loss OTTI recognized on securities not previously impaired	8	19	3
Additional impairments - credit loss OTTI recognized on securities previously impaired	3	1	2
Reduction in impairments from securities sold	(9)	(2)	-
Reduction for credit loss that no longer has a portion of the OTTI loss recognized in AOCI	(8)	(4)	-
Ending balance	$ 16	$ 22	$ 8

Net Investment Income-Net investment income by asset type consists of the following:

	Years ended December 31,		
(In millions)	2016	2015	2014
AFS securities			
Fixed maturity securities	$ 2,293	$ 2,051	$ 1,868
Equity securities	9	7	6
Trading securities	238	196	136
Mortgage loans, net of allowances	355	320	347
Investment funds	180	109	177
Funds withheld at interest	82	54	46
Other	62	44	24
Investment revenue	3,219	2,781	2,604
Investment expenses	(303)	(273)	(271)
Net investment income	$ 2,916	$ 2,508	$ 2,333

Investment Related Gains (Losses)-Investment related gains (losses) by asset type consist of the following:

	Years ended December 31,		
(In millions)	2016	2015	2014
AFS fixed maturity securities			
Gross realized gain on investment activity	$ 138	$ 150	$ 203
Gross realized loss on investment activity	(54)	(86)	(22)
Net realized investment gains on fixed maturity securities	84	64	181
Net realized investment gains (losses) on trading securities	(33)	(228)	242
Derivative gains (losses)	596	(277)	792
Other gains (losses)	5	11	(5)
Investment related gains (losses)	$ 652	$ (430)	$ 1,210

Proceeds from sales of AFS securities were $4,662 million, $6,899 million and $6,391 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Included in net realized investment gains (losses) on trading securities are gains of $38 million, losses of $133 million and gains of $258 million resulting from the change in unrealized gains or losses for the underlying securities we still held as of December 31, 2016, 2015 and 2014, respectively. Also included in net realized investment gains (losses) on trading securities are related party losses of $10 million, losses of $10 million and gains of $13 million resulting from the change in unrealized gains or losses for the underlying securities we still held as of December 31, 2016, 2015 and 2014, respectively.

PCI Investments-The following table summarizes our PCI investments:

	December 31,		
	2016	2015	2016
(In millions)	Fixed maturity securities		Mortgage loans[3]
Contractually required payments[1]	$ 7,761	$ 7,291	$ 424
Less: Cash flows expected to be collected[2]	(5,285)	(4,986)	(286)
Non-accretable difference	$ 2,476	$ 2,305	$ 138
Cash flows expected to be collected	$ 5,285	$ 4,986	$ 286
Less: Amortized cost	(3,898)	(3,673)	(220)
Accretable difference	$ 1,387	$ 1,313	$ 66
Fair value	$ 4,029	$ 3,647	$ 221

[1] *Includes principal and accrued interest.*

[2] *Represents the acquisition date undiscounted principal and interest cash flows expected.*

[3] *As of December 31, 2015, we did not hold any investments in PCI mortgage loans.*

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During the respective year, we acquired PCI investments with the following amounts at the time of purchase:

	December 31,		
	2016	2015	2016
(In millions)	Fixed maturity securities		Mortgage loans[1]
Contractually required principal and interest	$ 1,631	$ 1,999	$ 425
Expected cash flows	1,027	1,277	287
Estimated fair value	761	937	221

[1] *As of December 31, 2015, we did not hold any investments in PCI mortgage loans.*

The following tables summarize the activity for the accretable yield on PCI investments:

	2016	2015	2016
(In millions)	Fixed maturity securities		Mortgage loans[1]
Beginning balance at January 1	$ 1,313	$ 1,330	$ -
Purchases of PCI investments, net of sales	231	243	66
Accretion	(112)	(113)	(1)
Changes in expected cash flows	(45)	(147)	1
Ending balance at December 31	$ 1,387	$ 1,313	$ 66

[1] *During the year ended December 31, 2015, we did not hold any investments in PCI mortgage loans.*

Mortgage Loans-Mortgage loans, net of allowances, consist of the following:

	December 31,	
(In millions)	2016	2015
Commercial mortgage loans	$ 5,058	$ 5,178
Commercial mortgage loans under development	74	222
Total commercial mortgage loans	5,132	5,400
Residential mortgage loans	338	100
Mortgage loans, net of allowances	$ 5,470	$ 5,500

We primarily make commercial mortgage loans on income producing properties including hotels, industrial properties and retail and office buildings. We diversify the commercial mortgage loan portfolio by geographic region and property type to reduce concentration risk. We evaluate mortgage loans based on relevant current information to confirm if properties are performing at a consistent and acceptable level to secure the related debt.

The distribution of commercial mortgage loans, including those under development, net of valuation allowances, by property type and geographic region, is as follows:

	December 31,						
	2016			2015			
(In millions, except for percentages)	Net Carrying Value		Percentage of Total	Net Carrying Value		Percentage of Total
Property type						
Hotels	$	1,025	20.0%	$	877	16.2%
Retail		1,135	22.1%		1,230	22.8%
Office building		1,217	23.7%		1,274	23.6%
Industrial		742	14.5%		821	15.2%
Apartment		616	12.0%		907	16.8%
Other commercial		397	7.7%		291	5.4%
Total commercial mortgage loans	$	5,132	100.0%	$	5,400	100.0%
U.S. Region						
East North Central	$	450	8.8%	$	443	8.2%
East South Central		158	3.1%		129	2.4%
Middle Atlantic		628	12.2%		804	14.9%
Mountain		543	10.6%		583	10.8%
New England		194	3.8%		181	3.3%
Pacific		833	16.2%		838	15.5%
South Atlantic		1,284	25.0%		1,231	22.8%
West North Central		306	6.0%		291	5.4%
West South Central		662	12.9%		792	14.7%
Total U.S. Region		5,058	98.6%		5,292	98.0%
International Region		74	1.4%		108	2.0%
Total commercial mortgage loans	$	5,132	100.0%	$	5,400	100.0%

Our residential mortgage loan portfolio includes first lien residential mortgage loans, collateralized by properties located in the U.S. As of December 31, 2016, California, Florida and New York represented 38.9%, 9.1% and 5.1%, respectively, of the portfolio. The remaining 46.9% represented all other states, with each individual state comprising less than 5% of the portfolio. As of December 31, 2015, California, Texas and Washington represented 64.8%, 10.1% and 5.6%, respectively, of the portfolio, and the remaining 19.5% represented all other states, with each individual state comprising less than 5% of the portfolio.

Mortgage Loan Valuation Allowance-The assessment of mortgage loan impairments and valuation allowances is substantially the same for residential and commercial mortgage loans. The valuation allowance was $2 million as of December 31, 2016 and 2015. We did not record any material impairments or significant activity in the valuation allowance during the years ended December 31, 2016, 2015 or 2014.

Residential mortgage loans - The primary credit quality indicator of residential mortgage loans is loan performance. Nonperforming residential mortgage loans are 90 days or more past due and/or are in non-accrual status. All of our residential mortgage loans were performing as of December 31, 2016 and 2015.

Commercial mortgage loans - The following provides the aging of our commercial mortgage loan portfolio, including those under development, net of valuation allowances:

	December 31,			
(In millions)	2016		2015	
Current (less than 30 days past due)	$	5,111	$	5,360
30 to 60 days past due		-		1
Over 90 days past due		21		39
Total commercial mortgage loans	$	5,132	$	5,400

Loan-to-value and debt service coverage ratios are measures we use to assess the risk and quality of commercial mortgage loans other than those under development. Loans under development are not evaluated using these ratios as they are generally not yet income-producing and the value of the underlying property significantly fluctuates based on the progress of construction. Therefore, the risk and quality of loans under development are evaluated based on the aging and geographical distribution of such loans as shown above.

The loan-to-value ratio is expressed as a percentage of the amount of the loan relative to the value of the underlying property. A loan-to-value ratio in excess of 100% indicates the unpaid loan amount exceeds the underlying collateral. The following represents the loan-to-value ratio of the commercial mortgage loan portfolio, excluding those under development, net of valuation allowances:

	December 31,	
(In millions)	2016	2015
Less than 50%	$ 1,787	$ 2,087
50% to 60%	1,337	1,024
61% to 70%	1,401	1,299
71% to 100%	492	697
Greater than 100%	41	71
Commercial mortgage loans	$ 5,058	$ 5,178

The debt service coverage ratio, based upon the most recent financial statements, is expressed as a percentage of a property's net income to its debt service payments. A debt service ratio of less than 1.0 indicates a property's operations do not generate enough income to cover debt payments. The following represents the debt service coverage ratio of the commercial mortgage loan portfolio, excluding those under development, net of valuation allowances:

	December 31,	
(In millions)	2016	2015
Greater than 1.20x	$ 4,378	$ 4,455
1.00x - 1.20x	353	471
Less than 1.00x	327	252
Commercial mortgage loans	$ 5,058	$ 5,178

Real Estate-Depreciation expense on invested real estate was $9 million and $2 million during the years ended December 31, 2016 and 2015, respectively. Accumulated depreciation was $11 million and $2 million as of December 31, 2016 and 2015, respectively.

Investment Funds-Our investment fund portfolio consists of funds that employ various strategies and include investments in mortgage and real estate, credit, private equity, natural resources and hedge funds. Investment funds meet the definition of variable interest entities and are discussed further in *Note 4 - Variable Interest Entities*.

3. Derivative Instruments

We use a variety of derivative instruments to manage risks, primarily equity, interest rate, credit, foreign currency and market volatility. See *Note 1 - Business, Basis of Presentation and Significant Accounting Policies* for a description of our accounting policies for derivatives and *Note 5 - Fair Value* for information about the fair value hierarchy for derivatives.

The following table presents the notional amount and fair value of derivative instruments:

	December 31,					
	2016			2015		
	Notional	Fair Value		Notional	Fair Value	
(In millions)	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Derivatives designated as hedges						
Foreign currency swaps	289	$ 11	$ 4	177	$ 14	$ -
Interest rate swaps	302	-	14	-	-	-
Total derivatives designated as hedges		11	18		14	-
Derivatives not designated as hedges						
Equity options	26,822	1,336	-	25,176	831	-
Futures	-	9	-	-	9	1
Total return swaps	41	2	-	54	-	-
Foreign currency swaps	43	5	-	47	5	-
Interest rate swaps	568	1	5	859	2	8
Credit default swaps	10	-	7	10	-	7
Variance swaps	-	-	-	-	5	-
Foreign currency forwards	805	6	10	367	5	1
Embedded derivatives						
Funds withheld	-	140	6	-	36	35
Interest sensitive contract liabilities	-	-	5,283	-	-	4,477
Total derivatives not designated as hedges		1,499	5,311		893	4,529
Total derivatives		$ 1,510	$ 5,329		$ 907	$ 4,529

Derivatives Designated as Hedges

Foreign currency swaps - We use foreign currency swaps to convert foreign currency denominated cash flows of an investment to U.S. dollars to reduce cash flow fluctuations due to changes in currency exchange rates. Certain of these swaps are designated and accounted for as cash flow hedges, which will expire by June 2043. During the years ended December 31, 2016, 2015 and 2014, we had foreign currency swap losses of $5 million, gains of $9 million and losses of $7 million, respectively, recorded in AOCI. There were no amounts reclassified to income and no amounts deemed ineffective for the years ended December 31, 2016, 2015 and 2014.

Interest rate swaps - We use interest rate swaps to reduce market risks from interest rate changes and to alter interest rate exposure arising from duration mismatches between assets and liabilities. Certain of these swaps entered into during the year ended December 31, 2016 are designated as fair value hedges. With an interest rate swap, we agree with another party to exchange the difference between fixed-rate and floating-rate interest amounts tied to an agreed-upon notional principal amount at specified intervals.

The following table represents the gains and losses on derivatives and the related hedged items in fair value hedge relationships, recorded in interest sensitive contract benefits on the consolidated statements of income:

(In millions)	Year ended December 31, 2016
Loss recognized on derivative	$ (14)
Gain recognized on hedged item	14
Ineffectiveness recognized on fair value hedges	$ -

Derivatives Not Designated as Hedges

Equity options - We use equity indexed options to economically hedge fixed indexed annuity products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specified market index, primarily the S&P 500. To hedge against adverse changes in equity indices, we enter into contracts to buy the equity indexed options within a limited time at a contracted price. The contracts are net settled in cash based on differentials in the indices at the time of exercise and the strike price.

Futures - Futures contracts are purchased to hedge the growth in interest credited to the customer as a direct result of increases in the related indices. We enter into exchange-traded futures with regulated futures commission clearing brokers who are members of a trading exchange. Under exchange-traded futures contracts, we agree to purchase a specified number of contracts with other parties and to post variation margin on a daily basis in an amount equal to the difference in the daily fair values of those contracts.

Total return swaps - We purchase total rate of return swaps to gain exposure and benefit from a reference asset without ownership. Total rate of return swaps are contracts in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying asset, which includes both the income it generates and any capital gains.

Credit default swaps - Credit default swaps provide a measure of protection against the default of an issuer or allow us to gain credit exposure to an issuer or traded index. We use credit default swaps coupled with a bond to synthetically create the characteristics of a reference bond. These transactions have a lower cost and are more liquid relative to the cash market. We receive a periodic premium for these transactions as compensation for accepting credit risk.

Hedging credit risk involves buying protection for existing credit risk. The exposure resulting from the agreements, which is usually the notional amount, is equal to the maximum proceeds that must be paid by a counterparty for a defaulted security. If a credit event occurs on a reference entity, then a counterparty who sold protection is required to pay the buyer the trade notional amount less any recovery value of the security.

Variance swaps - We have variance swaps to hedge the growth in interest credited to the customer as a direct result of changes in the volatility of the specified market index, primarily the S&P 500. In a variance swap transaction, we agree to exchange future realized volatility for current implied volatility. This type of contract pays the difference between the realized variance and a predefined strike multiplied by a notional value.

Foreign currency forwards - We use foreign currency forward contracts to hedge certain exposures to foreign currency risk. The price is agreed upon at the time of the contract and payment is made at a specified future date.

Embedded derivatives - We have embedded derivatives which are required to be separated from their host contracts and reported as derivatives. Host contracts include reinsurance agreements structured on a modco or funds withheld basis and indexed annuity products.

The following is a summary of the gains (losses) related to derivatives not designated as hedges:

	Years ended December 31,		
(In millions)	2016	2015	2014
Equity options	$ 325	$ (372)	$ 955
Futures	(19)	(3)	52
Total return swaps	5	-	11
Foreign currency swaps	14	12	3
Interest rate swaps	(1)	(4)	(4)
Foreign currency forwards	(2)	21	21
Embedded derivatives on funds withheld	274	69	(246)
Amounts recognized in investment related gains (losses)	596	(277)	792
Embedded derivatives in indexed annuity products[1]	(311)	158	(976)
Total gains (losses) for derivatives not designated as hedges	$ 285	$ (119)	$ (184)

[1] *Included in interest sensitive contract benefits.*

Credit Risk-We may be exposed to credit-related losses in the event of counterparty nonperformance on derivative financial instruments. Generally, the current credit exposure of our derivative contracts is the fair value at the reporting date less any collateral received from the counterparty.

We manage credit risk related to over-the-counter derivatives by entering into transactions with creditworthy counterparties. Where possible, we maintain collateral arrangements and use master netting agreements that provide for a single net payment from one counterparty to another at each due date and upon termination. We have also established counterparty exposure limits, where possible, in order to evaluate if there is sufficient collateral to support the net exposure.

Collateral arrangements typically require the posting of collateral in connection with its derivative instruments. Collateral agreements often contain posting thresholds, some of which may vary depending on the posting party's financial strength ratings. Additionally, a decrease in our financial strength rating to a specified level can result in settlement of the derivative position. As of December 31, 2016 and 2015, we had $25 million and $9 million, respectively, of collateral pledged to counterparties.

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The estimated fair value of our net derivative and other financial assets and liabilities after the application of master netting agreements and collateral were as follows:

		Gross amounts not offset on the consolidated balance sheets				
(In millions)	Gross amount recognized[1]	Financial instruments[2]	Collateral received/pledged	Net amount	Off-balance sheet securities collateral[3]	Net amount after securities collateral
December 31, 2016						
Derivative assets	$ 1,370	$ (8)	$ (1,383)	$ (21)	$ (26)	$ (47)
Derivative liabilities	(40)	8	25	(7)	-	(7)
December 31, 2015						
Derivative assets	$ 871	$ (7)	$ (867)	$ (3)	$ (57)	$ (60)
Derivative liabilities	(17)	7	9	(1)	-	(1)

[1] *The gross amounts of recognized derivative assets and derivative liabilities are reported on the consolidated balance sheets. As of December 31, 2016 and 2015, amounts that are not subject to master netting agreements or similar agreements were immaterial.*

[2] *Represents amounts offsetting derivative assets and derivative liabilities that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative assets or gross derivative liabilities for presentation on the consolidated balance sheets.*

[3] *For securities collateral received, we do not have the right to sell or re-pledge the collateral. As such, we do not record the securities on the consolidated balance sheets.*

Certain derivative instruments contain provisions for credit-related events, such as downgrades in our credit ratings or for a negative credit event of a credit default swap's reference entity. If a credit event were to occur, we may be required to settle an outstanding liability. The following is a summary of our exposure to credit-related events:

	December 31,	
(In millions)	2016	2015
Fair value of derivative liabilities with credit related provisions	$ 7	$ 7
Maximum exposure for credit default swaps	10	10

As of December 31, 2016 or 2015, no additional collateral would be required if a default or termination event were to occur.

4. Variable Interest Entities

Our investment funds meet the definition of a VIE, and in certain cases these investment funds are consolidated in our financial statements because we meet the criteria of the primary beneficiary.

Consolidated VIEs-We consolidate AAA Investments (Co-Invest VI), L.P. (CoInvest VI), AAA Investments (Co-Invest VII), L.P. (CoInvest VII), AAA Investments (Other). L.P. (CoInvest Other), London Prime Apartments Guernsey Holdings Limited (London Prime) and NCL Athene, LLC (NCL LLC), which are investment funds. We are the only limited partner in these investment funds and receive all of the economic benefits and losses, other than management fees and carried interest, as applicable, paid to the general partner in each entity, which are related parties. We do not have any voting rights as limited partner and do not solely satisfy the power criteria to direct the activities that significantly impact the economics of the VIE. However, the criteria for the primary beneficiary are satisfied by our related party group and because substantially all of the activities are conducted on our behalf, we consolidate the investment funds.

No arrangement exists requiring us to provide additional funding in excess of our committed capital investment, liquidity, or the funding of losses or an increase to our loss exposure in excess of our investment in the VIEs. We elected the fair value option for certain fixed maturity and equity securities and investment funds, which are reported in the consolidated variable interest entity sections on the consolidated balance sheets.

CoInvest VI, CoInvest VII and CoInvest Other were formed to make investments, including co-investments alongside private equity funds sponsored by Apollo. We received our interests in CoInvest VI, CoInvest VII and CoInvest Other as part of a contribution agreement in 2012 with AAA Guarantor - Athene, L.P. and its subsidiary, Apollo Life Re Ltd., in order to provide a capital base to support future acquisitions. London Prime was formed for the purpose of investing in Prime London Ventures Limited, a Guernsey limited company, which purchases rental residential assets across prime central London.

During the year ended December 31, 2014, we consolidated MidCap Financial Holdings LLC (MidCap Financial) through our investment in CoInvest VII. MidCap Financial was determined to be a VIE and CoInvest VII was the primary beneficiary. In January 2015, CoInvest VII contributed MidCap Financial to a newly formed entity, MidCap FinCo Limited (MidCap) in exchange for subordinated notes issued by MidCap and shares in MidCap's parent company. As a result of this restructuring, CoInvest VII owns the MidCap Financial investment indirectly through MidCap. The significant investment by new, unrelated investors and a qualitative assessment of the impact of the restructuring resulted in a

determination that CoInvest VII is not the primary beneficiary of MidCap. Therefore, since the completion of the restructuring, CoInvest VII has accounted for MidCap as an equity method investment, and thereafter, MidCap Financial has not been consolidated in our financial statements.

During 2016, we purchased a pool of loans sourced by MidCap and contemporaneously sold subordinated participation interests in the loans to a subsidiary of MidCap. As of December 31, 2016, the $14 million due to MidCap under the subordinated participation agreement is reflected as a secured borrowing in other liabilities on the consolidated balance sheets.

During the third quarter of 2016, CoInvest VI contributed its largest investment, Norwegian Cruise Line Holdings Ltd. (NCLH) shares, to a newly formed entity, NCL LLC, in exchange for 100% of the membership interests in this entity. Subsequent to this contribution, CoInvest VI distributed its Class A membership interests in NCL LLC to us and the Class B membership interests in NCL LLC to the general partner of CoInvest VI. NCL LLC is subject to the same management fees, selling restrictions and carried interest calculation as CoInvest VI. NCL LLC classifies its NCLH shares as AFS equity securities. We are the primary beneficiary and consolidate NCL LLC, as substantially all of its activities are conducted on our behalf.

We previously consolidated the 2012 CMBS-I Fund L.P., a Delaware limited partnership, and 2012 CMBS-II Fund L.P., a Delaware limited partnership (collectively, CMBS Funds). The CMBS Funds were originally formed with the objective of generating high risk-adjusted investment returns by investing primarily in a portfolio of eligible CMBS and using leverage through repurchase agreements treated as collateralized financing. During the third quarter of 2016, the CMBS Funds each sold investments to fully settle the borrowings under their respective repurchase agreements of $500 million. The remaining investments of $167 million were distributed directly to us. During the fourth quarter of 2016, the CMBS Funds were fully dissolved.

Borrowings - As of December 31, 2015, the CMBS Funds had borrowings outstanding under repurchase agreements with UBS totaling $500 million at a weighted average interest rate of 3.2%.

Trading securities - including related party - Trading securities represents investments in fixed maturity and equity securities with changes in fair value recognized in investment related gains (losses) within revenues of consolidated variable interest entities on the consolidated statements of income. For the years ended December 31, 2016, 2015 and 2014, investment related gains (losses) included losses of $78 million, $23 million and $74 million, respectively, resulting from the change in unrealized gains and losses underlying trading securities we still held as of the respective period end date. Trading securities held by CoInvest VI, CoInvest VII and CoInvest Other are considered related party investments because Apollo affiliates exercise significant influence over the operations of these investees.

Investment funds - including related party - Investment funds include non-fixed income, alternative investments in the form of limited partnerships or similar legal structures that meet the definition of VIEs; however, our consolidated VIEs are not considered the primary beneficiary of these investment funds. Changes in fair value of these investment funds are included in investment related gains (losses) within revenues of consolidated variable interest entities on the consolidated statements of income. Investment funds held by CoInvest VII and CoInvest Other are considered related party investments as they are sponsored or managed by Apollo affiliates.

Fair Value - See *Note 5 - Fair Value* for a description of the levels of our fair value hierarchy and our process for determining the level we assign our assets and liabilities carried at fair value.

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The following represents the hierarchy for assets and liabilities of our consolidated VIEs measured at fair value on a recurring basis:

	December 31, 2016			
(In millions)	Total	Level 1	Level 2	Level 3
Assets of consolidated variable interest entities				
Investments				
AFS securities				
Equity securities	$ 161	$ 161	$ -	$ -
Trading securities				
Fixed maturity securities	50	-	-	50
Equity securities	117	74	-	43
Investment funds	562	-	-	562
Cash and cash equivalents	14	14	-	-
Total assets of consolidated VIEs measured at fair value	$ 904	$ 249	$ -	$ 655

	December 31, 2015			
(In millions)	Total	Level 1	Level 2	Level 3
Assets of consolidated variable interest entities				
Investments				
Trading securities				
Fixed maturity securities	$ 722	$ -	$ 669	$ 53
Equity securities	309	271	-	38
Investment funds	516	-	-	516
Cash and cash equivalents	6	6	-	-
Total assets of consolidated VIEs measured at fair value	$ 1,553	$ 277	$ 669	$ 607

Fair Value Valuation Methods-Refer to *Note 5 - Fair Value* for the valuation methods used to determine the fair value of trading securities, investment funds, and cash and cash equivalents.

Level 3 Financial Instruments - The following is a reconciliation for all VIE Level 3 assets and liabilities measured at fair value on a recurring basis:

	Year ended December 31, 2016							
(In millions)	Beginning Balance	Total realized and unrealized gains (losses) included in income	Purchases/Borrowings	Sales/Repayments	Transfers in (out)[2]	Other	Ending Balance	Total gains (losses) included in earnings[1]
Assets of consolidated variable interest entities								
Trading securities								
Fixed maturity securities	$ 53	$ (1)	$ -	$ (2)	$ -	$ -	$ 50	$ (1)
Equity securities	38	3	2	-	-	-	43	3
Investment funds	516	49	17	(20)	-	-	562	49
Total Level 3 assets of consolidated VIEs	$ 607	$ 51	$ 19	$ (22)	$ -	$ -	$ 655	$ 51

[1] *Related to instruments held at end of period.*

[2] *See discussion of transfer out of Level 3 in the description of significant unobservable inputs below.*

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	Year ended December 31, 2015							
(In millions)	Beginning Balance	Total realized and unrealized gains (losses) included in income	Purchases/Borrowings	Sales/Repayments	Transfers in (out)	Other[2]	Ending Balance	Total gains (losses) included in earnings[1]
Assets of consolidated variable interest entities								
Trading securities								
Fixed maturity securities	$ 57	$ (6)	$ 2	$ -	$ -	$ -	$ 53	$ (6)
Equity securities	62	(15)	-	-	-	(9)	38	(15)
Investment funds	40	3	15	(15)	-	473	516	(7)
Loans held for investment	2,071	-	-	-	-	(2,071)	-	-
Total Level 3 assets of consolidated VIEs	$ 2,230	$ (18)	$ 17	$ (15)	$ -	$ (1,607)	$ 607	$ (28)
Liabilities of consolidated variable interest entities								
Borrowings	$ (1,517)	$ -	$ -	$ -	$ -	$ 1,517	$ -	$ -
Total Level 3 liabilities of consolidated VIEs	$ (1,517)	$ -	$ -	$ -	$ -	$ 1,517	$ -	$ -

[1] *Related to instruments held at end of period.*

[2] *Other activity primarily relates to the deconsolidation of MidCap Financial and its restructuring into MidCap.*

There were no transfers between Level 1 or Level 2 during the years ended December 31, 2016 and 2015.

Significant Unobservable Inputs - For certain Level 3 trading securities and investment funds, the valuations have significant unobservable inputs for comparable multiples and weighed average cost of capital rates applied in the valuation models. These inputs in isolation can cause significant increases or decreases in fair value. Specifically, the comparable multiples are multiplied by the underlying investment's earnings before interest, tax, depreciation and amortization to establish the total enterprise value of the underlying investments. We use a comparable multiple consistent with the implied trading multiple of public industry peers.

For other Level 3 trading securities, loans held for investment and borrowings, valuations are performed using a discounted cash flow model. For a discounted cash flow model, the significant input is the discount rate applied to present value the projected cash flows. An increase in the discount rate can significantly lower the fair value; a decrease in the discount rate can significantly increase the fair value. The discount rate is determined by considering the weighted average cost of capital calculation of companies in similar industries with comparable debt to equity ratios.

We applied a discount to the values reported by the investment funds for certain Level 3 trading securities and investment funds held within consolidated VIEs related to the lack of marketability of the underlying investment as of December 31, 2015. The weighted average of the discount rates applied to each individual investment was 34% as of December 31, 2015. Due to changing market conditions and the timing of liquidity events, we determined the liquidity discounts related to marketability assumptions used in the valuation of certain investments reported by the consolidated VIEs were no longer required.

Fair Value Option - The following represents the gains (losses) recorded for instruments within the consolidated VIEs for which we have elected the fair value option:

	Years ended December 31,		
(In millions)	2016	2015	2014
Trading securities			
Fixed maturity securities	$ (1)	$ (5)	$ (2)
Equity securities	(78)	(4)	27
Investment funds	49	12	20
Loans held for investment	-	-	4
Total gains (losses)	$ (30)	$ 3	$ 49

For fair value option loans held for investment, we record interest income in net investment income within revenues of consolidated variable interest entities on the consolidated statements of income. Gains or losses from initial measurement and subsequent changes in fair value are recorded in investment related gains (losses) within revenues of consolidated variable interest entities on the consolidated statements of income.

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Fair Value of Financial Instruments Not Held at Fair Value - Assets of consolidated variable interest entities includes $11 million and $18 million of investment funds accounted for under the equity method and, therefore, not carried at fair value as of December 31, 2016 and 2015, respectively; however, the carrying amount approximates fair value. Liabilities of consolidated variable interest entities included $500 million of borrowings held at cost as of December 31, 2015 and the unpaid principal balance of borrowings approximated fair value.

Commitments and Contingencies - Included in assets of CoInvest VI are equity investments in publicly traded shares of Caesars Entertainment Corporation (CEC) and Caesars Acquisition Company (CAC). We received the CEC and CAC shares as part of a contribution agreement in 2012 with AAA Guarantor - Athene, L.P. and its subsidiary, Apollo Life Re Ltd., in order to provide a capital base to support future acquisitions. There are pending claims against CEC, CAC and/or others, related to certain guaranties issued for debt of Caesars Entertainment Operating Company, Inc. (CEOC) and/or certain transactions involving CEOC and certain of its subsidiaries (collectively, Debtors), CEC, CAC and others. CEC and the Debtors announced on or about September 26, 2016, that CEC and CEOC had received confirmations from representatives of CEOC's major creditor groups of those groups' support for a term sheet that describes the key economic terms of a proposed consensual chapter 11 plan for the Debtors. The plan, containing such terms and further including such other terms respecting, among other things, the merger of CAC into CEC, that CoInvest VI and others will not retain their pre-merger CEC shares, that CoInvest VI and others will retain the value of their CAC shares when receiving shares in the merged CEC, and that CoInvest VI and others will receive releases to the fullest extent permitted by law, was confirmed by the Bankruptcy Court by order dated January 17, 2017. Conditions precedent to the effective date of the plan include regulatory approvals from the various gaming regulators, CEC and CAC shareholders approval of the proposed merger, and securing required financings. As a result, CoInvest VI has recorded a liability of $27 million for the entire carrying value of the CEC shares. As of December 31, 2016, CoInvest VI's investment in CAC is carried at its fair value of $45 million.

Non-Consolidated VIEs-We invest in other entities meeting the definition of a VIE. We do not consolidate these investments because we do not meet the criteria of primary beneficiary as described below.

Fixed Maturity Securities - We invest in securitization entities as a debt holder or an investor in the residual interest of the securitization vehicle, which are included in fixed maturity securities on the consolidated balance sheets. These entities are deemed VIEs due to insufficient equity within the structure and lack of control by the equity investors over the activities that significantly impact the economics of the entity. In general, we are a debt investor within these entities and, as such, hold a variable interest; however, due to the debt holders' lack of ability to control the decisions within the trust that significantly impact the entity, and the fact the debt holders are protected from losses due to the subordination by the equity tranche, the debt holders are not deemed the primary beneficiary. Securitization vehicles in which we hold the residual tranche are not consolidated because we do not unilaterally have substantive rights to remove the general partner, or when assessing related party interests, we are not under common control, as defined by GAAP, with the related party, nor are substantially all of the activities conducted on our behalf; therefore, we are not deemed the primary beneficiary. Debt investments and investments in the residual tranche of securitization entities are considered debt instruments and are held at fair value on the balance sheet and classified as AFS or trading.

Investment funds - Investment funds include non-fixed income, alternative investments in the form of limited partnerships or similar legal structures that meet the definition of VIEs.

A portion of these investment funds are sponsored and managed by unrelated parties in which we, as limited partner, do not have the power to direct the activities that most significantly impact the economic performance of the fund, nor do we unilaterally have substantive rights to remove the general partner or dissolve the entity without cause. As a result, we do not meet the power criterion to be considered the primary beneficiary and do not consolidate these VIEs in our financial statements.

We also have equity interests in investment funds where the general partner or investment manager is a related party. We have determined we are not under common control, as defined by GAAP, with the related party, nor are we deemed to be the primary beneficiary. As a result, investments in these VIEs are not consolidated.

We account for non-consolidated investment funds where we are able to exercise significant influence over the entity under the equity method or by electing the fair value option. For non-consolidated investment funds where we are not able to exercise significant influence, we elect the fair value option. NAV is used as a practical expedient for fair value when the fair value option is elected. Our investments in investment funds are generally passive in nature as we do not take an active role in the investment fund's management.

Our risk of loss associated with our non-consolidated VIEs is limited and depends on the investment as follows: (1) investment funds accounted for under the equity method are limited to our initial investment plus unfunded commitments; (2) investment funds under the fair value option are limited to the fair value plus unfunded commitments; (3) AFS securities and other investments are limited to cost or amortized cost; and (4) trading securities are limited to carrying value.

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The following summarizes the carrying value and maximum loss exposure of these non-consolidated VIEs:

	December 31,			
	2016		2015	
(In millions)	Carrying Value	Maximum Loss Exposure	Carrying Value	Maximum Loss Exposure
Investment funds	$ 689	$ 1,026	$ 733	$ 878
Investment in related parties - investment funds	1,198	1,485	997	1,454
Assets of consolidated variable interest entities - investment funds	573	593	534	558
Investment in fixed maturity securities	19,171	19,090	17,673	18,146
Investment in related parties - fixed maturity securities	530	536	525	554
Total non-consolidated VIEs	$ 22,161	$ 22,730	$ 20,462	$ 21,590

The following summarizes our investment funds, including related party investment funds and investment funds owned by consolidated VIEs:

	December 31,					
	2016			2015		
(In millions, except for percentages and years)	Carrying value	Percent of total	Life of underlying funds in years	Carrying value	Percent of total	Life of underlying funds in years
Investment funds						
Private equity	$ 268	38.9%	0 - 7	$ 263	35.9%	0 - 7
Mortgage and real estate	118	17.2%	0 - 4	101	13.8%	0 - 7
Natural resources	5	0.7%	1 - 2	6	0.8%	0 - 1
Hedge funds	72	10.4%	0 - 3	86	11.7%	0 - 4
Credit funds	226	32.8%	0 - 5	277	37.8%	0 - 5
Total investment funds	689	100.0%		733	100.0%	
Investment funds - related parties						
Private equity - A-A Mortgage[1]	343	28.6%	3 - 3	225	22.6%	6 - 7
Private equity - other	131	11.0%	0 - 10	36	3.6%	6 - 7
Mortgage and real estate	247	20.6%	1 - 4	234	23.5%	0 - 7
Natural resources	49	4.1%	5 - 5	46	4.6%	3 - 7
Hedge funds	192	16.0%	9 - 9	256	25.6%	0 - 1
Credit funds	236	19.7%	2 - 3	200	20.1%	3 - 10
Total investment funds - related parties	1,198	100.0%		997	100.0%	
Investment funds owned by consolidated VIEs						
Private equity - MidCap[2]	524	91.4%	N/A	482	90.3%	N/A
Credit funds	38	6.7%	0 - 3	34	6.3%	0 - 4
Mortgage and real assets	11	1.9%	2 - 3	18	3.4%	3 - 4
Total investment funds owned by consolidated VIEs	573	100.0%		534	100.0%	
Total investment funds including related parties and funds owned by consolidated VIEs	$ 2,460			$ 2,264		

[1] *A-A Mortgage Opportunities, LP (A-A Mortgage) is a platform to originate residential mortgage loans and mortgage servicing rights.*

[2] *Our total investment in MidCap, including amounts advanced under credit facilities, totaled $761 million and $782 million as of December 31, 2016 and 2015, respectively, which is greater than 10% of total AHL shareholders' equity at the respective period end dates.*

Summarized Ownership of Investment Funds-The following is the aggregated summarized financial information of equity method investees, including those where we elected the fair value option, and may be presented on a lag due to the availability of financial information from the investee:

	December 31,	
(In millions)	2016	2015
Assets	$ 40,120	$ 51,649
Liabilities	5,886	6,990
Equity	34,234	44,659

	Years ended December 31,		
(In millions)	2016	2015	2014
Net income	$ 1,686	$ 5,945	$ 8,418

The following table presents the carrying value by ownership percentage of equity method investment funds, including related party investment funds and investment funds owned by consolidated VIEs:

	December 31,	
(In millions)	2016	2015
Ownership Percentage		
100%	$ 27	$ 49
50% - 99%	478	322
Greater than 3% - 49%	1,294	1,225
Equity method investment funds	$ 1,799	$ 1,596

The following table presents the carrying value by ownership percentage of investment funds where we elected the fair value option, including related party investment funds and investment funds owned by consolidated VIEs:

	December 31,	
(In millions)	2016	2015
Ownership Percentage		
Greater than 3% - 49%	$ 562	$ 516
3% or less	99	152
Fair value option investment funds	$ 661	$ 668

5. Fair Value

Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. We determine fair value based on the following fair value hierarchy:

Level 1 - Unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 - Quoted prices for inactive markets or valuation techniques that require observable direct or indirect inputs for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets,
- Observable inputs other than quoted market prices, and
- Observable inputs derived principally from market data through correlation or other means.

Level 3 - Prices or valuation techniques with unobservable inputs significant to the overall fair value estimate. These valuations use critical assumptions not readily available to market participants. Level 3 valuations are based on market standard valuation methodologies, including discounted cash flows, matrix pricing or other similar techniques.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the instrument's fair value measurement.

We use a number of valuation sources to determine fair values. Valuation sources can include quoted market prices; third-party commercial pricing services; third-party brokers; industry-standard, vendor modeling software that uses market observable inputs; and other internal modeling techniques based on projected cash flows. We periodically review the assumptions and inputs of third-party commercial pricing services through internal valuation price variance reviews, comparisons to internal pricing models, back testing to recent trades, or monitoring trading volumes.

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The following represents the hierarchy for our assets and liabilities measured at fair value on a recurring basis:

	December 31, 2016				
(In millions)	Total	NAV[1]	Level 1	Level 2	Level 3
Assets					
AFS securities					
Fixed maturity securities					
U.S. government and agencies	$ 60	$ -	$ 29	$ 31	$ -
U.S. state, municipal and political subdivisions	1,140	-	-	1,135	5
Foreign governments	2,235	-	-	2,221	14
Corporate	30,020	-	-	29,650	370
CLO	4,822	-	-	4,664	158
ABS	2,936	-	-	1,776	1,160
CMBS	1,847	-	-	1,695	152
RMBS	8,973	-	-	8,956	17
Total AFS fixed maturity securities	52,033	-	29	50,128	1,876
Equity securities	353	-	79	269	5
Total AFS securities	52,386	-	108	50,397	1,881
Trading securities					
Fixed maturity securities					
U.S. government and agencies	3	-	3	-	-
U.S. state, municipal and political subdivisions	137	-	-	120	17
Corporate	1,423	-	-	1,423	-
CLO	43	-	-	-	43
ABS	82	-	-	82	-
CMBS	81	-	-	81	-
RMBS	387	-	-	291	96
Total trading fixed maturity securities	2,156	-	3	1,997	156
Equity securities	425	-	-	425	-
Total trading securities	2,581	-	3	2,422	156
Mortgage loans	44	-	-	-	44
Investment funds	99	99	-	-	-
Funds withheld at interest - embedded derivative	140	-	-	-	140
Derivative assets	1,370	-	9	1,361	-
Short-term investments	189	-	19	170	-
Cash and cash equivalents	2,445	-	2,445	-	-
Restricted cash	57	-	57	-	-
Investments in related parties					
AFS, fixed maturity securities					
CLO	279	-	-	279	-
ABS	56	-	-	-	56
Total AFS fixed maturity securities	335	-	-	279	56
AFS, equity securities	20	-	20	-	-
Total AFS securities - related party	355	-	20	279	56
Trading securities, CLO	195	-	-	-	195
Reinsurance recoverable	1,692	-	-	-	1,692
Total assets measured at fair value	$ 61,553	$ 99	$ 2,661	$ 54,629	$ 4,164

(Continued)

(In millions)	December 31, 2016 Total	NAV[1]	Level 1	Level 2	Level 3
Liabilities					
Interest sensitive contract liabilities					
Embedded derivative	$ 5,283	$ -	$ -	$ -	$ 5,283
Universal life benefits	883	-	-	-	883
Unit-linked contracts	408	-	-	408	-
Future policy benefits					
AmerUs Closed Block	1,606	-	-	-	1,606
ILICO Closed Block and life benefits	794	-	-	-	794
Derivative liabilities	40	-	-	33	7
Funds withheld liability - embedded derivative	6	-	-	6	-
Total liabilities measured at fair value	$ 9,020	$ -	$ -	$ 447	$ 8,573

[1] *Investments measured at NAV as a practical expedient in determining fair value have not been classified in the fair value hierarchy.*

(Concluded)

(In millions)	December 31, 2015 Total	NAV[1]	Level 1	Level 2	Level 3
Assets					
AFS securities					
Fixed maturity securities					
U.S. government and agencies	$ 45	$ -	$ 41	$ 4	$ -
U.S. state, municipal and political subdivisions	1,165	-	-	1,165	-
Foreign governments	2,464	-	-	2,447	17
Corporate	26,936	-	-	26,300	636
CLO	4,555	-	-	4,038	517
ABS	2,918	-	-	1,105	1,813
CMBS	1,738	-	-	1,671	67
RMBS	7,995	-	-	7,237	758
Total AFS fixed maturity securities	47,816	-	41	43,967	3,808
Equity securities	407	-	82	316	9
Total AFS securities	48,223	-	123	44,283	3,817
Trading securities					
Fixed maturity securities					
U.S. government and agencies	1	-	1	-	-
U.S. state, municipal and political subdivisions	133	-	-	116	17
Corporate	1,450	-	-	1,434	16
CLO	108	-	-	-	108
ABS	98	-	-	-	98
CMBS	99	-	-	99	-
RMBS	161	-	-	132	29
Total trading fixed maturity securities	2,050	-	1	1,781	268
Equity securities	418	-	-	418	-
Total trading securities	2,468	-	1	2,199	268

(Continued)

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	December 31, 2015				
(In millions)	Total	NAV[1]	Level 1	Level 2	Level 3
Mortgage loans	48	-	-	-	48
Investment funds	152	152	-	-	-
Funds withheld at interest - embedded derivative	36	-	-	-	36
Derivative assets	871	-	9	862	-
Short-term investments	135	-	4	131	-
Cash and cash equivalents	2,714	-	2,714	-	-
Restricted cash	116	-	116	-	-
Investments in related parties					
AFS, fixed maturity securities					
CLO	248	-	-	241	7
ABS	60	-	-	-	60
Total AFS securities - related party	308	-	-	241	67
Trading securities, CLO	217	-	-	26	191
Reinsurance recoverable	2,377	-	-	-	2,377
Total assets measured at fair value	$ 57,665	$ 152	$ 2,967	$ 47,742	$ 6,804
Liabilities					
Interest sensitive contract liabilities					
Embedded derivative	$ 4,477	$ -	$ -	$ -	$ 4,477
Universal life benefits	1,464	-	-	-	1,464
Unit-linked contracts	418	-	-	418	-
Future policy benefits					
AmerUs Closed Block	1,581	-	-	-	1,581
ILICO Closed Block and life benefits	897	-	-	-	897
Derivative liabilities	17	-	1	9	7
Funds withheld liability - embedded derivative	35	-	-	35	-
Total liabilities measured at fair value	$ 8,889	$ -	$ 1	$ 462	$ 8,426

[1] *Investments measured at NAV as a practical expedient in determining fair value have not been classified in the fair value hierarchy.*

(Concluded)

Refer to *Note 4 - Variable Interest Entities* for fair value disclosures associated with consolidated VIEs.

Fair Value Valuation Methods-We used the following valuation methods and assumptions to estimate fair value:

AFS and trading securities
Fixed maturity - We obtain the fair value for most marketable bonds without an active market from several commercial pricing services. These are classified as Level 2 assets. The pricing services incorporate a variety of market observable information in their valuation techniques, including benchmark yields, broker-dealer quotes, credit quality, issuer spreads, bids, offers and other reference data. This category typically includes U.S. and non-U.S. corporate bonds, U.S. agency and government guaranteed securities, ABS, CMBS and RMBS.

We value privately placed fixed maturity securities based on the credit quality and duration of comparable marketable securities, which may be securities of another issuer with similar characteristics. In some instances, we use a matrix-based pricing model. These models consider the current level of risk-free interest rates, corporate spreads, credit quality of the issuer and cash flow characteristics of the security. We also consider additional factors such as net worth of the borrower, value of collateral, capital structure of the borrower, presence of guarantees and our evaluation of the borrower's ability to compete in its relevant market. Privately placed fixed maturity securities are classified as Level 2 or 3.

Equity securities - Fair values of publicly traded equity securities are based on quoted market prices and classified as Level 1. Other equity securities, typically private equities or equity securities not traded on an exchange, we value based on other sources, such as commercial pricing services or brokers and are classified as Level 2 or 3.

Mortgage loans - Mortgage loans for which we have elected the fair value option or those held for sale are carried at fair value. We estimate fair value on a monthly basis using discounted cash flow analysis and rates being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The discounted cash flow model uses unobservable inputs, including estimates of discount rates and loan prepayments. Mortgage loans are classified as Level 3.

Funds withheld (embedded derivative) - We estimate the fair value of the embedded derivative based on the change in the fair value of the assets supporting the funds withheld payable under the combined coinsurance, modco and coinsurance funds withheld reinsurance agreements. As a result, the fair value of the embedded derivative is classified as Level 2 or 3 based on the valuation methods used for the assets held in trust supporting the reinsurance agreements.

Derivatives - Derivative contracts can be exchange traded or over-the-counter. Exchange-traded derivatives typically fall within Level 1 of the fair value hierarchy depending on trading activity. Over-the-counter derivatives are valued using valuation models or an income approach using third-party broker valuations. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlation of the inputs. We consider and incorporate counterparty credit risk in the valuation process through counterparty credit rating requirements and monitoring of overall exposure. We also evaluate and include our own nonperformance risk in valuing derivatives. The majority of our derivatives trade in liquid markets; therefore, we can verify model inputs and model selection does not involve significant management judgment. These are typically classified within Level 2 of the fair value hierarchy.

Cash and cash equivalents - The carrying amount for cash equals fair value. We estimate the fair value for cash equivalents based on quoted market prices. These assets are classified as Level 1.

Interest sensitive contract liabilities (embedded derivative) - Embedded derivatives related to interest sensitive contract liabilities with fixed indexed annuity products are classified as Level 3. The valuations include significant unobservable inputs associated with economic assumptions and actuarial assumptions for policyholder behavior.

Unit-linked contracts - Unit-linked contracts are valued based on the fair value of the investments supporting the contract. The underlying investments are trading securities comprised primarily of mutual funds. The valuations of these are based on quoted market prices for similar assets and are classified in Level 2, resulting in a corresponding classification for the unit-linked contracts.

AmerUs Closed Block - We elected the fair value option for the future policy benefits liability in the AmerUs Closed Block. Our valuation technique is to set the fair value of policyholder liabilities equal to the fair value of assets. There is an additional component which captures the fair value of the open block's cost to hold capital in excess of existing liabilities on the closed block. This component uses a present value of future cash flows, which includes investment earnings and policyholder liability movements. Unobservable inputs include estimates for these items. The target surplus as a percentage of statutory reserves is 3.85% based on the statutory risk-based capital ratio applicable to this block of business. The AmerUs Closed Block policyholder liabilities and any corresponding reinsurance recoverable are classified as Level 3.

ILICO Closed Block - We elected the fair value option for the ILICO Closed Block. Our valuation technique is to set the fair value of policyholder liabilities equal to the fair value of assets. There is an additional component which captures the fair value of the open block's obligations to the closed block business. This component uses the present value of future cash flows. The cash flows include commissions, administrative expenses, reinsurance premiums and benefits, and an explicit cost of capital. Unobservable inputs include estimates for these items. The explicit cost of capital assumption is 9% of required capital, post tax. A margin of 9.42% is included in the discount rates to reflect the business risk. An additional 0.26% is included to reflect non-performance risk. The ILICO Closed Block policyholder liabilities and corresponding reinsurance recoverable are classified as Level 3.

Universal life liabilities and other life benefits - We elected the fair value option for certain blocks of universal and other life business ceded to Global Atlantic. We use a present value of liability cash flows. Unobservable inputs include estimates of mortality, persistency, expenses, premium payments and a risk margin used in the discount rates that reflects the riskiness of the business. The risk margin was 0.09%. These universal life policyholder liabilities and corresponding reinsurance recoverable are classified as Level 3.

Fair Value Option-The following represents the gains (losses) recorded for instruments for which we have elected the fair value option:

	Years ended December 31,		
(In millions)	2016	2015	2014
Trading securities	$ (33)	$ (313)	$ 254
Mortgage loans	-	-	5
Investment funds	5	(8)	31
Future policy benefits	(25)	134	(102)
Total gains (losses)	$ (53)	$ (187)	$ 188

For fair value option mortgage loans, we record interest income in net investment income and subsequent changes in fair value in investment related gains (losses) on the consolidated statements of income. Gains and losses related to investment funds, including related party investment funds, are recorded in net investment income on the consolidated statements of income. We record the change in fair value of future policy benefits to future policy and other policy benefits on the consolidated statements of income.

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The following summarizes information for fair value option mortgage loans:

	December 31,	
(In millions)	2016	2015
Unpaid principal balance	$ 42	$ 46
Mark to fair value	2	2
Fair value	$ 44	$ 48

There were no fair value option mortgage loans 90 days or more past due as of December 31, 2016 and 2015.

Transfers Between Levels-Transfers into Level 3 generally represent securities that were valued using pricing sources which, due to changing market conditions, were less observable than in prior periods as indicated by the increased volatility, which was reflected in vendor prices obtained for individual securities. Additionally, changes in pricing sources also led to securities transferring into Level 3.

Transfers out of Level 3 generally represent securities that were valued using pricing sources which, due to changing market conditions, were more observable than in prior periods as indicated by decreased volatility, which was reflected in vendor prices obtained for individual securities. Additionally, changes in pricing sources also led to securities transferring into Level 2.

Transfers into or out of any level are assumed to occur at the end of the period. For the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2.

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Level 3 Financial Instruments-The following is a reconciliation for all Level 3 assets and liabilities measured at fair value on a recurring basis:

	Year ended December 31, 2016									
		Total realized and unrealized gains (losses)				Transfers				
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases	Sales	In	(Out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Assets										
AFS securities										
Fixed maturity										
U.S. state, municipal and political subdivisions	$ -	$ -	$ -	$ -	$ -	$ 5	$ -	$ -	$ 5	$ -
Foreign governments	17	-	(1)	-	(2)	-	-	-	14	-
Corporate	636	-	20	95	(131)	-	(250)	-	370	-
CLO	517	4	55	24	(70)	72	(444)	-	158	-
ABS	1,813	81	(12)	261	(896)	104	(191)	-	1,160	-
CMBS	67	1	-	40	(1)	91	(46)	-	152	-
RMBS	758	3	19	8	(305)	-	(466)	-	17	-
Equity securities	9	-	-	-	(4)	-	-	-	5	-
Trading securities										
Fixed maturity										
U.S. state, municipal and political subdivisions	17	-	-	-	-	-	-	-	17	-
Corporate	16	-	-	-	(4)	-	(12)	-	-	4
CLO	108	(2)	-	4	(67)	-	-	-	43	11
ABS	98	(16)	-	-	-	-	(82)	-	-	-
RMBS	29	(23)	-	144	-	-	(54)	-	96	(9)
Mortgage loans	48	-	-	-	(4)	-	-	-	44	-
Funds withheld at interest - embedded derivative	36	104	-	-	-	-	-	-	140	-
Investments in related parties										
AFS securities										
Fixed maturity										
CLO	7	-	1	-	-	-	(8)	-	-	-
ABS	60	-	-	-	(4)	-	-	-	56	-
Trading securities, CLO	191	(33)	-	33	(26)	30	-	-	195	23
Reinsurance recoverable	2,377	(685)	-	-	-	-	-	-	1,692	-
Total Level 3 assets	$ 6,804	$ (566)	$ 82	$ 609	$ (1,514)	$ 302	$(1,553)	$ -	$ 4,164	$ 29

(Continued)

	Year ended December 31, 2016									
		Total realized and unrealized gains (losses)				Transfers				
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases	Sales	In	(Out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative[2]	$ (4,477)	$ (311)	$ -	$ -	$ -	$ -	$ -	$ (495)	$ (5,283)	$ -
Universal life liabilities	(1,464)	581	-	-	-	-	-	-	(883)	-
Future policy benefits										
AmerUs Closed Block	(1,581)	(25)	-	-	-	-	-	-	(1,606)	-
ILICO Closed Block and life benefits	(897)	103	-	-	-	-	-	-	(794)	-
Derivative liabilities	(7)	-	-	-	-	-	-	-	(7)	-
Total Level 3 liabilities	$ (8,426)	$ 348	$ -	$ -	$ -	$ -	$ -	$ (495)	$ (8,573)	$ -

[1] *Related to instruments held at end of period.*

[2] *Other activity represents the change in fair value due to issuances of $641 million, offset by settlements of $146 million.*

(Concluded)

	Year ended December 31, 2015									
		Total realized and unrealized gains (losses)				Transfers				
(In millions)	Beginning balance	Included in income	Included in OCI	Purchases	Sales	In	Out	Other	Ending balance	Total gains (losses) included in earnings[1]
Assets										
AFS securities										
Fixed maturity										
U.S. state, municipal and political subdivisions	$ 52	$ (1)	$ 1	$ -	$ (35)	$ -	$ -	$ (17)	$ -	$ -
Foreign governments	-	-	-	-	-	-	-	17	17	-
Corporate	208	(1)	(13)	311	(81)	225	(13)	-	636	-
CLO	182	3	(9)	112	-	337	(108)	-	517	-
ABS	924	18	(35)	367	(146)	703	(18)	-	1,813	-
CMBS	69	1	(2)	25	(2)	23	(47)	-	67	-
RMBS	654	11	(15)	91	(138)	155	-	-	758	-
Equity securities	-	-	-	10	-	-	-	(1)	9	-
Trading securities										
Fixed maturity										
U.S. state, municipal and political subdivisions	-	-	-	-	-	17	-	-	17	-
Corporate	-	-	-	-	-	16	-	-	16	-
CLO	146	(16)	-	26	(48)	-	-	-	108	(15)
ABS	-	(2)	-	100	-	-	-	-	98	(1)
RMBS	-	(1)	-	30	-	-	-	-	29	-
Mortgage loans	73	(3)	-	-	(4)	-	-	(18)	48	(3)
Funds withheld at interest - embedded derivative	127	(91)	-	-	-	-	-	-	36	-
Investments in related parties										
AFS securities										
Fixed maturity										
CLO	15	(1)	(2)	9	(8)	-	(6)	-	7	-
ABS	66	-	(1)	-	(5)	-	-	-	60	-
Trading securities, CLO	268	(29)	-	51	(73)	-	(26)	-	191	(17)
Reinsurance recoverable	2,460	(83)	-	-	-	-	-	-	2,377	-
Total Level 3 assets	$ 5,244	$ (195)	$ (76)	$ 1,132	$ (540)	$ 1,476	$ (218)	$ (19)	$ 6,804	$ (36)

(Continued)

ATHENE HOLDING LTD.
Notes to Consolidated Financial Statements

(In millions)	Year ended December 31, 2015									
		Total realized and unrealized gains (losses)				Transfers				
	Beginning balance	Included in income	Included in OCI	Purchases	Sales	In	Out	Other	Ending balance	Total gains (losses) included in earnings[1]
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative[2]	$ (4,437)	$ 158	$ -	$ -	$ -	$ -	$ -	$ (198)	$ (4,477)	$ -
Universal life liabilities	(1,417)	(47)	-	-	-	-	-	-	(1,464)	-
Future policy benefits										
AmerUs Closed Block	(1,715)	134	-	-	-	-	-	-	(1,581)	-
ILICO Closed Block and life benefits	(1,026)	129	-	-	-	-	-	-	(897)	-
Derivative liabilities	(8)	1	-	-	-	-	-	-	(7)	-
Total Level 3 liabilities	$ (8,603)	$ 375	$ -	$ -	$ -	$ -	$ -	$ (198)	$ (8,426)	$ -

[1] *Related to instruments held at end of period.*

[2] *Other activity represents the change in fair value due to issuances of $341 million, offset by settlements of $143 million.*

(Concluded)

Significant Unobservable Inputs-Significant unobservable inputs occur when we could not obtain or corroborate the quantitative detail of the inputs. This applies to AFS securities, trading securities, mortgage loans and credit default swaps. Additional significant unobservable inputs are described below.

Fixed maturity securities - For certain fixed maturity securities, internal models are used to calculate the fair value. We use a discounted cash flow approach. The discount rate is the significant unobservable input due to the determined credit spread being internally developed, illiquid, or as a result of other adjustments made to the base rate. The base rate represents a market comparable rate for securities with similar characteristics. Discounts ranged from 4% to 8%. This excludes assets for which significant unobservable inputs are not developed internally, primarily consisting of broker quotes.

Interest sensitive contract liabilities - embedded derivative - Significant unobservable inputs we use in the fixed indexed annuities embedded derivative of the interest sensitive contract liabilities valuation include:

1. Non-performance risk - For contracts we issue, we use the credit spread from the U.S. treasury curve based on our public credit rating as of the valuation date. This represents our credit risk for use in the estimate of the fair value of embedded derivatives. For contracts reinsured through funds withheld reinsurance, the cedant company holds collateral against its exposure; therefore, immaterial non-performance risk is ascribed to these contracts.
2. Option budget - We assume future hedge costs in the derivative's fair value estimate. The level of option budgets determines the future costs of the options and impacts future policyholder account value growth.
3. Policyholder behavior - We regularly review the lapse and withdrawal assumptions (surrender rate). These are based on our initial pricing assumptions updated for actual experience. Actual experience may be limited for recently issued products.

The following summarizes the unobservable inputs for the embedded derivatives of fixed indexed annuities:

(In millions, except for percentages)	December 31, 2016				
	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Interest sensitive contract liabilities - fixed indexed annuities embedded derivatives	$ 5,283	Option budget method	Non-performance risk	0.7% - 1.5%	Decrease
			Option budget	0.8% - 3.8%	Increase
			Surrender rate	0.0% - 16.3%	Decrease

	December 31, 2015				
(In millions, except for percentages)	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Interest sensitive contract liabilities - fixed indexed annuities embedded derivatives	$ 4,477	Option budget method	Non-performance risk	0.6% - 1.8%	Decrease
			Option budget	0.8% - 3.8%	Increase
			Surrender rate	0.0% - 10.7%	Decrease

Fair Value of Financial Instruments Not Carried at Fair Value-The following represents our financial instruments not carried at fair value on the consolidated balance sheets:

		December 31,			
		2016		2015	
(In millions)	Fair Value Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets					
Mortgage loans	3	$ 5,426	$ 5,560	$ 5,452	$ 5,567
Investment funds	NAV[1]	590	590	581	581
Policy loans	2	602	602	642	642
Funds withheld at interest	3	6,398	6,398	3,446	3,446
Other investments	3	81	81	83	83
Investments in related parties					
Investment funds	NAV[1]	1,198	1,198	997	997
Short-term investments	2	-	-	55	55
Other investments	3	237	262	245	256
Total assets not carried at fair value		$ 14,532	$ 14,691	$ 11,501	$ 11,627
Liabilities					
Interest sensitive contract liabilities[2]	3	$ 27,628	$ 26,600	$ 23,645	$ 22,963
Funds withheld liability	2	374	374	353	353
Total liabilities not carried at fair value		$ 28,002	$ 26,974	$ 23,998	$ 23,316

[1] *Investments measured at NAV as a practical expedient in determining fair value have not been classified in the fair value hierarchy.*

[2] *During 2016, we changed the disclosure of interest sensitive contract liabilities to exclude insurance contracts, which are not required to be included. We determined contract types that meet the definition of insurance contracts include universal life and traditional fixed and fixed indexed annuities with significant mortality or morbidity risks. In previous periods, all contracts within interest sensitive contract liabilities not held at fair value were included. As such, the carrying and fair values reported for December 31, 2015, were adjusted to be comparable.*

We estimate the fair value for financial instruments not carried at fair value using the same methods and assumptions as those we do carry at fair value. The financial instruments presented above are reported at carrying value on the consolidated balance sheets; however, in the case of policy loans, funds withheld at interest and liability, other investments and related party short-term investments, the carrying amount approximates fair value.

Investment in related parties - Other investments - The fair value of related party other investments is determined using a discounted cash flow model using discount rates for similar investments.

Interest sensitive contract liabilities - The carrying and fair value of interest sensitive contract liabilities above includes fixed indexed and traditional fixed annuities without mortality or morbidity risks, funding agreements and payout annuities without life contingencies. The embedded derivatives within fixed indexed annuities without mortality or morbidity risks are excluded, as they are carried at fair value. The valuation of these investment contracts is based on discounted cash flow methodologies using significant unobservable inputs. The estimated fair value is determined using current market risk-free interest rates, adding a spread to reflect our nonperformance risk and subtracting a risk margin to reflect uncertainty inherent in the projected cash flows.

6. Business Combinations

Delta Lloyd Deutschland AG (DLD)-Effective October 1, 2015, we acquired 100% of the voting equity interests of DLD and $50 million of intercompany loans from Delta Lloyd N.V. for a cash purchase price of $74 million. DLD was a Germany-domiciled insurance group with an in force book of business primarily made up of participating long-duration savings products. We acquired DLD to strategically expand our core business into Germany. Following the acquisition, DLD was renamed Athene Deutschland GmbH.

The following summarizes the fair values of the assets acquired and liabilities assumed in the DLD acquisition:

(In millions)	October 1, 2015
Investments	$ 5,539
Cash and cash equivalents	236
Accrued investment income	67
Reinsurance recoverable	4
Other assets	83
Total identifiable assets acquired	5,929
Interest sensitive contract liabilities	403
Future policy benefits	4,519
Other policy claims and benefits	55
Dividends payable to policyholders	771
Other liabilities	107
Total identifiable liabilities assumed	5,855
Net assets acquired	$ 74

DLD contributed $129 million of revenue and $6 million of net income during the year ended December 31, 2015. Transaction costs incurred during the years ended December 31, 2015 and 2014 for this acquisition was $15 million and $7 million, respectively, and are included in policy and other operating expenses on the consolidated statements of income.

The following unaudited pro forma revenue and net income assumes a January 1, 2014 acquisition date for DLD:

	Years ended December 31,	
(In millions)	2015	2014
Revenue	$ 3,002	$ 4,622
Net income	579	473

7. Reinsurance

The following summarizes the effect of reinsurance on premiums and future policy and other policy benefits on the consolidated statements of income:

	Years ended December 31,		
(In millions)	2016	2015	2014
Premiums			
Direct	$ 448	$ 445	$ 387
Reinsurance assumed	20	24	28
Reinsurance ceded	(228)	(274)	(315)
Total premiums	$ 240	$ 195	$ 100
Future policy and other policy benefits			
Direct	$ 1,418	$ 1,041	$ 1,320
Reinsurance assumed	82	30	(134)
Reinsurance ceded	(457)	(554)	(490)
Total future policy and other policy benefits	$ 1,043	$ 517	$ 696

Reinsurance typically provides for recapture rights on the part of the ceding company for certain events of default. Additionally, some agreements require us to place assets in trust accounts for the benefit of the ceding entity. As of December 31, 2016 and 2015, we held assets in trusts of $1,148 million and $1,314 million, respectively. Although we own the assets placed in trust, their use is restricted based on the trust agreement terms. If the statutory book value of the assets, or in certain cases fair value, in a trust declines because of impairments or other reasons, we may be required to contribute additional assets to the trust. In addition, the assets within a trust may be subject to a pledge in favor of the applicable reinsurance company.

Global Atlantic ceded reinsurance transactions-We have a 100% coinsurance and assumption agreement with Global Atlantic. The agreement ceded all existing open block life insurance business issued by Athene Annuity and Life Company (AAIA), with the exception of enhanced guarantee universal life insurance products. We also entered into a 100% coinsurance agreement with Global Atlantic to cede all policy liabilities of the ILICO Closed Block. The ILICO Closed Block consists primarily of participating whole life insurance policies. We also have an excess of loss arrangement with Global Atlantic to reimburse us for any payments required from our general assets to meet the contractual obligations of the AmerUs Closed Block not covered by existing reinsurance through Athene Re USA IV. The AmerUs Closed Block consists primarily of participating whole life insurance policies. Since all liabilities were covered by the existing reinsurance at close, no reinsurance premiums were ceded. The assets backing the AmerUs Closed Block are managed, on AAIA's behalf, by Goldman Sachs Asset Management, an affiliate of Global Atlantic.

During the years ended December 31, 2016 and 2015, we novated certain open blocks of business ceded to Global Atlantic, in accordance with the terms of the coinsurance and assumption agreement. The following summarizes the decreases in amounts on the consolidated balance sheets as a result of the novations:

	Years ended December 31,	
(In millions)	2016	2015
Interest sensitive contract liabilities	$ 1,006	$ 4,179
Future policy benefits	188	67
Policy loans	33	129
Reinsurance recoverable	1,161	4,117

During the third quarter of 2015, portions of the reinsurance agreements between us and Global Atlantic were amended to change the reinsurance agreements from funds withheld to coinsurance, which resulted in a $930 million decrease to funds withheld liability and a corresponding decrease to assets, primarily consisting of investments.

As of December 31, 2016 and 2015, Global Atlantic maintained a series of trust and custody accounts under the terms of these agreements with with assets equal to or greater than a required aggregate statutory balance of $4,122 million and $4,614 million, respectively.

Protective Life Insurance Company (Protective) ceded reinsurance transactions-We reinsured substantially all of the existing life and health business of Athene Annuity & Life Assurance Company (AADE) to Protective under a coinsurance agreement in 2011. As of December 31, 2016 and 2015, Protective maintained a trust for our benefit with assets having a fair value of $1,664 million and $1,616 million, respectively.

Ceded Reinsurance Transactions-The following summarizes our reinsurance recoverable from the following:

	December 31,	
(In millions)	2016	2015
Global Atlantic	$ 3,914	$ 5,090
Protective	1,723	1,760
Other[1]	364	407
Reinsurance recoverable	$ 6,001	$ 7,257

[1]*Represents all other reinsurers, with no single reinsurer having a carrying value in excess of 5% of total recoverable.*

8. Deferred Acquisition Costs, Deferred Sales Inducements and Value of Business Acquired

The following represents a rollforward of DAC, DSI and VOBA:

(In millions)	DAC	DSI	VOBA	Total
Balance at December 31, 2013	$ 210	$ 91	$ 1,834	$ 2,135
Additions	250	113	-	363
Unlocking	2	6	28	36
Amortization	(20)	(10)	(129)	(159)
Impact of unrealized investment (gains) losses	(17)	(12)	(117)	(146)
Balance at December 31, 2014	425	188	1,616	2,229
Additions	288	136	-	424
Unlocking	(6)	(2)	(27)	(35)
Amortization	(34)	(18)	(136)	(188)
Impact of unrealized investment (gains) losses	34	17	182	233
Balance at December 31, 2015	707	321	1,635	2,663
Additions	601	200	-	801
Unlocking	(12)	(3)	(23)	(38)
Amortization	(110)	(37)	(159)	(306)
Impact of unrealized investment (gains) losses	(38)	(19)	(99)	(156)
Balance at December 31, 2016	$ 1,148	$ 462	$ 1,354	$ 2,964

The expected amortization of VOBA for the next five years is as follows:

(In millions)	Expected Amortization
2017	$ 139
2018	128
2019	114
2020	105
2021	97

9. Closed Block

We pay guaranteed benefits under all policies included in the Closed Blocks. In the event the Closed Blocks' assets are insufficient to meet the benefits of the Closed Blocks' guaranteed benefits, we would use general assets to meet the contractual benefits of the Closed Blocks' policyholders. We ceded the ILICO Closed Block of policies to Global Atlantic. In addition, Global Atlantic is responsible for managing the dividend scale of the AmerUs Closed Block.

We elected the fair value option for the AmerUs Closed Block. The fair value of liabilities of the AmerUs Closed Block was derived at election as the sum of the fair value of the AmerUs Closed Block assets plus our cost of capital in the AmerUs Closed Block. The cost of capital was then determined to be the present value of the projected future after tax earnings on the required capital of the AmerUs Closed Block, discounted at a rate which represents a market participant's required rate of return. At each reporting period, we record the fair value of the AmerUs Closed Block by adjusting the change in liabilities, exclusive of the cost of capital, to equal the change in assets. We do not record additional policyholder dividend obligations, as there are no future GAAP earnings available to the policyholders.

The excess of the fair value of the liabilities over the fair value of the assets represents our cost of capital in the AmerUs Closed Block. The maximum amount of future earnings from the assets and liabilities of the AmerUs Closed Block is represented by the reduction in the cost of capital in future years based on the operations of the AmerUs Closed Block and recalculation of the cost of capital each reporting period.

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Summarized financial information of the AmerUs Closed Block is presented below.

(In millions)	December 31, 2016	December 31, 2015
Liabilities		
Future policy benefits	$ 1,607	$ 1,581
Other policy claims and benefits	25	12
Dividends payable to policyholders	96	94
Other liabilities	23	10
Total liabilities	1,751	1,697
Assets		
Trading securities	1,380	1,316
Mortgage loans, net of allowances	44	48
Policy loans	183	181
Total investments	1,607	1,545
Cash and cash equivalents	23	45
Accrued investment income	27	18
Reinsurance recoverable	29	22
Other assets	1	3
Total assets	1,687	1,633
Maximum future earnings to be recognized from AmerUs Closed Block	$ 64	$ 64

The following represents the contribution from AmerUs Closed Block.

(In millions)	Years ended December 31, 2016	2015	2014
Revenues			
Premiums	$ 24	$ 58	$ 64
Net investment income	84	86	86
Investment related gains (losses)	42	(124)	110
Total revenues	150	20	260
Benefits and Expenses			
Future policy and other policy benefits	107	(24)	212
Dividends to policyholders	40	45	45
Total benefits and expenses	147	21	257
Contribution from (to) AmerUs Closed Block before income taxes	3	(1)	3
Federal income taxes funded by the Closed Block	3	1	6
Contribution to AmerUs Closed Block, net of income taxes	$ -	$ (2)	$ (3)

10. Debt

Credit Facility-In 2016, AHL, ALRe and Athene USA entered into a five-year revolving credit agreement (Credit Facility) with Citibank, N.A., as administrative agent. The borrowing capacity under the Credit Facility is $1 billion. In connection with the Credit Facility, AHL and Athene USA guaranteed all of the obligations of AHL, ALRe and Athene USA under this facility, and ALRe guaranteed certain of the obligations of AHL and Athene USA under this facility. The Credit Facility contains various standard covenants with which we must comply, including the following:

1. Consolidated debt to capitalization ratio of not greater than 35%;
2. Minimum consolidated net worth of no less than the sum of (a) $3.7 billion and (b) an amount equal to 50% of the net cash proceeds received in any equity issuances occurring after January 22, 2016; and
3. Restrictions on our ability to incur debt and liens and to declare or pay dividends, in each case with certain exceptions.

As of December 31, 2016, we had no amounts outstanding under the Credit Facility and were in compliance with all covenants under this facility.

Interest accrues on outstanding borrowings at the London Interbank Offered Rate (LIBOR) plus a margin or a base rate plus a margin, with the applicable margin varying based on AHL's issuer credit rating. The Credit Facility has a commitment fee that is determined by reference to AHL's issuer credit rating, and ranges from 0.15% to 0.50% of the unused commitment. As of December 31, 2016, the commitment fee was equal to 0.225% of the unused commitment.

11. Common Stock

We have six classes of common stock: Class A, Class B, Class M-1, Class M-2, Class M-3 and Class M-4. The Class M-1, Class M-2, Class M-3 and Class M-4 shares are collectively referred to as Class M shares.

Class A shares collectively represent 55% of the total voting power of the Company. Class B shares collectively represent the remaining 45% of the total voting power of the Company, and are beneficially owned by shareholders who are members of the Apollo Group, as defined in our bye-laws. Class B shares can be converted to Class A shares on a one-to-one basis at any time upon notice to us. Class M shares are restricted, non-voting shares issued under equity incentive plans. Our bye-laws place certain restrictions on Class A shares such that (1) a holder of Class A shares, including its affiliates, cannot control greater than 9.9% of the total outstanding vote and if a holder of Class A shares were to control greater than 9.9%, then a holder's voting power is automatically reduced to 9.9% and the other holders of Class A shares would vote the remainder on a prorated basis, (2) the total voting power held by members of our management and employees of the Apollo Group is limited to 3% and (3) Class A shares may be deemed non-voting when owned by a shareholder who owns Class B shares, has an equity interest in certain Apollo entities, or is a member of the Apollo Group.

Share Activities

2016

- We issued 3,098,946 Class A shares during the fourth quarter of 2016 from conversion of Class M-1, M-2, M-3 and M-4 shares and settlement of Class M-4 RSUs. All conversions were settled in shares net of the conversion price and, as a result, no proceeds were received from the conversions.
- On December 14, 2016, we completed the initial public offering (IPO) of our Class A common shares. Shareholders sold 31,050,000 existing Class A shares through the offering. We did not sell any shares in the IPO. A total of 24,158,146 Class B shares were converted into Class A shares on a one-for-one basis in order to participate in the IPO.

2015

- We received $1,038 million to settle remaining capital commitments executed on April 4, 2014 in connection with a private placement offered to accredited investors. As a result, we issued 31,564,339 Class A shares and 8,369,230 Class B shares at $26.00 per share.
- We received commitments and issued an additional 2,315,113 Class A shares at $26.02 per share, resulting in proceeds received of $60 million.
- In satisfaction of our final obligations under the Transaction Advisory Services Agreement (TASA) earned by Apollo in 2014, we issued 2,311,853 Class B shares. See *Note 17 - Related Parties* for further information on the TASA.

2014

- We received commitments for 41,201,578 Class A shares and 8,730,769 Class B shares as a result of a private placement offered to accredited investors launched in late 2013. Of that commitment, 8,240,316 Class A shares and 1,746,154 Class B shares were issued at $26.00 per share in April 2014, which represented a drawdown of 20% of the committed capital in the private placement at the time. The commitment for the remaining 39,945,877 shares was settled in 2015 as described above.
- To encourage significant investment by key employees, we issued 3,693,730 Class A shares at a discounted price of $13.46 pursuant to our equity incentive plan.
- We issued a total of 11,426,883 Class B shares in satisfaction of certain of our obligations under the TASA. This agreement is further described in *Note 17 - Related Parties.*

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- We converted a note issued as part of a contribution agreement in 2012 with AAA Guarantor - Athene, L.P. and its subsidiary, Apollo Life Re Ltd., into 3,808,626 Class B shares.
- We authorized the following additional shares at a par value of $0.001 per share: (1) 87,110,662 Class A shares, (2) 175,000,000 Class B shares, (3) two new classes of incentive compensation shares consisting of 7,500,000 Class M-3 shares and 7,500,000 Class M-4 shares and (4) 149,998,898 shares of capital stock, which remain undesignated.

The table below shows the changes in each class of shares issued and outstanding:

	Years ended December 31,		
	2016	2015	2014
Class A			
Beginning balance	50,151,265	15,752,736	494,200
Issued shares	3,360,471	34,498,220	11,950,844
Forfeited shares	(37,188)	-	-
Repurchased shares	(313,313)	(99,691)	-
Converted from Class B shares	24,158,146	-	3,307,692
Ending balance	77,319,381	50,151,265	15,752,736
Class B			
Beginning balance	135,963,975	125,282,892	114,605,747
Issued shares	-	10,681,083	16,981,664
Repurchased shares	-	-	(2,996,827)
Converted to Class A shares	(24,158,146)	-	(3,307,692)
Ending balance	111,805,829	135,963,975	125,282,892
Class M-1			
Beginning balance	5,198,273	5,198,273	5,198,273
Converted to Class A shares	(1,155,303)	-	-
Forfeited shares	(270,543)	-	-
Repurchased shares	(298,222)	-	-
Ending balance	3,474,205	5,198,273	5,198,273
Class M-2			
Beginning balance	3,125,869	3,125,869	3,226,792
Converted to Class A shares	(1,788,998)	-	-
Forfeited shares	(161,474)	-	(80,738)
Repurchased shares	(107,650)	-	(20,185)
Ending balance	1,067,747	3,125,869	3,125,869
Class M-3			
Beginning balance	3,110,000	3,350,000	-
Issued shares	-	-	3,390,000
Converted to Class A shares	(1,443,700)	-	-
Forfeited shares	(224,000)	(216,000)	(32,000)
Repurchased shares	(96,000)	(24,000)	(8,000)
Ending balance	1,346,300	3,110,000	3,350,000
Class M-4			
Beginning balance	5,038,443	-	-
Issued shares	990,650	5,316,751	-
Converted to Class A shares	(79,031)	-	-
Forfeited shares	(452,528)	(242,050)	-
Repurchased shares	(99,732)	(36,258)	-
Ending balance	5,397,802	5,038,443	-

12. Stock-based Compensation

We adopted share incentive plans in 2009, 2012 and 2014. The 2009 and 2012 share incentive plans were amended and restated in 2014 (2014 Modification), along with the adoption of the 2014 share incentive plan (2014 Plan). In 2016, we modified certain share agreements (2016 Modification) and adopted the 2016 share incentive plan (2016 Plan). With the adoption of the 2016 Plan, the 2009, 2012 and 2014 share incentive plans were frozen and no additional awards may be granted under those plans.

The purpose of our share incentive plans is to provide an incentive to achieve long-term company goals and align the interests of our employees, our directors and AAM employees with those of our shareholders. See *Note 17 - Related Parties* regarding our relationship with AAM. Under the share incentive plans, we may issue nonqualified stock options, incentive stock options, rights to purchase shares, restricted shares, RSUs and other awards which may be settled in, or based upon, our common shares. The aggregate number of shares authorized for issuance under the 2016 Plan is 3,500,000 Class A shares. Shares issued upon settlement of an award are newly issued shares.

Through the share incentive plans, we have issued the following three categories of stock-based compensation: long-term incentive plan (LTIP) awards, Class M awards and Class A awards.

LTIP awards-During the second quarter of 2016, we issued awards consisting of time and performance-based RSUs and time-based stock options for Class A shares. RSUs represent a contractual right to receive Class A shares and may be settled in shares or cash at our election. Stock options represent a right to purchase Class A shares at a specified exercise price.

Vesting - Time-based RSUs and stock options vest in one-third increments on the first through third anniversaries of the vesting inception date. The performance-based RSUs have three-year cliff vesting based on meeting company-specific performance thresholds.

Contractual terms - Stock options expire on the tenth anniversary of the date of grant.

Stock Options - A rollforward of activity for the year ended December 31, 2016 for stock options is as follows:

(In millions, except share and per share data)	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1, 2016	-	$ -	
Granted	470,644	33.95	
Outstanding at December 31, 2016	470,644	$ 33.95	
Vested and expected to vest at December 31, 2016	462,643	$ 33.95	$ 6

The weighted average grant date fair value of stock options granted during the year ended December 31, 2016 was $5.83. As of December 31, 2016, no stock options were exercisable.

Valuation Assumptions - We determine the fair value at grant date for stock options using the Black-Scholes option pricing model. The following represents the assumptions used for the fair value at grant date:

Assumptions used	Year ended December 31, 2016
Risk-free interest rate	1.0%
Dividend yield	-%
Expected volatility	25.0%
Expected term	2.63 years

The risk-free interest rate is derived from U.S. Constant Maturity Treasury yield at the valuation date, with maturity corresponding to weighted-average expected term. The dividend yield is based on our historical and expected dividend payments, which have been zero to date. Absent an established history in a public market for our shares, we have estimated volatility of our share price based on the published historical volatilities of comparable publicly-traded companies over a period consistent with the expected life of the award being valued. The expected term represents the weighted average period of time that awards granted are expected to be outstanding as determined at the grant date of the award.

RSUs - The following represents the activity of nonvested LTIP RSUs for the year ended December 31, 2016:

	RSU	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2016	-	$ -
Granted	329,159	33.95
Forfeited	(1,032)	33.95
Nonvested at December 31, 2016	328,127	$ 33.95

The fair value of the award is determined based on the fair value of our Class A shares on the grant date. As of December 31, 2016, no LTIP RSUs were vested.

Class M awards-We have issued Class M shares and RSUs concurrently with the timing of capital raises, in order to align management incentives with shareholder investments.

Class M shares function similar to options in that they are exchangeable into Class A shares upon payment of a conversion price and other conditions being met. The settlement value of the RSUs is based upon the value of the Class A shares at the time of settlement after deducting the conversion price of the RSUs. RSUs may be settled either in cash or Class A shares at our election. A portion of the Class M shares and RSUs is subject to time vesting conditions (Tranche 1), and the remainder is subject to certain performance-based vesting conditions (Tranche 2). Both Tranche 1 and Tranche 2 RSUs required an IPO as an additional vesting condition. Vesting conditions are further described below.

The nature and terms of the Class M shares are generally consistent across each class. In October 2015, we issued Class M-4 shares with a different Tranche 2 performance condition than the original Class M-4 award. These shares are referred to as Class M-4 Prime. This vesting condition and any other significant differences between classes are separately identified in the following discussion.

Class M share vesting - Tranche 1 shares generally vest in 20% increments on the first through fifth anniversaries of the earlier of the date of grant or vesting inception date. Tranche 1 shares also automatically vest upon the sale of the Company or change in control, prior to the participant's termination or within six months following a qualifying termination. Unvested Tranche 1 shares are forfeited upon a participant's termination.

Tranche 2 awards vest if certain performance hurdles are met, described as follows:

- *Class M-4 (excluding M-4 Prime)* - The vesting performance hurdle for Class M-4 shares is based on the rate of return and realized cash received by certain holders of our shares (Relevant Investors), as defined in the incentive plan, upon sale of their shares prior to or during an IPO or within a 15 month period thereafter. Vesting may also occur if the performance hurdles are met based on deemed sales by Relevant Investors on the dates 7.5, 12 and 15 months after an IPO, and monthly thereafter, through the contractual term, at a price equal to the volume weighted average closing trading price during the 90 day period prior to such date. Based on the results of the performance hurdle calculations, the vesting percentages of the Tranche 2 awards can range from 0% to 100%. Upon a participant's qualifying termination, unvested Tranche 2 awards remain outstanding and eligible to vest for a period of 18 months following the later of the IPO date or date of a qualifying termination. Any unvested Tranche 2 shares remaining at the end of this 18 month period are forfeited. See *2016 Modification* below for further information on Tranche 2 awards vesting for M-1, M-2 and M-3 award agreements.
- *Class M-4 Prime* - The vesting performance hurdle is based on the attainment of specified Class A share prices following an IPO. Vesting will also occur upon a sale of the Company or change in control in which Class A Shares are valued at the respective hurdle share price. Any unvested Tranche 2 shares remaining as of the tenth anniversary of the grant date are forfeited.

Contractual Terms - Unvested Class M-4 shares are forfeited as of 5.25 years following an IPO.

Although the Class M shares function similar to options, they are equity shares, and have dividend rights upon satisfaction of certain conditions and no expiration date once vested. Prior to vesting, if Class M shares are eligible for dividends, any dividends paid would accrue on the unvested M shares; however, if the M share is forfeited, the accrued dividend would also be forfeited.

Conversion to Class A shares - Vested Class M shares became eligible for conversion to Class A shares at IPO or as a result of the 2016 Modification, subject to the conversion rate for each Class M share. A holder of vested Class M shares may elect to exchange vested shares for an equivalent number of Class A shares upon payment, in cash or shares, of the conversion price less the amount of any dividends paid by the Company on Class A shares subsequent to the granting of Class M shares. Following a conversion to Class A shares, shares can be sold subject to contractual transfer or legal restrictions, such as lockups, blackout periods or affiliate sale volume caps.

2014 Modification - During 2014, we adopted amendments to the terms of the existing Class M-1 and M-2 shares to conform the vesting and repurchase terms of the Class M-1 and M-2 shares to those of the Class M-3 and M-4 shares, described above. The modification impacted 29 individuals.

Under the terms of the original plans for the Class M-1 and M-2 shares, we had the right to repurchase vested shares at the lower of purchase cost or fair value if an employee resigned without good reason, either before an IPO or under other conditions as defined in the original plans. As a result of this repurchase option, the expense associated with vested incentive shares would not be recognized on the consolidated statements of income until the date on which such shares would have been converted to Class A shares. Therefore, no expense had been recorded related to the Class M-1 or M-2 shares prior to the 2014 Modification, which revised the terms to generally call for a repurchase price equal to the fair market value of a Class A share less the conversion price of the respective Class M share.

Upon modification of a share award, the share awards are revalued and remeasured as if a new share award was issued. The 2014 Modification of the Class M-1 and M-2 shares resulted in non-recurring additional stock based compensation expense of $81 million.

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2016 Modification - On September 30, 2016, we modified Class M-1, M-2 and M-3 share agreements to vest all Tranche 2 performance-based shares. The compensation committee approved the modification given that vesting of the shares in the near future was probable. We also amended the conversion option, which previously allowed conversion of vested shares only subsequent to an IPO. Under the modified conversion terms, individuals with certain limited exceptions were able elect up to three conversion options including conversion at a specified date prior to an IPO, on the date of an IPO, or ratably each month for six months after an IPO. The modifications impacted 27 individuals.

As a result of the modifications, we recorded an $83 million increase to additional paid-in capital, due to the reclassification of the Tranche 2 shares from liability awards to equity awards. We also recorded a $42 million charge to stock-based compensation expense and additional paid-in capital for the vesting of Tranche 2 shares, primarily related to the acceleration of previously unrecognized compensation expense.

Valuation Assumptions for Class M Shares-The fair value of the Class M shares is determined using the Black-Scholes option pricing model, with application of a Monte-Carlo simulation to determine the value of the Tranche 2 Class M shares. Grant date assumptions used for valuation of Class M share awards are as follows:

	Years ended December 31,		
Assumptions used	2016	2015	2014
Athene Class A share value	$32.90	$34.23	$26.02
Risk-free interest rate	0.5% - 1.8%	0.9% - 1.1%	0.6%
Expected dividend yield	-%	-%	-%
Expected volatility	30.0%	25.9%	17.5%
Expected term	3.00 years	2.42 years	2.39 years

The fair value of the Class A shares subsequent to our IPO is determined based on the publicly traded closing price on the New York Stock Exchange. During 2016 and 2015, prior to our IPO, the fair value was determined based on a GAAP book value multiple approach. Under this approach we used a comparable peer set of public companies and their share price to book value ratio, less applicable discounts for lack of marketability of AHL in order to determine the AHL Class A share price. The fair value of Class A shares during 2014 was determined using the embedded value method, which is based on the present value of the future expected regulatory distributable income generated by the net assets plus the excess capital.

The expected term represents the weighted average period of time that awards granted are expected to be outstanding. The expected term is determined from the modification date, the grant date or the period end date, depending on the accounting treatment for each award.

In addition, the Tranche 2 Class M share assumptions include an estimate of the probability of the vesting conditions being met. This assumption is developed by using a Monte-Carlo simulation to generate the possible future value of the Company's equity at a liquidity event to determine the percentage of Tranche 2 Class M shares that vest for each simulated path. The fair value of the Tranche 2 Class M shares is then estimated by averaging the value for all simulated paths and discounting the results at the risk-free interest rate to the valuation date.

The basis for determining the remaining assumptions is consistent with those discussed for LTIP awards above.

Award activity for Class M Shares-A rollforward of award activity for the year ended December 31, 2016 of the Class M shares is as follows:

	Tranche 1			Tranche 2			Total	
(In millions, except share and per share data)	Class M Shares	Weighted Average Conversion Price	Aggregate Intrinsic Value	Class M Shares	Weighted Average Conversion Price	Aggregate Intrinsic Value	Class M Shares	Weighted Average Conversion Price
Outstanding at January 1, 2016	6,815,504	$ 15.44		9,144,220	$ 15.91		15,959,724	$ 15.71
Granted	323,297	33.90		646,603	33.90		969,900	33.90
Converted	(1,993,576)	12.03		(2,473,456)	11.46		(4,467,032)	11.71
Forfeited	(230,655)	19.58		(833,873)	16.40		(1,064,528)	17.09
Repurchased	(445,985)	13.56		(135,662)	10.95		(581,647)	12.95
Outstanding at December 31, 2016	4,468,585	$ 18.27		6,347,832	$ 19.52		10,816,417	$ 19.00
Vested and expected to vest at December 31, 2016	4,437,356	$ 18.22	$ 132	6,297,187	$ 19.45	$ 180		
Convertible at December 31, 2016[1]	2,631,542	$ 12.97	$ 92	3,307,697	$ 10.93	$ 123		

[1] *Includes shares scheduled to convert in the first six months of 2017 as a result of the 2016 Modification.*

The following represents the activity of nonvested Class M shares for the year ended December 31, 2016:

	Tranche 1		Tranche 2		Total	
	Class M Shares	Weighted Average Grant Date Fair Value	Class M Shares	Weighted Average Grant Date Fair Value	Class M Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2016	2,661,291	$ 7.74	8,036,554	$ 4.88	10,697,845	$ 5.59
Granted	323,297	8.45	646,603	11.42	969,900	10.43
Vested	(916,890)	6.67	(4,809,149)	2.14	(5,726,039)	2.87
Forfeited	(230,655)	5.62	(833,873)	2.14	(1,064,528)	2.89
Nonvested at December 31, 2016	1,837,043	$ 8.67	3,040,135	$ 11.36	4,877,178	$ 10.34

The weighted average grant date fair value of Class M share awards granted during the years ended December 31, 2015 and 2014, was $8.66 and $9.31, respectively.

The total fair value of vested Tranche 1 Class M shares was $92 million, $98 million and $49 million during the years ended December 31, 2016, 2015 and 2014, respectively. The total fair value of vested Tranche 2 Class M shares was $122 million, $28 million and $17 million during the years ended December 31, 2016, 2015 and 2014, respectively.

No shares were converted or convertible during the years ended December 31, 2015 and 2014. The total intrinsic value of M shares converted during the year ended December 31, 2016 was $117 million. We paid $14 million to repurchase vested Class M shares during the year ended December 31, 2016.

Class A awards-The 2014 Plan allowed for the purchase of Class A shares by certain employees and directors of the Company and its affiliates. In 2015, we issued an aggregate of 442,590 fully-paid Class A shares for total proceeds of $12 million. In April 2014, we issued an aggregate of 3,693,730 fully-paid Class A shares for total proceeds of $50 million. For the years ended December 31, 2015 and 2014, we recognized $2 million and $46 million, respectively, of stock-based compensation expense associated with the Class A shares to the extent shares were purchased at a discounted price from fair value on the issuance date.

Additionally, we may issue restricted Class A shares under our share incentive plans. In 2016, we issued 238,972 restricted Class A shares at a weighted average grant date fair value of $33.41 per share. In 2015, we issued 160,754 restricted Class A shares at a weighted average grant date fair value of $26.02 per share. The restricted Class A shares issued in 2016 and 2015 had a service commencement date of January 1, 2015. All restricted Class A awards issued vest on a ratable basis over three years from the service commencement date. The restricted Class A shares are classified as equity awards measured using fair value of Class A shares on grant date.

Compensation expense-Compensation expense is recognized based on the number of awards expected to vest, which represents the awards granted less expected forfeitures over the life of the award, as estimated at the date of grant.

Class M shares with Tranche 1 vesting requirements are accounted for as equity awards and related compensation expense is recognized ratably over the vesting period. The expense for Tranche 1 shares issued to employees is calculated based on grant date fair value multiplied by the number of shares awarded. The expense for Tranche 1 shares issued to non-employees (i.e. AAM participants) is recognized initially at the grant date fair value multiplied by the number of shares. However, the fair value of the awards are revalued each reporting period through completion of counterparty performance to coincide with the fair value of the services provided by the non-employees. The result of the revaluation is recognized in the period in which the revaluation occurs.

Employee and non-employee Tranche 2 shares, excluding M-4 Prime, are accounted for as liability awards. Compensation expense for all participants is remeasured each reporting period through settlement at the fair value of the awards, factoring in the probability of achieving the vesting targets described above. Upon vesting of Tranche 2 shares, the liability is reclassified to equity because the vesting condition which resulted in liability classification is no longer present, and is measured at fair value on the date of reclassification.

Tranche 2 M-4 Prime shares are accounted for as equity awards with expense recognition having commenced upon completion of our IPO. Compensation expense is calculated based on the grant date fair value of such awards multiplied by the number of shares awarded.

Class A shares are accounted for as equity awards and related compensation expense is recognized ratably over the vesting period, if any. The compensation expense for Class A shares is calculated based on the grant date fair value of the Class A common shares, less the purchase price, multiplied by the number of shares awarded.

LTIP awards are accounted for as equity awards. Expense for time-based RSUs and options is recognized ratably over the vesting period based on the number of shares expected to vest. Expense for performance-based RSUs is further adjusted by the performance factor most likely to be achieved, as estimated by management at the end of the performance period.

Components of stock compensation expense recorded on the consolidated statements of income are as follows:

	Years ended December 31,		
(In millions)	2016	2015	2014
Class M - Tranche 1	$ 11	$ 12	$ 54
Class M - Tranche 2	66	50	47
Class A	2	5	47
LTIP	2	-	-
Stock-based compensation expense	$ 81	$ 67	$ 148

As of December 31, 2016, the Class M shares had unrecognized compensation cost of $16 million for Tranche 1 and $24 million for Tranche 2. The cost is expected to be recognized over a weighted-average period of 1.6 years and 1.1 years, respectively. Unrecognized compensation cost of $4 million for LTIP awards is expected to be recognized over a weighted-average period of 1.1 years.

In 2014, we issued 6,184,948 of our Class B shares to Apollo in satisfaction of settlement amounts earned in 2014 by Apollo under the TASA discussed in *Note 17 - Related Parties*. In 2014, we also settled the equity swap transaction related to the TASA through the issuance of 5,241,935 Class B shares to Apollo.

13. Earnings Per Share

The following represents our basic and diluted EPS calculations:

	Year ended December 31, 2016		
(In millions, except share and per share data)	Class A	Class B	Class M-1
Net income available to AHL shareholders - basic	$ 224	$ 580	$ 1
Effect of stock compensation plans on allocated net income	1	-	-
Net income available to AHL shareholders - diluted	$ 225	$ 580	$ 1
Basic weighted average shares outstanding	52,086,945	134,445,840	218,324
Dilutive effect of stock compensation plans	1,443,531	-	4,246,074
Diluted weighted average shares outstanding	53,530,476	134,445,840	4,464,398
Earnings per share[1]			
Basic	$ 4.31	$ 4.31	$ 4.31
Diluted	$ 4.21	$ 4.31	$ 0.21

[1] *Calculated using whole figures.*

	Years ended December 31,	
(In millions, except share and per share data)	2015	2014
Net income available to AHL shareholders	$ 562	$ 463
Basic weighted average shares outstanding	175,091,802	129,519,108
Dilutive effect of stock compensation plans	86,846	11
Dilutive effect of equity swap[1]	-	2,089,345
Diluted weighted average shares outstanding	175,178,648	131,608,464
Earnings per share on Class A and B shares[2]		
Basic	$ 3.21	$ 3.58
Diluted	$ 3.21	$ 3.52

[1] *Equity swap relates to TASA. See Note 17 - Related Parties for additional information.*

[2] *Calculated using whole figures.*

We use the two-class method for allocating net income available to AHL shareholders to each class of our common stock. Our Class M shares do not become eligible to participate in dividends until a return of investment (ROI) condition has been met for each class. Once eligible, each class of our common stock has equal dividend rights. Prior to the fourth quarter of 2016, the ROI condition had not been met for any of our Class M shares and as a result, no earnings were attributable to those classes. In conjunction with our IPO, the ROI condition for Class M-1 was met, while Class M-2, Class M-3 and Class M-4 shares remain ineligible for dividends as of December 31, 2016. Therefore, the basic EPS calculations above reflect only those classes of stock eligible to participate in earnings during each respective period. For the years ended December 31, 2015 and 2014, Class A and B had the same basic and dilutive EPS, and as such are presented together for those years.

Dilutive shares are calculated using the treasury stock method. For Class A common shares, this method takes into account shares that can be settled into Class A common shares, net of a conversion price.

The diluted EPS calculation for Class A shares excluded 116,031,381 shares, RSUs and options outstanding as of December 31, 2016. The excluded shares were comprised of 113,497,613 shares considered antidilutive and 2,533,768 shares for which a performance condition had not been met. The diluted EPS calculation excluded 16,653,624 and 11,674,141 outstanding shares as of December 31, 2015 and 2014, respectively, as the issuance restrictions had not been satisfied as of each year end.

14. Accumulated Other Comprehensive Income

The following is a detail of AOCI:

	December 31,	
(In millions)	2016	2015
AFS securities	$ 972	$ (405)
DAC, DSI, VOBA, future policy benefits and dividends payable to policyholders adjustments on AFS securities	(408)	91
Noncredit component of OTTI losses on AFS securities	(17)	(15)
Hedging instruments	10	15
Pension adjustments	(4)	(4)
Foreign currency translation adjustments	(12)	(4)
Accumulated other comprehensive income (loss), before taxes	541	(322)
Deferred income tax asset (liability)	(174)	85
Accumulated other comprehensive income (loss)	$ 367	$ (237)

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Changes in AOCI are presented below:

	Years ended December 31,		
(In millions)	2016	2015	2014
Unrealized gains (losses) on AFS securities			
Unrealized holding gains (losses) arising during the year	$ 1,397	$ (1,661)	$ 1,225
Change in DAC, DSI, VOBA, future policy benefits and dividends payable to policyholders adjustment	(499)	419	(317)
Less: Reclassification adjustment for gains (losses) realized in net income[1]	20	72	9
Less: Income tax expense (benefit)	261	(428)	318
Change in unrealized gains (losses) on AFS securities	617	(886)	581
Noncredit component of OTTI losses on AFS securities			
Noncredit component of OTTI losses on AFS securities recognized during the year	(9)	(13)	(1)
Less: Reclassification adjustment for losses realized in net income[1]	(7)	(3)	-
Less: Income tax expense (benefit)	-	(4)	1
Change in noncredit component of OTTI losses on AFS securities	(2)	(6)	(2)
Unrealized gains (losses) on hedging instruments			
Change in hedging instruments during the year	(5)	11	10
Less: Income tax expense (benefit)	(2)	4	4
Change in hedging instruments	(3)	7	6
Pension adjustments			
Pension adjustments during the year	-	12	(17)
Less: Income tax expense (benefit)	-	4	(6)
Change in pension adjustments	-	8	(11)
Foreign currency translation adjustments			
Foreign currency translation adjustments during the year	(8)	(4)	-
Change in AOCI	$ 604	$ (881)	$ 574

[1] *Recognized in investment related gains (losses) on the consolidated statements of income.*

15. Income Taxes

Income tax expense consists of the following:

	Years ended December 31,		
(In millions)	2016	2015	2014
Current	$ (33)	$ (19)	$ (84)
Deferred	(19)	33	138
Income tax expense (benefit)	$ (52)	$ 14	$ 54

Income tax expense was calculated based on the following components of income before income taxes:

	Years ended December 31,		
(In millions)	2016	2015	2014
Pre-tax income - Bermuda	$ 596	$ 510	$ 271
Pre-tax income - Germany	16	8	-
Pre-tax income - U.S.	141	74	261
Income before income taxes	$ 753	$ 592	$ 532

The expected tax provision computed on pre-tax income at the weighted average tax rate has been calculated as the sum of the pre-tax income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. Statutory tax rates of 0%, 31% and 35% have been used for Bermuda, Germany and the United States, respectively. A reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted average tax rate is as follows:

	Years ended December 31,		
(In millions)	2016	2015	2014
Expected tax provision computed on pre-tax income at weighted average income tax rate	$ 54	$ 28	$ 91
(Decrease) increase in income taxes resulting from:			
Deferred tax valuation allowance	(116)	(6)	(22)
Prior year true-up	8	2	(12)
Corporate owned life insurance	(7)	(7)	(6)
Stock compensation expense	5	-	-
State taxes and other	4	(3)	3
Total income tax expense (benefit)	$ (52)	$ 14	$ 54
Effective tax rate	(7)%	2%	10%

Total income taxes were as follows:

	Years ended December 31,		
(In millions)	2016	2015	2014
Income tax expense (benefit)	$ (52)	$ 14	$ 54
Income tax expense (benefit) from OCI	259	(424)	317
Total income taxes	$ 207	$ (410)	$ 371

Deferred income tax assets and liabilities consisted of the following:

	December 31,	
(In millions)	2016	2015
Deferred tax assets		
Insurance liabilities	$ 1,478	$ 1,351
Net unrealized losses on AFS	-	84
Net operating and capital loss carryforwards	221	160
Tax credits	18	-
VOBA	69	72
Employee benefits	52	57
Other	27	20
Total deferred tax assets	1,865	1,744
Valuation allowance[1]	(72)	(193)
Deferred tax asset, after valuation allowance	1,793	1,551
Deferred tax liabilities		
Investments, including derivatives	668	429
Net unrealized gains on AFS	178	-
VOBA	346	372
DAC	230	98
Other	6	46
Total deferred tax liability	1,428	945
Net deferred tax asset[2]	$ 365	$ 606

[1] *A portion of the valuation allowance reduction was recorded in other comprehensive income.*

[2] *Net deferred tax asset includes deferred tax liability relating to ADKG, which is included in other liabilities on the consolidated balance sheets.*

As of December 31, 2016, we have gross deferred tax assets associated with U.S. federal and state net operating losses of $632 million, which will begin to expire in 2022.

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The valuation allowance consists of the following:

	December 31,	
(In millions)	2016	2015
U.S. federal and state net operating losses	$ 22	$ 100
U.S. other deferred tax assets	-	27
German other deferred tax assets	50	66
Total valuation allowance	$ 72	$ 193

During the third quarter of 2016, we identified a tax plan that, when implemented, will allow us to use a significant portion of the U.S. non-life insurance companies' net operating losses, which are scheduled to expire beginning in 2022, and other deductible temporary differences. As a result, we released the corresponding deferred tax valuation allowance of $102 million, as it is more likely than not that these attributes will be realized.

AHL and its Bermuda subsidiaries file protective U.S. income tax returns and its U.S. subsidiaries file income tax returns with the U.S. federal government and various U.S. state governments. AADE is not subject to U.S. federal and state examinations by tax authorities for years prior to 2007, while Athene Annuity & Life Assurance Company of New York (AANY) and Athene Life Insurance Company (ALIC) are not subject to examinations for years prior to 2011 and 2013, respectively. See discussion of ongoing tax examinations relating to Aviva USA and subsidiaries at *Note 18 - Commitments and Contingencies.*

Under current Bermuda law, we are not required to pay any taxes in Bermuda on either income or capital gains. We have received an undertaking from the Bermuda Minister of Finance that, in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2035.

Withholding taxes have not been provided on undistributed earnings of AHL's U.S. and German subsidiaries as of December 31, 2016 or 2015. Although withholding taxes may apply in the event a dividend is paid by AHL's U.S. or German subsidiaries, we have not accrued withholding taxes as we do not intend to remit these earnings. The cumulative amount subject to withholding tax, if distributed, as well as the determination of the associated tax liability, is not practicable to compute; however, it may be material to the Company's financial position and results of operations. Any dividends remitted to AHL from ALRe are not subject to withholding tax.

16. Statutory Requirements

AHL's insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate including Bermuda, all U.S. states, the District of Columbia and Germany. Certain regulations include restrictions that limit the dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the insurance regulatory authorities. The differences between financial statements prepared for insurance regulatory authorities and GAAP financial statements vary by jurisdiction.

Bermuda statutory requirements-ALRe is licensed by the Bermuda Monetary Authority (BMA) as a long term insurer and is subject to the Insurance Act 1978, as amended (Bermuda Insurance Act) and regulations promulgated thereunder. Effective January 1, 2016 the BMA implemented the Economic Balance Sheet (EBS) framework into the Bermuda Solvency and Capital Requirement (BSCR) which was granted equivalency to the European Union's Directive (2009/138/EC) (Solvency II).

Under the Bermuda Insurance Act, ALRe is required to maintain minimum statutory capital and surplus to meet the minimum margin of solvency (MMS) and the Enhanced Capital Requirement (ECR). The MMS is equal to the greater of $8 million or 2% of the first $500 million of statutory assets plus 1.5% of statutory assets above $500 million. The ECR is calculated based on a risk-based capital model where risk factor charges are applied to the EBS. As of December 31, 2016, the MMS and ECR were $798 million and $1,932 million, respectively, and ALRe was in excess of these required minimums.

Under the EBS framework, statutory financial statements are generally equivalent to GAAP financial statements, with the exception of permitted practices granted by the BMA. ALRe has permission in the statutory financial statements to use amortized cost instead of fair value as the basis for certain investments. Additionally, ALRe uses U.S. statutory reserving principles for the calculation of insurance reserves instead of GAAP, subject to the reserves being proved adequate based on cash flow testing. The impact to the statutory financial statements of these permitted practices is an increase of $1,254 million to capital and surplus as of December 31, 2016 and a decrease of $1,005 million to statutory net income for the year ended December 31, 2016.

Under the regime in effect prior to January 1, 2016, the BMA had granted ALRe permission to use amortized cost instead of fair value as the basis for non-equity securities, including investments underlying funds withheld and modco reinsurance agreements. As a result of this permitted practice $162 million of unrealized losses were excluded from ALRe's statutory return as of December 31, 2015.

Under the Bermuda Insurance Act, ALRe is prohibited from paying a dividend in an amount exceeding 25% of the prior year's statutory capital and surplus, unless at least two members of ALRe's board of directors and its principal representative in Bermuda sign and submit to the BMA, an affidavit attesting that a dividend in excess of this amount would not cause ALRe to fail to meet its relevant margins. In certain instances,

ALRe would also be required to provide prior notice to the BMA in advance of the payment of dividends. In the event that such an affidavit is submitted to the BMA in accordance with the Bermuda Insurance Act, and further subject to ALRe meeting its MMS and ECR, ALRe is permitted to distribute up to the sum of 100% of statutory surplus and an amount less than 15% of statutory capital. Distributions in excess of this amount require the approval of the BMA. As of December 31, 2016 and 2015, the maximum distribution ALRe was permitted to pay AHL without the need for prior approval was $2,479 million and $3,529 million, respectively.

Germany statutory requirements-Our primary German insurance entity, Athene Lebensversicherung AG (ALV), is regulated by the Federal Financial Supervisory Authority of Germany as a private insurance undertaking and is subject to the Insurance Supervision Act and regulations promulgated thereunder. Effective January 1, 2016, ALV became subject to Solvency II minimum capital requirements (MCR) and solvency capital requirements (SCR) interpreted by the relevant regulatory authorities. ALV is obliged to meet these requirements in order to be able to fulfill, subject to a certain confidence level of 99.5% for SCR, or 85% for MCR, over a one-year period, all obligations arising from existing business, as well as the new business expected to be written over the following 12 months. Failure to maintain adequate capital levels may result in regulatory action. As of December 31, 2016, statutory capital and surplus as calculated under Solvency II was $570 million, while MCR and SCR were $121 million and $268 million, respectively.

Prior to 2016, ALV was subject to regulations under Solvency I, which required ALV to maintain minimum statutory capital as calculated against reserves. As of December 31, 2015, statutory capital and surplus as calculated under SI was $325 million, while required capital under SI was $195 million. Under both the SI and SII regimes, ALV is permitted to use dividend payable balances held for policyholder participation in determining the total capital of the entity.

ALV is restricted as to the payment of dividends pursuant to calculations, which are based upon the analysis of current euro swap rates against existing policyholder guarantees. As of December 31, 2016, ALV did not exceed this threshold and no amounts were available for distribution.

U.S. statutory requirements-AHL's regulated U.S. subsidiaries and the corresponding insurance regulatory authorities are as follows:

Subsidiary	Regulatory Authority
AADE	Delaware Department of Insurance
ALIC	Delaware Department of Insurance
AANY	New York Department of Financial Services
ALICNY	New York Department of Financial Services
AAIA	Iowa Insurance Division
Structured Annuity Reinsurance Company (STAR)	Iowa Insurance Division
Athene Re USA IV	State of Vermont Department of Financial Regulation

Each entity's statutory statements are presented on the basis of accounting practices determined by the respective regulatory authority. The regulatory authority recognizes only statutory accounting practices prescribed or permitted by the corresponding state for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under insurance law.

The maximum dividend these subsidiaries can pay to shareholders, without prior approval of the respective state insurance department, is subject to restrictions relating to statutory surplus or net gain from operations. The maximum dividend payment over a twelve-month period may not, without prior approval, be paid from a source other than earned surplus and may not exceed the greater of (1) the prior year's net gain from operations or (2) 10% of policyholders' surplus. Based on these restrictions, the maximum dividend AADE could pay to Athene USA, and ultimately to AHL's shareholders, absent regulatory approval was $127 million and $125 million as of December 31, 2016 and 2015, respectively. Other requirements limit the amount that could be withdrawn from AADE and the maximum AADE could dividend while staying in compliance with these state regulations, which was $80 million and $65 million as of December 31, 2016 and 2015, respectively. Any dividends from AHL's other U.S. statutory entities in excess of the amounts allowed for AADE would not be able to be remitted to AHL without regulatory approval from the Delaware Department of Insurance. Additionally, we have agreed with the Iowa Insurance Division not to cause AAIA to pay dividends until August 15, 2018; therefore, we currently consider AAIA's dividend capacity as zero.

As of December 31, 2016, AHL's U.S. subsidiaries' solvency, liquidity and risk-based capital amounts were significantly in excess of the minimum levels required.

In some instances, the states of domicile of our U.S. subsidiaries have adopted prescribed accounting practices that differ from the required accounting outlined in National Association of Insurance Commissioners (NAIC) Statutory Accounting Principles (SAP). These subsidiaries also have certain accounting practices permitted by the states of domicile that differ from those found in NAIC SAP. These prescribed and permitted practices are described as follows:

AAIA - Among the products issued by AAIA are indexed universal life insurance and fixed indexed annuities. These products allow a portion of the premium to earn interest based on certain indices, primarily the S&P 500. We purchase call options, futures and variance swaps to hedge the growth in interest credited to the customer as a direct result of increases in the related index. The Iowa Insurance Division allows an insurer to elect (1) to use an amortized cost method to account for certain derivative instruments, such as call options, purchased to hedge the growth in interest credited to the customer on indexed insurance products and (2) to use an indexed annuity reserve calculation methodology under which

call options associated with the current index interest crediting term are valued at zero. AAIA has elected to apply this option to its over-the-counter call options and reserve liabilities. As a result, AAIA's statutory surplus decreased by $17 million and increased by $14 million as of December 31, 2016 and 2015, respectively.

Athene Re USA IV - AAIA has ceded the AmerUs Closed Block to Athene Re USA IV on a 100% funds withheld basis. A permitted practice in the State of Vermont allows Athene Re USA IV to include as admitted assets the face amount of all issued and outstanding letters of credit used to fund its reinsurance obligations to AAIA in its statutory financial statements. If Athene Re USA IV had not followed this permitted practice, then it would not have exceeded authorized control level risk based capital requirements. As of December 31, 2016 and 2015, the face amount of the letters of credit was $153 million.

Statutory reinsurance agreement - We have an agreement with Hannover Life Reassurance Company of America, which is treated as reinsurance under statutory accounting practices and as a financing arrangement under GAAP. The statutory surplus benefit under this agreement is eliminated under GAAP and the associated charges are recorded as risk charges and included in policy and other operating expenses on the consolidated statements of income. The transaction became effective October 1, 2016 and is a coinsurance agreement for statutory purposes covering 80% of the GLWB rider on 2016 and 2017 sales of certain fixed indexed annuity products, with an option to extend reinsurance to 2018 sales. The reserve credit recorded on a statutory basis was $91 million as of December 31, 2016.

Statutory capital and surplus and net income (loss)-The following table presents, for each of our insurance subsidiaries, the statutory capital and surplus and the statutory net income (loss), based on the most recently filed statutory financial statements filed with insurance regulators:

	Statutory Capital & Surplus		Statutory Net Income (Loss)		
	December 31,		Years ended December 31,		
(In millions)	2016	2015	2016	2015	2014
ALRe	$ 6,124	$ 5,650	$ 460	$ 461	$ 632
AADE	1,272	1,251	71	68	116
ALIC	79	77	1	1	1
AANY	231	208	1	8	7
ALICNY	78	73	10	14	88
AAIA	1,113	1,109	100	597	263
STAR	80	76	17	4	35
Athene Re USA IV	50	38	7	1	6

17. Related Parties

Athene Asset Management

Investment related expenses - Substantially all of our investments, with the exception of the investments of ADKG, are managed by AAM, a subsidiary of AGM. AAM provides direct investment management, asset allocation, mergers and acquisition asset diligence and certain operational support services for our investment portfolio, including investment compliance, tax, legal and risk management support. As of December 31, 2016, AAM directly managed $53,368 million of our investment portfolio assets, of which 84% are rated one or two by the NAIC. For certain assets which require specialized sourcing and underwriting capabilities, AAM has chosen to mandate sub-advisors rather than building out in-house capabilities. For the services related to these investments, AAM earns a fee of 0.40% per year, subject to certain discounts, on all assets managed in accounts owned by or related to us, including sub-advised assets, but excluding assets of ADKG and certain other limited exceptions. Additionally, AAM recharges the sub-advisory fees it incurs with respect to our sub-advised assets to us.

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AAM has entered into a Master Sub-Advisory Agreement (MSAA) with certain Apollo affiliates to sub-advise AAM with respect to a portion of our assets, with the fees recharged to us, in addition to the gross fee of 0.40% per year paid to AAM as described above. The MSAA covers services rendered by Apollo-affiliated sub-advisors relating to the following investments:

	December 31,	
(In millions, except for percentages)	2016	2015
Fixed maturity securities		
U.S. state, municipal and political subdivisions	$ 5	$ 10
Foreign governments	149	107
Corporate	2,032	1,435
CLO	4,727	4,339
ABS	911	1,746
CMBS	975	1,010
RMBS	-	21
Mortgage loans	1,767	1,594
Investment funds	23	21
Trading securities	126	207
Funds withheld at interest	1,682	1,182
Other investments	81	83
Total assets sub-advised by Apollo affiliates	$ 12,478	$ 11,755
Percent of assets sub-advised by Apollo affiliates to total AAM-managed assets	19%	20%

Apollo Asset Management Europe

ADKG has an investment advisory agreement with Apollo Asset Management Europe (together with certain of its affiliates, AAME), also a subsidiary of AGM. AAME provides advisory services for all of ADKG's investment portfolio other than operating cash, mortgage loans secured by residential and commercial properties that are not identified and advised by AAME, and assets related to unit-linked policies. Also excluded are assets held in German special investment funds managed or advised by Apollo, AAM and any of the respective affiliates of Apollo, AAM or AAME, to the extent the entity receives a management or advisory fee in connection with the fund. In providing these services, AAME has access to Apollo's European expertise and capabilities. The ADKG investments sub-advised by AAME consist primarily of corporate and sovereign bonds, as compared to the more diverse range of assets managed by AAM or those held in the German special investment funds. As compensation for the investment advisory services rendered, AAME receives a fee of 0.10% per year on the assets it sub-advises. Affiliates of AAME receive an advisory fee of 0.35% per year on certain German special investment funds and our investment in a sub-fund of Apollo Capital Efficient Fund I (ACE fund), as well as a pro rata share of operating expenses up to 0.30% on the ACE fund. As of December 31, 2016, these investment funds totaled $258 million and $84 million, respectively. These fees are included in sub-advisory fees in the table below.

The following represents the assets sub-advised by AAME:

	December 31,	
(In millions)	2016	2015
Fixed maturity securities		
Foreign governments	$ 2,062	$ 2,349
Corporate	1,567	1,607
Equity securities	187	220
Mortgage loans	-	139
Investment funds	34	41
Policy loans	6	9
Real estate	541	566
Other investments	153	125
Cash and cash equivalents	25	-
Total assets sub-advised by AAME	$ 4,575	$ 5,056

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The following summarizes the asset management fees and sub-advisory fees we have incurred related to AAM, AAME and other Apollo affiliates:

	Years ended December 31,		
(In millions)	2016	2015	2014
Asset management fees	$ 229	$ 226	$ 222
Sub-advisory fees	66	42	36

The management and sub-advisory fees are included within net investment income on the consolidated statements of income. The management fees payable as of December 31, 2016 and 2015, were $28 million and $35 million, respectively. The sub-advisory fees payable as of December 31, 2016 and 2015, were $11 million and $24 million, respectively. Both the management and sub-advisory fees payables are included in other liabilities on the consolidated balance sheets.

The investment management or advisory agreements with AAM or AAME have no stated term and any party can terminate upon notice. However, our bye-laws provide that we will not exercise our termination rights under the agreements, except that any agreement may only be terminated on October 31, 2018, or any third anniversary thereafter. Any termination on that date without cause requires (1) approval of our board of directors and the holders of our common shares that hold a majority of total voting power (giving effect to the voting allocation provisions set forth in our bye-laws) and (2) six months' prior written notice to AAM or AAME of termination. We may terminate the investment management or advisory agreements for cause, with the approval of our board of directors.

We have a management investment committee, which includes members of our senior management and reports to the risk committee of our board of directors. The committee focuses on strategic decisions involving our investment portfolio, such as approving investment limits, new asset classes and our allocation strategy, reviewing large asset transactions, as well as monitoring our credit risk, and the management of our assets and liabilities.

Also, because the Apollo Group has a significant voting interest in us, in order to protect against potential conflicts of interest resulting from transactions into which we have entered and will continue to enter into with the Apollo Group, our board of directors has formed a conflicts committee consisting of three of our directors who are not officers or employees of any member of the Apollo Group. The conflicts committee reviews and a majority of the committee members must approve material transactions between us and the Apollo Group, subject to certain exceptions.

Service fees - We have entered into shared services agreements with AAM. Under these agreements, we and AAM make available to each other certain personnel and services. Expenses for the services are based on the amount of time spent on the affairs of the other party, in addition to actual expenses incurred and certain cost reimbursements. For the years ended December 31, 2016, 2015 and 2014, net expenses allocated from (to) AAM under these agreements were $6 million, $2 million and $(13) million, respectively.

Other AGM Affiliates

TASA - Since our founding, Apollo has provided a diverse array of services in order to grow our balance sheet, source, underwrite, and integrate transactions and has provided us access to their infrastructure. Through October 30, 2012, we had a standard 10-year monitoring contract with Apollo Alternative Assets, L.P., Apollo Management Holdings, L.P. and Apollo Global Securities, LLC (collectively, the Apollo TASA Parties) for these services that required cash payment of a quarterly monitoring fee of 0.50% of our capital and surplus, as defined, plus out of pocket expenses, with a termination date of July 15, 2019.

As we began to implement public company readiness initiatives in late 2012, both parties voluntarily agreed to an early termination of the monitoring contract. In exchange for early termination of the monitoring contract, Apollo received settlement fees on a quarterly basis from January 1, 2013, to December 31, 2014. Also, to promote alignment between Apollo and Athene's shareholders and to preserve cash to support Athene's growth plan, Apollo elected to receive its settlement fees under the agreement in shares of Athene rather than cash.

On January 1, 2013, we entered into an equity swap transaction with Apollo in connection with the termination of the quarterly monitoring fee discussed above. Pursuant to this swap, a quarterly settlement amount continued to accrue to Apollo, but the payment of those amounts (whether in stock or cash) would not be made to Apollo until the earlier of the time when Apollo was no longer deemed to control the Company, within the meaning of the derivative instrument delivered pursuant to the TASA and October 31, 2017.

In April 2014, as a result of the external capital raise, Apollo was no longer deemed to control the Company (as defined under the swap) and, as a result, the swap was settled in stock for settlement amounts owed through that date.

Additionally, in April 2014, we further amended the TASA to exclude from capital and surplus, on which the quarterly monitoring fee was calculated, the capital received in the April 2014 capital raise, and any capital raised in connection with certain potential future acquisitions as defined in the amended TASA.

The total costs incurred pursuant to the TASA, including direct expenses, were $228 million for the year ended December 31, 2014 and are recorded in policy and other operating expenses on the consolidated statement of income. The outstanding liability was settled during 2014, and no additional fees accrue under the TASA.

Other related party transactions-In 2015, we entered into a loan purchase agreement with AmeriHome Mortgage Company, LLC (AmeriHome), an investee of A-A Mortgage, an equity method investee. The agreement allows us to purchase residential mortgage loans which they have purchased from correspondent sellers and pooled for sale in the secondary market. AmeriHome retains the servicing rights to the sold loans. We have purchased $22 million and $83 million of residential mortgage loans under this agreement during the years ended December 31, 2016 and 2015, respectively.

During the third quarter of 2016, we completed a series of transactions with Apollo Commercial Real Estate Finance, Inc. (ARI), a related party managed by an affiliate of Apollo. Pursuant to an agreement between ARI and Apollo Residential Mortgage, Inc. (AMTG), another related party managed by an Apollo affiliate, AMTG merged with and into ARI. In accordance with an Asset Purchase and Sale Agreement between us and ARI, we purchased $1,090 million of primarily non-agency RMBS from ARI subsequent to its merger with AMTG. We also provided ARI with a secured short-term $175 million loan to consummate the merger, which was subsequently repaid with the proceeds of the sale of such RMBS. Finally, subsequent to the merger, we purchased $20 million of ARI shares of common stock pursuant to a stock purchase agreement that required such purchase if ARI's common stock price fell below a specified price, which was the per share value used in determining the purchase price under the merger agreement between ARI and AMTG, during the 30 trading days following the closing of the merger.

18. Commitments and Contingencies

Contingent Commitments-We had commitments to make investments, primarily capital contributions to investment funds, of $962 million and $825 million as of December 31, 2016 and 2015, respectively. We expect most of our current commitments will be invested over the next five years; however, these commitments could become due any time upon counterparty request.

Funding Agreements-We are a member of the Federal Home Loan Bank (FHLB) of Indianapolis and Des Moines. Through membership, we have issued funding agreements with a carrying value of $691 million and $1,112 million as of December 31, 2016 and 2015, respectively, to the FHLB in exchange for cash advances. We are required to provide collateral in excess of the funding agreements, considering any discounts to the securities posted and prepayment penalties.

We have a funding agreement backed notes (FABN) program, which allows Athene Global Funding, a special purpose, non-affiliated statutory-trust to offer up to $5 billion of its senior secured medium-term notes. Athene Global Funding uses the net proceeds from each sale to purchase one or more funding agreements from us. Funding agreements issued under this program have a carrying value of $246 million and $250 million as of December 31, 2016 and 2015, respectively. In the first quarter of 2017, we issued an additional $650 million in funding agreements under this program.

Pledged Assets and Funds in Trust (Restricted Assets)-The total restricted assets included on the consolidated balance sheets are as follows:

	December 31,	
(In millions)	2016	2015
AFS securities		
Fixed maturity	$ 1,382	$ 1,865
Equity	40	56
Investment funds	25	27
Mortgage loans	1,003	1,134
Restricted cash	57	116
Total restricted assets	$ 2,507	$ 3,198

The restricted assets are primarily a result of the FHLB funding agreements described above. Additionally, we have established reinsurance trusts of assets equal to statutory reserves, plus an additional amount of assets, as a result of coinsurance agreements with Transamerica Life Insurance Corporation.

Litigation, Claims and Assessments-On June 12, 2015, a putative class action complaint was filed in the United States District Court, Northern District of California against us. The complaint, which is similar to complaints recently filed against other large insurance companies, primarily alleges that captive reinsurance and other transactions had the effect of misrepresenting the financial condition of AAIA. The complaint purports to be brought on behalf of a class of purchasers of annuity products issued by AAIA between 2007 and the present. There are also various allegations related to the purchase of Aviva USA and concerning entry into a modco transaction with ALRe in October 2013. The suit asserts claims of violation of the Racketeer Influenced and Corrupt Organizations Act and seeks compensatory damages, trebled, in an amount to be determined, costs and attorneys' fees. On March 25, 2016, the matter was transferred to the United States District Court, Southern District of Iowa. On May 25, 2016, the court granted plaintiff's motion to file an amended complaint dropping plaintiff Silva and defendant Aviva plc. We moved to dismiss that complaint on June 30, 2016, and the motion was fully briefed as of September 8, 2016. On November 4,

2016 and November 14, 2016, the court stayed consideration of the motion to dismiss pending a ruling from the United States Court of Appeals for the Eighth Circuit in a similar case which will likely affect the disposition of our motion. *See Ludwick v. Harbinger Grp., Inc.*, 161 F. Supp. 3d 769 (W.D. Mo. 2016), *appeal docketed*, No. 16-1561 (8th Cir.). We believe we have meritorious defenses to the claims set forth in the amended complaint and intend to vigorously defend the litigation and seek dismissal of the amended complaint. In light of the inherent uncertainties involved in this matter, reasonably possible losses, if any, cannot be estimated at this time.

On July 27, 2015, a putative class action complaint was filed in the United States District Court, District of Massachusetts, against us. An amended complaint was filed on December 18, 2015. The complaint alleges a putative class action on behalf of all persons who are the beneficial owners of assets which were used to purchase structured settlement annuities that Aviva London Assignment Corporation, Aviva Life Insurance Company and CGU International Insurance, plc (Aviva Entities) or their predecessors, as applicable, delivered to purchasers on or after April 1, 2003. The complaint alleges that the Aviva Entities sold structured settlement annuities to the public on the basis that such products were backed by a capital maintenance agreement by CGU International Insurance, plc, which was alleged as a source of great financial strength. The complaint further alleges that the Aviva Entities used this capital maintenance agreement to enhance the sales volume and raise the price of the annuities. The complaint claims that, as a result of Aviva USA’s sale to AHL, the capital maintenance agreement terminated. According to the complaint, no notice was provided to the owners of the structured settlement annuities and the termination of the capital maintenance agreement constituted a breach of contract and the plaintiff further asserts other causes of action. AHL is a named defendant due to its purchase of Aviva USA, and AAIA and Athene London Assignment are named as successors to Aviva Life Insurance Company and Aviva London Assignment Corporation, respectively. The defendants have answered and are engaged in the discovery process. We believe that we have meritorious defenses to the claims set forth in the complaint and intend to vigorously defend the litigation. In light of the inherent uncertainties involved in this matter, reasonably possible losses, if any, cannot be estimated at this time.

The Internal Revenue Service (IRS) has completed its examinations of the 2006 through 2010 Aviva USA tax years. Aviva USA agreed to all adjustments that were proposed with respect to those tax years with two exceptions: (1) AAIA’s treatment of call options used to hedge fixed indexed annuity (FIA) liabilities for the tax years 2008-2010 and (2) the disallowance of offsetting tax deductions taken by AAIA and taxable income reported by the non-life subgroup with respect to unpaid independent marketing organization commissions. The first adjustment to which Aviva USA did not agree would disallow deductions of $191 million, $154 million and $76 million for 2008, 2009 and 2010, respectively. The second adjustment to which Aviva USA did not agree would increase non-life net operating losses and decrease AAIA net operating losses by $16 million in each of 2009 and 2010. Taxes, penalties and interest with respect to these two issues for the years under audit are potentially subject to indemnification by Aviva plc. Athene USA has been unable to negotiate a favorable settlement of this issue with the IRS, and has reserved its right to contest the adjustment in federal court. If the IRS position is upheld in federal court, Athene USA expects that it would owe tax of $120 million, plus interest, for tax years ending on or before October 2, 2013, which are subject to indemnification by Aviva plc as described above. The treatment of FIA hedges is a recurring issue as to the timing of the related deductions and could affect the current income tax incurred in periods after October 2, 2013, which are not subject to indemnification by Aviva plc. Given that the disallowance of a deduction in one period results in an increased deduction in a future period, AHL does not expect that there will be any material impact to its financial condition resulting from this issue.

In 2000 and 2001, two insurance companies which were subsequently merged into AAIA purchased from American General Life Insurance Company (American General) broad based variable corporate-owned life insurance (COLI) policies that, as of December 31, 2016, had an asset value of $327 million, and is included in other assets on the consolidated balance sheets. In January 2012, the COLI policy administrator delivered to AAIA a supplement to the existing COLI policies and advised that American General and ZC Resource Investment Trust (ZC Trust) had unilaterally implemented changes set forth in the supplement that if effective, would: (1) potentially negatively impact the crediting rate for the policies and (2) change the exit and surrender protocols set forth in the policies. In March 2013, AAIA filed suit against American General, ZC Trust, and ZC Resource LLC in Chancery Court in Delaware, seeking, among other relief, a declaration that the changes set forth in the supplement were ineffectual and in breach of the parties’ agreement. The parties filed cross motions for judgment as a matter of law, and the court granted defendants’ motion and dismissed without prejudice on ripeness grounds. The issue that negatively impacts the crediting rate for one of the COLI policies has been triggered and we will pursue further adjudication. If the supplement is ultimately deemed to be effective, the purported changes to the policies could impair AAIA’s ability to access the value of guarantees associated with the policies. The value of the guarantees included within the asset value reflected above are $159 million as of December 31, 2016.

19. Segment Information

We operate our core business strategies out of one reportable segment, Retirement Services. In addition to Retirement Services, we report certain other operations in Corporate and Other.

Retirement Services-Retirement Services is comprised of our United States and Bermuda operations which issue and reinsure retirement savings products and institutional products. Retirement Services has retail operations, which provide annuity retirement solutions to our policyholders. Retirement Services also has reinsurance operations, which reinsure multi-year guaranteed annuities, fixed indexed annuities, traditional one-year guarantee fixed deferred annuities, immediate annuities and institutional products from our reinsurance partners. In addition, our FABN program is included in our Retirement Services segment.

Corporate and Other-Corporate and Other includes certain other operations related to our corporate activities and our German operations, which is primarily comprised of participating long-duration savings products. In addition to our German operations, included in Corporate and Other are corporate allocated expenses, merger and acquisition costs, debt costs, certain integration and restructuring costs, certain stock-based

compensation and intersegment eliminations. In Corporate and Other we also hold capital in excess of the level of capital we hold in Retirement Services to support our operating strategy.

Financial Measures-Segment operating income, net of tax, and net investment income are internal measures used by the chief operating decision maker to evaluate and assess the results of our segments.

Operating revenue is a component of operating income, net of tax, and excludes market volatility and adjustments for other non-operating activity. Our operating revenue equals our total revenue, adjusted to eliminate the impact of the following non-operating adjustments:

- Change in fair values of derivatives and embedded derivatives - index annuities, net of offsets;
- Investment gains (losses), net of offsets;
- VIE expenses and noncontrolling interest; and
- Other adjustments to revenues.

The table below reconciles segment operating revenues to total revenues presented on the consolidated statements of income:

	Years ended December 31,		
(In millions)	2016	2015	2014
Operating revenue by segment			
Retirement Services	$ 3,332	$ 2,977	$ 2,834
Corporate and Other	268	112	55
Total segment operating revenues	3,600	3,089	2,889
Non-operating adjustments			
Change in fair values of derivatives and embedded derivatives - index annuities, net of offsets	324	(390)	814
Investment gains (losses), net of offsets	164	(132)	298
VIE expenses and noncontrolling interest	13	33	79
Other adjustments to revenues	6	16	20
Total non-operating adjustments	507	(473)	1,211
Total revenues	$ 4,107	$ 2,616	$ 4,100

Operating income, net of tax, is an internal measure used to evaluate our financial performance excluding market volatility and expenses related to integration, restructuring, stock compensation and other expenses. Our operating income, net of tax, equals net income available to AHL's shareholders adjusted to eliminate the impact of the following non-operating adjustments:

- Investment gains (losses), net of offsets;
- Change in fair values of derivatives and embedded derivatives - index annuities, net of offsets;
- Integration, restructuring and other non-operating expenses;
- Stock-based compensation, excluding LTIP; and
- Provision for income taxes - non-operating.

The table below reconciles segment operating income, net of tax, to net income available to Athene Holding Ltd. shareholders presented on the consolidated statements of income:

	Years ended December 31,		
(In millions)	2016	2015	2014
Operating income, net of tax by segment			
Retirement Services	$ 809	$ 769	$ 764
Corporate and other	(49)	(29)	29
Total segment operating income, net of tax	760	740	793
Non-operating adjustments			
Investment gains (losses), net of offsets	47	(56)	151
Change in fair values of derivatives and embedded derivatives - index annuities, net of offsets	97	(27)	(30)
Integration, restructuring and other non-operating expenses	(22)	(58)	(279)
Stock-based compensation, excluding LTIP	(79)	(67)	(148)
Income tax (expense) benefit - non-operating	2	30	(24)
Total non-operating adjustments	45	(178)	(330)
Net income available to Athene Holding Ltd. shareholders	$ 805	$ 562	$ 463

Net investment income used to evaluate the performance of our segments is an internal measure that does not correspond to GAAP net investment income. Adjustments are made to GAAP net investment income to arrive at a net investment income measure that reflects the profitability of our core deferred annuities business. Accordingly, we adjust net investment income to include earnings from our consolidated VIEs and earnings on certain alternative investments (primarily CLOs) classified in investment related gains (losses) on the consolidated statements of income. Additionally, impacts of reinsurance embedded derivatives on net investment income are removed. The table below reconciles segment net investment income to net investment income presented on the consolidated statements of income:

	Years ended December 31,		
(In millions)	2016	2015	2014
Net investment earnings by segment			
Retirement Services	$ 2,955	$ 2,572	$ 2,483
Corporate and Other	77	36	55
Total net investment earnings	3,032	2,608	2,538
Adjustments to net investment income			
Reinsurance embedded derivative impacts	(189)	(84)	(67)
Net VIE earnings	(1)	(67)	(146)
Alternative income (gains) losses	39	42	(4)
Other	35	9	12
Total adjustments to arrive at net investment income	(116)	(100)	(205)
Net investment income	$ 2,916	$ 2,508	$ 2,333

Operating income, net of tax, excludes the tax impact of the taxable non-operating adjustments presented above. The tax impact of non-operating income adjustments is 35% of the non-operating adjustments subject to income tax. The table below reconciles segment provision for income taxes - operating to income tax expense presented on the consolidated statements of income:

	Years ended December 31,		
(In millions)	2016	2015	2014
Provision for income taxes - operating by segment			
Retirement Services	$ (46)	$ 41	$ 30
Corporate and Other	(4)	3	-
Total segment income tax expense (benefit) - operating	(50)	44	30
Income tax (expense) benefit - non-operating	(2)	(30)	24
Income tax expense (benefit)	$ (52)	$ 14	$ 54

The following represents total assets by segment:

	December 31,		
(In millions)	2016	2015	2014
Total assets by segment			
Retirement Services	$ 79,319	$ 73,710	$ 81,606
Corporate and Other	7,401	7,144	1,104
Total assets	$ 86,720	$ 80,854	$ 82,710

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We market annuity products, primarily fixed rate and fixed indexed annuities. Deposits, which are generally not included in revenues on the consolidated statements of income, and premiums collected are as follows:

	Years ended December 31,		
(In millions)	2016	2015	2014
Fixed indexed annuities	$ 5,322	$ 2,808	$ 2,560
Fixed rate annuities	3,565	883	323
Payouts without life contingencies	107	166	163
Funding agreements	-	250	-
Life and other deposits	24	11	15
Total deposits	9,018	4,118	3,061
Payouts with life contingencies	21	53	32
Life and other premiums	219	142	68
Total premiums	240	195	100
Total premiums and deposits, net of ceded	$ 9,258	$ 4,313	$ 3,161

Deposits and premiums collected by the geographical location are as follows:

	Years ended December 31,		
(In millions)	2016	2015	2014
United States	$ 5,617	$ 3,097	$ 2,810
Bermuda	3,429	1,135	351
Germany	212	81	-
Total premiums and deposits, net of ceded	$ 9,258	$ 4,313	$ 3,161

ATHENE HOLDING LTD.
Notes to Consolidated Financial Statements

20. Quarterly Results of Operations (Unaudited)

The unaudited quarterly results of operations for the years ended December 31, 2016 and 2015 are summarized in the table below:

	Three months ended			
(In millions, except per share data)	March 31	June 30	September 30	December 31
2016				
Total revenues	$ 722	$ 1,047	$ 1,276	$ 1,062
Total benefits and expenses	634	839	1,205	676
Net income	87	192	158	368
Net income available to Athene Holding Ltd. shareholders	87	192	158	368
Earnings per share				
Basic - Classes A, B and M-1[1]	$ 0.47	$ 1.03	$ 0.85	$ 1.94
Diluted - Class A	0.47	1.03	0.85	1.80
Diluted - Class B	0.47	1.03	0.85	1.94
Diluted - Class M-1	*N/A*	*N/A*	*N/A*	0.46
2015				
Total revenues	$ 803	$ 544	$ 224	$ 1,045
Total benefits and expenses	637	413	149	825
Net income	160	104	72	242
Net income available to Athene Holding Ltd. shareholders	144	104	72	242
Earnings per share				
Basic - Classes A and B	$ 1.01	$ 0.56	$ 0.39	$ 1.30
Diluted - Class A	1.01	0.56	0.39	1.30
Diluted - Class B	1.01	0.56	0.39	1.30
Diluted - Class M-1	*N/A*	*N/A*	*N/A*	*N/A*

N/A - Not applicable. Refer to Note 13 - Earnings Per Share for further discussion.

[1] *Basic earnings per Class M-1 share was applicable only for the three months ended December 31, 2016. Refer to Note 13 - Earnings Per Share for further discussion.*

During the three months ended December 31, 2016, we recorded out-of-period adjustments that affected the consolidated statements of income for the three months ended September 30, 2016. These adjustments primarily related to DAC and VOBA amortization. In addition, during the three months ended September 30, 2016, we recorded out-of-period adjustments that primarily affected the consolidated statements of income for the year ended December 31, 2015. These out-of-period adjustments were primarily related to actuarial reserves, net of DAC and VOBA amortization.

As a result of these out-of-period adjustments, the consolidated net income for the three months ended December 31, 2016 was understated by $5 million and the consolidated net income for the three months ended September 30, 2016 was overstated by $23 million.

We evaluated these out-of-period adjustments and determined they were not material to the consolidated financial statements for either the three months ended September 30, 2016 or December 31, 2016, or any other previously reported period.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

As a result of a change in the financial reporting responsibilities of our West Des Moines, Iowa, personnel during 2015, PricewaterhouseCoopers Ltd. (PwC Bermuda) and PricewaterhouseCoopers LLP (PwC U.S.) agreed that it would be appropriate for PwC U.S. to assume principal auditor responsibilities for the year ending December 31, 2015. We, with the approval of our audit committee, engaged PwC U.S. as our new independent registered public accounting firm with effect from December 8, 2015. Prior to the engagement, PwC Bermuda resigned as our independent registered public accounting firm on December 8, 2015.

PwC Bermuda's report on our financial statements for the fiscal year ended December 31, 2014 did not contain an adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principle. During the fiscal year ended December 31, 2014 and the interim period through December 8, 2015, there were no disagreements with PwC Bermuda on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of PwC Bermuda, would have caused PwC Bermuda to make reference thereto in their report on the financial statements for such periods. During the

fiscal year ended December 31, 2014 and the subsequent interim period through December 8, 2015, there have been no reportable events (as defined by Regulation S-K 304(a)(1)(v)).

During the fiscal year ended December 31, 2014 and the subsequent interim period through December 8, 2015, PwC U.S. performed work on components of us, either in support of PwC Bermuda's audit report or for statutory audit requirements. All consultations with PwC U.S. by us were made in the ordinary course of business.

Item 9A. Controls and Procedures

We maintain disclosure controls and procedures as such term is defined under Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We have carried out an evaluation, as of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at attaining the level of reasonable assurance noted above.

There were no changes to the Company's internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the quarter ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our independent registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Below is a list of the names and ages of our directors and executive officers and a description of the business experience of each of them.

Name	Age	Position
James R. Belardi	59	Chairman, Chief Executive Officer and Chief Investment Officer
William J. Wheeler	55	President
Grant Kvalheim	60	Executive Vice President - Athene, Chief Executive Officer and President - Athene USA
Martin P. Klein	57	Executive Vice President and Chief Financial Officer
Frank L. Gillis	65	Executive Vice President - Athene, Chief Executive Officer - ALRe
John Rhodes	45	Executive Vice President and Chief Risk Officer
Marc Beilinson	58	Director*
Robert Borden	53	Director*
Brian Leach†	58	Director*
Gernot Lohr	47	Director
H. Carl McCall†	81	Director*
Matthew R. Michelini	35	Director
Dr. Manfred Puffer	53	Director
Marc Rowan	54	Director
Lawrence J. Ruisi	68	Director*
Imran Siddiqui	42	Director
Hope Schefler Taitz	52	Director*
Arthur Wrubel†	51	Director*

*Independent director for purposes of the NYSE corporate governance listing requirements.
†These directors have been appointed subject to being nominated and elected by shareholders at the 2017 annual general meeting.

Executive Officers

James R. Belardi has served as our Chairman and Chief Executive Officer and Chief Investment Officer since May 2009. In addition, Mr. Belardi is the Chairman, Chief Executive Officer and Chief Investment Officer of AAM, our investment manager. He is a member of our executive committee. Mr. Belardi is responsible for our overall strategic direction and management in his capacity as Chief Executive Officer and is responsible for the day-to-day management of our investment portfolio in his capacity as Chief Investment Officer. Prior to founding our Company and AAM, Mr. Belardi was President of SunAmerica Life Insurance Company and was also Executive Vice President and Chief Investment Officer of AIG Retirement Services, Inc., where he had responsibility for an invested-asset portfolio of $250 billion. Mr. Belardi has a Bachelor of Arts degree in economics from Stanford University and a Master of Business Administration from the University of California, Los Angeles. He currently serves on the board of directors of Paulist Productions, where he chairs the investment committee, Aris Mortgage Holding Company LLC (Aris Holdco) and Southern California Aquatics. Mr. Belardi was selected to serve on our board of directors as a result of his demonstrated track record in and deep knowledge of the financial services business, including having founded both our Company and AAM, and his extensive experience in the insurance industry.

William J. Wheeler has served as our President since September 2015. Together with Mr. Belardi, Mr. Wheeler is responsible for our overall strategic direction. In particular, Mr. Wheeler oversees all of our business units, which includes our retail, reinsurance and German operations, and also our corporate development and risk activities. Prior to joining our Company, Mr. Wheeler was President of the Americas group for MetLife Inc. (MetLife) where he oversaw the insurance and retirement business in the United States and Latin America. During his seventeen-year tenure at MetLife, Mr. Wheeler assumed various executive positions, including Executive Vice President and Chief Financial Officer. In addition, Mr. Wheeler served as Treasurer for MetLife, playing a key role in preparing MetLife to become a public company. Prior to joining MetLife, Mr. Wheeler was an investment banker at Donaldson, Lufkin & Jenrette. Mr. Wheeler has a Bachelor of Arts degree in English from Wabash College and a Master of Business Administration from Harvard Business School. He currently serves on the board of Evercore Partners Inc.

Grant Kvalheim has served as the Chief Executive Officer of Athene USA since June 2015 and served as our President from January 2011 until September 2015, served as the Chief Financial Officer from January 2011 until April 2013 and served as a director from January 2012 until February 2014. Mr. Kvalheim is responsible for the oversight of our U.S. operating companies with a focus on our retail annuity channel, including growth initiatives and new product development. Prior to joining our Company, Mr. Kvalheim was a senior executive of Barclays Capital (Barclays) from early 2001 to the end of 2007, becoming Co-President in September 2005. During his time at Barclays he converted a European cash investment grade business into a leading global cash and derivatives business across both securitized and non-securitized credit products, and significantly expanded Barclays' investment banking platform. Prior to joining Barclays, Mr. Kvalheim held senior executive positions in the investment banks of Deutsche Bank and Merrill Lynch. Mr. Kvalheim has a Bachelor of Arts degree in economics from

Item 10. Directors, Executive Officers and Corporate Governance

Claremont McKenna College and a Master of Business Administration in finance from the University of Chicago. He served on the board of directors of the Permal Silk Road Fund from June 2008 to November 2012. He currently serves on the board of directors of Mottahedeh & Co. and Sol Health.

Martin P. Klein has served as our Executive Vice President and Chief Financial Officer since November 2015. Mr. Klein also serves as a director of several of our insurance subsidiaries. Mr. Klein is responsible for overseeing our financial management, including our enterprise finance, tax, actuarial and internal audit functions. He also helps to develop and execute strategic operating decisions across our Company. Prior to joining our Company, Mr. Klein served as Executive Vice President and Chief Financial Officer of Genworth Financial, Inc. (Genworth) from February 2013 to October 2015. Prior to that, he was Senior Vice President-Chief Financial Officer of Genworth from May 2011 to February 2013, and from May 2012 through December 2012, he also served as Genworth's Acting President and Acting Chief Executive Officer. Prior to joining Genworth, Mr. Klein served as a Managing Director and Senior Relationship Manager of Barclays, after its acquisition of the U.S. operations of Lehman Brothers Holdings, Inc. (Lehman Brothers) in 2008. At Lehman Brothers, Mr. Klein served as a Managing Director and from 1998 to 2008 was the head of the Insurance Solutions Groups, and also founded and ran the Pension Solutions Group. Prior to Lehman Brothers, Mr. Klein had been with Zurich Insurance Group from 1994 to 1998 and was a Managing Director of Zurich Investment Management. Prior to Zurich, Mr. Klein served in finance and actuarial roles in other insurance organizations. Mr. Klein is a Fellow of the Society of Actuaries and a Chartered Financial Analyst. He received his Bachelor of Arts in mathematics and business administration from Hope College and a Master of Science in statistical and actuarial sciences from University of Iowa.

Frank L. Gillis is a founder of our Company and served on our board of directors from May 2009 to February 2014. Mr. Gillis has served as Chief Executive Officer of ALRe since June 2009 and serves as a director of ALRe. Mr. Gillis is responsible for our growth through our reinsurance channel and is responsible for the oversight of ALRe. Prior to founding our Company, Mr. Gillis was a Senior Managing Director at Bear Stearns & Co. Inc. (Bear Stearns) and was the head of the Bear Stearns Insurance Solutions Group. In this position, he led Bear Stearns' entry into the funding agreement-backed note business and created the turn-key Premium Asset Trust Series. Prior to Bear Stearns, Mr. Gillis spent over three years at GenRe Financial Products providing ALM hedging solutions to U.S. life insurance companies. Mr. Gillis serves on the boards of Bermuda International Long Term Insurers and Reinsurers and the Association of Bermuda International Companies. Mr. Gillis has a Bachelor of Arts in English from the University of Richmond.

John Rhodes has served as our Executive Vice President and Chief Risk Officer since August 2016. Mr. Rhodes is responsible for overseeing our enterprise risk management functions, as well as providing key support in connection with strategic operating decisions across our Company. Prior to joining our Company, Mr. Rhodes was the Chief Risk Officer of Allstate from November 2015 to June 2016. Prior to joining Allstate, Mr. Rhodes was the Chief Risk Officer of Lincoln Financial Group from July 2012 to October 2015. Prior to that he served as the Head of Equity Risk Management at Lincoln Financial Group from 2009 to 2012. Prior to joining Lincoln Financial Group, Mr. Rhodes was the Head of Hedging Operations and Performance Management at ING US Financial Services from 2006 to 2009. From 1999 to 2006, Mr. Rhodes served in a variety of roles at JPMorgan Chase and GE Capital focusing primarily on market risk and valuation. Mr. Rhodes also served in the U.S. Navy as a commissioned officer. Mr. Rhodes received a Bachelor of Science degree in oceanography from the United States Naval Academy and a Master of Business Administration from New York University, Leonard Stern School of Business.

Directors

We believe our board of directors should be composed of a diverse group of individuals with sophistication and experience in many substantive areas that impact our business. We believe experience, qualifications and skills in the following areas are most important: insurance industry; accounting, finance, and capital structure; strategic planning and leadership of complex organizations; legal/regulatory and government affairs; personnel management; and board practices of other major corporations. We believe that all of our current board members possess the professional and personal qualifications necessary for service on our board, and have highlighted particularly noteworthy attributes for each board member in the individual biographies below, or above in the case of our Chairman and Chief Executive Officer.

Marc Beilinson has served as a director of our Company since 2013, and is the chair of our compensation committee and a member of our conflicts committee. Since August 2011, Mr. Beilinson has been the Managing Director of Beilinson Advisory Group, a financial restructuring and hospitality advisory group that specializes in assisting distressed companies. Since December 2016, Mr. Beilinson has served as Chief Restructuring Officer of Newbury Common Associates LLC (and certain affiliates). Mr. Beilinson previously served as Chief Restructuring Officer of Fisker Automotive and as Chief Restructuring Officer and Chief Executive Officer of Eagle Hospitality Properties Trust, Inc. and Innkeepers USA Trust. Mr. Beilinson currently serves on the boards of directors and audit committees of MFG Assurance Company Limited and Caesars Acquisition Company. Mr. Beilinson has previously served on the boards of directors and audit committees of a number of public and privately held companies, including Wyndham International, Inc., Apollo Commercial Real Estate Finance, Inc. (ARI), Innkeepers USA Trust and JER/Jameson Properties LLC. Mr. Beilinson has a Bachelor of Arts in political science from the University of California, Los Angeles and a Juris Doctor from the University of California Davis Law School. Mr. Beilinson was selected to serve on our board of directors as a result of having over thirty years of service to the boards of both public and private companies, and his extensive knowledge of legal and compliance issues, including the Sarbanes-Oxley Act of 2002.

Robert Borden has served as a director of our Company and our Company's subsidiary, ALRe, since 2010, and is a member of our risk and conflicts committees. Mr. Borden is Managing Partner and Chief Investment Officer of Delegate Advisors, LLC. From April 2006 to January 2012, Mr. Borden served as the Chief Executive Officer and Chief Investment Officer of the South Carolina Retirement System Investment Commission (SCRSIC), which is responsible for investing and managing all assets of the South Carolina Retirement Systems. Prior to his role at SCRSIC, Mr. Borden served as the Executive Director and Chief Investment Officer of the Louisiana State Employees Retirement

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System, where he was responsible for investment management, benefits administration, finance and operations. Mr. Borden has also served as Vice Chairman and Chairman of the Fund Evaluation Committee for the Louisiana Deferred Compensation Commission and as a member of the South Carolina Deferred Compensation Committee. Prior to that, Mr. Borden served as Treasurer and Senior Manager for Financial Services at the Texas Workers' Compensation Insurance Fund after serving as VP of Treasury and Interest Rate Risk Manager at Franklin Federal Bancorp. Mr. Borden serves on the board of directors of Delegate Advisors, LLC, Apollo Senior Floating Rate Fund, Inc. and Apollo Tactical Income Fund Inc. Mr. Borden has a Bachelor of Business Administration with a major in finance from the University of Texas at Austin and received a Master of Science degree in finance from Louisiana State University. Mr. Borden holds both the Chartered Financial Analyst and Chartered Alternative Investment Analyst professional designations. Mr. Borden was selected to serve on our board of directors as a result of his extensive experience in leadership positions, and in particular, his experiences as Chief Executive Officer and Chief Investment Officer at several companies.

Brian Leach was appointed as a director of our Company in August 2016, and is a member of our risk and audit committees. From 2013 to 2015, Mr. Leach served as Head of Franchise Risk & Strategy at Citigroup with responsibility for managing all of Citibank's global risk, audit, compliance and strategy. From 2008 to 2012, Mr. Leach served as the Chief Risk Officer of Citibank. In 2005, Mr. Leach, together with several former colleagues from Morgan Stanley, formed Old Lane and from 2005 to 2008, Mr. Leach served as Old Lane's co-Chief Operating Officer and Chief Risk Officer. Prior to that, Mr. Leach worked his entire post-graduate career at Morgan Stanley encompassing running a successful proprietary trading business and culminating as the Risk Manager of the Institutional Securities Business reporting directly to its President. During his time with Morgan Stanley, Mr. Leach was seconded to Long-Term Capital Management (LTCM) for approximately one year. During that time, he was one of six managers selected by a consortium of 14 global financial institutions to manage the liquidation of LTCM. Mr. Leach serves on the Advisor Investment Committee of Mountain Capital. Mr. Leach has a Bachelor of Arts degree in economics from Brown University and a Master of Business Administration from Harvard Business School. Mr. Leach has been awarded Risk Manager of the Year on two separate occasions: the first by Risk Magazine for his work in restructuring the hedge fund LTCM and the second by the Global Association of Risk Professionals for his work in restructuring Citigroup after the global financial crisis. Mr. Leach was selected to serve on our board of directors as a result of his extensive experience in risk management.

Gernot Lohr has served as a director of our Company and our subsidiary, ALRe, since 2009. Mr. Lohr has served as a director of AAM, our investment manager, since 2009. Mr. Lohr is a Senior Partner at Apollo, which he joined in May 2007. Prior to joining Apollo, Mr. Lohr was a founding partner at Infinity Point LLC, Apollo's joint venture partner for the financial services industry since 2005. Before that time, Mr. Lohr spent eight years in financial services investment banking at Goldman, Sachs & Co. in New York and also worked at McKinsey & Company and B. Metzler Corporate Finance in Frankfurt. Currently, Mr. Lohr serves on the board of directors of the general partner of AAA, AAA MIP Limited, Amissima Assicurazioni (formerly Carige Assicurazioni), Bremer Kreditbank Aktiengesellschaft, Catalina Holdings, Nova Kreditna Banka Maribor and Tranquilidade. Mr. Lohr has a joint Master's Degree in economics and engineering from the University of Karlsruhe, Germany, and received a Master of Business Administration from the MIT Sloan School of Management. Mr. Lohr was selected to serve on our board of directors as a result of his extensive experience in the financial services sector.

H. Carl McCall was appointed as a director of our Company in August 2016, and is a member of our nominating and corporate governance and compensation committees. Since October 2011, Mr. McCall has served as the Chairman of the Board of Trustees of the State University of New York. From 2002 to 2015, Mr. McCall served as a board member or trustee of several organizations, including Ariel Investment, Tyco International, New Plan Realty Corporation and the New York Stock Exchange. Since 2004, Mr. McCall has served as a principal of Covenant Capital, LLC. From 1993 to 2002, Mr. McCall served as the Comptroller of the State of New York. From 1991 to 1993, Mr. McCall served as the President of the New York City Board of Education. From 1986 to 1991, Mr. McCall served as Commissioner of the Port Authority of New York and New Jersey. From 1985 to 1993, Mr. McCall served as a Vice President of Citicorp, Inc. From 1975 to 1980, Mr. McCall served as a state senator of New York. From 1973 to 1975, Mr. McCall served as executive director of the Florence and John Schuman Foundation. Mr. McCall received a Bachelor of Arts degree in government from Dartmouth College and a Masters of Arts from Andover Newton Theological Seminary. Mr. McCall was selected to serve on our board of directors as a result of his extensive leadership experience in various sectors, and his experience serving on the boards of a number public and private companies.

Matthew R. Michelini has served as a director of our Company and certain of our subsidiaries since 2010, and is a member of our executive, nominating and corporate governance and risk committees. Mr. Michelini serves as a director of AAM, our investment manager. Mr. Michelini is a Partner at Apollo. He joined Apollo in July 2006. Mr. Michelini serves on the board of directors of Aleris Corporation and Warrior Met Coal and previously served on the boards of Metals USA Holdings (formerly NYSE listed under MUSA) and Noranda Aluminum Holding Corporation (formerly NYSE listed under "NOR"). At Apollo, Mr. Michelini has executed deals across the world including in North America, Europe, and Asia. Prior to joining Apollo, Mr. Michelini was a member of the Mergers & Acquisitions group at Lazard Frères & Co., from 2004 to 2006. Mr. Michelini is actively involved in various charities dedicated to helping underprivileged children in New York City. Mr. Michelini graduated from Princeton University with a Bachelor of Science degree in mathematics and a Certificate in Finance and received his Master of Business Administration from Columbia University. Mr. Michelini was selected to serve on our board of directors as a result of his extensive experience in the financial services sector.

Dr. Manfred Puffer has served as a director of our Company since 2012, and is the chair of our risk committee. Dr. Puffer has served as a Senior Advisor to Apollo since October 2008. From 2006 to 2008, Dr. Puffer was a senior managing director in the Financial Institutions Group of Bear Stearns International, Head of Germany, Austria and Eastern Europe and a Member of the European Executive Committee. From 2002 to 2005, Dr. Puffer was a member of the managing board of WestLB AG and Head of the Investment Bank, Fixed Income, Equities and Structured Finance. Currently, Dr. Puffer is a member of the supervisory board of Infineon Technologies AG. Dr. Puffer holds a Ph.D. and a Master of

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Business Administration from the University of Vienna. Dr. Puffer was selected to serve on our board of directors as a result of his extensive experience in the financial services sector.

Marc Rowan has served as a director of our Company since 2009, and is a member of our executive and compensation committees. Mr. Rowan has served as a director of AAM, our investment manager, since 2009. Mr. Rowan is a co-founder and Senior Managing Director of Apollo, a leading alternative asset manager focused on contrarian and value oriented investments across private equity, credit-oriented capital markets and real estate. Mr. Rowan currently serves on the boards of directors of, among others, Apollo, CEC and Caesars Acquisition Company. He has previously served on the boards of directors of, among others, the general partner of AAA, AMC Entertainment, Inc., Beats Music, CableCom Gmbh., Caesars Entertainment Operating Co., Countrywide PLC, Culligan Water Technologies, Inc., Furniture Brands International, Mobile Satellite Ventures, National Cinemedia, Inc., National Financial Partners, Inc., New World Communications, Inc., Norwegian Cruise Lines, Quality Distribution, Inc., Samsonite Corporation, SkyTerra Communications, Inc., Unity Media SCA, Vail Resorts, Inc., Wyndham International, Inc. and RCS Capital Corporation. Mr. Rowan is a founding member and Chairman of YRF-Darca, Vice Chair of the Board of Overseers of The Wharton School at the University of Pennsylvania and a member of the University of Pennsylvania’s Board of Trustees. He serves on the boards of directors of Jerusalem Online and the New York City Police Foundation. Mr. Rowan graduated summa cum laude from the University of Pennsylvania’s Wharton School of Business with a Bachelor of Science and a Master of Business Administration in finance. Mr. Rowan was selected to serve on our board of directors as a result of his service on the boards of numerous public and private companies and his demonstrated track record of success and extensive experience in the financial services sector.

Lawrence J. Ruisi has served as a director of our Company since 2013, and is the chair of our audit committee and is a member of our risk committee. As an operating executive, Mr. Ruisi has held various senior level positions in the entertainment business, including President & Chief Executive Officer of Loews Cineplex Entertainment Corporation, a movie theatre operator with 400 locations worldwide, and as Executive Vice President and Chief Financial Officer of Columbia Pictures Entertainment. As a non-executive, Mr. Ruisi has served on numerous boards including Hughes Communications Inc., UST Inc., InnKeepers USA Trust, Wyndham International, Inc. and Adaptec, Inc. During his tenure on these boards, Mr. Ruisi has been Chairman of various audit committees, named designated financial expert and served on both compensation and nominating and corporate governance committees. Mr. Ruisi was Chairman of the Independent Committee of the board of InnKeepers, which oversaw its restructuring, and was Chairman of Special Committees at both Wyndham and Adaptec. Mr. Ruisi began his career at Price Waterhouse & Co., where he was a Senior Manager. He is a Certified Public Accountant and received a Bachelor of Science degree in accounting and a Master of Business Administration in finance from St. John’s University. Mr. Ruisi is currently an adjunct professor of accounting at St. John’s University. Mr. Ruisi was selected to serve on our board of directors as a result of his extensive leadership experience in various sectors, his expertise in accounting and financial reporting matters and his experience serving on the boards of numerous public and private companies.

Imran Siddiqui has served as a director of our Company and certain of our subsidiaries since 2009, and is a member of our executive, compensation, audit and risk committees. Mr. Siddiqui serves as a director of AAM, our investment manager. Mr. Siddiqui is a Senior Partner at Apollo, which he joined in 2008. Prior to that time, Mr. Siddiqui was a principal in Oak Hill Capital’s Business and Financial Services Group. Prior to Oak Hill, Mr. Siddiqui spent six years in the Financial Institutions Group of Goldman, Sachs & Co., and worked as a consultant at McKinsey & Company from 1997 to 1999. Mr. Siddiqui currently serves on the boards of the general partner of AAA, Aris Holdco and MidCap FinCo Holdings Limited (MidCap Holdings). In addition, Mr. Siddiqui is on the College Visiting Committee at the University of Chicago. Mr. Siddiqui has a Bachelor of Arts degree in political science and a Master of Arts in international relations from the University of Chicago and a Juris Doctor from Harvard Law School. Mr. Siddiqui was selected to serve on our board of directors as a result of his extensive experience in the financial services sector.

Hope Schefler Taitz has served as a director of our Company and our subsidiary, ALRe, since 2011, and is the lead independent director, chair of our nominating and corporate governance committee and a member of our audit and conflicts committees. Ms. Taitz also serves as an independent director of AADE. Ms. Taitz is also a director of Athene USA, AAIA, ALICNY and AANY, and also serves on the audit committee for AANY. Since 2004, Ms. Taitz has acted as a consultant focused on analyzing and investing in the consumer industry in both early and late stage. Ms. Taitz currently serves on the board of MidCap Holdings. From 1995 to 2003, Ms. Taitz was Managing Partner of Catalyst Partners, L.P., a money management firm. From 1990 to 1992, Ms. Taitz was a Vice President at The Argosy Group (now part of the Canadian Imperial Bank of Commerce (NYSE: CM)) specializing in financial restructuring before becoming a Managing Director at Crystal Asset Management, from 1992 to 1995. From 1986 to 1990, Ms. Taitz was at Drexel Burnham Lambert, first as a mergers and acquisitions analyst and then as an associate in the leveraged buyout group. She is a founding executive member of Youth Renewal Fund, a current executive board member of Pencils of Promise and a member of the undergraduate executive board of The Wharton School at the University of Pennsylvania. Ms. Taitz is a former board member of Girls Who Code and is now a board member of the New York City Foundation for Computer Science. Ms. Taitz graduated with honors from the University of Pennsylvania with a Bachelor of Arts degree in economics. Ms. Taitz was selected to serve on our board of directors as a result of her extensive experience in the financial services sector as well as her experience serving on the governance committees of other public companies.

Arthur Wrubel was appointed as a director of our Company in August 2016, and is a member of our nominating and corporate governance and compensation committees. In 2001, Mr. Wrubel formed Wesley Capital Management, a long/short investment fund focused on real estate securities. Since its inception, Wesley Capital has been among the largest investment funds in the real estate securities sector. In 1993, Mr. Wrubel joined Dickstein & Co., a bankruptcy and event-driven investment fund as a partner. His focus was on real estate and asset backed securities. At Dickstein, Mr. Wrubel was involved in many high profile real estate corporate restructurings including Olympia & York, Cadillac Fairview, Rockefeller Center Properties, Bramalea, and Trizec. Mr. Wrubel began his career in 1987 at JMB Realty Corporation, where he was an associate in the acquisitions group. Mr. Wrubel currently serves as a member of the Wharton Undergraduate Board at the University of

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Pennsylvania. Mr. Wrubel received a Bachelor of Science in economics from The Wharton School at the University of Pennsylvania. Mr. Wrubel was selected to serve on our board of directors as a result of his extensive experience in the financial services sector.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers and holders of more than 10% of our common shares to file reports with the SEC regarding their ownership and changes in ownership of our securities. Based upon our examination of the copies of Forms 3, 4, and 5, and amendments thereto furnished to us and the written representations of our directors, executive officers and 10% stockholders, we believe that, during fiscal 2016, our directors, executive officers and 10% stockholders complied with all Section 16(a) filing requirements, except that one of our officers, William Eckert, did not timely file a Form 3 due to be filed on December 9, 2016; such form was filed on December 27, 2016.

Corporate Governance

Our business and affairs are managed under the direction of our board of directors. Our board of directors currently consists of 13 members. Six of our directors are employees of or consultants to Apollo or its affiliates (including Mr. Belardi, our Chairman, Chief Executive Officer and Chief Investment Officer, who is also Chairman, Chief Executive Officer and Chief Investment Officer of AAM).

Under our bye-laws, our board of directors will consist of not less than two and not more than 17 directors. If there is a vacancy on our board of directors due to death, disability, disqualification, removal or resignation, or there is an increase in the number of our directors or a failure to elect a director at a shareholder meeting, the board of directors may appoint any person as a member of the board of directors on an interim basis until the next annual general meeting provided that such person has been approved by a majority of the nominating and corporate governance committee. At the next annual general meeting, the vacancy will be put to a shareholder vote. Persons appointed by the board of directors to fill vacancies must be approved by a majority of the board of directors.

Classified Board of Directors

Our bye-laws provide for our board of directors to be divided into three classes with members of each class serving staggered three-year terms. Only one class of directors will be elected at each annual general meeting of shareholders, with directors in other classes continuing for the remainder of their respective three-year terms. Our current directors are divided among the three classes as follows:

- our Class I directors are Messrs. Belardi, Michelini, Leach, Lohr and Rowan and, except as provided below with respect to Mr. Leach, their terms will expire at our annual general meeting to be held in 2019;

- our Class II directors are Messrs. Siddiqui, Wrubel, Ruisi and Ms. Taitz and, except as provided below with respect to Mr. Wrubel, their terms will expire at our annual general meeting to be held in 2017; and

- our Class III directors are Messrs. Borden, McCall and Beilinson and Dr. Puffer and, except as provided below with respect to Mr. McCall, their terms will expire at our annual general meeting to be held in 2018.

Messrs. Wrubel, Leach and McCall have been appointed to the board of directors subject to being nominated and elected by shareholders at the next annual general meeting to take place in 2017. If elected at that meeting, Mr. Wrubel will be a Class II director whose term will expire at our annual general meeting to be held in 2020, Mr. Leach will be a Class I director whose term will expire at our annual general meeting to be held in 2019 and Mr. McCall will be a Class III director whose term will expire at our annual general meeting to be held in 2018.

Our 2017 annual general meeting of shareholders will be held on June 7, 2017. A proposal by a shareholder intended for inclusion in our proxy materials for the 2017 annual general meeting of shareholders pursuant to Rule 14a-8 of the Exchange Act must be received by our Corporate Secretary on or before March 27, 2017 in order to be considered for such inclusion.

Our directors hold office until their successors have been elected and qualified or until the earlier of their death, resignation or removal. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors.

The classification of our board of directors may have the effect of delaying or preventing changes of control of our company.

Lead Independent Director

On October 26, 2016, the board of directors elected Ms. Taitz to the newly-created position of Lead Independent Director, effective immediately. In this new role, Ms. Taitz will, among other things, preside at executive sessions of the independent directors, serve as liaison between the chairman and the independent directors, review board meeting schedules and agendas, review information sent to the board and be authorized to call meetings of the independent directors.

Item 10. Directors, Executive Officers and Corporate Governance

Committees of the Board of Directors

Our board of directors has the authority to appoint committees to perform certain management and administration functions. Our board of directors has six standing committees: audit, compensation, nominating and corporate governance, conflicts, executive and risk. The table below shows the membership for each of the board of directors' standing committees.

Audit Committee	Compensation Committee	Conflicts Committee
Lawrence J. Ruisi (Chair)*	Marc Beilinson (Chair)*	Marc Beilinson*
Hope Taitz*	Imran Siddiqui	Robert Borden*
Imran Siddiqui	Marc Rowan	Hope Taitz*
Brian Leach*	H. Carl McCall*	
	Arthur Wrubel*	

Executive Committee	Nominating and Corporate Governance Committee	Risk Committee
James R. Belardi	Hope Taitz (Chair)*	Manfred Puffer (Chair)
Marc Rowan	Matthew Michelini	Imran Siddiqui
Imran Siddiqui	Arthur Wrubel*	Robert Borden*
Matthew Michelini	H. Carl McCall*	Matthew Michelini
		Lawrence J. Ruisi*
		Brian Leach*

ıdependent director for purposes of the NYSE corporate governance listing requirements.

Audit Committee

The audit committee's duties include, but are not limited to, assisting the board of directors with its oversight and monitoring responsibilities regarding:

- the integrity of the Company's consolidated financial statements and financial and accounting processes;
- compliance with the audit, internal accounting and internal controls requirements by AHL and its subsidiaries;
- the independent auditor's qualifications, independence and performance;
- related party transactions other than transactions between AHL and its subsidiaries and Apollo and its affiliates (other than AHL and its subsidiaries) and other related party transactions ancillary thereto that are required to be reviewed by the conflicts committee or by the disinterested directors on our board of directors as described under *Conflicts Committee* below, or are expressly exempt from such review under our internal policies;
- the performance of the internal accounting and financial controls of the Company and its subsidiaries (including monitoring and reporting by subsidiaries) and the function of the internal audit departments of the Company and its subsidiaries;
- the Company's legal and regulatory compliance and ethical standards; and
- procedures to receive, retain and treat complaints regarding accounts, internal accounting controls or auditing matters and to receive confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Members of our audit committee also review the Company's financial disclosure and public filings.

Our audit committee is currently comprised of Messrs. Leach, Ruisi and Siddiqui and Ms. Taitz. Mr. Ruisi is the chair of the audit committee. Messrs. Ruisi, Leach and Ms. Taitz each meet the independence requirements of the NYSE rules. We will rely on the phase-in rules of the SEC with respect to the independence of our audit committee under Rule 10A-3(b)(1) of the Exchange Act and the rules of the NYSE. These rules require that at least a majority of the members of our audit committee be independent within 90 days of the effective date and all members be independent within one year of the effective date. Each member of our audit committee meets the requirements for financial literacy under the applicable rules and regulations of the SEC and the NYSE. The chair of our audit committee, Mr. Ruisi, is an independent director and an "audit committee financial expert" as that term is defined in the rules and regulations of the SEC. Our board of directors has approved a written charter under which the audit committee will operate. A copy of the charter of our audit committee is available on our principal corporate website at *www.athene.com*. Information contained on our website or connected thereto does not constitute a part of, and is not incorporated by reference into, this report.

Item 10. Directors, Executive Officers and Corporate Governance

Nominating and Corporate Governance Committee

The purposes of the nominating and corporate governance committee are to:

- identify, evaluate and recommend individuals qualified to become members of our board of directors or the boards of directors of material operating subsidiaries of the Company (each, a Subsidiary Board), consistent with criteria approved by our board of directors or Subsidiary Boards, as applicable;
- select, or recommend that our board of directors or any Subsidiary Board select, the director nominees to stand for election at each annual general meeting of shareholders of the Company or any subsidiary or to fill vacancies on our board of directors or any Subsidiary Board, as applicable;
- develop and recommend to our board of directors a set of corporate governance guidelines applicable to the Company and its subsidiaries; and
- oversee the annual performance evaluation of our board of directors and the Subsidiary Boards and each of their respective committees and management.

The nominating and corporate governance committee also recommends directors eligible to serve on all committees of our board of directors and committees of the Subsidiary Boards, as applicable. The nominating and corporate governance committee also reviews and evaluates, in accordance with our bye-laws, all shareholder director nominees.

Our nominating and corporate governance committee is comprised of Messrs. McCall, Michelini and Wrubel and Ms. Taitz. Ms. Taitz is the chair of the nominating and governance committee. Currently, Messrs. McCall and Wrubel and Ms. Taitz meet the independence requirements of the NYSE rules. Not later than the first anniversary of the effective date, all members of our nominating and corporate governance committee will be independent directors. A copy of the charter of our nominating and corporate governance committee is available on our principal corporate website at *www.athene.com.* Information contained on our website or connected thereto does not constitute a part of, and is not incorporated by reference into, this report.

Compensation Committee

The purposes of the compensation committee are generally to:

- review and approve annually corporate goals and objectives, including financial and other performance targets, relevant to Chief Executive Officer and executive officer compensation;
- review and approve annually corporate goals and objectives, including financial and other performance targets, relevant to compensation paid to the other executive officers and key employees of the Company and its subsidiaries;
- review, approve and, when necessary, make recommendations to the board of directors regarding the Company's compensation plans, including with respect to incentive compensation plans and share-based plans, policies and programs;
- review and administer the Company's share incentive plans and any other share-based plan and any incentive-based plan of the Company and its subsidiaries, including approving grants and/or awards of restricted stock, stock options and other forms of equity-based compensation under any such plans to executive officers;
- review and approve, for the Chief Executive Officer and other executive officers of the Company, when and if appropriate, employment agreements, severance agreements, consulting agreements and change in control or termination agreements;
- prepare the compensation committee report to be included in an annual report or proxy statement, as required by applicable SEC and NYSE rules;
- review periodically the Company's compensation plans, policies and programs to assess whether such policies encourage excessive or inappropriate risk-taking or earnings manipulation;
- review the results of any advisory stockholder votes on executive compensation and consider whether to recommend adjustments to the Company's executive compensation policies and practices as a result of such vote; and
- monitor compliance with stock ownership guidelines for the Chief Executive Officer and other executive officers of the Company.

Our compensation committee is comprised of Messrs. Beilinson, McCall, Rowan, Siddiqui and Wrubel. Mr. Siddiqui was the chair of the compensation committee through 2016, and Mr. Beilinson is the current chair of the compensation committee. Currently, Messrs. Beilinson, McCall and Wrubel meet the independence requirements of the NYSE rules. Not later than the first anniversary of the effective date, all members of the compensation committee will be independent. Our board of directors has approved a written charter under which the

compensation committee will operate. A copy of the charter of our compensation committee is available on our principal corporate website at www.athene.com. Information contained on our website or connected thereto does not constitute a part of, and is not incorporated by reference into, this report.

Conflicts Committee

Because the Apollo Group has a significant voting interest in AHL, and because AHL and its subsidiaries have entered into, and will continue in the future to enter into, transactions with Apollo and its affiliates, our bye-laws require us to maintain a conflicts committee, currently consisting of three directors of the Company that are not officers or employees of any member of the Apollo Group and are designated by our board of directors. The conflicts committee meets quarterly and consists of Messrs. Beilinson and Borden and Ms. Taitz. The conflicts committee reviews and must approve of material transactions by and between AHL and its subsidiaries, on the one hand, and members of the Apollo Group, on the other hand, including any modification or waiver of the IMAs with AAM, subject to certain exceptions. The conflicts committee is also responsible for the review and approval of related party transactions that are incidental or ancillary to the foregoing transactions. For a description of the functions of the conflicts committee and such exceptions, see *Item 13. Certain Relationships and Related Transactions, and Director Independence-Related Party Transaction Policy.*

Executive Committee

The executive committee is responsible for facilitating the approval of certain actions that do not require consideration by the full board of directors or that are specifically delegated by the board of directors to the executive committee. The executive committee possesses and may exercise all powers of the board of directors in the management and direction of the Company's business consistent with our bye-laws, applicable law (including any applicable rule of any stock exchange or quotation system on which our common shares are then listed) and our operating guidelines, except that the executive committee shall not perform such functions that are expressly delegated to other committees of the board of directors. The executive committee does not have the power to:

- declare dividends on or distributions of or in respect of shares of the Company;
- issue shares or authorize or approve the issuance or sale, or contract for sale, of shares or determine the designation and relative rights, preferences and limitations of a series or class of shares unless specifically delegated by action of the board of directors to the executive committee or a subcommittee of the executive committee;
- recommend to shareholders any action that requires shareholder approval;
- recommend to shareholders a dissolution or winding up of the Company or a revocation of a dissolution or winding up of the Company;
- amend or repeal any provision of the memorandum of association or bye-laws;
- agree to the settlement of any litigation, dispute, investigation or other similar matter with respect to the Company that is not within the scope of authority previously delegated to the executive committee by the board of directors;
- approve the sale or lease of real or personal property assets with a fair value greater than a threshold amount specifically delegated to the executive committee by the board of directors;
- authorize mergers (other than a merger of any wholly-owned subsidiary with the Company), acquisitions, joint ventures, consolidations or dispositions of assets or any business of the Company or any investment in any business or company by the Company with a fair value in excess of a threshold amount specifically delegated to the committee by the board of directors; or approve the sale, lease, exchange or encumbrance of any material asset of the Company that, in each case, is not within the scope of authority previously delegated to the executive committee by action of the board of directors; or
- amend, alter or repeal, or take any action inconsistent with any resolution or action of the board of directors.

Our executive committee is comprised of Messrs. Belardi, Michelini, Rowan and Siddiqui.

Item 10. Directors, Executive Officers and Corporate Governance

Risk Committee

The risk committee's duties are to oversee the development and implementation of systems and processes designed to identify, manage and mitigate reasonably foreseeable material risks to the Company; assist our board of directors and our board committees in fulfilling their oversight responsibilities for the risk management function of the Company; approve the stress test assumption and limits utilized in our stress test scenario analyses and engage in such activities as it deems necessary or appropriate in connection with the foregoing. In assessing risk, the risk committee must assess the risk of the Company and its subsidiaries as a whole. The risk committee's role is one of oversight. Management of the Company is responsible for developing and implementing the systems and processes designed to identify, manage and mitigate risk. Members of the risk committee are selected for their experience in managing risks in financial and/or insurance enterprises. Our risk committee meets quarterly and is comprised of Messrs. Borden, Leach, Michelini, Ruisi and Siddiqui and Dr. Puffer. Dr. Puffer is the chair of the risk committee.

Director Compensation

Neither Mr. Belardi nor our Apollo directors, other than Dr. Puffer, who is not an employee of Apollo but acts as a consultant to Apollo and its affiliates, receive any additional compensation for serving as directors.

A summary of compensation for our non-employee directors for 2016 is set forth under *Item 11. Executive Compensation-Non-Employee Director Compensation.*

Management Committees

An integral component of our corporate governance structure is our management committees. Management committees report to our senior officers, including our Chief Executive Officer, President, Chief Financial Officer, and Chief Risk Officer and to committees of our board of directors. Management committees are comprised of members of senior management and are designed to oversee business initiatives and to manage business risk and processes, with each committee focused on a discrete area of our business. The following is a description of certain of our management committees:

- Management Executive Committee: oversees all of our strategic initiatives and our overall financial condition.
- Management Risk Committee: oversees overall corporate risk, including credit risk, interest rate risk, equity risk, business risk, operational risk and other risks we confront. The committee reports to the risk committee.
- Operational Risk Committee: a subcommittee of the Management Risk Committee which oversees operational risk, including information security, disaster recovery, trading activities and operational management of our annuity portfolio.
- Management Investment Committee: focuses on strategic decisions involving our investment portfolio, such as approving investment limits, new asset classes and our allocation strategy, reviewing large asset transactions as well as monitoring our credit risk and the management of our assets and liabilities. The committee reports to the risk committee.

Compensation Committee Interlocks and Insider Participation

For the fiscal year ended December 31, 2016, our compensation committee consisted of Messrs. Siddiqui and Rowan as well as three independent members, Messrs. Wrubel, McCall and Beilinson. Mr. Ghubash, a former director, also served on the compensation committee during 2016.

None of our executive officers currently serves, or has served during the last completed fiscal year, as a member of the board of directors or compensation committee of any entity that has an executive officer serving as a member of our compensation committee or as a director on our board of directors.

Corporate Governance Guidelines and Code of Business Conduct and Ethics

We have adopted corporate governance guidelines and a code of business conduct and ethics that applies to all of our directors, officers and employees. These documents are available at *www.athene.com*. Information contained on our website or connected thereto does not constitute a part of, and is not incorporated by reference into, this report.

Risk Management Oversight

The Company has implemented an enterprise-wide approach to risk management and has specifically established a risk committee of the board of directors charged with the oversight of the development and implementation of systems and processes designed to identify, manage and mitigate reasonably foreseeable material risks and with the duty to assist the board of directors and other board committees with fulfilling their oversight responsibilities for the Company's risk management function.

Item 10. Directors, Executive Officers and Corporate Governance

The audit committee assists the risk committee in its responsibility for oversight of risk management. In particular, the audit committee focuses on major financial risk exposures and the steps management has taken to monitor and control such risks, and discusses with our independent auditor the policies governing the process by which senior management and the various units of the Company assess and manage our financial risk exposure and operational/strategic risk.

The compensation committee also assists the risk committee in overseeing risk management by reviewing the Company's compensation plans, policies and programs to ensure that such plans, policies and programs do not encourage excessive or inappropriate risk-taking.

Item 11. Executive Compensation

Compensation Discussion and Analysis

Introduction

Our named executive officers (NEOs), comprised of our principal executive and financial officers and the next three highest paid executive officers, are James R. Belardi, Chairman, Chief Executive Officer and Chief Investment Officer; Martin P. Klein, Executive Vice President and Chief Financial Officer; William J. Wheeler, President; Grant Kvalheim, Executive Vice President, Athene and Chief Executive Officer and President, Athene USA; and Frank (“Chip”) L. Gillis, Executive Vice President, Athene and Chief Executive Officer, ALRe.

Compensation Framework

Goals, Principles and Process

Our compensation committee believes that our executive compensation program should reward actions and behaviors that ensure policyholder protection, drive long-term, profitable revenue growth, and create sustainable shareholder value. The compensation committee has sought to foster these objectives through a compensation system that focuses on increasing our executives’ personal interest in our growth and success through performance-based annual incentive awards and ownership of our Class A common shares. We believe that these awards create a balanced focus on our short-term and long-term strategic and financial goals. The following principles provide a framework for the Company’s executive compensation program:

- attract, retain and motivate high-performing talent;
- reward outstanding performance;
- directly align executive compensation elements with both short-term and long-term Company performance; and
- align the interests of our executives with those of our stakeholders.

Our compensation committee has the responsibility for overseeing and approving the compensation of all of our executive officers. Our compensation committee uses industry data to assess the competitiveness of our compensation elements for our NEOs and other executive officers, and they also receive recommendations from Mr. Belardi regarding the compensation arrangements for executive officers other than himself. None of our NEOs participated in the determination of their own compensation.

2016 Compensation Elements

Base Salary

Base salaries for our NEOs are determined annually, based on a number of factors, including the size, scope and impact of their role, the market value associated with their role, leadership skills and values, length of service, and individual performance and contributions.

Annual Incentive Awards

As further discussed below in *2016 Compensation Decisions,* we grant annual cash incentive awards to our NEOs based on the achievement of financial, operational and personal objectives. In general, these objectives are communicated to our NEOs at the beginning of the year, and the compensation committee determines the amount of the awards after the completion of the performance period. In view of the new long-term incentive awards we granted in 2016, which include time-based restricted share units (RSUs), time-based stock options and performance-based RSUs, we decreased the amount of the target annual cash incentive awards that our NEOs will receive, including those NEOs who are otherwise entitled to receive specified target incentive awards pursuant to their employment agreements.

Athene Equity and Long-Term Incentive Awards

In general, Athene’s equity and long-term incentive compensation program is designed to recognize scope of responsibilities, reward demonstrated performance and leadership, align the interests of award recipients with those of Athene’s shareholders and retain award recipients. Important factors in determining the amount of grants awarded to each NEO include the size of past grant amounts, individual performance and expected future contributions to Athene.

Prior to 2016, Athene granted restricted Class M common shares to our executive officers and certain other employees in association with and following each of the four rounds of capital raise transactions undertaken since our inception. Class M shares are non-voting incentive compensation shares, convertible into Class A common shares upon vesting and the payment of the conversion price. Grants of such shares were
comprised of two tranches, one involving time-based vesting criteria and the other involving performance-based vesting criteria.

In anticipation of our becoming a public company, in 2016, we mostly discontinued our practice of granting restricted Class M shares to our executive officers, the exception being for new hires and special compensation actions, and issued time-based stock options and time-based RSUs to our NEOs and certain other employees. We use grants of stock options to focus our executives on delivering long-term value to shareholders because options have value only to the extent that the price of our stock on the date of exercise exceeds the stock price on the grant date, as well

as to retain executives, since the stock options vest ratably over a three-year period provided the recipient is continuously employed during the period. The time-based RSUs align the interests of our executives with shareholders' interests and also serve to retain executives, as these RSUs also vest ratably over a three-year period provided the recipient is continuously employed during the period.

In addition, in 2016, we initiated the granting of a new long-term incentive award in the form of performance-based RSUs, which will cliff-vest after the 2016-2018 performance period and are payable only if we achieve specified goals based on two equally weighted performance metrics: average annual return on equity and operating income for the three-year period. The threshold, target and maximum levels of these goals are designed to be a stretch goal in comparison to the financial plan. These performance-based RSUs also serve to retain executives, as they require the recipient to be continuously employed during the performance period.

To balance the overall amount of compensation paid to our NEOs, in view of our new long-term incentive program in the form of options, time-based RSUs and performance-based RSUs, we correspondingly reduced the annual incentive awards that our NEOs will receive during the performance period. With the addition of the long-term incentive program, there is an overall shift to deferred compensation.

In September 2016, the compensation committee modified the outstanding Class M-1, M-2, and M-3 share agreements to vest all performance-based Class M-1, M-2 and M-3 shares, given that the vesting of the shares in the near future was probable in view of our IPO. The committee also amended the conversion option for these classes, which previously allowed conversion of vested shares only subsequent to an IPO. Under the modified conversion terms, with certain exceptions, individuals were able to elect up to three options for all or any portion of their vested Class M shares, including conversion at a specified date prior to an IPO, on the date of an IPO, or ratably each month for six months after an IPO. The modifications affected 27 individuals, including some of our NEOs. The incremental fair value of the modified awards is reported in the option awards column for each affected NEO in the *2016 Summary Compensation Table*. In addition, as a result of the modifications, we recorded an $83 million increase to additional paid-in capital, due to the reclassification from liability awards to equity awards. We also recorded a $42 million charge to stock-based compensation expense and additional paid-in capital for the vesting of these performance-based shares, primarily related to the acceleration of previously unrecognized compensation expense.

Other Compensation Practices

Employment Agreements

We have entered into employment agreements with some of our NEOs, as follows:

Belardi Agreement

As Mr. Belardi also serves as AAM's Chairman, Chief Executive Officer and Chief Investment Officer, he has separate employment agreements with both the Company and with AAM. Under these agreements, Mr. Belardi is entitled to receive a base salary and is eligible to receive an incentive award each fiscal year during the term of employment. For 2016, AAM and the compensation committee of AHL have consulted with each other to determine Mr. Belardi's total base salary, incentive award targets and actual incentive awards. Pursuant to an understanding between AHL and AAM, AHL has agreed that AHL is responsible for paying half of his total base salary and half of his total incentive award, and AAM agreed to be responsible for paying the remaining amount. Either party, at its sole discretion, may pay its portion of the incentive award in the form of cash or equity. The target incentive award is 100% of Mr. Belardi's base salary, but the actual incentive award will be determined by our compensation committee and AAM's compensation committee, based on three performance objectives: non-alternative investment performance relative to the Barclays US Aggregate Bond Index; aggregate alternative investment net performance relative to the Company's underwriting target; and corporate performance targets. We report our portion of Mr. Belardi's total annual salary and incentive award in our *2016 Summary Compensation Table*.

Mr. Belardi's employment agreement with us has a three-year initial term expiring on November 3, 2016 and automatically extends for subsequent one year terms unless one party gives notice of non-renewal prior to expiration of the then current term. Pursuant to his employment agreement, severance is payable to Mr. Belardi in the event of a termination of employment by the Company without cause, by the Company by reason of non-renewal, by Mr. Belardi for good reason, or due to Mr. Belardi's death or disability. Mr. Belardi is entitled to receive severance payments in an amount equal to the sum of his then-annual base salary and a pro rata incentive award for the year of termination based on the incentive award paid to him in the year preceding his termination. In the event of involuntary termination other than due to death or disability, Mr. Belardi is entitled to receive an additional severance payment equal to the incentive award paid to him in the year preceding the year in which his termination occurs. In the event of involuntary termination other than due to non-renewal by the Company, any outstanding and unvested time-based restricted shares that were scheduled to vest during the one-year period following the termination date will immediately vest, and a portion of each tranche of outstanding and unvested Class M performance-based restricted shares shall remain outstanding and eligible to vest pursuant to their terms for a period of 18 months following the termination date. As a condition to his receipt of the severance payments and benefits described above, Mr. Belardi must timely execute (and not revoke) a general release of claims against the Company and its affiliates. Mr. Belardi's employment agreement with the Company also contains customary restrictive covenants, including confidentiality and nondisclosure covenants, a covenant not to compete with, or solicit customers of, the Company or AAM for 12 months following termination, and a covenant not to solicit employees of the Company or AAM for 24 months following termination.

Item 11. Executive Compensation

Wheeler Agreement

Pursuant to his employment agreement, Mr. Wheeler is entitled to receive a minimum base salary of $1,250,000 and is eligible to receive an annual incentive award each fiscal year he is employed. His employment is at will and may be terminated by him or by the Company at any time by giving two months' notice. The target incentive award is 200% of Mr. Wheeler's base salary, but the actual incentive award will be determined by the compensation committee in its sole discretion, based on performance objectives (which may include corporate, financial, strategic, individual or other objectives) established with respect to that particular fiscal year by the compensation committee.

In addition to termination by Mr. Wheeler or the Company at any time by giving two months' notice, the Company has the right, in its discretion, to terminate the agreement with a payment in lieu of notice. The Company may also terminate the agreement without notice or payment in lieu of notice if Mr. Wheeler is guilty of any gross default or misconduct, or any repeated misconduct after due warning, in connection with the Company or in the event of any serious or repeated breach or non-observance with any of the provisions in the agreement. The employment agreement contains customary restrictive covenants, including confidentiality and nondisclosure covenants and covenants not to solicit customers or employees of the Company or any affiliate of the Company for 12 months following termination.

Klein Agreement

Pursuant to his employment agreement, Mr. Klein is entitled to receive a minimum base salary of $550,000 and is eligible to receive an annual incentive award each fiscal year he is employed. His employment is at will and may be terminated by him or by the Company at any time by giving two months' notice. The target incentive award is 150% of Mr. Klein's base salary, but the actual incentive award will be determined by the compensation committee in its sole discretion, based on performance objectives (which may include corporate, financial, strategic, individual or other objectives) established with respect to that particular fiscal year by the compensation committee.

In addition to termination by Mr. Klein or the Company at any time by giving two months' notice, the Company has the right, in its discretion, to terminate the agreement with a payment in lieu of notice. The Company may also terminate the agreement without notice or payment in lieu of notice if Mr. Klein is guilty of any gross default or misconduct, or any repeated misconduct after due warning, in connection with the Company or in the event of any serious or repeated breach or non-observance with any of the provisions in the agreement. The employment agreement contains customary restrictive covenants, including confidentiality and nondisclosure covenants and covenants not to solicit customers or employees of the Company or any affiliate of the Company for 12 months following termination.

Kvalheim Agreement

Pursuant to his employment agreement, for 2016, Mr. Kvalheim is entitled to receive a minimum base salary of $750,000 and is eligible to receive an incentive award each fiscal year he is employed. The target incentive award is 250% of Mr. Kvalheim's base salary, but the actual incentive award will be determined by the compensation committee in its sole discretion, based on performance objectives (which may include corporate, financial, strategic, individual or other objectives) established with respect to that particular fiscal year by the compensation committee. The agreement terminates 15 months from the date of the IPO.

Mr. Kvalheim may terminate the agreement at any time by giving 90 days' notice; provided, however, that if he elects to terminate the agreement for "good reason," as defined in the 2014 Share Incentive Plan, but including if there are material adverse changes to his incentive award agreements that do not generally and similarly apply to other senior employees, then he must so notify the Company within 45 days of the occurrence of the events constituting good reason, and the Company has 60 days to cure such events after receipt of such written notice. The Company may terminate the agreement at any time for "cause" or in the event of "disability," as such terms are defined in the 2014 Share Incentive Plan. If the Company terminates Mr. Kvalheim's employment without cause, then the Company will pay him a pro rata portion of his target annual incentive award in effect for the year in which the termination occurs.

Stock Ownership Guidelines

We require management at the Senior Vice President level and above, including our Chief Executive Officer, to own significant amounts of our Class A common shares. The amount of Class A common shares that must be held will be set at a multiple of the individual's base salary. Covered executives will have five years to satisfy our share ownership requirement.

Position	Multiple
Chief Executive Officer/President	6X
Executive Vice President	3X
Senior Vice President	2X

Purchased and restricted Class A common shares, vested Class A restricted stock units, vested Class M common shares and vested stock options will count toward this requirement. Covered executives must retain at least 75% of all Athene equity holdings until they meet their respective stock ownership requirements.

Item 11. Executive Compensation

Anti-Hedging and Anti-Pledging Policies

Covered executives, including all of our executive officers, are not permitted to engage in any transactions that are designed to offset a decrease in the market value of our Class A common shares. In addition, covered executives may not pledge their equity holdings in AHL as collateral if they are counting those holdings towards their respective stock ownership requirements.

Review of Compensation Policies and Practices Related to Risk Management

Effective risk management is central to our success, and compensation is carefully designed to be consistent with our risk management framework and controls. If the Company's performance is obtained in a manner inconsistent with this framework or these controls, then the compensation committee has the discretion, with input from the risk committee, if necessary, to decrease or not award any bonuses to our NEOs and other executive officers. In addition, the performance objectives for our Chief Risk Officer and the other employees in our risk management function are based on the effectiveness of our risk management policies and procedures. We do not believe that our compensation policies and practices are reasonably likely to have a material adverse effect on the Company.

2016 Compensation Decisions

Our NEOs' annual incentive awards in 2016 were based on a combination of five overall corporate financial and operational goals, which comprise 75% of the award, as well as individual performance goals, which comprise 25% of the award (other than for the CEO). The targets were designed to be reasonably achievable, and did not reflect unrealistic stretch targets that may encourage excessive risk-taking, but required the coordinated, cross-functional focus and effort of the executive officers. The payout opportunity for incentive awards ranged from 0% to 200% of each participant's target award opportunity. The corporate performance measurements, their respective weightings, 2016 performance and achievement with respect to these measurements, and payout level were as follows:

Objectives	Weight	Measurement	Target	2016 Performance/ Achievement	Payout Level
Overall profitability	40%	Operating income, net of tax[1]	$565M	$561M	98%
Expense management	15%	Expense targets	$-	Exceeded	103%
Organic growth	15%	Combined sales[2]	$5.1B	$8.8B	150%
New business profitability	15%	Underwritten net spread	$-	Exceeded	112%
Public company readiness	15%	Meet 45-day close process	$-	Yes	100%

[1] *Operating income, net of tax, as adjusted to include net realized losses on investment asset sales and impairments and excludes alternative asset performance and corresponding expense amortization.*

[2] *Combined sales includes retail IMO, retail Financial Institution, funding agreements and flow reinsurance.*

Based on the Company's 2016 performance with respect to these five objectives, the payout level was 109% of the corporate target opportunity. Total amounts of awards were also based on the assessment of individual performance factors, as discussed below.

Mr. Belardi

In addition to the five objectives above, which collectively comprised 50% of his award, Mr. Belardi's annual incentive plan award in 2016 was based on two additional performance objectives: the first objective, weighted at 25%, compared the Company's non-alternative investment performance to the Barclays US Aggregate Bond Index over a three-year period. The second objective, also weighted at 25%, compared the Company's alternative investment net performance relative to the Company's underwriting target of 10-15% over a three-year period.

For the objective based on the Company's non-alternative investment performance, the committee compared the Company's results of 4.42% for the three-year period ended December 31, 2016 (as calculated by AAM, based on information provided by the Company, and reviewed by the compensation committee) to 3.25% for the Barclays US Aggregate Bond Index for the same period and determined to pay out 100% of the award for this objective. For the objective based on the Company's alternative investment performance, the committee compared the Company's results of 8.08% for the three-year period ended December 31, 2016 (as calculated by AAM, based on information provided by the Company, and reviewed by the compensation committee) to its 10-15% underwriting target and determined to pay out 0% of the award for this objective.

Mr. Wheeler

The compensation committee recognized Mr. Wheeler for reorganizing and strengthening the Company's reinsurance capabilities; supporting the Company's M&A efforts, including enhancing the rigor of deal analytics, facilitating the Company's entry into the U.S. pension closeout and structured settlement markets; improving the effectiveness and cohesion of senior management; and enhancing risk management.

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Mr. Kvalheim

The compensation committee recognized Mr. Kvalheim for leading and supporting a high-performing management team in Iowa; exceeding an ambitious organic growth target while also exceeding target return targets; maintaining cost controls; driving a strong control environment and risk-aware culture with clear accountability; providing appropriate “tone at the top” on work ethic and personal integrity; and fostering employee engagement and being visible to the employees.

Mr. Klein

The compensation committee recognized Mr. Klein for his leadership in executing and completing the IPO; supporting growth initiatives, including exploring new markets; enhancing the Company’s financial close process and driving a strong control environment and risk-aware culture with clear governance and accountability.

Mr. Gillis

The compensation committee recognized Mr. Gillis for significantly strengthening the Athene Life Re team; maintaining a strong relationship with the Bermuda Monetary Authority; matching market opportunities; significantly enhancing reinsurance flows; and managing third-party reinsurance relationships to assure timely financial closes.

2016 Summary Compensation

The following table contains 2016 compensation information for our NEOs.

Item 11. Executive Compensation

2016 Summary Compensation Table

Name and Position	Year	Salary	Stock Awards[1]	Option Awards[2]	Non-Equity Incentive Plan Compensation	All Other Compensation[3]	Total	Total As Adjusted to Exclude IPO-Related Awards[4]
James R. Belardi[5,6] Chairman, Chief Executive Officer and Chief Investment Officer	2016	$ 900,000	$ 2,216,047	$ 5,355,807	$ -	$ -	$ 8,471,854	$ 3,866,047
	2015	$ 875,000	$ 612,500	$ -	$ -	$ 13,250	$ 1,500,750	$ -
William J. Wheeler President	2016	$ 1,250,000	$ 750,023	$ 375,003	$ 1,575,000	$ 102,240	$ 4,052,266	$ 4,052,266
	2015	$ 326,708	$ 135,445	$12,741,667	$ 466,439	$ 479,873	$14,150,132	$ -
Grant Kvalheim Executive Vice President, Athene and Chief Executive Officer and President, Athene USA	2016	$ 750,000	$ 425,054	$ 5,916,839	$ 1,420,250	$ 135,472	$ 8,647,615	$ 2,943,279
	2015	$ 650,000	$ 363,125	$ -	$ 839,375	$ 129,930	$ 1,982,430	$ -
Martin P. Klein Executive Vice President and Chief Financial Officer	2016	$ 550,000	$ 375,012	$ 187,504	$ 1,000,000	$ 111,286	$ 2,223,802	$ 2,223,802
	2015	$ 80,208	$ -	$ 1,325,133	$ -	$ 97,548	$ 1,502,889	$ -
Frank ("Chip") L. Gillis Executive Vice President, Athene and Chief Executive Officer, ALRe	2016	$ 550,000	$ 300,050	$ 3,316,661	$ 704,462	$ 190,000	$ 5,061,173	$ 1,894,513

[1] *This column includes the grant date fair value of the performance-based and time-based RSUs granted to our NEOs in 2016, which has been calculated by multiplying the number of RSUs by the closing share price on the date of grant. For the performance-based RSUs, we have reported the grant date fair value assuming the probable outcome of satisfying the performance conditions, which is 50%. Assuming the highest level of performance conditions will be achieved, the grant date fair value of these awards would be as follows: $2,250,036; $1,125,035; $637,547; $562,518; and $450,041, for Messrs. Belardi, Wheeler, Kvalheim, Klein and Gillis, respectively.*

[2] *This column represents the aggregate grant date fair value of stock options granted in 2016, as well as the incremental grant date fair value of the modification in 2016 of outstanding Class M-1, M-2 and M-3 share agreements to vest all performance-based Class M-1, M-2 and M-3 shares before the IPO, and to amend the conversion option for these classes. With respect to the incremental grant date fair value of these modifications, such amounts were $4,605,807, $941,474 and $1,120,659, respectively, for Messrs. Belardi, Kvalheim and Gillis, respectively. For more information about the terms of these modifications, see Athene Equity and Long-Term Incentive Awards. With respect to the stock options, Athene measures the fair value of each stock option grant at the date of grant using a Black-Scholes option pricing model. The grant-date fair value of options granted in 2016 was $5.83, based on the following assumptions: risk-free interest rate of 1.0%; dividend yield of 0%; expected volatility of 25.0%; and expected lives of 2.63 years.*

[3] *For 2016, these amounts include the Company's 401(k) matching payment of $13,250 for Messrs. Wheeler, Kvalheim and Klein, and $10,000 for Mr. Gillis; housing allowances of $30,250 (which includes a tax gross-up) and $46,595 for Messrs. Kvalheim and Klein for their residences in Iowa and $180,000 (which includes a tax gross-up) for Mr. Gillis for his residence in Bermuda; and taxable amounts of $88,990, $91,972 and $51,441 (which amounts include tax gross-ups) for Messrs. Wheeler, Kvalheim and Klein, respectively, for travel expenses from their principal residences to the Company's office in Iowa.*

[4] *The IPO-related awards are (1) the incremental grant date fair value of the modifications to the performance-based Class M-1, M-2 and M-3 shares for Messrs. Belardi, Kvalheim and Gillis; and (2) the one-time Class M-4 Prime common share grants to Messrs. Kvalheim and Gillis.*

[5] *Pursuant to an understanding between the Company and AAM, the Company and AAM have each agreed to pay 50% of Mr. Belardi's total annual salary and incentive plan award. The amounts reported for each period reflect only those amounts for which the Company is responsible. The Company's portion of Mr. Belardi's incentive plan award was paid in the form of restricted Class A common shares.*

[6] *Mr. Belardi received his annual incentive award of $716,000 for 2016 in the form of restricted Class A common shares that vest ratably over a two-year period, which is included in Stock Awards.*

2016 Grants of Athene Plan-Based Awards

The following table provides information about awards granted to the NEOs in 2016: (1) the grant date; (2) the threshold, target and maximum estimated future payouts under annual incentive plan awards; (3) the number of stock options, RSUs and Class M-4 common shares granted to the NEOs under the Athene 2014 Share Incentive Plan; (4) the exercise price of the stock options and the conversion price of the Class M-4 common shares; and (5) the grant date fair value of the share and option awards, computed in accordance with applicable SEC rules.

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2016 Grants of Athene Plan-Based Awards Table

Name of Executive	Grant Date	Estimated Future Payouts Under Annual Incentive Plan Awards[1] Threshold	Target	Maximum	Estimated Future Payouts Under Incentive Plan Awards: Number of LTI Performance RSUs[2] (number of units) Threshold	Target	Maximum	Number of Class A Common Shares and Number of LTI Time RSUs[3]	All Other Option Awards: LTI Options and Class M-4 Common Shares[4]	Exercise Price of LTI Options	Grant Date Fair Value of Share and Option Awards[5]
James R. Belardi	2/19/2016							21,674[6]			$ 612,507
	4/19/2016	$ 450,000	$ 900,000	$ 1,350,000							
	6/6/2016				22,092	44,183	66,275	22,092	128,645	$ 33.95	$ 2,250,047
	9/30/2016								1,037,782[7]		$ 3,361,982
	9/30/2016								420,505[8]		$ 258,750
	9/30/2016								500,000[9]		$ 985,074
William J. Wheeler	2/19/2016							4,793[6]			$ 135,450
	4/19/2016	$ 787,500	$ 1,575,000	$ 2,362,500							
	6/6/2016				11,046	22,092	33,138	11,046	64,323	$ 33.95	$ 1,125,026
Grant Kvalheim	2/19/2016							12,850[6]			$ 363,141
	4/19/2016	$ 650,000	$ 1,300,000	$ 1,950,000							
	5/23/2016								440,000[10]	$ 34.23	$ 5,126,003
	6/6/2016				6,260	12,519	18,779	6,260	36,450	$ 33.95	$ 637,558
	9/30/2016								235,483[8]		$ 144,900
	9/30/2016								220,000[9]		$ 433,433
Martin P. Klein	4/19/2016	$ 412,500	$ 825,000	$ 1,237,500							
	6/6/2016				5,523	11,046	16,569	5,523	32,162	$ 33.95	$ 562,516
Frank ("Chip") L. Gillis	2/19/2016							4,422[6]			$ 124,966
	4/19/2016	$ 349,250	$ 698,500	$ 1,047,750							
	6/6/2016				4,419	8,837	13,256	4,419	25,729	$ 33.95	$ 450,050
	6/7/2016								200,000[10]	$ 33.95	$ 2,046,002
	9/30/2016								345,927[7]		$ 1,120,659

[1] *Our NEOs' annual incentive awards in 2016 were based on a combination of five overall corporate financial and operational goals, which comprise 75% of the award, as well as individual performance goals, which comprise 25% of the award (other than for the CEO). The corporate performance component of the awards has a payout range between 50% and 150% of the target amount. The overall payout, including the personal performance component of the award, may not exceed 200% of the target amount.*

[2] *The performance-based RSUs cliff-vest after a three-year period provided the recipient is continuously employed during the period and are payable only if Athene achieves specified goals based on two equally weighted performance metrics: average annual return on equity and operating income for the three-year period.*

[3] *The time-based RSUs vest ratably over three years provided the recipient is continuously employed during the period.*

[4] *The stock options vest ratably over a three-year period provided the recipient is continuously employed during the period.*

[5] *For valuation methodology, see notes 1 and 2 to the 2016 Summary Compensation Table above.*

[6] *Represents part or all of the 2015 Annual Incentive Award, which the Compensation Committee determined to pay out in the form of restricted Class A common shares and were actually granted in 2016.*

[7] *Represents the accelerated vesting of outstanding restricted performance-based Class M-1 common shares.*

[8] *Represents the accelerated vesting of outstanding restricted performance-based Class M-2 common shares.*

[9] *Represents the accelerated vesting of outstanding restricted performance-based Class M-3 common shares.*

[10] *Represents a special grant of Class M-4 Prime common shares, which have terms similar to those granted to Messrs. Wheeler and Klein when they joined the Company in 2015. Specifically, two-thirds of these Class M-4 Prime common shares are performance based, with the remaining one-third Class M-4 Prime common shares being time-based. The Class M-4 Prime time-based shares will vest ratably in equal installments on the first, second, third, fourth and fifth anniversaries of the grant date. One-half of the Class M-4 Prime performance-based shares will vest when Class A common shares have attained a per share volume weighted average closing trading price of $50 or more during any 120-day period, or upon a sale or change in control in which Class A common shares are valued at $50 or more; and the other half will vest when Class A common shares have attained a per share volume weighted average closing trading price of $70 or more during any 120-day period, or upon a sale or change in control in which Class A common shares are valued at $70 or more. Any unvested Class M-4 Prime performance-based shares that have not vested within ten years from the date of grant will be forfeited to the Company.*

2016 Outstanding Athene Equity Awards at Fiscal Year-End

The following table provides information on the holdings of Athene equity awards by the NEOs as of December 31, 2016. This table includes vested Class M common shares, which are the economic equivalent of vested, unexercised options; unvested Class A common shares; and unvested Class M time-based and performance-based common shares with vesting conditions that were not satisfied as of December 31, 2016. Each equity grant is shown separately for each NEO. The vesting schedule for each outstanding award is shown following this table.

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2016 Outstanding Equity Awards at Fiscal Year-End Table

	Option Awards					Stock Awards				
Name of Executive	Option Class	Number of Securities Underlying Unexercised Options (Exercisable)	Number of Securities Underlying Unexercised Options (Unexercisable)	Option Conversion Price	Option Expiration Date[1]	Stock Class	Number of Shares of Stock and Units That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested[2]	Number of Unearned Units of Stock That Have Not Vested	Market Value of Unearned Units of Stock That Have Not Vested
James R. Belardi	M-1	2,346,155		$ 10.00						
	M-2	841,011		$ 10.78						
	M-3	900,000	100,000	$ 13.46						
						A	21,953	$ 1,053,527		
						A	9,019[3]	$ 432,822		
	Options		128,645	$ 33.95	6/6/2026					
						RSU[4]	22,092	$ 1,060,195		
						RSU[5]			44,183	$ 2,120,342
William J. Wheeler	M-4 Prime	166,667	2,333,333	$ 27.83	10/1/2025					
						A	3,195	$ 153,328		
	Options		64,323	$ 33.95	6/6/2026					
						RSU[4]	11,046	$ 530,098		
						RSU[5]			22,092	$ 1,060,195
Grant Kvalheim	M-3		44,000	$ 13.46						
	M-4 Prime		440,000	$ 34.23	2/15/2026					
						A	38,432	$ 1,844,350		
						A	8,567	$ 411,130		
	Options		36,450	$ 33.95	6/6/2026					
						RSU[4]	6,260	$ 300,417		
						RSU[5]			12,519	$ 600,787
Martin P. Klein	M-4 Prime	11,596	242,667	$ 27.83	11/15/2025					
	Options		32,162	$ 33.95	6/6/2026					
						RSU[4]	5,523	$ 265,049		
						RSU[5]			11,046	$ 530,098
Frank ("Chip") L. Gillis	M-1	1,042,735		$ 10.00						
	M-4	2,384	6,898	$ 26.00						
	M-4 Prime		200,000	$ 33.95	5/15/2026					
						A	3,151	$ 151,223		
						A	2,211	$ 106,106		
	Options		25,729	$ 33.95	6/6/2026					
						RSU[4]	4,419	$ 212,068		
						RSU[5]			8,837	$ 424,088

[1] *This column reports the expiration date for Class M common shares and stock options. Once vested, Class M common shares may remain outstanding indefinitely, provided that Class M-1 common shares held by Mr. Gillis will automatically convert into Class A common shares on July 15, 2019 if such shares are not previously converted prior to such date. Class M-4 common shares that have not vested by March 3, 2022 will be forfeited to the Company. Class M-4 prime common shares that have not vested by the tenth anniversary of the grant date will be forfeited to the Company.*

[2] *As of December 31, 2016, the fair market value of a Class A common share was $47.99.*

[3] *All unvested shares of Class A common shares for Mr. Belardi have been transferred to a trust, other than for value, for estate planning purposes.*

[4] *This row shows the number of time-based RSUs, which vest ratably over a three-year period.*

[5] *This row shows the number of performance-based RSUs, which cliff-vest after a three-year period, assuming performance conditions have been met.*

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Outstanding Equity Awards Vesting Schedule

The following schedule is for the restricted Class A common shares and the Class M time-based common shares. The Class M performance-based common shares will vest only when the performance hurdles have been satisfied.

Name of Executive	Class of Security	Share Award Grant Date	Vesting Schedule for Time-Based Shares
James R. Belardi	M-3	4/28/2014	Pro rata over 5 years[1]
	A	4/29/2015	Pro rata over 3 years[2]
	A	2/19/2016	Pro rata over 3 years[2]
	Time-Based RSUs	6/6/2016	Pro rata over 3 years[3]
	Options	6/6/2016	Pro rata over 3 years[3]
William J. Wheeler	M-4 Prime	10/1/15	Pro rata over 5 years [4]
	A	2/19/2016	Pro rata over 3 years[2]
	Time-Based RSUs	6/6/2016	Pro rata over 3 years[3]
	Options	6/6/2016	Pro rata over 3 years[3]
Grant Kvalheim	M-3	4/28/2014	Pro rata over 5 years[1]
	M-4 Prime	5/23/2016	Pro rata over 5 years[5]
	A	4/29/2015	Pro rata over 3 years[2]
	A	2/19/2016	Pro rata over 3 years[2]
	Time-Based RSUs	6/6/2016	Pro rata over 3 years[3]
	Options	6/6/2016	Pro rata over 3 years[3]
Martin P. Klein	M-4 Prime	11/9/2015	Pro rata over 5 years[6]
	Time-Based RSUs	6/6/2016	Pro rata over 3 years[3]
	Options	6/6/2016	Pro rata over 3 years[3]
Frank ("Chip") L. Gillis	M-4	2/23/2015	Pro rata over 5 years[7]
	M-4 Prime	6/7/2016	Pro rata over 5 years[8]
	A	4/28/2015	Pro rata over 3 years[2]
	A	2/19/2016	Pro rata over 3 years[2]
	Time-Based RSUs	6/6/2016	Pro rata over 3 years[3]
	Options	6/6/2016	Pro rata over 3 years[3]

[1] *Vesting schedule start date is October 30, 2012.*

[2] *Vesting schedule start date is January 1, 2015.*

[3] *Vesting schedule start date is January 1, 2016.*

[4] *Vesting schedule start date is October 1, 2015.*

[5] *Vesting schedule start date is February 15, 2016.*

[6] *Vesting schedule start date is November 15, 2015.*

[7] *Vesting schedule start date is April 4, 2014.*

[8] *Vesting schedule start date is May 15, 2016.*

Item 11. Executive Compensation

2016 Athene Stock Vested Table

The following table provides information for the NEOs on the number of Class A common shares acquired upon vesting in 2016 and the value realized at such time.

2016 Athene Stock Vested Table

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Conversion (#)	Value Realized on Conversion ($)	Number of Class A Common Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
James R. Belardi	-	-	15,256[2]	$ 496,661
William J. Wheeler	-	-	1,598[3]	$ 45,159
Grant Kvalheim	589,442[1]	$ 22,104,075	23,499[2]	$ 778,801
Martin P. Klein	-	-	-	-
Frank ("Chip") L. Gillis	-	-	3,050[2]	$ 95,602

[1] *Class M common shares were converted into Class A common shares on October 10, 2016, and the fair market value of a Class A common share on such date was $37.50.*

[2] *Comprised of two tranches of restricted Class A common shares granted as part of annual incentive awards: shares from the 2014 award vested on January 1, 2016, which had a market value of $34.23 per share; and shares from the 2015 award vested on February 19, 2016, which had a market value of $28.26 per share.*

[3] *Comprised of shares from the 2015 award only.*

2016 Potential Payments Upon Termination or Change-in-Control at Fiscal Year-End

The information below describes and quantifies certain compensation that would have become payable under existing plans and arrangements if the NEO's employment had terminated on December 31, 2016. These benefits are in addition to benefits available generally to salaried employees, such as distributions under our 401(k) Plan, disability benefits and accrued vacation pay. Due to the number of factors that affect the nature and amount of any benefits provided upon the events discussed below, any amounts actually paid or distributed may be different. Factors that could affect these amounts include the time during the year of any such event and the executive's age.

Athene Equity Awards

Time-based restricted shares issued under the 2009, 2012, 2014 and 2016 Share Incentive Plans will vest in full upon a sale of the Company or a change-in-control that occurs either prior to a participant's termination of service and, in the case of time-based restricted Class M common shares, within six months following a participant's termination of service without cause, by the participant for good reason or due to death or disability. Separate and apart from a sale or change-in-control, following a participant's termination of service without cause, by the participant for good reason or due to death or disability, the Class M performance-based restricted shares that are outstanding and unvested shall remain outstanding and eligible to vest pursuant to their terms for a period of 18 months. If such performance-based restricted shares fail to vest during this 18-month period, they will be forfeited.

Pursuant to Mr. Belardi's employment agreement, in the event of involuntary termination of service other than due to non-renewal by the Company, all outstanding restricted shares that are held by Mr. Belardi that are subject to time-vesting and scheduled to vest during the one-year period following his termination shall immediately vest, and a portion of each tranche of outstanding and unvested performance-vested restricted shares, depending on when they were granted, shall remain outstanding and eligible to vest pursuant to their terms for a period of 18 months following the termination date.

The following table provides the intrinsic value (that is, the value based upon the fair market value of our share price as of December 31, 2016 which was $47.99, less the conversion price of the award) of equity awards that would vest if there was a sale of the Company or change-of-control as of December 31, 2016 (which includes if the NEO was terminated without cause as of December 31, 2016 and there was a sale of the Company or a change-of-control within six months thereafter) or if there was a termination without cause as of December 31, 2016.

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2016 Potential Equity Benefits upon Change in Control and Termination Table[1]

	Upon Change in Control				Upon Termination without Cause
Name	Time-Based Restricted Shares	Time-Based RSUs	Performance-Based RSUs	Stock Options	Performance-Based Restricted Shares
James R. Belardi	$ 4,196,224	$ 1,060,195	$ 2,120,342	$ 1,806,176	$ -
William J. Wheeler	$ 13,641,894	$ 530,098	$ 1,060,195	$ 903,095	$ 11,200,000
Grant Kvalheim	$ 4,879,244	$ 300,417	$ 600,787	$ 511,758	$ 1,345,425
Martin P. Klein	$ 1,397,760	$ 265,049	$ 530,098	$ 451,554	$ 1,164,800
Frank ("Chip") L. Gillis	$ 1,289,763	$ 212,068	$ 424,088	$ 361,235	$ 340,570

[1] *As noted above, Class M performance-based restricted shares that are outstanding and unvested shall remain outstanding and eligible to vest pursuant to their terms for a period of 18 months. For purposes of this table only, the amounts reported in this column assume that one-third of each class of NEO's Class M performance-based restricted shares that are eligible to vest do, in fact, vest over the 18 months following December 31, 2016.*

Severance Benefits

Our NEOs would be eligible for benefits under the Athene USA Corporation Severance Pay Plan, which covers our U.S. full-time employees, if they are involuntarily terminated without cause, and provided they release Athene from any and all claims and, in some instances, agree to non-compete/non-solicit covenants. In general, eligible employees receive two weeks of their annual base salary for each completed year of service. The minimum benefits payable under this plan are four weeks of annual base salary; and the maximum benefits payable under this plan are 26 weeks of annual base salary. In the event that an NEO is notified by us that he or she is required to comply with a post-separation non-compete covenant for a period longer than the number of weeks of annual base salary to which the NEO is entitled based on his or her years of service, then the amount of the NEO's severance benefit will be increased to an amount equal to annual base salary for the same number of weeks as the duration of the non-compete covenant. However, except for Mr. Belardi, in accordance with his employment agreement, in no event will an NEO receive more than two times his or her annual base salary received during the year immediately preceding the year of termination. In its sole discretion, the Company may determine to pay a pro-rated bonus to the involuntarily terminated employee, as approved by the compensation committee.

Our employees based in Bermuda are eligible for benefits under the Athene Bermuda Severance Pay Plan, which are substantially similar to the benefits provided by the Athene USA Corporation Severance Pay Plan.

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2016 Potential Pay Upon Termination Table

Name of Executive	Termination Scenario[1]	Athene Severance Pay
James R. Belardi[2]	Voluntary Separation	-
	Involuntary Separation	$2,571,249[3]
	Termination For Cause	-
William J. Wheeler	Voluntary Separation	-
	Involuntary Separation	$1,250,000
	Termination For Cause	-
Grant Kvalheim	Voluntary Separation	-
	Involuntary Separation	$750,000
	Termination For Cause	-
Martin P. Klein	Voluntary Separation	-
	Involuntary Separation	$550,000
	Termination For Cause	-
Frank ("Chip") L. Gillis	Voluntary Separation	-
	Involuntary Separation	$550,000
	Termination For Cause	-

[1] *For NEOs other than Mr. Belardi, voluntary separation triggers a severance payment only if the Company decides to enforce any non-compete provision, in which case severance would be paid for the time period concurrent with the period of the effectiveness of the non-compete provision. Involuntary separation provides for severance to coincide with a 12-month non-compete clause. Severance is not payable where an employee is terminated for cause.*

[2] *Pursuant to his employment agreement, severance is payable to Mr. Belardi in the event of a termination of employment by the Company without cause, by the Company by reason of non-renewal, by Mr. Belardi for good reason, or due to Mr. Belardi's death or disability. Mr. Belardi is entitled to receive severance payments in an amount equal to the sum of his then-annual base salary and a pro rata bonus for the year of termination based on the bonus paid to him in the year preceding his termination. In the event of an involuntary termination other than due to death or disability, Mr. Belardi is entitled to receive an additional bonus equal to the bonus paid to him in the year preceding the year in which his termination occurs.*

[3] *This amount represents the Company's portion of the severance payable to Mr. Belardi in the event of a termination of employment by the Company without cause, by the Company by reason of non-renewal, by Mr. Belardi for good reason, or due to Mr. Belardi's death or disability. Mr. Belardi is eligible to receive a separate involuntary severance payment from AAM.*

Director Compensation

Neither Mr. Belardi nor our Apollo directors, other than Dr. Puffer who is not an employee of Apollo but acts as a consultant to Apollo and its affiliates, receive any additional compensation for serving as directors. In 2016, each of our other directors received annual compensation of $140,000, of which 50% was paid in cash and 50% was paid in restricted Class A common shares that vest ratably over a three-year period. In light of the workload and broad responsibilities of their positions, the independent chairs of board committees received an additional $25,000 in annual compensation, payable 50% in cash and 50% in restricted Class A common shares. Independent members of the board committees, other than the chairs, received an additional $10,000 in annual compensation, also payable 50% in cash and 50% in restricted Class A common shares. Directors eligible to receive compensation also received $2,500 for each board meeting attended. In addition, Ms. Taitz served as a director on the boards of several of our subsidiaries, for which she received separate compensation. Dr. Puffer served on the supervisory board of one of our German subsidiaries, for which he received separate compensation.

In December 2016, we made a one-time grant of 15,000 restricted Class A common shares to each of our independent directors and to Dr. Puffer to align their interests with our shareholders. These grants vest ratably over a three-year period and will vest immediately upon a change in control.

In 2017, we conducted a review of the Company's director compensation program, with the assistance of our independent compensation consultant, Willis Towers Watson. Based on this review, which included a comparison of our program with that of our peers', we have made the following changes for 2017: annual compensation of $240,000, of which $105,000 will be paid in cash, and $135,000 will be paid in restricted Class A common shares that vest after a one-year period. There will be no fees paid for attending board or committee meetings. In addition, in recognition of the workload and responsibilities of their positions, the lead director will receive an additional $35,000 in annual compensation, payable 50% in cash and 50% in restricted Class A common shares that vest after a one-year period; the audit committee chair will receive an additional $30,000 in annual cash compensation; the compensation committee chair and risk committee chair will each receive an additional $20,000 in annual cash compensation; and the nominating and corporate governance chair will receive an additional $15,000 in annual cash compensation. Audit committee members will receive an additional $15,000 in annual cash compensation, and other committee members will continue to receive an additional $10,000 in annual compensation for service on a board committee, but payable in cash.

Item 11. Executive Compensation

The table below indicates the elements and total value of cash compensation and of equity awards granted to each eligible director for services performed in 2016.

2016 Director Summary Compensation Table

Name	Fees Earned or Paid in Cash	Share Awards	All Other Compensation	Total
Marc Beilinson	$ 88,750	$ 646,288	$ -	$ 735,038
Robert Borden	$ 87,500	$ 642,585	$ -	$ 730,085
Brian Leach[1]	$ 29,891	$ 592,422	$ -	$ 622,313
H. Carl McCall[2]	$ 33,804	$ 593,829	$ -	$ 627,633
Manfred Puffer[3]	$ 90,000	$ 645,046	$ 26,290	$ 761,336
Lawrence J. Ruisi	$ 95,000	$ 650,050	$ -	$ 745,050
Hope Taitz[3]	$ 103,750	$ 658,793	$ 25,000	$ 787,543
Arthur Wrubel	$ 33,804	$ 593,829	$ -	$ 627,633

[1] *Brian Leach has been appointed to our Board of Directors, subject to being elected by our shareholders at the 2017 Annual General Meeting.*

[2] *H. Carl McCall has been appointed to our Board of Directors, subject to being elected by our shareholders at the 2017 Annual General Meeting.*

[3] *All Other Compensation for this director relates to amounts received for serving as a director of a subsidiary/subsidiaries of Athene.*

Share Incentive Plans

This summary of the Share Incentive Plans is qualified in its entirety by the actual Share Incentive Plans, which are filed as exhibits to the registration statement on Form S-1/A filed by the Company on October 25, 2016.

Introduction

We adopted Share Incentive Plans in 2009, 2012, 2014 and 2016. The 2009 and 2012 Share Incentive Plans were amended and restated in 2014.

Purpose

The purpose of each Share Incentive Plan is to further the growth and success of the Company and its subsidiaries by enabling directors and employees of, or consultants to, the Company, its subsidiaries and AAM to acquire our common shares, thereby increasing their personal interest in such growth and success, and to provide a means of rewarding outstanding performance by such persons to the growth and success of the Company and its subsidiaries.

Administration

Each Share Incentive Plan is currently administered by the compensation committee. Under the terms of each Share Incentive Plan, the plan may be administered by our board of directors or, if the board so chooses, by the compensation committee or such other committee of our board of directors as the board of directors may from time to time designate (the “Committee”). Among other things, the Committee will have the authority to determine eligibility and the particular persons or classes of persons who will receive awards; grant awards to eligible persons or eligible classes of persons, determine the price and number of securities to be offered or awarded to any of such persons, determine the other specific terms and conditions of awards consistent with the express limits of each plan, establish the installments (if any) in which such awards will become exercisable or will vest and the respective consequences thereof; construe and interpret the provisions of each plan and any award agreement; accelerate or extend the exercisability or extend the term of any or all outstanding awards; and make all other determinations and take such other action as contemplated by each plan or as may be necessary or advisable for the administration of each plan and the effectuation of its purposes.

Eligibility

Directors and employees of, and consultants to, the Company, its subsidiaries and AAM are eligible to participate in the Share Incentive Plans.

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Item 11. Executive Compensation

Shares Subject to Each Share Incentive Plan

7,109,560 Class M-1 common shares of the Company were reserved for issuance under the 2009 Share Incentive Plan. 3,356,126 Class M-2 common shares of the Company were reserved for issuance under the 2012 Share Incentive Plan. In addition, an aggregate of (1) 7,500,000 Class M-3 common shares of the Company, (2) 7,500,000 Class M-4 common shares of the Company, (3) any Class M-1 common shares previously authorized for awards but not issued under the 2009 Share Incentive Plan, (4) any Class M-2 common shares previously authorized for awards but not issued under the 2012 Share Incentive Plan, and (5) 8,000,000 Class A common shares are reserved for awards under the 2014 Share Incentive Plan. 3,500,000 Class A common shares are reserved for issuance under the 2016 Share Incentive Plan. In the event of certain extraordinary corporate transactions or events affecting us, the compensation committee or our board of directors shall make such substitutions or adjustments as it deems appropriate and equitable to (1) the aggregate number and kind of shares or other securities reserved for issuance and delivery under the applicable plan, (2) the number and kind of shares or other securities subject to outstanding awards and (3) the exercise price and or purchase price of awards. In the case of corporate transactions such as a merger or consolidation, such adjustments may include the cancellation of outstanding awards in exchange for cash or other property or the substitution of other property for the shares subject to outstanding awards.

Types of Awards

Awards granted under the Share Incentive Plans may be nonqualified share options, rights to purchase shares, restricted shares, restricted share units and other awards settleable in, or based upon, common shares. In addition, awards granted under the 2016 Share Incentive Plan may include incentive stock options and performance awards settleable in cash.

Share Options

Share options granted under the Share Incentive Plans other than the 2016 Share Incentive Plan will be nonqualified options. Share options granted under the 2016 Share Incentive Plan may be either nonqualified options or incentive share options. Each grant of share options will be evidenced by an award agreement that specifies the exercise price, the duration of the award, the number of shares to which the award pertains and such additional limitations, terms and conditions as the Committee may determine. The exercise price of share options will be determined by the Committee, but may not be less than 100% of the fair market value of the share underlying the share options on the date of grant. Award holders generally may pay the exercise price in cash or, if approved by the Committee, in common shares (valued at fair market value on the date of exercise) or a combination thereof, or by "cashless exercise" through a broker or by withholding shares otherwise receivable on exercise. The term of share options will be determined by the Committee. The Committee will determine the vesting and exercise schedule of share options and the extent to which the share options will be exercisable after the award holder's services with us terminate.

Restricted Shares

Restricted common shares may be granted under the Share Incentive Plans with such restrictions as the Committee may designate. The Committee may provide at the time of grant that the vesting of restricted shares will be contingent upon the achievement of applicable performance goals and/or continued service. The terms and conditions of restricted share awards (including any applicable performance goals) do not need to be the same with respect to each participant. During the restriction period, the Committee may require that the share certificates evidencing restricted shares be held by us. Except for these restrictions and any others imposed by the Committee, the recipient will have rights of a shareholder with respect to the relevant class of restricted shares granted under the Share Incentive Plans, including the right, if any, to vote the restricted shares upon the vesting of such restricted shares; however, whether and to what extent the recipient will be entitled to receive cash or share dividends paid or made with respect to the shares or to convert such shares into Class A common shares will be set forth in the particular participant's award agreement. The restricted shares currently outstanding under the Share Incentive Plans were granted in both time-based vesting and performance-based vesting tranches. For a description of our classes of common shares, see *Note 11 - Common Stock* and *Note 12 - Stock-based Compensation* to the consolidated financial statements.

Under certain of our award agreements, following the IPO, with respect to those shares whose Lock-Up End Dates have not occurred, within 270 days following the termination of service of a participant (or, with respect to any restricted shares that vest following a participant's termination of service, 270 days following the vesting date of such restricted shares), the Company has the right (but not the obligation) to repurchase all or any portion of the vested shares held by such participant on the date of such termination. Under certain of our award agreements, the Company also has the right (but not the obligation) to repurchase all or any portion of the fully paid award shares (as defined in the plans) held by such participant on the date of such termination. Assuming the termination is not for cause, the repurchase price for Class A common shares will be equal to the volume weighted average closing trading price of a Class A common share during the 60-day trading period preceding the date of notice of repurchase, and the purchase price of vested shares that have not yet been converted to Class A common shares will be the same, minus their conversion price.

Restricted Share Units

The Committee may grant restricted share units payable in cash or our common shares, conditioned upon continued service and/or the attainment of performance goals determined by the Committee. The terms and conditions of restricted share unit awards granted under the Share Incentive Plans (including any applicable performance goals) do not need to be the same with respect to each participant.

Item 11. Executive Compensation

Rights to Purchase Shares and Other Share-Based Awards

The Committee may grant rights to purchase shares and other awards settleable in, or based upon, common shares under each of the Share Incentive Plans. Each such award will be evidenced by an award agreement that specifies any applicable purchase or exercise price, the duration of the award, the number of shares to which the award pertains, any applicable vesting requirements and such additional limitations, terms and conditions as the Committee may determine.

Performance Awards Settleable in Cash

Under the 2016 Share Incentive Plan, the Committee may grant performance awards settleable in cash. Each such award will be evidenced by an award agreement that specifies any applicable performance measure and performance period, any applicable vesting requirements and such additional limitations, terms and conditions as the Committee may determine.

Award Limits

The awards that may be granted under the 2016 Share Incentive Plan are generally subject to the following limits. The maximum number of Class A common shares with respect to which share options may be granted during any fiscal year to any person is 3,500,000 shares. The maximum number of Class A common shares with respect to which awards denominated in shares and subject to performance measures may be granted during any fiscal year to any person is 3,500,000 shares. The maximum amount that may be earned by any person with respect to performance awards settleable in cash during any fiscal year is $15,000,000. These provisions are designed so that compensation resulting from such awards can qualify as tax deductible performance-based compensation under Section 162(m) of the Code, assuming other applicable regulatory requirements are satisfied.

Termination of Service

The impact of a termination of employment or service on an outstanding award granted under the Share Incentive Plans, if any, is set forth in the applicable award agreement.

Treatment of Outstanding Equity Awards following a Sale of the Company or a Change in Control

The outstanding award agreements under the 2009, 2012 and 2014 Share Incentive Plans provide that, in the event of a sale of the Company or a change in control (A) prior to a participant's termination of service or (B) within six months following the participant's termination of service by the Company or AAM without cause, by the participant for good reason (as defined therein) or as a result of the participant's death or disability (each, a "qualifying termination"), the participant's time-based vesting restricted shares will vest in full. For this purpose, a change in control means any event or series of events by which (1) the Apollo Group ceases to own, directly or indirectly, equity interests in the Company (equity interests) representing 40% or more on a fully-diluted basis of the aggregate ordinary voting power represented by the issued and outstanding equity interests of the Company, and (2) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of a greater percentage on a fully-diluted basis of the aggregate ordinary voting power represented by the issued and outstanding equity interests of the Company than such percentage owned by the Apollo Group.

Transferability

Unvested awards under the Share Incentive Plans generally are not transferable except by will or the laws of descent and distribution or as otherwise expressly permitted by the Committee including, if so permitted, pursuant to a transfer to the participant's family members or to a charitable organization, whether directly or indirectly or by means of a trust or partnership or otherwise. Certain vested awards may be pledged by the participant holding such award as security for loans or transferred to the Company to pay conversion prices or to satisfy tax withholding liabilities of such participants.

Amendment and Discontinuance

The Share Incentive Plans generally may be amended, altered, suspended, discontinued or terminated by our board of directors, but no amendment, alteration, suspension, discontinuation or termination may be made (1) if it would materially impair the rights of a participant (or his or her beneficiary) without the participant's (or beneficiary's) consent, except for any such amendment made to comply with applicable law, or (2) without the approval of our shareholders to the extent such approval is required by applicable law.

Federal Income Tax Consequences

The following discussion is intended only as a brief summary of the federal income tax rules that are generally relevant to nonqualified share options and restricted shares that may be granted under the Share Incentive Plans, based upon the U.S. federal tax laws currently in effect. The laws governing the tax aspects of awards are highly technical and such laws are subject to change. The discussion is general in nature and does not take into account a number of considerations which may apply in light of the circumstances of a particular participant under the Share Incentive Plans. The income tax consequences under applicable foreign, state or local tax laws may not be the same as under U.S. federal income tax laws.

Item 11. Executive Compensation

Share Options

Upon the grant of a share option, the award holder will not recognize any taxable income and we will not be entitled to a deduction. An award holder will recognize compensation taxable as ordinary income (and subject to income tax withholding with respect to an employee) upon exercise of a nonqualified share option equal to the excess of the fair market value of the shares purchased over their purchase price, and we will be entitled to a corresponding deduction. With respect to the exercise of an incentive share option, if an award holder holds the shares for one year from the date of exercise and two years from the date of grant, then the holder's profit, if any, made on the sale of the shares will be taxed as long-term capital gain, and we will not be entitled to a corresponding deduction, unless the holder does not meet the holding period requirements.

Share Awards

An award holder will recognize compensation taxable as ordinary income (and subject to income tax withholding with respect to an employee) at the time of grant of unrestricted shares in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares, and we will be entitled to a corresponding deduction, except to the extent the deduction limits of Section 162(m) of the Code apply.

Restricted Shares

A participant who receives any restricted shares may be permitted (but not required) to file an election under Section 83(b) of the Code (a "Section 83(b) Election") with respect to such shares. If the participant timely files the Section 83(b) Election, (a) the participant will recognize ordinary income on any such restricted shares as of the grant date equal to the excess of the fair market value of the shares (determined without regard to vesting conditions) over the amount paid for the shares, and (b) upon sale or disposition of any such restricted shares any additional gain will be treated as capital gains. (Note that if a participant files a Section 83(b) Election and the restricted shares ultimately are forfeited, the participant generally will not be entitled to a deduction for the income recognized in connection with the election.) If a participant does not file a Section 83(b) Election, at the time the substantial risk of forfeiture with respect to such restricted shares lapses, the participant will recognize ordinary income equal to the excess of the fair market value of the shares at such time over the amount paid for the shares. The amount of ordinary income recognized by making a Section 83(b) Election or upon the lapse of such restrictions is deductible by us as compensation expense, except to the extent the deduction limits of Section 162(m) of the Code apply. In addition, a participant receiving dividends with respect to restricted shares for which a Section 83(b) Election has not been made and prior to the time such restrictions lapse will recognize compensation taxable as ordinary income (and subject to income tax withholding with respect to an employee), rather than dividend income, in an amount equal to the dividends paid and we will be entitled to a corresponding deduction, except to the extent the deduction limits of Section 162(m) of the Code apply.

Restricted Share Units

A participant will not recognize compensation taxable as ordinary income at the time an RSU is granted and we will not be entitled to a tax deduction at that time. Upon settlement of RSUs, the participant will recognize compensation taxable as ordinary income (and subject to income tax withholding with respect to an employee) in an amount equal to the excess of the fair market value of any shares delivered over the amount, if any, paid for the shares plus any cash paid by us. We generally will be entitled to a business expense deduction in the same amount and at the same time as the participant recognizes ordinary income, except to the extent the deduction limits of Section 162(m) of the Code apply.

Performance Awards and Other Share-Based Awards

The taxation of performance awards and other share-based awards will depend on the specific terms of the award. Generally, the grant of performance awards and share-settled awards will have no federal income tax consequences for us or for the participant at the time of grant and the participant recognizes compensation taxable as ordinary income (and subject to income tax withholding with respect to an employee) at the time such awards are settled equal to excess of the fair market value of any unrestricted shares received over the amount, if any, paid for such shares plus any cash paid by us. Subject to the restrictions of Section 162(m) of the Code, we generally will be entitled to a business expense deduction in the same amount and at the same time as the participant recognizes ordinary income.

Section 162(m) of the Code

Section 162(m) of the Code generally limits to $1 million the amount that a publicly held corporation is allowed each year to deduct for the compensation paid to the corporation's NEOs. However, "qualified performance-based compensation" is not subject to the $1 million deduction limit. Additionally, provided certain conditions are satisfied, newly public companies may be exempt from Section 162(m) of the Code for a transition period of up to three years following the date of the IPO.

Item 11. Executive Compensation

To constitute qualified performance-based compensation, the following requirements must be satisfied: (1) the performance goals are determined by a committee consisting solely of two or more “outside directors,” (2) the material terms under which the compensation is to be paid, including the performance goals, are approved by the corporation’s stockholders, and (3) the committee certifies that the applicable performance goals are satisfied before payment of any qualified performance-based compensation is made. Certain compensation under the Share Incentive Plans, such as that payable with respect to options and stock appreciation rights, is not expected to be subject to the $1 million deduction limit, but other non-performance-based compensation payable under the Share Incentive Plan, such as share awards and other share-based awards may be subject to such limit in the future.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Principal Shareholders

The following table sets forth information as of March 1, 2017 regarding the beneficial ownership of our Class A common shares and our Class B common shares by (1) each person or group who is known by us to own beneficially more than 5% of our outstanding Class A common shares or our Class B common shares (including any securities convertible or exchangeable within 60 days into Class A common shares or Class B common shares, as applicable), (2) each of our NEOs, (3) each of our directors and (4) all of our current executive officers and directors as a group.

Beneficial ownership for the purposes of the following table is determined in accordance with the rules and regulations of the SEC. These rules generally provide that a person is the beneficial owner of securities if such person has or shares the power to vote or direct the voting thereof, or to dispose or direct the disposition thereof or has the right to acquire such powers within 60 days. Our Class B common shares are convertible into Class A common shares at any time at the option of the holder, with prior notice to the Company, on a one-for-one basis. Accordingly, for the purposes of this table each holder of Class B common shares is deemed to be the beneficial owner of an equal number of Class A common shares (in addition to any other Class A common shares beneficially owned by such holder), which is reflected in the table entitled “Amount and Nature of Beneficial Ownership” under the columns “Number of Shares” and “Percent” for the Class A common shares. In addition, the voting power of our shareholders may be restricted or adjusted as described in *Description of Share Capital-Common Shares-Voting Rights* in the prospectus filed on December 8, 2016 in connection with the IPO of the Company's Class A common shares (Prospectus). Additionally, in some cases, certain Class A common shares may be deemed non-voting. See *Voting Power* below for an illustration of the voting power of certain shareholders who beneficially own more than 5% of our Class A common shares and Class B common shares. Such illustration includes shareholders who may own non-voting Class A common shares who, to our knowledge, beneficially own more than 5% of our outstanding Class A common shares and Class B common shares.

To our knowledge, each person named in the table below has sole voting and investment power with respect to all of the Class A common shares, Class B common shares and Class M common shares convertible into Class A common shares within 60 days shown as beneficially owned by such person, except as otherwise set forth in the notes to the table and pursuant to applicable community property laws. Additionally, to our knowledge, certain of these shareholders also own equity interests in AAA, which holds a significant number of our Class B common shares. As of March 1, 2017, such equity interests of AAA do not entitle the holders thereof to exchange such interests for common shares of Athene, but AAA may at any time elect to distribute the common shares of Athene that it holds to such holders, whether by its liquidation or otherwise in accordance with its limited partnership agreement. Unless otherwise indicated in the table or footnotes below, the address for each officer and director listed in the table is c/o Athene Holding Ltd., Chesney House, First Floor, 96 Pitts Bay Road, Pembroke, HM08, Bermuda.

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	Amount and Nature of Beneficial Ownership			
	Class A Common Shares Beneficially Owned[1]		Class B Common Shares Beneficially Owned	
	Number of Shares	Percent[2]	Number of Shares	Percent
Apollo Holders [3][4]	109,293,521	-	109,293,521	-
Cambridge Global Asset Management[5]	5,288,159	6.8%	-	-
Executive Officers and Directors				
James R. Belardi[6]	5,035,965	6.2%	-	-
William J. Wheeler[7]	552,231	*	-	-
Grant Kvalheim[8]	2,147,962	2.8%	-	-
Martin P. Klein[9]	88,440	*	-	-
Frank Gillis[10]	1,354,752	1.7%	-	-
Marc Rowan[11]	227,953	*	227,953	*
Marc Beilinson[12]	49,611	*	-	-
Imran Siddiqui[13]	1,962,540	2.5%	-	-
Gernot Lohr[14]	1,179,575	1.5%	-	-
Matthew R. Michelini[15]	125,433	*	-	-
Robert Borden[16]	41,638	*	-	-
Hope Taitz[17]	54,119	*	-	-
Lawrence J. Ruisi[18]	42,060	*	-	-
Dr. Manfred Puffer[19]	41,780	*	-	-
H. Carl McCall[20]	-	-	-	-
Brian Leach[21]	-	-	-	-
Arthur Wrubel[22]	-	-	-	-
All directors and executive officers as a group (18 persons)[23]	12,908,179	15.6%	227,953	*

* Represents less than 1%.

(1) Class M common shares are subject to time- or performance-based vesting and once vested are convertible into Class A common shares. The number of Class M common shares included in the table represents the number of Class M common shares that vest as of April 30, 2017, the date that is 60 days after March 1, 2017. We assume for purposes of the table that Class M common shares convert into Class A common shares on a one-for-one basis.

(2) The percentage of beneficial ownership of our Class A common shares is based on 77,410,448 Class A common shares outstanding as of March 1, 2017.

(3) Consists of shares held of record by the following members of the Apollo Group (the "Apollo Holders"): 74,586,353 Class B common shares held of record by AAA Investor, 5,552,068 Class B common shares held of record by Stanhope Life, L.P., 2,487,485 Class B common shares held of record by Stanhope Life II, L.P., 5,546,327 Class B common shares held of record by Palmetto Athene Holdings (Cayman), L.P., 80,096 Class B common shares held of record by Apollo Palmetto Advisors, L.P., 4,542,924 Class B common shares held of record by AHL 2014 Investor, L.P., 1,437,944 Class B common shares held of record by AHL 2014 Investor II, L.P., 14,683,515 Class B common shares held of record by Apollo Principal Holdings III, L.P., 6,073 Class B common shares held of record by AAA Associates, L.P., 212,840 Class B common shares held of record by AAA Holdings, L.P., one Class B common share held of record by Athene Asset Management, L.P. and 157,894 Class B common shares that have been granted to employees and are held of record by Apollo Management Holdings, L.P. as custodian.

AAA Investments, L.P. is the general partner of AAA Investor. AAA Associates, L.P. is the general partner of AAA Investments, L.P. AAA MIP Limited is the general partner of AAA Associates, L.P. Apollo Alternative Assets, L.P. provides investment services to AAA Investor, AAA Investments, L.P., AAA Associates, L.P. and AAA MIP Limited. Apollo International Management, L.P. is the managing general partner of Apollo Alternative Assets, L.P. Apollo International Management GP, LLC is the general partner of Apollo International Management, L.P. AAA Holdings GP, Ltd. is the general partner of AAA Holdings, L.P.

Apollo Palmetto Athene Partnership, L.P. is the limited partner of Palmetto Athene Holdings (Cayman), L.P. Apollo Palmetto Management, LLC is the general partner of Palmetto Athene Holdings (Cayman), L.P. and Apollo Palmetto Athene Partnership, L.P. and as such has the right to control the disposition of the Athene common shares held by Palmetto Athene Holdings (Cayman), L.P. Apollo Principal Holdings IV, L.P. is the sole member of Apollo Palmetto Management, LLC. Apollo Principal Holdings IV GP, Ltd. is the general partner of Apollo Principal Holdings IV, L.P. Apollo Palmetto Athene Management, LLC is the investment manager for Apollo Athene Partnership, L.P. The general partner of Athene Asset Management, L.P. is AAM GP Ltd. The sole shareholder of AAM GP Ltd. is Apollo Life Asset Ltd. Apollo Capital Management, L.P. is the sole member-manager of Apollo Palmetto Athene Management, LLC and the sole shareholder of Apollo Life Asset Ltd. The general partner of Apollo Capital Management, L.P is Apollo Capital Management GP, LLC. Apollo Management Holdings, L.P. is the sole member and manager of Apollo International Management GP, LLC and Apollo Capital Management GP, LLC, and the sole shareholder of AAA Holdings GP, Ltd. Apollo Management Holdings GP, LLC is the general partner of Apollo Management Holdings, L.P.

Stanhope Life Advisors, L.P. is the general partner of each of Stanhope Life, L.P. and Stanhope Life II, L.P. Apollo Administration GP Ltd. is the general partner of Stanhope Life Advisors, L.P. AHL 2014 Investor GP, Ltd. is the general partner of each of AHL 2014 Investor, L.P. and AHL 2014 Investor II, L.P. Apollo Principal Holdings III, L.P. is the sole shareholder of each of Apollo Administration GP Ltd. and AHL 2014 Investor GP, Ltd. Apollo Principal Holdings III GP, Ltd. is the general partner of Apollo Principal Holdings III L.P.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Leon Black, Joshua Harris and Marc Rowan are executive officers and the managers or directors of Apollo Management Holdings GP, LLC, Apollo Principal Holdings III GP, Ltd. and Apollo Principal Holdings IV GP, Ltd. and as such may be deemed to have voting and dispositive control of the shares of Athene common stock that are held by the Apollo Holders.

Certain affiliates of the Apollo Group (Plan Participants) intend to enter into a trading plan pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (Rule 10b5-1 Plan) to enable them to sell our Class A common shares (Plan Shares) during periods to be determined in the future (Plan Period). The Plan Shares that may be sold will consist of our Class A common shares earned as carried interest during the Plan Period by the Plan Participants upon any waiver by us and Goldman, Sachs & Co., in our and their sole discretion, of certain lock-up restrictions with respect to our Class A common shares held by the Plan Participants.

(4) The address of each of Stanhope Life, L.P., Stanhope Life II, L.P., Stanhope Life Advisors, L.P., Apollo Administration GP Ltd., AHL 2014 Investor, L.P., AHL 2014 Investor II, L.P., AHL 2014 Investor GP, Ltd., Apollo Principal Holdings III, L.P., Apollo Principal Holdings III GP, Ltd., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings IV GP, Ltd., AAM GP Ltd., Apollo Life Asset Ltd. and Palmetto Athene Holdings (Cayman), L.P. is c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Street, George Town, KY1-9005 Grand Cayman, Cayman Islands. The address of AAA Investments, L.P., Apollo Alternative Assets, L.P., Apollo Palmetto Athene Partnership, L.P., and Apollo Palmetto Management, LLC is One Manhattanville Road, Suite 201, Purchase, New York 10577. The address of AAA Associates, L.P., AAA MIP Limited, AAA Holdings, L.P. and AAA Holdings GP Limited is Trafalgar Court, Les Banques, GY1 3QL, St. Peter Port, Guernsey, Channel Islands. The address of each of Athene Asset Management, L.P., Apollo Palmetto Advisors, L.P., Apollo Palmetto Athene Management, LLC, AAA Guarantor - Athene, L.P., Apollo International Management, L.P., Apollo International Management GP, LLC, Apollo Capital Management, L.P., Apollo Capital Management GP, LLC, Apollo Management Holdings, L.P. and Apollo Management Holdings, GP, LLC the Apollo Holders, Apollo and Apollo's investment manager and advisors, and Messrs. Black, Harris and Rowan is 9 West 57th Street, 43rd Floor, New York, New York 10019.

(5) The number of shares listed for Cambridge Global Asset Management is based on Amendment No. 1 to Schedule 13G filed by Cambridge Global Asset Management on January 31, 2017.

(6) Consists of (1) 904,168 Class A common shares held of record by the James and Leslie Belardi Family Trust, (2) 1,750 Class A common shares held of record by the Belardi Family Irrevocable Trust, (3) options to acquire 42,881 Class A common shares vested as of April 30, 2017 and (4) 4,087,166 Class M common shares vested as of April 30, 2017 which are convertible into Class A common shares. Excludes 15,487 restricted Class A common shares, 58,911 Class A restricted stock units, options to acquire 85,764 Class A common shares and 100,000 Class M common shares which are unvested as of April 30, 2017. Mr. Belardi disclaims beneficial ownership of all common shares of Athene held by the Belardi Family Irrevocable Trust and the members of the Apollo Group.

(7) Consists of (1) 364,123 Class A common shares, (2) options to acquire 21,441 Class A common shares vested as of April 30, 2017 and (3) 166,667 Class M common shares vested as of April 30, 2017 which are convertible into Class A common shares. Excludes 1,598 restricted Class A common shares, 29,456 Class A restricted stock units, options to acquire 42,882 Class A common shares and 2,333,333 Class M common shares which are unvested as of April 30, 2017.

(8) Consists of (1) 577,162 Class A common shares held of record by Grant Kvalheim April 2014 GRAT, (2) 37,150 Class A common shares held of record by Grant Kvalheim 2009 Children's GST Exempt Trust-DK, (3) 37,150 Class A common shares held of record by Grant Kvalheim 2009 Children's GST Exempt Trust-LK, (4) 37,150 Class A common shares held of record by Grant Kvalheim 2009 Children's GST Exempt Trust-MK, (5) 1,431,932 Class A common shares held of record by Grant Kvalheim individually, (6) options to acquire 12,150 Class A common shares vested as of April 30, 2017 and (7) 15,268 Class M common shares vested as of April 30, 2017 which are convertible into Class A common shares. Excludes 23,501 restricted Class A common shares, 16,693 Class A restricted stock units, options to acquire 24,300 Class A common shares and 454,667 Class M common shares which are unvested as of April 30, 2017.

(9) Consists of (1) 66,123 Class A common shares, (2) options to acquire 10,721 Class A common shares vested as of April 30, 2017 and (3) 11,596 Class M common shares vested as of April 30, 2017 which are convertible into Class A common shares. Excludes 14,728 Class A restricted stock units, options to acquire 21,441 Class A common shares and 242,667 Class M common shares which are unvested as of April 30, 2017.

(10) Consists of (1) 280,056 Class A common shares held of record by Mr. Gillis individually, (2) 20,000 Class A common shares held of record by an individual retirement account in the name of Mr. Gillis, (3) options to acquire 8,577 Class A common shares vested as of April 30, 2017 and (4) 1,046,119 Class M common shares vested as of April 30, 2017 which are convertible into Class A common shares. Excludes 2,681 restricted Class A common shares, 11,783 Class A restricted stock units, options to acquire 17,152 Class A common shares and 192,565 Class M common shares which are unvested as of April 30, 2017.

(11) Consists of Class B common shares held by entities directly or indirectly controlled by Mr. Rowan. Mr. Rowan disclaims beneficial ownership of all Class A common shares and Class B common shares owned by the Apollo Holders or any entities that he directly or indirectly controls, or that may be beneficially owned by any entities directly or indirectly controlled by Mr. Rowan, the Apollo Holders or any other members of the Apollo Group, AAA or any entities directly or indirectly controlled by Mr. Rowan. Mr. Rowan owns interests in AAA, which is a limited partner of AAA Investments, L.P. Mr. Rowan does not have the power to vote or dispose of any Athene common shares that may from time to time be held by AAA and therefore is not deemed to beneficially own such shares. Assuming all of such interests were exchanged on an equivalent basis for Class B common shares of Athene as of March 1, 2017, Mr. Rowan would own 1,579,208 Class B common shares.

(12) Excludes 19,369 restricted Class A common shares which are unvested as of April 30, 2017.

(13) Consists of (1) 1,961,539 Class A common shares held of record by the Siddiqui Family 2014 GST Trust, which have been pledged as security to a financial institution, and (2) 1,001 Class A common shares held of record by Mr. Siddiqui individually. Mr. Siddiqui disclaims beneficial ownership of all Class A common shares held of record by the Siddiqui Family 2014 GST Trust and all common shares of Athene held of record or beneficially owned by the Apollo Holders or any other member of the Apollo Group. In addition to his ownership of our Class A common shares, Mr. Siddiqui also owns interests in AAA, which is a limited partner of AAA Investments, L.P. Mr. Siddiqui does not have the power to vote or dispose of any Athene common shares that may be held from time to time by AAA and therefore is not deemed to beneficially own such shares. Assuming all of such interests were exchanged on an equivalent basis for Class B common shares of Athene, and such shares were in turn exchanged for Class A common shares on a one-for-one basis, in each case, as of March 1, 2017, Mr. Siddiqui would own an additional 6,938 Class A common shares and, together with the Class A common shares that he is deemed to beneficially own shown in the table above, he would own a total of 1,969,478 of our Class A common shares.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(14) Mr. Lohr disclaims beneficial ownership of all common shares of Athene held of record or beneficially owned by the Apollo Holders or any other member of the Apollo Group. In addition to his ownership of our Class A common shares, Mr. Lohr also owns interests in AAA, which is a limited partner of AAA Investments, L.P. Mr. Lohr does not have the power to vote or dispose of any Athene common shares that may be held from time to time by AAA and therefore is not deemed to beneficially own such shares. Assuming all of such interests were exchanged on an equivalent basis for Class B common shares of Athene, and such shares were in turn exchanged for Class A common shares on a one-for-one basis, in each case, as of March 1, 2017, Mr. Lohr would own an additional 526,415 Class A common shares and, together with the Class A common shares that he is deemed to beneficially own shown in the table above, he would own a total of 1,705,990 of our Class A common shares. 1,103,589 Class A common shares owned by Mr. Lohr have been pledged as security to a financial institution.

(15) Mr. Michelini disclaims beneficial ownership of all common shares of Athene held of record or beneficially owned by the Apollo Holders or any other member of the Apollo Group. Mr. Michelini owns interests in AAA, which is a limited partner of AAA Investments, L.P. Mr. Michelini does not have the power to vote or dispose of any Athene common shares that may be held from time to time by AAA and therefore is not deemed to beneficially own such shares. Assuming all of such interests were exchanged on an equivalent basis for Class B common shares of Athene and such shares were in turn exchanged for Class A common shares on a one-for-one basis, in each case, as of March 1, 2017, Mr. Michelini would own an additional 3,071 Class A common shares and, together with the Class A common shares that he is deemed to beneficially own shown in the table above, he would own a total of 128,504 of our Class A common shares.

(16) Consists of (1) 37,147 Class A common shares held of record by PENSCO Trust Co. Custodian FBO Robert L. Borden IRA and (2) 4,491 Class A common shares held of record by Mr. Borden individually. Excludes 19,162 restricted Class A common shares which are unvested as of April 30, 2017.

(17) Excludes 20,021 restricted Class A common shares which are unvested as of April 30, 2017.

(18) Excludes 19,551 restricted Class A common shares which are unvested as of April 30, 2017.

(19) Excludes 19,290 restricted Class A common shares which are unvested as of April 30, 2017.

(20) Excludes 16,087 restricted Class A common shares which are unvested as of April 30, 2017.

(21) Excludes 16,057 restricted Class A common shares which are unvested as of April 30, 2017.

(22) Excludes 16,087 restricted Class A common shares which are unvested as of April 30, 2017.

(23) Totals include restricted common shares and options which have vested or will vest as of April 30, 2017.

Voting Power

The following table sets forth the voting power as of March 1, 2017 of each person or group who is known by us to own beneficially more than 5% in voting power of our outstanding Class A common shares or Class B common shares (including any securities convertible or exchangeable within 60 days into Class A common shares or Class B common shares, as applicable). Apollo beneficially owns or exercises voting control over the Class B common shares.

The aggregate and respective voting power of our Class A common shares and Class B common shares is determined in accordance with our bye-laws. The Class A common shares collectively represent 55% of the total voting power of our common shares and the Class B common shares represent, in aggregate, 45% of the total voting power of our common shares, each subject to certain adjustments, as described above.

The voting rights exercisable by Class A shareholders other than Apollo are limited so that Control Groups are deemed not to hold more than 9.9% of the total voting power conferred by our shares. The percentage reduction of votes that occurs by operation of the foregoing limitation will generally be reallocated proportionately among other Class A common shareholders who are not members of these groups so long as such reallocation does not cause a Control Group to hold more than 9.9% of the total voting power of our shares. In addition, certain Class A common shares may be deemed non-voting when owned by a shareholder if such shareholder (or certain of its affiliates) (1) owns, directly or indirectly, Class B common shares, (2) holds an equity interest in Apollo or AAA or (3) is a member of the Apollo Group at which time any member of the Apollo Group holds Class B common shares, subject to certain exceptions. As such, certain of our Class A common shareholders hold voting shares, but such shares are non-voting when being held by such holder due to these restrictions. If such holder sold any such shares to another holder that would not be subject to these restrictions, such Class A common shares would be voting shares.

Pursuant to our bye-laws, the total voting power of Class A common shares held by members of our management and employees of the Apollo Group that are shareholders is limited to 3% of the total voting power of our common shares.

The table below shows the voting power of certain shareholders who, to our knowledge, beneficially own more than 5% in voting power of our outstanding Class A common shares and Class B common shares as of March 1, 2017.

	Number of Class A Common Shares Owned	Number of Class B Common Shares Owned	Total Number of Shares Owned	Percent of Total Outstanding Class A Common Shares and Class B Common Shares Owned	Total Voting Power of Class A Common Shares and Class B Common Shares Taken Together[1]
Apollo Holders	-	109,293,521	109,293,521	57.8%	45.0%

[1] The Class B common shares represent, in aggregate, 45% of the total voting power of our common shares, subject to certain adjustments.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Share Incentive Plan Information

The table below shows information regarding awards outstanding and shares of common stock available for issuance as of December 31, 2016 under the Share Incentive Plans:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights[1]	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights[2]	Number of Securities Remaining Available for Future Issuance Under Share Incentive Plans
Share Incentive Plans Approved by Security Holders	-	$ -	3,495,771
Share Incentive Plans Not Approved by Security Holders	12,225,286	$ 19.97	-
Total	12,225,286	$ 19.97	3,495,771

[1] *Includes options, time-based RSUs, performance-based RSUs and Class M common shares. Class M common shares, once vested, are convertible into Class A shares subject to payment of the conversion price. Performance-based RSUs are included at their target value. Class M common shares are included based on the assumption that 100% of such shares vest.*

[2] *Includes options, Class M common shares and the RSUs issued in conjunction with the Class M-4 common shares. Does not include other time-based RSUs or performance-based RSUs, as they do not have exercise prices.*

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Item 13. Certain Relationships and Related Transactions, and Director Independence

The following is a description of certain relationships and transactions that have existed or that we have entered into with our directors, executive officers, or shareholders who are known to us to beneficially own more than five percent of our voting Class A common shares or Class B common shares and their immediate family members as well as certain other transactions.

Relationships and Related Party Transactions with Apollo or its Affiliates

We have a strategic relationship with Apollo. Apollo's indirect subsidiary, AAM, serves as our investment manager. In addition to being our co-founder, Apollo assists us in identifying and capitalizing on acquisition opportunities that have been critical to our ability to significantly grow our business. Members of the Apollo Group are significant owners of our common shares and control 45% of the aggregate voting power of our equity securities. Our Chief Executive Officer is also an employee of, and receives substantial remuneration from acting as Chief Executive Officer of, AAM and owns a 5% profits interest in AAM. Additionally, employees of Apollo and its affiliates serve on our board of directors. We expect our strategic relationship with Apollo to continue for the foreseeable future. A number of our directors are also employees of Apollo or its affiliates.

A description of certain relationships we have with Apollo and its affiliates and transactions that have existed or that we have entered into with Apollo and its affiliates are described below.

The following table summarizes the fees we have incurred, directly and indirectly, from Apollo and its affiliates for the periods presented below:

	Years ended December 31,					
	2016		2015		2014	
(In millions, except for percentages)	Fees Incurred	% of Average Invested Assets	Fees Incurred	% of Average Invested Assets	Fees Incurred	% of Average Invested Assets
IMAs-U.S. and Bermuda[1]	$ 229.3	0.33%	$ 233.5	0.38%	$ 229.2	0.39%
Investment Advisory Agreement-Germany	6.4	0.01%	1.2	0.00%	-	0.00%
Apollo Master Sub-Advisory Agreement	59.8	0.09%	41.9	0.07%	36.3	0.06%
Apollo Fund Investment[2]	53.2	0.08%	50.9	0.08%	43.1	0.07%
AmeriHome	7.4	0.01%	2.9	0.01%	0.4	0.00%
Shared Services Agreement	6.3	0.01%	2.3	0.00%	(13.0)	(0.02)%
Commercial Mortgage Loan Servicing Agreement	0.6	0.00%	0.5	0.00%	0.7	0.00%
Out-of-Pocket Expenses[3]	5.3	0.01%	5.3	0.01%	1.9	0.00%
Total fees paid to Apollo	$ 368.3	0.54%	$ 338.5	0.55%	$ 298.6	0.50%
Average invested assets	$ 69,622		$ 61,484		$ 59,207	

[1] *Exclusive of amounts we received pursuant to the AAM long-term incentive plan. See Equity Transactions below.*

[2] *Includes total management, carried interest (including unrealized but accrued carried interest fees) and other fees, including those we hold as equity method investments.*

[3] *Advisory Services Agreement entered into on August 23, 2016. Prior to the agreement, we reimbursed Apollo or its affiliates for certain out-of-pocket expenses they incurred in connection with rending services to us.*

Investment Management Relationships

Under our IMAs with AAM, except with respect to our German operations, substantially all of our invested assets are managed by AAM. AAM provides a full array of asset and portfolio management services to us. AAM was founded as a partnership between James R. Belardi and Apollo to provide Athene with a dedicated investment asset manager capable of creating and executing a bespoke investment strategy that is optimal for Athene's dynamic investment needs. AAM has built a dedicated team of more than 100 investment and operations professionals, senior members of which have deep sector experience in the asset management industry and have overseen our investment portfolio since our founding. As a subsidiary of Apollo, AAM is fully integrated into the Apollo investment platform and provides Athene with access to Apollo's investment expertise and fully-built infrastructure without the burden of incurring the development and maintenance costs of building an in-house investment asset manager with the capabilities of Apollo/AAM.

As of December 31, 2016, AAM's investment professionals directly invested approximately 81% of the North America Accounts in a number of asset classes, including investment grade corporate credit and RMBS. For the remainder of the invested assets in the North America Accounts, which is comprised of assets which often require additional sourcing and underwriting capabilities, AAM has chosen to mandate sub-advisors rather than building out in-house capabilities. In this regard, AAM is able to leverage its relationship with Apollo in a sub-advisory capacity, pursuant to which AAM has mandated Apollo to invest in asset classes in which Apollo has investment expertise and sourcing capabilities, such as high yield credit, CMLs, CLOs, CMBS and certain ABS. All sub-advised assets are ultimately overseen by AAM to ensure they are appropriate for our business and consistent with our investment strategy. Through our relationship with Apollo, and having extensive knowledge

of our corporate structure and business targets, AAM often creates or sources unique investment opportunities, such as our investments in MidCap and AmeriHome, described under *MidCap* and *AmeriHome* below.

We have historically relied on AAM to efficiently reinvest large blocks of invested assets we have acquired. AAM's investment professionals have developed an intimate knowledge of our liability profile, which is long-dated and predominantly surrender charge protected. This knowledge serves as the foundation of our asset management strategy by enabling us to take advantage of our generally illiquid liability profile and identify asset opportunities with an emphasis on earning incremental yield by taking liquidity risk and complexity risk, rather than assuming solely credit risk. Through AAM and Apollo, we are able to source, value and invest in these high quality assets to drive and target greater investment returns. Additionally, AAM has grown as we have grown. In response to our rapid asset growth and other significant changes in our requirements, such as our strategy of pursuing ongoing retail product sales, AAM has added resources to directly manage our assets and has significantly increased the number and capabilities of its staff to service our growing investment portfolio.

In connection with the acquisition of DLD, our internal German asset management company, ADKG, entered into an investment advisory agreement with AAME pursuant to which AAME provides advisory services for a significant portion of our German investment portfolio.

As discussed in greater detail below, for services related to the investment assets of our U.S. and Bermuda companies, AAM earns an investment management fee of 0.40% per annum on all assets in the North America Accounts (subject to certain exceptions), and other affiliates of Apollo earn additional fees for sub-advisory services rendered with respect to certain invested assets within the North America Accounts. Affiliates of Apollo also earn additional fees paid by funds or other collective investment vehicles in which we are invested for management and other services provided by such affiliates of Apollo to such funds and investment vehicles. For the services related to our investment assets in Germany, AAME earns advisory fees of 0.10% on assets advised by AAME and affiliates of AAME receive an advisory fee of 0.35% per year on certain German special investment funds (the difference in rates earned by AAME and AAM is due to differences in the investment characteristics, as described in greater detail below). We believe that our relationships with AAM, Apollo and other Apollo affiliates have contributed to and will continue to contribute to our strong financial performance. For the years ended December 31, 2016, 2015 and 2014, we generated net investment income of $2.9 billion, $2.5 billion and $2.3 billion, respectively. Net of the aforementioned fees, we achieved consolidated net investment earned rates of 4.35%, 4.24% and 4.29% for the years ended December 31, 2016, 2015 and 2014, respectively.

Although the investment management fee that AAM charges us is generally 0.40% per annum on all assets in the North America Accounts, in order to support continued profitable growth for Athene, AAM discounts certain fees due by Athene. For the total dollar amount of all liabilities sourced through our organic distribution channels during 2016 in excess of $5.1 billion (subject to certain exceptions, Excess Liabilities), AAM agreed to discount fees as follows:

- During 2016, a discount of 0.40% per annum multiplied by such Excess Liabilities. The 2016 discount relating to such Excess Liabilities was intended to reasonably approximate a full discount of the AAM fee on the assets relating to such Excess Liabilities during the remainder of the 2016 calendar year.
- For 2017, a discount of 0.20% per annum multiplied by such Excess Liabilities, resulting in a reasonable approximation of a 0.20% fee on the assets relating to such Excess Liabilities during the 2017 calendar year.
- For 2018 and thereafter, a discount of 0.075% per annum, resulting in a reasonable approximation of a 0.325% fee on the assets relating to such Excess Liabilities during the 2018 calendar year and thereafter.

Excess Liabilities are determined based on our actuarial projections at the time that such Excess Liabilities are written and will amortize on a quarterly basis according to our projections for purposes of determining the discount. As of December 31, 2016, our organic channels have provided deposits of $8.8 billion.

We currently hold in excess of $1.5 billion of excess capital, which we view as strategic capital available to reinvest into organic and inorganic growth opportunities. We are keenly aware, however, of the need to grow prudently while maintaining our underwriting discipline. In the context of supporting prudent growth in today's low-rate environment, we and Apollo have agreed on a new fee framework that results in a lower level of fees for us as we continue to grow our business, while at the same time we believe that this fee structure incentivizes both AAM and Apollo to make long-term investments in their capabilities and infrastructure to support our growth.

More specifically, AAM and AHL have agreed to enter into a revised fee agreement, which will amend and restate in its entirety the Fourth Amended and Restated Fee Agreement, dated August 31, 2016, to be effective and executed upon the approval by shareholders at the 2017 Annual General Meeting of the bye-law amendment relating to termination of the IMAs referred to below in *Termination of Investment Management or Advisory Agreements with AAM and AAME*. This revised fee agreement governs the payment by AHL to AAM of investment management fees incurred by AHL and its subsidiaries. In order to facilitate our continued profitable growth the fee agreement was revised to provide for, among other things, a reduced fee of 0.30% per year on all assets in the North America Accounts in excess of $65,846 million. AAM's fee on the first $65,846 million of assets in the North America Accounts remains 0.40% per year, subject to certain discounts and exceptions. These fee changes were approved by our conflicts committee and the proposed bye-laws amendment was approved by all of our disinterested directors, with the changes to the bye-laws being conditional on approval by our shareholders. Upon shareholder approval, this new investment management fee structure will be retroactive to January 1, 2017 and will continue until otherwise amended.

Messrs. Rowan, Lohr, Michelini and Siddiqui, members of our board of directors, also serve as directors of AAM. Messrs. Rowan and Lohr are also directors of AAME. James R. Belardi, our Chief Executive Officer and a member of our board of directors, is the Chief Executive Officer,

Chief Investment Officer and a director of AAM. Mr. Belardi has owned equity units in AAM since its founding and currently owns a profits interest equivalent to approximately 5% of the equity of AAM.

IMAs-U.S. and Bermuda

As of December 31, 2016, AAM managed approximately $65.8 billion of assets in the North America Accounts. These assets are invested primarily in a diversified portfolio of fixed maturity and other securities. Approximately $53.4 billion of these assets, the majority of which are investment grade fixed income assets, are in accounts directly invested by AAM, while the remainder of our investment assets in the United States and Bermuda are primarily managed by AAM and Apollo through a sub-advisory arrangement between AAM and Apollo. As compensation for the enhanced and bespoke investment management services that AAM provides to us, under IMAs between AAM and us, AAM receives a gross fee of 0.40% per annum on all assets in the North America Accounts, with certain limited exceptions. The gross fee of 0.40% per annum is paid in part by the North America Accounts and in part by AHL to the extent that any North America Account's direct rate is less than 0.40% per annum.

Investment Advisory Agreement-Germany

As of December 31, 2016, AAME advised with respect to approximately $4.6 billion of assets owned by our German Group Companies. As compensation for the investment advisory services rendered to ADKG under the investment advisory agreement between AAME and ADKG in relation to the assets ADKG manages for our German Group Companies, AAME receives a gross fee of 0.10% per annum on the assets with respect to which it advises, which includes all assets of our German Group Companies except operating cash and certain other excluded asset classes. As discussed in *Item 1. Business-Investment Management*, the investment characteristics of our assets held by ADKG and our other Germany Group Companies differ substantially from the characteristics of our U.S. and Bermuda subsidiaries. Given these differences in the overall business model and lower yielding, more homogeneous investment portfolio and resulting less diverse requisite expertise, our asset management fees in Germany are significantly lower than those paid by us with respect to the North America Accounts.

Termination of Investment Management or Advisory Agreements with AAM and AAME

The investment management or advisory agreements between us and AAM or AAME have no stated term and may be terminated by either AAM or AAME, or AHL or the relevant subsidiary, as applicable, upon notice at any time. However, our bye-laws provide that neither AHL nor its subsidiaries will exercise their termination rights under such agreements, except that any such agreement between AHL or any of its subsidiaries and AAM or AAME may only be terminated on an IMA Termination Date, and any termination on an IMA Termination Date without cause requires (1) the approval of AHL's board of directors and at least 50% of the total issued shares of AHL that are entitled to vote (giving effect to the voting allocation provisions set forth in AHL's bye-laws) and (2) six months' prior written notice to AAM or AAME of such termination. Notwithstanding the foregoing, any such IMA may be terminated by AHL's board of directors for cause (as defined in AHL's bye-laws) which includes (a) material violations of law relating to AAM's or AAME's advisory business, (b) AAM's or AAME's gross negligence, willful misconduct or reckless disregard of its obligations under the relevant agreement, (c) a determination by the board of directors, in its sole discretion and acting in good faith, of unsatisfactory long-term performance of AAM or AAME, or (d) a determination by the board of directors, in its sole discretion and acting in good faith, that the fees being charged by AAM or AAME are unfair and excessive compared to a comparable asset manager (provided, that in the case of the immediately preceding clauses (c) and (d), the board of directors must deliver notice of such determination to AAM or AAME, as applicable, and AAM or AAME, as applicable, will have 30 days after receipt of such notice to address the board of directors' concerns and, provided further that in the case of the immediately preceding clause (d), AAM or AAME has the right to lower its fees to match the fees of such comparable asset manager). In addition, the boards of directors of AHL's subsidiaries may terminate an investment management or advisory agreement with AAM or AAME with regards to the applicable subsidiary if such subsidiary's board of directors determines that such termination is required in the exercise of its fiduciary duties. AAM or AAME may terminate such agreements at any time, which may adversely affect our investment results. See *Item 1A. Risk Factors-Risks Relating to Our Investment Manager*.

A proposed amendment to our bye-laws that has been approved by our board of directors and is subject to approval by our shareholders at our 2017 Annual General Meeting provides that we may not, and will cause our subsidiaries not to, terminate any IMA or advisory agreement among us or any of our subsidiaries, on the one hand, and AAM or AAME, on the other hand, before an IMA Termination Election Date and any termination on an IMA Termination Election Date requires (i) the approval of two-thirds of our Independent Directors (as defined below) and (ii) written notice to AAM or AAME of such termination at least 30 days' prior to an IMA Termination Election Date. If our Independent Directors make any such election to terminate and notice of such termination is delivered, the termination will be effective on the IMA Termination Effective Date. Notwithstanding the foregoing, under such proposed amendment, (A) our Independent Directors may only elect to terminate an IMA or advisory agreement on an IMA Termination Election Date if two-thirds of our Independent Directors determine, in their sole discretion and acting in good faith, that either (i) there has been unsatisfactory long-term performance materially detrimental to us by AAM or AAME, or (ii) the fees being charged by AAM or AAME are unfair and excessive compared to a comparable asset manager (provided, that in either case such Independent Directors must deliver notice of any such determination to AAM or AAME, as applicable, and AAM or AAME, as applicable, will have until the applicable IMA Termination Effective Date to address such concerns, and provided, further, that in the case of such a determination that the fees being charged by AAM or AAME are unfair and excessive, AAM or AAME, as applicable, has the right to lower its fees to match the fees of such comparable asset manager) and (B) upon the determination by two-thirds of our Independent Directors, we or our subsidiaries may also terminate an IMA or advisory agreement with AAM or AAME as a result of either (i) a material violation of law relating to AAM's or AAME's advisory business, or (ii) AAM's or AAME's gross negligence, willful misconduct or reckless disregard of AAM's or AAME's obligations under the relevant agreement, and in either case the delivery of at least 30 days' prior written notice to AAM or AAME of such termination and such termination will be effective at the end of such 30-day period (the events described in the foregoing clauses

(A) and (B) are referred to in more detail in our bye-laws as “AHL Cause”). For purposes of these provisions of the bye-laws (as amended pursuant to such proposed amendment), an “Independent Director” cannot be (x) an officer or employee of ours or any of our subsidiaries or (y) an officer or employee of (1) any member of the Apollo Group described in clauses (i) through (iv) of the definition of “Apollo Group” as set forth in our bye-laws or (2) AGM or any of its subsidiaries (excluding any subsidiary that constitutes any portfolio company (or investment) of (A) an investment fund or other investment vehicle whose general partner, managing member or similar governing person is owned, directly or indirectly, by AGM or by one or more of its subsidiaries or (B) a managed account agreement (or similar arrangement) whereby AGM or one or more of its subsidiaries serves as general partner, managing member or in a similar governing position).

Apollo Master Sub-Advisory Agreement (MSAA) and Apollo Fund Investments

AAM and certain affiliates of Apollo entered into MSAAs for the benefit of our insurance subsidiaries whereby such Apollo affiliates would sub-advise AAM with respect to a portion of the invested assets held in the North America Accounts. Sub-advisory mandates with Apollo generally relate to certain asset classes where Apollo managers have investment expertise and for which AAM has determined that it is more appropriate to sub-advise rather than build out in-house capabilities to invest in these assets. Sub-advisory fees relating to the MSAA and any other sub-advisory arrangement are recharged by AAM to the North America Accounts and are in addition to the gross fee of 0.40% per annum paid to AAM under the IMAs. Currently, the MSAA, as amended, covers services rendered by Apollo-affiliated sub-advisors relating to the following asset classes, among others: bank loans, high yield debt, CMLs, emerging market debt, convertible securities, mortgage- and asset-backed securities (including CLOs), oil and gas royalties and insurance-linked securities. Under the MSAA, with certain limited exceptions, Apollo earns 0.40% per annum on all assets sub-advised by Apollo up to $10 billion and 0.35% per annum on all assets sub-advised by Apollo in excess of $10 billion. In certain instances, Apollo earns an incentive fee. As of December 31, 2016, 2015 and 2014, Apollo affiliates directly sub-advised AAM with respect to approximately $12.5 billion, $11.8 billion and $9.8 billion, respectively, constituting approximately 19%, 20% and 16%, respectively, of the North America Accounts.

In addition to invested assets sub-advised by Apollo, from time to time, AAM also invests our assets in investment funds or other collective investment vehicles whose general partner, managing member, investment manager or collateral manager is owned, directly or indirectly, by Apollo or by one or more of Apollo’s subsidiaries (Apollo fund investments), and which comprised 70% of our alternative investment portfolio as of December 31, 2016. AAM’s alternative investment strategy is inherently opportunistic and subject to concentration limits on specific risks. We opportunistically target allocating 5-10% of the assets in the North America Accounts to alternative investments. Individual alternative investments are selected based on the investment’s risk-reward profile, incremental effect on diversification and potential for attractive returns due to sector and/or market dislocations. There is a preference for alternative investments that have the following characteristics, among others: (1) investments that constitute a direct investment or an investment in a fund with a high degree of co-investment; (2) investments with debt-like characteristics (for example, a stipulated maturity and par value), or alternatively, investments with reduced volatility when compared to pure equity; and (3) investments that have less downside risk. As of December 31, 2016, 2015 and 2014, 3.5%, 3.4% and 3.7%, respectively, of our assets in the North America Accounts were invested in Apollo fund investments. Fees related to such invested assets varied from 0% per annum to 1.75% per annum with respect to management fees and 0% to 20% of profits for carried interest, subject in many cases to preferred return hurdles. See *Item 1. Business-Investment Management*.

AAM and Apollo have agreed to amend the MSAAs to be effective upon approval of the bye-law amendment relating to the termination of the IMAs by shareholders at the 2017 Annual General Meeting, whereby, with certain limited exceptions, Apollo will earn 0.40% per annum on all assets sub-advised by Apollo up to $10 billion, 0.35% per annum on all assets sub-advised by Apollo in excess of $10 billion but less than $12.70 billion, 0.40% per annum on all assets sub-advised by Apollo in excess of $12.70 billion but less than $16 billion, and 0.35% per annum on all assets sub-advised by Apollo in excess of $16 billion. Upon shareholder approval of the bye-law amendment, this new fee arrangement will be retroactive to January 1, 2017 and will continue until otherwise amended.

As of December 31, 2016, our Apollo sub-advised investments and Apollo fund investments consisted of the following:

	December 31, 2016	
(In millions, except for percentages)	Amount	% of Total
Apollo sub-advised investments		
Fixed maturity securities, available for sale		
State, municipal, and political subdivisions	$ 5	-%
Foreign governments	149	1.0%
Corporate	2,124	14.4%
CLO	5,281	35.8%
ABS	1,005	6.8%
CMBS	1,136	7.7%
Trading securities, fixed maturity securities		
ABS	83	0.6%
CLO	43	0.3%
Mortgage loans	2,487	16.9%
Investment funds	84	0.6%
Other investments	81	0.5%
Subtotal	12,478	84.6%
Apollo fund investments		
Credit funds	236	1.6%
CLO equities, affiliated	217	1.5%
Mortgage and real assets	268	1.8%
Hedge funds	191	1.3%
Natural resources	49	0.3%
Private equity - AAA		
Private equity - Public	215	1.4%
Private equity - MidCap	524	3.6%
Private equity - Other	118	0.8%
A-A Mortgage	417	2.8%
Other private equity	41	0.3%
Subtotal	2,276	15.4%
Total	$ 14,754	100.0%

As of December 31, 2016, 2015 and 2014, 3.9%, 4.1% and 2.8%, respectively, of our total investments, including related parties and consolidated VIEs, are comprised of securities, including investment funds, in which Apollo, or an Apollo affiliate, has significant influence or control over the issuer of a security or the sponsor of the investment fund. The following table summarizes our cash flow activity related to these investments for the periods presented below:

	Years ended December 31,		
(In millions)	2016	2015	2014
Sales, maturities, and repayments	$ 482	$ 610	$ 2,159
Purchases	$ (601)	$ (728)	$ (1,846)

For additional information regarding these investments, refer to our consolidated financial statements.

Certain members of our board of directors may directly receive carried interest or may receive a portion of the carried interest that Apollo receives from fund investments in which Athene is invested. Certain directors may invest in fund investments in which we have invested. Additionally, Mr. Belardi and Mr. Kvalheim also have co-investment interests in certain of these fund investments.

Dr. Puffer serves on the board of directors of Athene Lebensversicherung AG, a subsidiary of our German entity. Dr. Puffer received compensation in 2016 and 2015 for serving as a director of such subsidiary in the amounts of EUR 25,000 and EUR 6,250, respectively.

Third Party Sub-Advisory Agreements

In the limited instances in which AAM desires to invest in asset classes for which neither AAM nor Apollo possesses the investment expertise or sourcing abilities required to manage the assets, or in instances in which AAM makes the determination that it is more effective or efficient to do so, AAM mandates third-party sub-advisors to invest in such asset classes, and we reimburse AAM for fees paid to such sub-advisors.

MidCap

We hold a significant investment in MidCap through CoInvest VII, a consolidated investment fund managed by an affiliate of Apollo. Additionally, we have made loans directly to MidCap Financial to which subsidiaries of MidCap succeeded as borrower. When we originally invested in MidCap Financial in November 2013, MidCap Financial was a specialty finance company which primarily originated lending opportunities in the healthcare sector. With the assistance of Apollo, MidCap Financial entered new lending markets, raised substantial equity capital and restructured as MidCap in January 2015. MidCap represents a unique investment in an origination platform made available to us through our relationship with Apollo and, from time to time, provides us with access to assets for our investment portfolio.

In January 2015, CoInvest VII contributed its primary investment, MidCap Financial, to a newly formed entity, MidCap, in exchange for subordinated notes issued by MidCap and shares in MidCap's parent company, MidCap Holdings. Concurrent with this restructuring, CoInvest VII distributed to its general partner, an affiliate of Apollo, $30 million of the MidCap notes in satisfaction of the carried interest that had been earned by the general partner under the previous MidCap Financial structure through the date of the restructuring. Additionally, unrelated investors made cash contributions to MidCap of $1.0 billion through December 31, 2015. As of December 31, 2016, CoInvest VII owned 28% of the outstanding economic interests of MidCap.

In connection with the acquisition of MidCap Financial by CoInvest VII in 2013, we entered into a subordinated debt facility with MidCap Financial with a principal amount of $245 million and a maturity date of July 2018. In addition, in December 2014, we entered into two bridge loan transactions whereby we loaned $100 million to MidCap Financial and one of its subsidiaries with the loans having maturity dates in May and June 2015. In connection with the restructuring of MidCap Financial into MidCap in January 2015, subsidiaries of MidCap Holdings succeeded as borrower under the subordinated debt facility and bridge loan facilities, and the maturity date of the subordinated debt facility was extended to January 2022. For the years ended December 31, 2016 and 2015, we earned income of $23 million and $33 million, respectively, in connection with these debt financings. MidCap repaid $45 million of the bridge loans during the first quarter of 2015 and repaid the remaining $55 million in January 2016. In January 2016, the subordinated debt facility was amended and restated in connection with new loans made by third-party lenders. The loans under the amended and restated facility mature in January 2026. In consideration of accepting a decrease in the interest rate, from 10% to 9%, extending maturity and other changes to the terms of the loan, a subsidiary of MidCap paid us an amendment fee of $8 million.

The restructuring transactions described above were approved by a special committee of our board of directors consisting of five independent directors. The special committee was formed for the purpose of reviewing the transactions and, in considering whether to approve the transactions, the special committee hired independent legal counsel and received a fairness opinion from a third-party investment bank.

From time to time, we have entered into participation arrangements with MidCap Holdings with respect to loans we purchase that were originated or otherwise sourced by MidCap Holdings. In January 2016, we purchased a pool of loans that were sourced by MidCap and contemporaneously sold participation interests in the loans to a subsidiary of MidCap receiving aggregate consideration of $24 million. As of December 31, 2016, $14 million was due to MidCap under the subordinated participation agreement.

AmeriHome

We hold a significant investment in AmeriHome, a mortgage lender and mortgage servicer, through our investment in A-A Mortgage, an investment fund managed by AAM. AmeriHome originates assets that we may acquire that are consistent with our investment strategy.

Through December 31, 2016, we made equity investments of $328 million in A-A Mortgage. We have approximately 73% of the economic interests in A-A Mortgage, A-A Mortgage owns 100% of the equity interests in Aris Holdco (not including profits interests in Aris Holdco held by AmeriHome management), and Aris Holdco owns 100% of the equity interests in AmeriHome. In 2015, we provided debt financing whereby Athene USA loaned $85 million to A-A Mortgage, which amounts were ultimately invested in AmeriHome. This debt financing was repaid in full in 2015, using the proceeds of additional equity contributions to A-A Mortgage that were made contemporaneous with the repayment of debt. For the year ended December 31, 2015, we earned interest income of $2 million in connection with the debt financing. See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Consolidated Investment Portfolio*.

In connection with our equity investment in A-A Mortgage, we agreed that Aris Holdco will pay AAM a management fee equal to 1.5% of Aris Holdco's consolidated equity, in addition to the 10% carried interest that AAM receives subject to an 8% hurdle. This management fee is paid in respect of certain management and oversight services provided by AAM to A-A Mortgage and its subsidiaries. In connection with transaction advice that may be rendered by Apollo Global Securities, LLC (AGS) relating to certain strategic transactions that may be entered into by Aris Holdco and/or its subsidiaries, Aris Holdco has agreed to pay AGS transaction fees equal to 1% of the aggregate consideration in such transactions for which AGS provides advice. In addition, certain other investors in A-A Mortgage, including an Apollo-affiliated fund, as a

condition to their commitments to invest in A-A Mortgage, required that the amounts paid by Aris Holdco to AAM in respect of the management fee and amounts paid to AGS in respect of transaction fees would be rebated to such investors.

Gross management fees incurred by Aris Holdco for services rendered by AAM for the years ended December 31, 2016, 2015 and 2014 totaling $1.8 million, $0.7 million and $0.1 million, respectively, were rebated to other investors in A-A Mortgage. AAM also recognized approximately $4.6 million, $2.5 million and $0 million in unrealized incentive income for the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016, no transaction fees have been paid by Aris Holdco to AGS.

In 2015, we entered into loan purchase and servicing agreements with AmeriHome. The agreements allow us to purchase certain RMLs which AmeriHome has purchased from correspondent sellers and pooled for sale in the secondary market. AmeriHome retains the servicing rights to the sold loans and generally charges a fee of 25 basis points on the loans serviced. For the years ended December 31, 2016 and 2015, we had purchased $22 million and $83 million, respectively, of RMLs under this agreement.

Apollo Commercial Real Estate Finance, Inc.

On August 31, 2016, AMTG merged with and into ARI, with ARI continuing as the surviving corporation (the Merger). In connection with the Merger, certain of our subsidiaries entered into several agreements with ARI: (1) an Asset Purchase and Sale Agreement (Asset Purchase Agreement) among ARI, AADE and AAIA, (2) a Loan Agreement (ARI Loan Agreement) between ARI and Athene USA, and (3) a Stock Purchase Agreement (ARI Stock Purchase Agreement) between ARI and Athene USA.

Pursuant to the Asset Purchase Agreement, immediately following the consummation of the Merger, AADE and AAIA purchased from ARI $1.1 billion of primarily non-agency RMBS (ARI Asset Sale).

Pursuant to the ARI Loan Agreement, Athene USA provided ARI with a secured term loan of $175 million at an interest rate of one-month LIBOR plus 7.00% to consummate the Merger. The term loan was subsequently repaid by ARI with the net cash proceeds that ARI received from the ARI Asset Sale.

Pursuant to the ARI Stock Purchase Agreement, during the first thirty trading days following the closing of the Merger, Athene USA purchased $20 million in shares of ARI common stock in the open market at the then-current market price, which purchase was required pursuant to the ARI Stock Purchase Agreement if the quoted price of a share of ARI common stock on the NYSE at any time during such specified period was less than the price per share at which the ARI common stock was issued to holders of AMTG common stock upon effectiveness of the Merger ($16.75 per share). In order to fulfill its purchase obligations under the ARI Stock Purchase Agreement, Athene USA entered into a purchase plan with a broker-dealer that was established for purposes of complying with Rules 10b5-1 and 10b-18 under the Exchange Act.

As of March 14, 2017, we had sold $17 million of the ARI stock purchased pursuant to the stock purchase agreement after holding such stock in accordance with the terms thereof.

German Office Lease

In May 2011, Delta Lloyd Lebensversicherung AG (now known as ALV, formerly a subsidiary of DLD), entered into a sublease with CSC Deutschland Solutions GmbH for certain office space in Wiesbaden, Germany. In July 2012 and March 2016, the sublease was amended to increase the amount of space subject to sublease and to correspondingly increase the rent payable thereunder. Prior to and unrelated to our acquisition of DLD in October 2015, Wiesbaden (Bridge) S.á.r.l., an affiliate of Apollo, purchased the property subject to sublease.

The sublease expired in January 2017 and we entered into a lease with Wiesbaden (Bridge) S.á.r.l. that commenced upon the expiration of the sublease. We incurred rent under the sublease of approximately $0.8 million and $0.2 million for the years ended December 31, 2016 and 2015, respectively.

Shared Service Agreements

We have entered into shared services agreements with AAM. Under these agreements, we and AAM make available to each other certain personnel and services. Expenses for such services are based on the amount of time spent on the affairs of the other party in addition to actual expenses incurred and cost reimbursements. These shared services agreements can be terminated for any reason upon thirty days notice. The shared services agreements can also be terminated immediately with respect to a specific party in the event of the insolvency by another party to the agreements, among other things.

Equity Transactions

In December 2015 and 2014, we entered into purchase agreements with AAM pursuant to which AAM purchased 23,250 and 583,268, respectively, of our class M-4 common shares (or RSUs) under our 2014 Share Incentive Plan for aggregate purchase prices of approximately $0.2 million and $1.3 million, respectively. Subsequent to AAM’s purchase of our M-4 common shares, AAM distributed such shares to certain of its employees in connection with the recipient’s entry into a restricted share award agreement. AAM allocated such shares to its employees to further align incentives between AAM officers and employees and our performance.

In July 2014, AAM established a long term incentive plan (AAM LTIP), pursuant to which AAM provides incentive compensation to its eligible directors, officers and senior professionals. Under the terms of the AAM LTIP, we are permitted to receive LTIP units, with the determinations as to our use of the LTIP units to be in our discretion. The AAM LTIP further provides that LTIP units that remain ungranted to participants under the AAM LTIP for any given fiscal year be granted to us. AAM may unilaterally change the plan at any time without our consent and, therefore, we may not receive future distributions under the plan. For the years ended December 31, 2016, 2015 and 2014, pursuant to the AAM LTIP, we were permitted to receive $7.4 million, $8.5 million and $7.5 million, respectively.

In order to promote an alignment of interests, certain AAM employees have received grants of Class M common shares. In addition, certain AAM employees were permitted to purchase our Class A common shares at a discount from market value. As a result of these efforts, as of December 31, 2016, AAM employees (excluding our Chief Executive Officer) own approximately 1,186,000 Class A common shares, approximately 986,000 Class M common shares and approximately 10,000 RSUs. The expense associated with stock-based compensation to AAM employees was $11 million, $11 million and $27 million for the years ended December 31, 2016, 2015 and 2014, respectively.

In 2015, we offered Messrs. Wheeler and Klein the opportunity to purchase Class A common shares at their fair market value, which was $27.83 per share, pursuant to the 2014 Share Incentive Plan. In April 2014, we offered certain of our employees, directors and affiliates the opportunity to purchase our Class A common shares at a discounted price of $13.46 per share. In the case of the 2015 issuance, the difference between the purchase price and the grant date fair value of the shares is attributable to the change in fair market value from the time Messrs. Wheeler and Klein agreed to purchase the Class A common shares at the then fair market value to the time of the actual closing of the purchase transaction. In the case of the 2014 issuance, the difference between the purchase price and the grant date fair value of the shares was to allow our employees, directors and affiliates to purchase shares, although at a later date, at the same price at which our shares were issued in our third round capital raise. Pursuant to these offers, we sold approximately 442,000 and 3,694,000 shares, respectively, for aggregated consideration approximating $12 million and $50 million, respectively. Compensation expense recorded on these sales totaled $2 million and $46 million, respectively.

Registration Rights Agreement

On April 4, 2014, we entered into the Registration Rights Agreement (as amended by amendments No. 1 and No. 2 thereto, dated October 6, 2015 and November 22, 2016, respectively) with our shareholders, including each shareholder that beneficially owns more than five percent of a voting class of our common shares. The Registration Rights Agreement, subject to the restrictions and limitations contained therein, sets forth the conditions under which our shareholders may demand or otherwise require us to register shares held by them and the conditions under which we may require certain shareholders to register shares held by them, in each case such registration to be effected pursuant to the Securities Act. Pursuant to the Registration Rights Agreement: (1) following our IPO and subject to certain holding restrictions, certain holders of five percent or greater of our common shares may request and thereby require us to use our reasonable best efforts to effect registration under the Securities Act; (2) upon registration by us of any of our authorized but unissued Class A common shares or upon registration by us of any Other Shares (as defined in the Registration Rights Agreement), in each case, other than registration on Form S-4 or Form S-8, holders of Registrable Shares (as defined in the Registration Rights Agreement) may require us to include in such registration some or all of their Registrable Shares on the same terms and conditions as the securities otherwise being sold in such registration, subject to certain limitations and holding restrictions; and (3) in connection with any registered offering of our common shares within 15 months of our initial public offering.

Investment Portfolio Trades with Affiliates

From time to time, AAM and/or Apollo execute cross trades which involve the purchase or sale of assets in a transaction between us, on the one hand, and a third party or an Apollo affiliated entity, in either case, to which Apollo or its affiliate acts in an investment advisor, general partner, managing member, collateral manager or other advisory or management capacity, on the other hand. In addition, from time to time, we may purchase or sell securities from or to related parties, other than through a cross trade transaction. We believe that these transactions are undertaken at market rates, and are executed based on third-party valuations where possible. For the years ended December 31, 2016, 2015 and 2014, the aggregate value of such transactions where we acquired investments from related parties amounted to $1.1 billion, $0 million and $207 million, respectively. For the years ended December 31, 2016, 2015 and 2014, we did not sell any investments to related parties.

Commercial Mortgage Loan Servicing Agreements

We have entered into commercial mortgage loan servicing agreements (CML Servicing Agreements) with AAM. Pursuant to these agreements, we have engaged AAM to (1) assist with the origination of and provide servicing of, commercial loans owned by us or in which we participate, secured by mortgages, deeds of trust or documents of similar effect encumbering certain real property and commercial improvements thereon and (2) provide for management and sale of real estate owned properties.

Transaction Advisory Services Agreement

Apollo and certain of its affiliates have provided to us a diverse array of services which have enabled us to grow our balance sheet to $86.7 billion in total assets as of December 31, 2016. Since our founding, Apollo has identified acquisition opportunities for us to scale our business, and principals, partners and other senior members of Apollo have been instrumental to helping us source, underwrite, and integrate these transactions. In return for these services, prior to October 31, 2012, Apollo had a 10-year monitoring contract in place with us. Under this contract, Apollo Alternative Assets, L.P. and Apollo Management Holdings, L.P., each affiliates of Apollo, collectively charged us a quarterly monitoring fee of 0.50% of our capital and surplus plus out of pocket expenses, payable in cash. On January 1, 2013, we entered into an equity swap transaction with Apollo in connection with the termination of the quarterly monitoring fee. Pursuant to this swap, the quarterly settlement

amount continued to accrue to Apollo, but the payment of those amounts (whether in stock or cash) would not be made to Apollo until the earlier of the time when Apollo was no longer deemed to control us within the meaning of the derivative instrument delivered pursuant to the TASA and October 31, 2017. In April 2014, as a result of the external capital raise, Apollo was no longer deemed to control the Company (as defined under the swap) and, as a result, the swap was settled in stock for settlement amounts owed through that date. Additionally, in April 2014, we further amended the TASA to exclude from capital and surplus, on which the quarterly monitoring fee was calculated, the capital received in the April 2014 capital raise, and any capital raised in connection with certain potential future acquisitions as defined in the amended TASA. As we grew our business and platform and began to prepare to become a public company, Apollo voluntarily unwound the monitoring contract at a discount relative to the expected amounts payable over the remaining term thereof. As a result, pursuant to the terms of the TASA, Apollo Alternative Assets, L.P., Apollo Management Holdings, L.P., and AGS (collectively, the Apollo TASA Parties), agreed to accelerate the termination date of the monitoring contract from July 14, 2019 to December 31, 2014 in exchange for 2.5 times the quarterly monitoring fee for eight consecutive quarters beginning with the quarter ending March 31, 2013. All amounts accrued under the TASA and outstanding as of December 31, 2014 were subsequently paid in the form of Class B common shares (or equivalent derivatives) to the Apollo TASA Parties. The total costs, including management fees, incurred for these services and for terminating the TASA were $0 million, $0 million and $228 million for the years ended December 31, 2016, 2015 and 2014, respectively.

AAA Transaction

On October 30, 2012, in order to provide pre-funding for and increase certainty to close future acquisitions, the AAA Investor and certain other parties entered into a contribution agreement (Contribution Agreement). Pursuant to the Contribution Agreement, the AAA Investor contributed investment assets to us in exchange for (1) 44,444,457 of our Class B common shares for a purchase price of $13.46 per share, (2) $83 million in cash and (3) a promissory note payable to the AAA Investor with a principal amount of approximately $113 million. The transfer of 1,509,091 of the Class B common shares was deferred pending regulatory approvals of certain of the assets being transferred by the AAA Investor pursuant to the Contribution Agreement. Such approvals were received in 2013 and the shares were thereafter issued in exchange for these assets, which were comprised of investment partnerships. The AAA Investor contributed three partnerships (AAA Partnerships) to us pursuant to the Contribution Agreement. At the time of contribution, the AAA Partnerships largely consisted of non-publicly traded equity investments that were co-investments, including CoInvest VI and CoInvest VII, alongside private equity funds sponsored by Apollo. We satisfied our obligations under the note in full, together with accrued interest, in September 2014 by issuing 3,808,626 Class B common shares. The weighted average annual net investment earned rate of the contributed portfolio from inception was more than 15% as of December 31, 2016.

The Contribution Agreement described above was approved by a special committee of the conflicts committee consisting of three independent directors. The special committee was formed for the purpose of reviewing the transaction and, in considering whether to approve the transaction, the special committee hired independent legal counsel and received a fairness opinion from a third-party investment bank.

Advisory Services Agreement

On August 23, 2016, we entered into an advisory services agreement (Advisory Services Agreement) with Apollo Management Holdings, L.P. (AMHLP). Pursuant to the Advisory Services Agreement, AMHLP or certain other affiliates of Apollo may provide certain non-exclusive management, consulting, financial and other advisory services to us and our subsidiaries. Such services, which differ from those covered by AAM and its affiliates under our IMAs and sub-advisory agreements, involve advice and recommendations related to future acquisitions, capital market activities and strategic priorities (including growth). Apollo and its affiliates do not charge us or our subsidiaries for their services and may determine not to provide any services. Apollo and its affiliates have the right to request a fee for any service they provide; however, such a request is subject to prior approval by us or the applicable subsidiary. We are responsible for all reasonable third party out-of-pocket expenses incurred by Apollo or its affiliates related to the services they offer and provide such entities indemnification against any loss or liability arising out of the Advisory Services Agreement. The Advisory Services Agreement is effective until December 31, 2025. Prior to entering into the Advisory Services Agreement, we reimbursed Apollo or its affiliates for certain out-of-pocket expenses they incurred in connection with rendering services to us.

Other Related Party Transactions and Relationships

We have entered into side letters with certain of our shareholders and have granted them certain rights pursuant to the respective side letters.

We have entered into side letters with Procific (Procific Side Letters), which has a significant indirect interest in us through its holdings in AAA and AHL 2014 Investor, L.P. The Procific Side Letters afford Procific the opportunity, in the event that Procific is, directly or indirectly (through its interests in AAA or AHL 2014 Investor, L.P.), required by the Company to sell shares in a public offering pursuant to the Registration Rights Agreement, to purchase shares from us in connection with the public offering with such purchase to be effected at the then market price less an amount equal to the underwriting commission per share, up to the number of shares that Procific is required to sell in such public offering. Subject to certain exceptions, the Procific Side Letters also provide Procific with an option to elect more favorable lock-up terms to the extent that certain of our investors are afforded lock-up terms that are more favorable than those to which Procific is subject. Finally, we agree to reimburse AHL 2014 Investor, L.P. for organizational and operational expenses it incurs during any calendar year. The total of such fees paid by us for the years ended December 31, 2016, 2015 and 2014 was insignificant.

We entered into a side letter with AAA (AAA Side Letter) in connection with our private placement. Pursuant to the AAA Side Letter, for so long as AAA holds any of our equity securities directly or indirectly, it shall have the right to have one representative present at all meetings of our board of directors (and committees thereof), provided that such representative shall not be entitled to vote at such meetings.

Other than as stated or summarized above, since the beginning of our fiscal year ended December 31, 2014, no director, executive officer or shareholder who is known to us to beneficially own more than five percent of our Class A common shares or Class B common shares, or any member of the immediate family of such director, executive officer or shareholder, had or will have a direct or indirect material interest in a transaction or series of transactions in which we are, or one of our subsidiaries is, a party and the amount involved exceeds $120,000.

Related Party Transaction Policy

We have established a related party transaction policy which provides procedures for the review of transactions in excess of $120,000 in any year between us and any covered person having a direct or indirect material interest with certain exceptions. Covered persons include any director, executive officer, director nominee, shareholders known to us to beneficially own 5% or more of our Class A common shares or Class B common shares or any immediate family members of the foregoing. Any such related party transactions shall require advance approval by a majority of our independent directors or by our conflicts committee to the extent that such transactions constitute Apollo Conflicts (as described below) or related party transactions incidental or ancillary thereto. To the extent that the related party transaction is other than either an Apollo Conflict or a related party transaction that is incidental or ancillary thereto, our audit committee charter provides that the audit committee has the authority to review and approve all such transactions.

Because the Apollo Group has a significant voting interest in AHL, and because AHL and its subsidiaries have entered into, and will continue in the future to enter into, transactions with Apollo and its affiliates, our bye-laws created a conflicts committee, consisting of directors who are not officers or employees of any member of the Apollo Group and are designated by our board of directors. The conflicts committee consists of Messrs. Beilinson and Borden and Ms. Taitz. Our nominating and corporate governance committee and our board of directors have determined that each member of the conflicts committee meets the independence requirements of the NYSE rules. The conflicts committee reviews and must approve of certain material transactions by and between AHL and its subsidiaries, on the one hand, and the Apollo Group, on the other hand, including any modification or waiver of the IMAs with AAM, subject to certain exceptions.

An “Apollo Conflict” is:

- the entering into or material amendment of any material agreement by and between us and any member of the Apollo Group; or
- the imposition of any new fee on or increase in the rate of fees charged to us or any of our subsidiaries by a member of the Apollo Group, or the provision for any additional expense reimbursement to or offset by a member of the Apollo Group to be borne by us or any of our subsidiaries, directly or indirectly, pursuant to any material agreement by and between us and any member of the Apollo Group (except to the extent that any such material agreement sets forth the actual amount or formula for calculating the amount of any new fee or increase in the rate at which such fee is charged and such material agreement has not been approved or is exempt from approval under the conflicts committee charter).

We require that any new (or amendments to any existing) transactions by and between us and any member of the Apollo Group be, prior to the time such transaction is entered into:

- fair and reasonable, taking into account the totality of the relationships between the parties involved (including other transactions that may be or have been particularly favorable to us or any of our subsidiaries);
- entered into on an arms-length basis;
- approved by a majority of our disinterested directors;
- approved by the holders of a majority of our issued and outstanding Class A common shares; or
- approved by the conflicts committee.

In connection with any matter submitted to the conflicts committee, materials are prepared by management summarizing the applicable conflict and recommending the proposed transaction. The conflicts committee reviews market comparison data (to the extent available) relating to the reasonableness of any proposed fees to be paid.

For operational and administrative ease, certain transactions that fall within the definition of an Apollo Conflict but do not pose a material risk to us need not be approved by the conflicts committee. As described below, these exceptions include specific thresholds under which we may engage Apollo or its affiliates in an investment management or advisory (or sub-management or sub-advisory) capacity without prior conflicts committee review or approval. The following transactions, among others, are expressly excluded from the definition of Apollo Conflict and do not require the consent or review of the conflicts committee:

- (1) transactions, rights or agreements specifically contemplated by existing agreements between AHL and AGER Bermuda Holding Ltd., (2) entering into new IMAs or MSAAs with members of the Apollo Group on terms similar to and not more economically favorable in the aggregate to the Apollo Group than those currently in effect (provided that payment of additional total fees and/or expenses at the same or no greater fee and/or expense reimbursement rate shall not be deemed to be more economically favorable to the Apollo Group), (3) amendments to the agreements described in (1) and (2) above for the purpose of adding a subsidiary of AHL thereto, or (4) any reinsurance transaction between AGER or any of its subsidiaries and AHL or any of its subsidiaries;
- any (1) transfer of equity securities of AHL to or by any member of the Apollo Group, (2) acquisition by any member of the Apollo Group of any newly issued equity securities that are offered to the public in a public offering, to substantially all of the holders of AHL’s common stock on a substantially pro-rata basis or at a price which is equal to or greater than the then-prevailing market price,

(3) issuance of securities to any employee or director of AHL or AAM (including allocating blocks of incentive securities to AAM for allocation by AAM to its employees and directors) pursuant to any stock incentive plan or similar equity based compensation plan approved by our board of directors;

- the provision of any insurance related products by or to AHL or any of its subsidiaries to or by the Apollo Group, provided that the provision of such products is an ordinary course transaction entered into on an arms-length basis on terms no less favorable to AHL or its subsidiaries than could be contemporaneously obtained from or provided to an unaffiliated party;
- any transactions, rights or agreements between AHL or any of its subsidiaries and any portfolio company of the Apollo Group that pertain to the ordinary course business of such portfolio company. provided that any such transactions, rights or agreements (taken as a whole) are no less favorable to AHL or the applicable subsidiary than could be obtained from provided to an unaffiliated party;
- an investment by AHL or any subsidiary thereof in an Apollo-sponsored vehicle; provided that an officer of a member of the Apollo Group provides a written certification to our board of directors that such investment provides AHL or its subsidiary, as applicable, with the same or better terms or a most favored nations clause (in all cases, taken as a whole with respect to such Apollo-sponsored vehicle and without consideration of any Designated Terms (as defined below)) as those applicable to other investors (excluding Designated Investors (as defined below)) in the same Apollo-sponsored vehicle who invested an amount in such vehicle equal to or less than that invested by AHL and its subsidiaries; and provided, further, that such investment represents no more than 25% of the outstanding or expected equity interests of such Apollo-sponsored vehicle (based on prior record related to the strategy). Designated Investor and Designated Terms shall have the meanings set forth for such terms or other similar terms in any customary side letter entered into by the applicable Apollo Group advisor or manager, Apollo-sponsored vehicle or other Apollo Group entity, on the one hand, and investors, other than AHL or a subsidiary thereof, who have invested in the same Apollo-sponsored vehicle, or entered into an investment management, sub-advisory or similar agreement with the Apollo Group for the same asset class, on the other hand;
- a transaction that has been approved by a majority of our disinterested directors, provided that the disinterested directors are notified that such transaction would otherwise constitute an Apollo Conflict prior to such approval;
- any modification, supplement, amendment or restatement of our bye-laws that has been approved in accordance with our bye-laws and applicable Bermuda law;
- material amendments to contracts or transactions previously approved by the conflicts committee or a majority of our disinterested directors, or which are not required to be approved by either, so long as, in each case, such amendments either (1) are not materially adverse to AHL or any of its subsidiaries, or (2) would not cause the relevant contract or transaction to require approval by the conflicts committee or a majority of our disinterested directors under our bye-laws after giving effect to the relevant amendment;
- the entry into any IMA with the Apollo Group or amending an MSAA currently in effect (or entering into a new MSAA), so long as (i) such agreement is on terms in the aggregate (including expense reimbursement and indemnities) no less favorable to AHL than customary market terms (excluding the fees charged under the IMA); and (ii) either (a) the rates on AUM under such agreement (including any carried interest or similar profit allocation, but, for the avoidance of doubt, excluding the fees charged under the IMA) do not exceed 50 basis points per annum for non-alternative assets; (b) the rates on AUM under such agreement (including any carried interest or similar profit allocation, but, for the avoidance of doubt, excluding the fees charged under the IMA) do not exceed 100 basis points per annum for alternative assets; or (c) an officer of a member of the Apollo Group provides a written certification to our board of directors that such agreement provides AHL or its subsidiary, as applicable, with the same or better terms or a most favored nations clause (in all cases, taken as a whole with respect to such agreement and without consideration of any Designated Terms) with respect to other investors (excluding Designated Investors) who have entered into an investment management agreement or sub-advisory or similar agreement with the Apollo Group for the same asset class and whose AUM with respect to such agreement and asset class are all equal or less than those subject to the agreement between AHL and the Apollo Group with respect to such asset class. In addition, investments in an Apollo-sponsored vehicle are not deemed Apollo Conflicts so long as such Apollo-sponsored vehicle charges fees in line with those discussed in (a) and (b) above;
- allocations of costs or expenses between AHL or any of its subsidiaries and the Apollo Group not in excess of five basis points per annum, calculated on the total investible assets of AHL and its subsidiaries including accounts supporting reinsurance agreements for which AHL or a subsidiary thereof acts as reinsurer as of the effective date of such allocation (provided that any such allocation of costs or expenses may not be used to pay investment management fees); and
- any other class of transactions, rights, fees or agreements determined by approval of the conflicts committee to not be an Apollo Conflict nor require approval of the conflicts committee.

Each strategy that is managed, advised or sub-advised for AHL or any of its subsidiaries by AAM or another member of the Apollo Group through a managed account and was previously subject to conflicts committee approval (other than the existing IMA or new IMAs previously approved) may be re-examined by the conflicts committee if such strategy underwent a material change in the amount of AUM in the immediately preceding 12 months.

Our conflicts committee or applicable disinterested directors have previously approved the existing transactions described above under *Relationships and Related Party Transactions with Apollo or its Affiliates* that are required to be approved by the terms of our conflicts committee charter.

Director Independence

Our board of directors has undertaken a review of the independence of each director. Based on information provided by each director concerning his or her background, employment and affiliations, our board of directors has determined that Messrs. Beilinson, Borden, McCall, Ruisi, Wrubel, Leach and Ms. Taitz do not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors meet the independence requirements of the NYSE listing rules. Consequently, a majority of our directors are independent directors. In making these determinations, our board of directors considered the current and prior relationships that each non-employee director and non-Apollo director has with our company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our common shares by such director and any transactions involving them described under this *Item 13. Certain Relationships and Related Transactions, and Director Independence*.

During 2016, (1) Mr. Siddiqui was a member of our audit and compensation committees; (2) Mr. Rowan was a member of our compensation committee; and (3) Mr. Michelini was a member of our nominating and corporate governance committee. None of Mr. Siddiqui, Mr. Rowan, or Mr. Michelini meets the independence requirements of the NYSE rules. The NYSE rules require that our audit, compensation, and nominating and corporate governance committees be comprised exclusively of independent directors within one year of the effective date. Not later than the first anniversary of the effective date, all members of the respective committees will be independent.

Item 14. Principal Accountant Fees and Services

The audit committee of the board of directors has adopted procedures for pre-approving all audit and permissible non-audit services provided by the independent auditor. The audit committee will, on an annual basis, review and pre-approve the audit, review, attestation and permitted non-audit services to be provided during the next audit cycle by the independent auditor. To the extent practicable, the audit committee or the chairman thereof will also review and approve a budget for such services. Services proposed to be provided by the independent auditor that have not been pre-approved during the annual review and the fees for such proposed services must be pre-approved by the audit committee or the chairman thereof. All requests or applications for the independent auditor to provide services to the Company over certain thresholds shall be submitted to the audit committee or the chairman thereof. The audit committee considered whether the provision of non-audit services performed by the independent auditor is compatible with maintaining the independent auditor’s independence during 2016 and 2015. The audit committee concluded in 2016 and 2015 that the provision of these services was compatible with the maintenance of the independent auditor’s independence in the performance of its auditing functions during 2016 and 2015. All services were approved by the audit committee or were pre-approved under the audit committee's non-audit pre-approval policy.

The following summarizes the fees for services provided by PricewaterhouseCoopers LLP in 2016 and 2015:

(In millions)	2016	2015
Audit fees[1,2]	$ 15	$ 19
Audit-related fees[3]	1	3
Tax fees	-	-
All other fees	-	-
Total	$ 16	$ 22

[1] *Audit fees include fees billed and expected to be billed associated with the audit of the annual consolidated financial statements included on Form 10-K, the reviews of quarterly reports on Form 10-Q, annual audits of certain subsidiaries and audits required by regulatory authorities, statutory audits, issuance of comfort letters, issuance of consents related to common stock offerings and registration statements, attest services required by regulation, and the assistance with and review of documents filed with the SEC and other regulatory authorities.*

[2] *Includes fees of $2 million and $3 million for 2016 and 2015, respectively, related to our S-1 filings.*

[3] *Audit-related fees include fees paid associated with employee benefit plan audits, due diligence related to mergers and acquisitions, accounting consultations and audits in connection with acquisitions, internal control reviews not required by statute and regulation, consultations on financial accounting and reporting standards, and other attest services related to financial reporting that are not required by statute or regulation.*

PART IV

Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this report:

1. Financial Statements-Item 8. Financial Statements and Supplementary Data 141

2. Financial Statement Schedules

Schedule I-Summary of Investments Other Than Investments in Related Parties 262
Schedule II-Condensed Financial Information of Registrant 263
Schedule III-Supplementary Insurance Information 268
Schedule IV-Reinsurance 269
Schedule V-Valuation and Qualifying Accounts 270

Any remaining schedules are omitted because they are inapplicable.

3. Exhibits

See the accompanying Exhibit Index.

ATHENE HOLDING LTD.
Schedule I
Summary of Investments - Other Than Investments in Related Parties

	December 31, 2016		
(In millions)	Cost or Amortized Cost	Fair Value	Amount Shown on Consolidated Balance Sheet
Available-for-sale securities			
Fixed maturity securities			
U.S government and agencies	$ 59	$ 60	$ 60
U.S. state, municipal, and political subdivisions	1,024	1,140	1,140
Foreign governments	2,098	2,235	2,235
Public utilities	4,343	4,461	4,461
Other corporate	25,061	25,530	25,530
CLO	4,950	4,822	4,822
ABS	2,980	2,936	2,936
CMBS	1,835	1,847	1,847
RMBS	8,731	8,973	8,973
Redeemable preferred stock	29	29	29
Total fixed maturity securities	51,110	52,033	52,033
Equity securities			
Banks, trust and insurance companies common stock	70	98	98
Industrial, miscellaneous and all other common stock	187	190	190
Nonredeemable preferred stocks	62	65	65
Total equity securities	319	353	353
Total available-for-sale securities	51,429	$ 52,386	52,386
Trading securities, at fair value	2,480		2,581
Mortgage loans, net of allowances	5,468		5,470
Investment funds	674		689
Policy loans	602		602
Funds withheld at interest	6,538		6,538
Derivative assets	1,504		1,370
Real estate	542		542
Short-term investments, at fair value	189		189
Other investments	81		81
Total investments	$ 69,507		$ 70,448

ATHENE HOLDING LTD.
Schedule II - Condensed Financial Information of Registrant
Balance Sheets - Parent Company Only

	December 31,	
(In millions, except share and per share data)	2016	2015
Assets		
Investments		
Available-for-sale, fixed maturity securities, at fair value (amortized cost: 2016 - $27 and 2015 - $29)	$ 28	$ 31
Cash and cash equivalents	189	260
Other assets	15	11
Note receivable from subsidiary	-	20
Investments in subsidiaries	6,709	5,137
Total assets	$ 6,941	$ 5,459
Liabilities and Equity		
Liabilities		
Payables for collateral on derivatives	$ 6	$ -
Other liabilities	29	97
Intercompany payable	1	-
Total liabilities	36	97
Equity		
Common stock		
Class A - par value $0.001 per share; authorized: 2016 and 2015 - 425,000,000 shares; issued and outstanding: 2016 - 77,319,381 and 2015 - 50,151,265 shares	-	-
Class B - par value $0.001 per share; convertible to Class A; authorized: 2016 and 2015 - 325,000,000 shares; issued and outstanding: 2016 - 111,805,829 and 2015 - 135,963,975 shares	-	-
Class M-1 - par value $0.001 per share; contingently convertible to Class A; authorized: 2016 and 2015 - 7,109,560 shares; issued and outstanding: 2016 - 3,474,205 and 2015 - 5,198,273 shares	-	-
Class M-2 - par value $0.001 per share; contingently convertible to Class A; authorized: 2016 and 2015 - 5,000,000 shares; issued and outstanding: 2016 - 1,067,747 and 2015 - 3,125,869 shares	-	-
Class M-3 - par value $0.001 per share; contingently convertible to Class A; authorized: 2016 and 2015 - 7,500,000 shares; issued and outstanding: 2016 - 1,346,300 and 2015 - 3,110,000 shares	-	-
Class M-4 - par value $0.001 per share; contingently convertible to Class A; authorized: 2016 and 2015 - 7,500,000 shares; issued and outstanding: 2016 - 5,397,802 and 2015 - 5,038,443 shares	-	-
Additional paid-in capital	3,421	3,281
Retained earnings	3,117	2,318
Accumulated other comprehensive income (loss)	367	(237)
Total Athene Holding Ltd. shareholders' equity	6,905	5,362
Total liabilities and equity	$ 6,941	$ 5,459

See accompanying notes to the condensed financial information of registrant - parent company only

ATHENE HOLDING LTD.
Schedule II - Condensed Financial Information of Registrant
Statements of Income and Comprehensive Income (Loss) - Parent Company Only

(In millions)	Years ended December 31, 2016	2015	2014
Revenue			
Net investment income (related party: 2016 - $8, 2015 - $(5), and 2014 - $0)	$ 10	$ -	$ 8
Investment related gains (losses)	4	-	-
Total revenues	14	-	8
Benefits and Expenses			
Other operating expenses (related party: 2016 - $16, 2015 - $16, and 2014 - $253)	142	130	450
Interest expense	-	-	1
Total benefits and expenses	142	130	451
Loss before income taxes and equity earnings in subsidiaries	(128)	(130)	(443)
Provision for income taxes	-	-	-
Equity earnings in subsidiaries	933	692	906
Net income available to Athene Holding Ltd. shareholders	805	562	463
Other comprehensive income (loss), after tax	604	(881)	574
Comprehensive income (loss) available to Athene Holding Ltd. shareholders	$ 1,409	$ (319)	$ 1,037

See accompanying notes to the condensed financial information of registrant - parent company only

ATHENE HOLDING LTD.
Schedule II - Condensed Financial Information of Registrant
Statements of Cash Flows - Parent Company Only

	Years ended December 31,		
(In millions)	2016	2015	2014
Net cash (used in) provided by operating activities	$ (45)	$ (82)	$ 319
Cash flows from investing activities			
Capital contributions to subsidiary	(34)	(506)	(232)
Acquisition of subsidiaries, net of cash acquired	-	-	33
Receipts on loans to subsidiaries	20	188	-
Issuances of loans to subsidiaries	-	(103)	(100)
Investment in note receivable	-	(5)	-
Sales, maturities, and repayments of:			
Available-for-sale, fixed maturity securities	5	17	9
Purchases of:			
Available-for-sale, fixed maturity securities (related party: 2016 - $0, 2015 - $0, and 2014 - $(38))	(3)	(423)	(294)
Cash settlement of derivatives	5	-	-
Other investing activities, net	(5)	-	-
Net cash used in investing activities	(12)	(832)	(584)
Cash flows from financing activities			
Capital contributions	1	1,116	305
Repayment of note payables	-	-	(300)
Net change in cash collateral posted for derivative transactions	6	-	-
Repurchase of common stock	(21)	(3)	(78)
Net cash (used in) provided by financing activities	(14)	1,113	(73)
Net (decrease) increase in cash and cash equivalents	(71)	199	(338)
Cash and cash equivalents at beginning of year	260	61	399
Cash and cash equivalents at end of year	$ 189	$ 260	$ 61
Supplementary information			
Cash paid for interest	$ -	$ -	$ 1
Non-cash transactions			
Non-cash capital contribution to ALRe	-	708	-
Issuance of capital for payment of liabilities	-	2	199

See accompanying notes to the condensed financial information of registrant - parent company only

ATHENE HOLDING LTD.
Schedule II - Condensed Financial Information of Registrant
Notes to Condensed Financial Information of Registrant - Parent Company Only

1. Basis of Presentation

The accompanying condensed financial statements of Athene Holding Ltd. (AHL) should be read in conjunction with the consolidated financial statements and the notes thereto (Consolidated Financial Statements) of AHL and its subsidiaries.

For purposes of these condensed financial statements, AHL's wholly owned and majority owned subsidiaries are presented under the equity method of accounting. Under this method, the assets and liabilities of subsidiaries are not consolidated. The investments in subsidiaries are recorded on the condensed balance sheets. The income from subsidiaries is reported on a net basis as equity earnings of subsidiaries on the condensed statements of income.

2. Intercompany Transactions

On December 15, 2014, Athene USA Corporation (Athene USA) entered into an unsecured revolving note with AHL. In 2014, Athene USA borrowed $100 million under the unsecured revolving note, with the balance due in June 2015, or earlier at AHL's request. The proceeds were used by Athene USA to fund the restructuring of a wholly owned investment fund and carries an interest rate of 0.35% per annum. Interest was payable on a quarterly basis. In June 2015, the unsecured revolving note was amended to extend the due date to June 1, 2020, or earlier at AHL's request. During 2015, $80 million was repaid by Athene USA. The unsecured revolving note was fully repaid by Athene USA in 2016.

On January 14, 2015, AHL entered into a facility agreement with DLD whereby AHL agreed to make available to DLD a loan facility without a fixed term in the maximum principal amount of EUR 5 million. Interest accrues under the facility at a rate of 6-month Euribor. DLD withdrew EUR 5 million prior to the October 1, 2015 acquisition of DLD by AHL, and full payment was made on October 9, 2015. DLD's withdrawal of the facility was not eliminated upon consolidation since it was prior to the acquisition, but the repayment of the loan was an intercompany transaction that eliminated upon consolidation.

On September 22, 2015, AHL entered into a loan agreement with ADKG, whereby AHL agreed to lend ADKG EUR 51 million to be used for the DLD acquisition. Interest accrued at a fixed rate of 1.5%, which was due and payable on the maturity date of the loan. The loan and interest accrued were due and fully repaid on October 9, 2015.

3. Debt and Guarantees

In the first quarter of 2016, AHL (along with subsidiaries ALRe and Athene USA) entered into a five-year revolving credit agreement (Credit Facility) with Citibank, N.A., as administrative agent. The amount available under the Credit Facility is $1 billion. In connection with the Credit Facility, AHL and Athene USA guaranteed all of the obligations of AHL, ALRe, and Athene USA under this facility, and ALRe guaranteed certain of the obligations of AHL and Athene USA under this facility. See *Note 10 - Debt* to our Consolidated Financial Statements for further information about the Credit Facility.

4. Related Parties

AHL pays investment management fees to Athene Asset Management (AAM), a related party, in relation to its portfolio of assets managed by AAM and assets held in certain subsidiary portfolios. In addition, AHL also pays service fees pursuant to a shared service agreement between AAM and AHL for various internal expenses AAM allocates to AHL. See *Note 17 - Related Parties* of the Consolidated Financial Statements for further information.

5. Dividends, Return of Capital and Capital Contributions

AHL received cash dividends and returns of capital from the following subsidiaries:

	Years ended December 31,		
(In millions)	2016	2015	2014
Athene Life Re Ltd.	$ -	$ -	$ 350
Athene USA	-	-	-
Total	$ -	$ -	$ 350

ATHENE HOLDING LTD.
Schedule II - Condensed Financial Information of Registrant
Notes to Condensed Financial Information of Registrant - Parent Company Only

AHL contributed cash and non-cash capital to the following subsidiaries:

	Years ended December 31,		
(In millions)	**2016**	**2015**	**2014**
Athene IP Holdings Ltd.	$ 8	$ -	$ -
AGER Bermuda Holding Ltd.	8	74	-
Athene Life Re Ltd.	-	1,140	-
Athene USA	18	-	232
Total	$ 34	$ 1,214	$ 232

ATHENE HOLDING LTD.
Schedule III
Supplementary Insurance Information

	DAC, DSI, and VOBA	Future policy benefits, losses, claims and loss expenses[1]	Other policy claims and benefits	Premiums	Net investment income	Benefits, claims, losses, and settlement expenses[2]	Amortization of DAC and VOBA	Policy and other operating expenses
2016								
Retirement Services	$ 2,964	$ 71,787	$ 148	$ 53	$ 2,839	$ 2,147	$ 304	$ 422
Corporate and other	-	4,314	69	187	77	266	-	193
Total	$ 2,964	$ 76,101	$ 217	$ 240	$ 2,916	$ 2,413	$ 304	$ 615
2015								
Retirement Services	$ 2,663	$ 67,211	$ 167	$ 121	$ 2,473	$ 1,149	$ 203	$ 386
Corporate and other	-	4,625	67	74	35	106	-	146
Total	$ 2,663	$ 71,836	$ 234	$ 195	$ 2,508	$ 1,255	$ 203	$ 532
2014								
Retirement Services				$ 100	$ 2,278	$ 2,566	$ 119	$ 380
Corporate and other				-	55	-	-	417
Total				$ 100	$ 2,333	$ 2,566	$ 119	$ 797

[1] *Represents interest sensitive contract liabilities and future policy benefits on the consolidated balance sheets.*

[2] *Represents interest sensitive contract benefits, amortization of deferred sales inducements, future policy and other policy benefits, and dividends to policyholders on the consolidated statements of income.*

ATHENE HOLDING LTD.
Schedule IV
Reinsurance

(In millions)	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
Year ended December 31, 2016					
Life insurance in force at end of year	$ 56,356	$ 65,050	$ 9,591	$ 897	1,069.2%
Premiums	448	228	20	240	8.3%
Year ended December 31, 2015					
Life insurance in force at end of year	77,994	83,548	10,123	4,569	221.6%
Premiums	445	274	24	195	12.3%
Year ended December 31, 2014					
Life insurance in force at end of year	132,755	142,660	10,748	843	1,275.0%
Premiums	387	315	28	100	28.0%

ATHENE HOLDING LTD.
Schedule V
Valuation and Qualifying Accounts

(In millions)		Additions			
Description	Balance at beginning of year	Charged to costs and expenses	Assumed through acquisitions[1]	Deductions	Balance at end of year
Reserves deducted from assets to which they apply					
Year ended December 31, 2016					
Valuation allowance on deferred tax assets	$ 193	$ -	$ -	$ (121)	$ 72
Valuation allowance on mortgage loans	2	-	-	-	2
Year ended December 31, 2015					
Valuation allowance on deferred tax assets	133	7	66	(13)	193
Valuation allowance on mortgage loans	1	-	1	-	2
Year ended December 31, 2014					
Valuation allowance on deferred tax assets	155	-	-	(22)	133
Valuation allowance on mortgage loans	1	1	-	(1)	1

[1] *Assumed through acquisitions represents the valuation allowances recorded related to the acquisition of DLD in October 2015.*

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ATHENE HOLDING LTD.

Date: March 16, 2017

/s/ Martin P. Klein
Martin P. Klein
Chief Financial Officer
(Principal Financial Officer)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James R. Belardi, Martin P. Klein and William Eckert as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign this Annual Report on Form 10-K, and all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated below:

Signatures	Title	Date
/s/ James R. Belardi James R. Belardi	Chairman and Chief Executive Officer (Principal Executive Officer)	March 16, 2017
/s/ Martin P. Klein Martin P. Klein	Chief Financial Officer (Principal Financial Officer)	March 16, 2017
/s/ William Eckert William Eckert	Controller (Principal Accounting Officer)	March 16, 2017
/s/ Marc Beilinson Marc Beilinson	Director	March 16, 2017
/s/ Robert Borden Robert Borden	Director	March 16, 2017
/s/ Brian Leach Brian Leach	Director	March 16, 2017
/s/ Gernot Lohr Gernot Lohr	Director	March 16, 2017
/s/ H. Carl McCall H. Carl McCall	Director	March 16, 2017
/s/ Matthew R. Michelini Matthew R. Michelini	Director	March 16, 2017
/s/ Dr. Manfred Puffer Dr. Manfred Puffer	Director	March 16, 2017

Signatures	Title	Date
/s/ Marc Rowan Marc Rowan	Director	March 16, 2017
/s/ Lawrence J. Ruisi Lawrence J. Ruisi	Director	March 16, 2017
Imran Siddiqui	Director	March 16, 2017
/s/ Hope Schefler Taitz Hope Schefler Taitz	Director	March 16, 2017
/s/ Arthur Wrubel Arthur Wrubel	Director	March 16, 2017

EXHIBIT INDEX

Exhibit No.	Description
2.1	Share Purchase and Transfer Agreement, dated as of January 14, 2015, among Delta Lloyd N.V., Blitz 14-164 GmbH and Athene Holding Ltd. (incorporated by reference to Exhibit 2.1 to the Form S-1 filed on October 25, 2016).
3.1	Certificate of Incorporation of Athene Holding Ltd. (incorporated by reference to Exhibit 3.1 to the Form S-1 filed on May 9, 2016).
3.2	Memorandum of Association of Athene Holding Ltd. (incorporated by reference to Exhibit 3.2 to the Form S-1 filed on May 9, 2016).
3.2.1	Form of Certificate of Deposit of Memorandum of Increase of Share Capital (incorporated by reference to Exhibit 3.2.1 to the Form S-1 filed on November 10, 2016).
3.3	Ninth Amended and Restated Bye-laws of Athene Holding Ltd., dated as of November 14, 2016 (incorporated by reference to Exhibit 3.3 to the Form S-1 filed on November 21, 2016).
4.1	Form of Athene Holding Ltd. Class A common share certificate (incorporated by reference to Exhibit 4.1 to the Form S-1 filed on November 10, 2016).
4.2	Third Amended and Restated Registration Rights Agreement, dated as of April 4, 2014, among Athene Holding Ltd. and the shareholders party thereto (incorporated by reference to Exhibit 4.2 to the Form S-1 filed on October 25, 2016).
4.3	First Amendment to Third Amended and Restated Registration Rights Agreement, dated as of October 6, 2015, among Athene Holding Ltd. and the shareholders party thereto (incorporated by reference to Exhibit 4.3 to the Form S-1 filed on October 25, 2016).
4.4	Second Amendment to Third Amended and Restated Registration Rights Agreement, dated as of November 22, 2016, among Athene Holding Ltd. and the shareholders party thereto.
10.1	Commitment Letter, dated as of February 26, 2016, from Athene USA Corporation to Apollo Commercial Real Estate Finance, Inc. (incorporated by reference to Exhibit 10.1 to the Form S-1 filed on October 25, 2016).
10.2	Asset Purchase and Sale Agreement, dated as of February 26, 2016, among Athene Annuity and Life Company, Athene Annuity & Life Assurance Company and Apollo Commercial Real Estate Finance, Inc. (incorporated by reference to Exhibit 10.2 to the Form S-1 filed on October 25, 2016).
10.3	Stock Purchase Agreement, dated as of February 26, 2016, between Athene USA Corporation and Apollo Commercial Real Estate Finance, Inc. (incorporated by reference to Exhibit 10.3 to the Form S-1 filed on October 25, 2016).
10.4.1	Shared Services and Cost Sharing Agreement, dated as of October 2, 2013, among Athene Holding Ltd., Athene USA Corporation, Athene Life Re Ltd., Athene Annuity & Life Assurance Company, Athene Life Insurance Company, Investors Insurance Corporation, Aviva Life and Annuity Company (now known as Athene Annuity and Life Company), Structured Annuity Reinsurance Company, Aviva Re USA IV, Inc. (now known as Athene Re USA IV, Inc.) and Athene Asset Management LLC (incorporated by reference to Exhibit 10.4.1 to the Form S-1 filed on October 25, 2016).
10.4.2	Amendment One to Shared Services and Cost Sharing Agreement, effective as of October 2, 2013, among Athene Holding Ltd., Athene USA Corporation, Athene Life Re Ltd., Athene Annuity & Life Assurance Company, Athene Life Insurance Company, Athene Annuity & Life Assurance Company (as successor by merger of Investors Insurance Corporation), Aviva Life and Annuity Company (now known as Athene Annuity and Life Company), Structured Annuity Reinsurance Company, Aviva Re USA IV, Inc. (now known as Athene Re USA IV, Inc.) and Athene Asset Management LLC (incorporated by reference to Exhibit 10.4.2 to the Form S-1 filed on October 25, 2016).
10.4.3	Shared Services and Cost Sharing Agreement, dated as of October 2, 2013, among Athene Holding Ltd., Athene USA Corporation, Athene Life Re Ltd., Athene Annuity & Life Assurance Company, Aviva Life and Annuity Company (now known as Athene Annuity and Life Company), Athene Asset Management LLC, Presidential Life Insurance Company (now known as Athene Annuity & Life Assurance Company of New York) and Aviva Life and Annuity Company of New York (now known as Athene Life Insurance Company of New York) (incorporated by reference to Exhibit 10.4.3 to the Form S-1 filed on October 25, 2016).
10.4.4	Amendment One to Shared Services and Cost Sharing Agreement, effective as of October 2, 2013, among Athene Holding Ltd., Athene USA Corporation, Athene Life Re Ltd., Athene Annuity & Life Assurance Company, Aviva Life and Annuity Company (now known as Athene Annuity and Life Company), Athene Asset Management LLC, Athene Annuity & Life Assurance Company of New York (formerly known as Presidential Life Insurance Company) and Aviva Life and Annuity Company of New York (now known as Athene Life Insurance Company of New York) (incorporated by reference to Exhibit 10.4.4 to the Form S-1 filed on October 25, 2016).
10.5	Credit Agreement, dated as of January 22, 2016, among Athene Holding Ltd., Athene Life Re Ltd. and Athene USA Corporation, as Borrowers, the lenders from time to time party thereto, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.5 to the Form S-1 filed on October 25, 2016).
10.6	Guaranty, dated as of January 22, 2016, among Athene Holding Ltd., Athene Life Re Ltd. and Athene USA Corporation, as Guarantors, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.6 to the Form S-1 filed on October 25, 2016).
10.7.1	Fourth Amended and Restated Fee Agreement, dated as of August 31, 2016, between Athene Asset Management, L.P. and Athene Holding Ltd. (incorporated by reference to Exhibit 10.7.1 to the Form S-1 filed on October 25, 2016).
10.7.2	Applicable 2016 Liability Fee Discount, effective as of September 30, 2016, between Athene Asset Management, L.P. and Athene Holding Ltd. (incorporated by reference to Exhibit 10.7.2 to the Form S-1 filed on October 25, 2016).

Exhibit No.	Description
10.8	Services Agreement, dated as of March 1, 2016, among Apollo Asset Management Europe LLP, Apollo Management International LLP and Athene Deutschland Holding GmbH & Co. (incorporated by reference to Exhibit 10.8 to the Form S-1 filed on October 25, 2016).
10.9	Amended and Restated Coinsurance Agreement, dated as of July 31, 2015, between Athene Life Insurance Company of New York and First Allmerica Financial Life Insurance Company (regarding certain term and universal life policies) (incorporated by reference to Exhibit 10.9 to the Form S-1 filed on October 25, 2016).
10.10	Coinsurance and Assumption Agreement, dated as of October 1, 2013, between Aviva Life and Annuity Company (now known as Athene Annuity and Life Company) and Presidential Life Insurance Company - USA (now known as Accordia Life and Annuity Insurance Company) (incorporated by reference to Exhibit 10.10 to the Form S-1 filed on October 25, 2016).
10.11	Amended and Restated Coinsurance and Assumption Agreement, dated as of July 31, 2015, between Athene Life Insurance Company of New York and First Allmerica Financial Life Insurance Company (regarding certain policies described therein) (incorporated by reference to Exhibit 10.11 to the Form S-1 filed on October 25, 2016).
10.12	Amended and Restated Coinsurance Agreement, dated as of December 28, 2015, between Athene Annuity and Life Company and Accordia Life and Annuity Company (formerly known as Presidential Life Insurance Company-USA) (regarding the ILICO closed block) (incorporated by reference to Exhibit 10.12 to the Form S-1 filed on October 25, 2016).
10.13	Funds Withheld Coinsurance Agreement, dated as of October 1, 2013, between Aviva Life and Annuity Company of New York (now known as Athene Life Insurance Company of New York) and First Allmerica Financial Life Insurance Company (regarding certain term and universal life policies) (incorporated by reference to Exhibit 10.13 to the Form S-1 filed on October 25, 2016).
10.14	Coinsurance Agreement, dated as of April 29, 2011, between Liberty Life Insurance Company (now known as Athene Annuity & Life Assurance Company) and Protective Life Insurance Company (incorporated by reference to Exhibit 10.14 to the Form S-1 filed on October 25, 2016).
10.15.1	Employment Agreement, dated as of February 27, 2013, between Athene Holding Ltd. and James R. Belardi (incorporated by reference to Exhibit 10.15.1 to the Form S-1 filed on October 25, 2016).
10.15.2	Employment Agreement, dated as of September 7, 2015, between Athene Holding Ltd. and William J. Wheeler (incorporated by reference to Exhibit 10.15.2 to the Form S-1 filed on October 25, 2016).
10.15.3	Employment Agreement, dated as of October 12, 2015, between Athene Holding Ltd. and Martin P. Klein (incorporated by reference to Exhibit 10.15.3 to the Form S-1 filed on October 25, 2016).
10.15.4	Employment Agreement, dated as of April 26, 2016, between Athene Holding Ltd. and Grant Kvalheim (incorporated by reference to Exhibit 10.15.4 to the Form S-1 filed on October 25, 2016).
10.16.1	Amended and Restated Athene Holding Ltd. 2009 Share Incentive Plan (incorporated by reference to Exhibit 10.16.1 to the Form S-1 filed on October 25, 2016).
10.16.2	Amended and Restated Athene Holding Ltd. 2012 Share Incentive Plan (incorporated by reference to Exhibit 10.16.2 to the Form S-1 filed on October 25, 2016).
10.16.3	Athene Holding Ltd. 2014 Share Incentive Plan (incorporated by reference to Exhibit 10.16.3 to the Form S-1 filed on October 25, 2016).
10.16.4	Amendment No. 1 to 2014 Share Incentive Plan (incorporated by reference to Exhibit 10.16.4 to the Form S-1 filed on October 25, 2016).
10.16.5	Athene Holding Ltd. 2016 Share Incentive Plan (incorporated by reference to Exhibit 10.16.5 to the Form S-1 filed on October 25, 2016).
10.17	Form of Amended and Restated Restricted Share Award Agreement (Class M-1 common shares) (incorporated by reference to Exhibit 10.17 to the Form S-1 filed on October 25, 2016).
10.18	Form of Amended and Restated Restricted Share Award Agreement (Class M-2 common shares) (incorporated by reference to Exhibit 10.18 to the Form S-1 filed on October 25, 2016).
10.19	Form of Amended and Restated Restricted Share Award Agreement (Class M-3 common shares) (incorporated by reference to Exhibit 10.19 to the Form S-1 filed on October 25, 2016).
10.20	Form of Amended and Restated Restricted Share Award Agreement (Class M-4 common shares) (incorporated by reference to Exhibit 10.20 to the Form S-1 filed on November 10, 2016).
10.21	Form of Amended and Restated Restricted Share Unit Award Agreement (similar to Class M-4 common shares) (incorporated by reference to Exhibit 10.21 to the Form S-1 filed on November 10, 2016).
10.22	Form of Amended and Restated Restricted Share Award Agreement (Class M-4 Prime common shares) (incorporated by reference to Exhibit 10.22 to the Form S-1 filed on November 10, 2016).
10.23	Form of Amended and Restated Restricted Share Unit Award Agreement (similar to Class M-4 Prime common shares) (incorporated by reference to Exhibit 10.23 to the Form S-1 filed on November 10, 2016).
10.24.1	Form of Amended and Restated Class A Share Award Agreement (Class A common shares issued at $13.46 per share) (incorporated by reference to Exhibit 10.24.1 to the Form S-1 filed on November 10, 2016).
10.24.2	Form of Amendment Letter to the Amended and Restated Class A Share Award Agreement (Class A common shares issued at $13.46 per share) (incorporated by reference to Exhibit 10.24.2 to the Form S-1 filed on November 10, 2016).
10.25.1	Form of Restricted Share Award Agreement (Class A common shares) (incorporated by reference to Exhibit 10.25.1 to the Form S-1 filed on November 10, 2016).

Exhibit No.	Description
10.25.2	Form of Amendment Letter to the Restricted Share Award Agreement (Class A common shares) (incorporated by reference to Exhibit 10.25.2 to the Form S-1 filed on November 10, 2016).
10.26.1	Form of Class A Share Award Agreement (Class A common shares issued at fair market value) (incorporated by reference to Exhibit 10.26.1 to the Form S-1 filed on November 10, 2016).
10.26.2	Form of Amendment Letter to Class A Share Award Agreement (Class A common shares issued at fair market value) (incorporated by reference to Exhibit 10.26.2 to the Form S-1 filed on November 10, 2016).
10.27	Form of Nonqualified Stock Option Award Notice and Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 2.1 to the Form S-1 filed on October 25, 2016).
10.28	Form of Restricted Share Unit Award Notice (Performance-Based Vesting) and Restricted Share Unit Award Agreement (incorporated by reference to Exhibit 2.1 to the Form S-1 filed on October 25, 2016).
10.29	Form of Restricted Share Unit Award Notice (Time-Based Vesting) and Restricted Share Unit Award Agreement (incorporated by reference to Exhibit 2.1 to the Form S-1 filed on October 25, 2016).
10.30	Form of Amended and Restated Restricted Share Award Agreement (2014 awards to certain non-employee directors) (incorporated by reference to Exhibit 10.30 to the Form S-1 filed on November 10, 2016).
10.31	Form of Restricted Share Award Agreement (2015 awards to certain non-employee directors) (incorporated by reference to Exhibit 10.31 to the Form S-1 filed on November 10, 2016).
10.32	Form of Director Retention Letter (incorporated by reference to Exhibit 10.32 to the Form S-1 filed on October 25, 2016).
10.33	Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.33 to the Form S-1 filed on October 25, 2016).
10.34	Separation Agreement and General Release, dated as of May 20, 2015, between Athene Holding Ltd. and Brenda Cushing (incorporated by reference to Exhibit 10.34 to the Form S-1 filed on October 25, 2016).
10.35	Separation Agreement and General Release, dated as of June 21, 2016, between Athene Holding Ltd. and Stephen E. Cernich (incorporated by reference to Exhibit 10.35 to the Form S-1 filed on October 25, 2016).
10.36	Letter Agreement, dated as of April 4, 2014, among Athene Holding Ltd., Apollo Global Management, LLC, Procific and AHL 2014 Investor, L.P. (incorporated by reference to Exhibit 10.36 to the Form S-1 filed on October 25, 2016).
10.37	Letter Agreement, dated as of December 4, 2012, among Athene Holding Ltd., Apollo Global Management, LLC and Procific (incorporated by reference to Exhibit 10.37 to the Form S-1 filed on October 25, 2016).
10.38.1	Purchase Agreement, dated as of December 31, 2015, between Athene Holding Ltd. and Athene Asset Management, L.P. (incorporated by reference to Exhibit 10.38.1 to the Form S-1 filed on October 25, 2016).
10.38.2	Purchase Agreement, dated as of December 31, 2014, between Athene Holding Ltd. and Athene Asset Management, L.P. (incorporated by reference to Exhibit 10.38.2 to the Form S-1 filed on October 25, 2016).
10.39.1	Amended and Restated Master Sub-Advisory Agreement, dated as of April 1, 2014, among Athene Asset Management L.P., Apollo Capital Management, L.P., Apollo Global Real Estate Management, L.P., ARM Manager LLC, Apollo Longevity, LLC and Apollo Emerging Markets, LLC (incorporated by reference to Exhibit 10.39.1 to the Form S-1 filed on October 25, 2016).
10.39.2	Master Sub-Advisory Agreement Addendum One, dated as of November 24, 2015, between Athene Asset Management L.P. and Apollo Emerging Markets, LLC (incorporated by reference to Exhibit 10.39.2 to the Form S-1 filed on October 25, 2016).
10.39.3	Second Amended and Restated Master Sub-Advisory Agreement, dated as of April 1, 2014, among Athene Asset Management L.P., Apollo Capital Management, L.P., Apollo Global Real Estate Management, L.P., ARM Manager LLC, Apollo Longevity, LLC, Apollo Royalties Management, LLC and Apollo Emerging Markets, LLC (incorporated by reference to Exhibit 10.39.3 to the Form S-1 filed on October 25, 2016).
10.39.4	Master Sub-Advisory Agreement Addendum One, dated as of November 24, 2015, between Athene Asset Management L.P. and Apollo Emerging Markets, LLC (incorporated by reference to Exhibit 10.39.4 to the Form S-1 filed on October 25, 2016).
10.39.5	Second Amended and Restated Master Sub-Advisory Agreement, dated as of January 1, 2015, among Athene Asset Management L.P., Apollo Capital Management, L.P., Apollo Global Real Estate Management, L.P., ARM Manager LLC and Apollo Longevity, LLC (incorporated by reference to Exhibit 10.39.5 to the Form S-1 filed on October 25, 2016).
10.40	Separation Agreement and General Release, dated as of December 19, 2016, between Athene Holding Ltd. and Guy Smith III.
21.1	Subsidiaries of the Registrant.
23.1.1	Consent of PricewaterhouseCoopers LLP regarding Athene Holding Ltd. financial statements.
23.1.2	Consent of PricewaterhouseCoopers Ltd. regarding Athene Holding Ltd. financial statements.
31.1	Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.

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Exhibit No.	Description
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.

SECOND AMENDMENT, dated as of November 22, 2016 (this "*Amendment*"), to the Third Amended and Restated Registration Rights Agreement, dated as of April 4, 2014, by and among Athene Holding Ltd., a Bermuda exempted company limited by shares (the "*Company*"), and the shareholders party thereto (the "*Shareholders*"), as amended by amendment No. 1 thereto, dated as of October 6, 2015 (together, the "*Registration Rights Agreement*").

W I T N E S S E T H:

WHEREAS, the Company and the Shareholders desire to amend the Registration Rights Agreement to reflect certain modified terms as set forth below.

NOW THEREFORE, in consideration of the premises and the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and with the intent to be legally bound, the parties hereby agree as follows:

1. All capitalized terms used and not otherwise defined in this Amendment are used herein as defined in the Registration Rights Agreement.

2. Section 4(a) of the Registration Rights Agreement is hereby amended as follows:

(a) The 6th line of Section 4(a), shall now include ", Investor Shares, Management Shares and/or Other Shares" immediately after "Primary Shares"; and

(b) Section 4(a)(i) shall now include", if any" immediately after "Primary Shares".

3. Clause (ii) of Section 6(g) of the Registration Rights Agreement is hereby amended and restated in its entirety as follows:

"(ii) each Apollo Person shall be entitled to pledge, hypothecate or otherwise assign any or all of its Apollo Person Lock-up Shares in connection with the securing of any loan, credit facility or other financing (including any refinancing, modification, amendment or restatement thereof) from an established, bona fide commercial bank or other lending institution."

4. Clause (ii) of Section 6(h) of the Registration Rights Agreement is hereby amended and restated in its entirety as follows:

"(ii) each Athene Management Person shall be entitled to pledge, hypothecate or otherwise assign any or all of its Athene Management Person Lock-up Shares in connection with the securing of any loan, credit facility or other financing (including any refinancing, modification, amendment or restatement thereof) from an established, bona fide commercial bank or other lending institution and"

5. Clause (i) of Section 6(i) of the Registration Rights Agreement is hereby amended and restated in its entirety as follows:

"(i) shall be entitled to pledge, hypothecate or otherwise assign any or all of its Effective Shares (such Effective Shares, "Athene Employee Shares") in connection with the securing of any loan, credit facility or other financing (including any refinancing, modification, amendment or restatement thereof) from an established, bona fide commercial bank or other lending institution and"

6. New Clause 6(j) of the Registration Rights Agreement is hereby added as follows: "(j) Notwithstanding anything to the contrary contained herein, including

Sections 6(f), 6(g) and 6(h) of this Agreement and the applicable two year and four hundred and fifty (450) day periods contained therein, the Lock-up Period applicable to any (i) Apollo Person Lock-up Shares, (ii) Athene Management Person Lock-up Shares and (iii) Apollo Lock-up Shares held by any director, officer or employee of AGM and its Affiliates, either directly or through a corporation, limited liability company, limited partnership or trust created for the benefit of such individual or one or more of such individual's parents, spouse, siblings or descendants, in each case, shall expire on the sooner of (x) the date that is four hundred and fifty (450) days following the Registration Date and (y) the latest Lock-up Expiration Date applicable to Investor Shares as set forth in Section 6(a) as such Lock-up Expiration Date may be amended, modified or waived from time to time by the Company in accordance with such Section 6(a). Notwithstanding anything to the contrary herein or otherwise, the Company hereby waives any applicable Lock-Up Period and related restrictions on transfer with respect to Effective Shares held by AGM, its Affiliates or any investment funds or accounts for which AGM or its Affiliates act as the general partner and/or manager, including, for the avoidance of doubt, but not limited to, AP Alternative Assets, L.P., AAA Guarantor-Athene, L.P., AAA Investments, L.P., AAA Associates, L.P., Stanhope Life, L.P., Stanhope Life II, L.P. and Stanhope Life Advisors, L.P. (collectively, "AGM Carry-Related Entities") solely to the extent such Effective Shares are being sold, distributed or transferred by any AGM Carry-Related Entity in connection with the payment of carried interest, incentive allocations, expenses and/or management fees to AGM, its Affiliates or one or more AGM Carry-Related Entities."

7. Section 18 of the Registration Rights Agreement is hereby amended and restated in its entirety as follows:

"The Company may not assign any rights hereunder without the consent of the holders of a majority of the Registrable Shares."

8. This Amendment shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to any law or rule that would cause the laws of any jurisdiction other than the State of New York to be applied.

9. This Amendment shall become effective as of the date hereof. From and after the date hereof, all references in the Registration Rights Agreement to the Registration Rights Agreement shall be deemed to be references to the Registration Rights Agreement as modified hereby.

10. This Amendment may be executed in any number of counterparts, each of which when executed and delivered is an original, but all the counterparts together constitute the same document.

IN WITNESS **WHEREOF,** the undersigned , having obtained the required consents under the Registration Rights Agreement, have duly executed this Agreement as of the above written date.

ATHENE HOLDING LTD.

By: /s/ Tab Shanafelt

Name: Tab Shanafelt

Title: SVP, Legal & Corporate Secretary

Exhibit 10.40

December 19, 2016

Guy Smith III
301 Asheton Springs Way
Simpsonville, SC 29681

Re: Separation Agreement and General Release

Dear Guy:

This letter confirms the terms in connection with your separation of employment from Athene Annuity and Life Company and its affiliates (including without limitation Athene Holding Ltd.) (collectively, the "Company"). The Company and you agree that this letter agreement (this "Agreement") represents the full and complete agreement concerning your termination of employment with the Company.

In consideration of the mutual promises and agreements contained in this Agreement, the adequacy and receipt of which each party expressly acknowledges, you and the Company agree as follows:

1. You acknowledge and agree that your employment with the Company will terminate on January 1, 2017 (the "Separation Date"). You acknowledge and agree that you will cease to hold any and all officer and director positions that you held with the Company as of such date. You acknowledge and agree that you have no present or future right to employment with the Company or any of the other Released Parties (as defined below), and will not apply or seek consideration for any employment, engagement, or contract with any of them. Notwithstanding the foregoing, in the future the Company may seek to engage you. In that event, it is understood that you and the Company may engage in discussions toward a mutually agreed arrangement.

2. Subject to the terms of this Agreement and provided that you sign and return this Agreement to the Company within twenty-one (21) days after your receipt thereof, you sign and return to the Company the Supplemental Release attached to this Agreement (the "Supplemental Release") within 21 days after (but not before) the Separation Date, and do not revoke this Agreement in accordance with Paragraph 16 below or Paragraph 5 of the Supplemental Release, and you comply with this Agreement (including without limitation the provisions of your Share Award Agreements (defined in Paragraph 3 below), the Company will provide you the following:

a. A payment in a gross amount equal to $322,121, which represents your 2016 bonus that you could have received had you remained employed with the Company through the date on which 2016 bonuses are paid. This amount (less any required withholdings) shall be paid to you in lump sum in cash pursuant to the Company's standard payroll schedule within 75 days following year end.

b. Severance in the form of salary continuation payable pursuant to the Company's regular payroll practices through June 30, 2017. Any severance that would become payable prior to the effectiveness of the Supplemental Release will accrue and become payable in the first regular payroll following its effectiveness. You agree that, in addition to any other remedies of the Company, the Company's obligation to make these severance payments shall terminate in the event you violate any of the Restrictive Covenants.

c. Your coverage under the Company's group health plan(s) will end as of January 31, 2017. You may continue your group health insurance coverage thereafter as required by the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"). You will receive information about continuing your health coverage under COBRA separately following your Separation Date.

d. You will receive a payment equal to the value of your earned and unused 2016 PTO hours accrued through December 31, 2016. This payment will be made following your Separation Date and within the time period provided by applicable law.

e. The Company will not exercise the repurchase provisions in the applicable Share Award Agreement and the Shareholders Agreement with respect to the vested portion of the Share Awards, which vested position is specified in the Exhibit to this Agreement.

f. The noncompetition provisions found in your Share Award Agreements (at Section 7(b) of the Class M-2 Shares Award, the Class M-3 Shares Award, the Class M-4 Shares Award and the Class A (2014) Award), and at the Section 6(b) of the Class A (2014 Bonus Award) and Class A (2015 Bonus Award)) shall remain in effect only until June 30, 2017, subject to extension as provided in the Share Award Agreements in the event of a breach. All other Restrictive Covenants remain in effect pursuant to their existing terms.

3. You acknowledge and agree to the following with respect to shares of the Company:

a. During your period of employment with the Company, you were provided the following equity related awards (collectively referred to as the "Share Awards"):

i. 168,202.16 Class M-2 common shares of the Company pursuant to the Amended and Restated Restricted Share Award Agreement between you and the Company, dated as of September 30, 2016 (the "Class M-2 Shares Award");

ii. 140,000 Class M-3 common shares of the Company pursuant to the Amended and Restated Restricted Share Award Agreement between you and the Company, dated as of September 30, 2016 (the "Class M-3 Shares Award");

iii. 160,000 Class M-4 common shares of the Company pursuant to the Amended and Restated Restricted Share Award Agreement between you and the Company, dated as of November 8, 2016 (the "Class M-4 Shares Award");

iv. 6,000 Class A common shares of the Company pursuant to the Subscription Agreement between you and the Company, dated as of April, 2012 ("Class A (2012 Subscription Agreement)");

v. 26,100 Class A common shares of the Company pursuant to the Amended and Restated Class A Share Award Agreement between you and the Company, dated as of December 13, 2014 (the "Class A (2014 Award)");

vi. 9,607.99 Class A common shares of the Company pursuant to the Restricted Share Award Agreement between you and the Company, dated as of April 28, 2015 (the "Class A (2014 Bonus Award)");

vii. 3,229 Class A common shares of the Company pursuant to the Restricted Share Award Agreement between you and the Company, dated as of February 19, 2016 (the "Class A (2015 Bonus Award)");

viii. 8,577 Class A common shares of the Company pursuant to Nonqualified Stock Option Award Notice, with an option date of June 6, 2016 (the "Class A (2016 Option Award)");

ix. 1,473 Class A common shares of the Company pursuant to Restricted Share Unit Award Notice (Time-Based Vesting), with grant date of June 6, 2016 (the "Class A (2016 Restricted Share Unit Time Award)"); and

x. 2,946 Class A common shares of the Company pursuant to Restricted Share Unit Award Notice (Performance-Based Vesting), with grant date of June 6, 2016 (the "Class A (2016 Restricted Share Unit Performance Award)").

b. The Exhibit to this Agreement lists the vested and unvested portion, calculated as of the Separation Date, subject to each Share Award and Share Award Agreement.

c. In accordance with the term of the applicable documents governing the Share Awards (*e.g.*, the Plan document (if applicable), the Restricted Share Award Agreements and Award Notices) (referred to herein as a "Share Award Agreement" and collectively as the "Share Award Agreements"), except as provided in Paragraph 3.d., any shares that are unvested as of the Separation Date (as listed in the Exhibit to this Agreement) shall be forfeited to the Company without further action on the Separation Date.

d. As provided in Section 4(a)(iv) of the applicable Share Award Agreement, the time vested shares subject to the Class M-3 Shares Award and Class M-4 Shares Award that are unvested as of the Separation Date (14,000 shares and 48,000 shares, respectively) shall be forfeited to the Company without further action on July 1, 2017, unless they have then vested pursuant to Section 4(a)(ii) of the applicable Share Award Agreement.

e. As provided in Section 4(b)(v) of the Share Award Agreement governing the Class M-4 Shares Award, the unvested performance based Class M-4 Shares may vest during an 18 month period commencing on the IPO date and shall then be forfeited to the Company without further action if they have not vested.

f. You acknowledge that, except as otherwise specifically provided in this Paragraph 3, you hold no shares or other equity of the Company, and you agree that you have no right to purchase or acquire any shares or other equity of the Company now or in the future.

g. You acknowledge and agree that you remain bound by the Third Amended and Restated Registration Rights Agreement of Athene Holding Ltd., dated as of April 4, 2014, including specifically the lock-up provisions thereunder.

4. The Company acknowledges and agrees that you are vested in your accrued benefits under the Athene Supplemental Executive Retirement Plan ("SERP") and that you will be paid your SERP benefits and any other vested accrued benefits to which you are entitled under the Company's benefits and compensation plans in accordance with the respective terms thereof.

5. The Company acknowledges that you will continue to be covered under its directors and officers insurance, subject to the terms and conditions of such insurance. Further, the terms and conditions of the Indemnification Agreement entered into between the parties on May 29, 2015, are incorporated herein.

6. All payments made and benefits provided to you shall be subject to customary withholding and other taxes as required by applicable federal, state and local law. Notwithstanding anything contained herein to the contrary, you agree that you, and not the Company, are responsible for any and all taxes payable by you. The Company is hereby authorized to satisfy any tax withholding obligations under any of the Share Awards, whether arising in connection with vesting, exercise or otherwise, by the withholding of shares subject to the award.

7. You agree to return to the Company no later than 15 days following your Separation Date all of its property in your possession, custody or control including, but not limited to, all memoranda, notes, plans, records, reports, software and data, files (written and electronic), tapes, manuals, personnel information, employee lists, brochures, catalogs, price lists, cost information, financial records, customer lists and all copies thereof, cell phones, computers, information storage devices (including without limitation external hard drives and thumb drives), keys, credit cards and other equipment.

8. You represent that you (i) are familiar with and have carefully considered the covenants of your Share Award Agreements, as modified by Paragraph 2.f. of this Agreement (together, the "Restrictive Covenants"), (ii) are fully aware of your obligations under the Restrictive Covenants, (iii) agree to the reasonableness (including without limitation as to length of time and scope, as applicable) of the Restrictive Covenants and (iv) agree that the Restrictive Covenants are necessary to protect the Company's confidential and proprietary information, good will, stable workforce and customer relations. You further agree and acknowledge that your breach of any of the Restrictive Covenants would cause immediate and irreparable harm to the Company that would be difficult or impossible to measure, and that damages to the Company for any such injury would therefore be an inadequate remedy for any such breach. You agree that in the event of any breach or threatened breach of any of the Restrictive Covenants, the Company shall be entitled, in addition to and without limitation upon all other remedies the Company may have under this Agreement, the Supplemental Release or the Share Award Agreements at law or otherwise, to obtain specific performance, injunctive relief and/or other appropriate relief (without posting any bond or deposit) in order to enforce or prevent any violations of the Restrictive Covenants and/or require you to account for and pay over to the Company all compensation, profits, moneys, accruals, increments or other benefits derived from or received as a result of any transactions constituting a breach of the Restrictive Covenants, with such payment required if and when final judgment of a court of competent jurisdiction is so entered against you. The Company acknowledges and agrees that, for purposes of enforcing the Restrictive Covenants, your "Termination of Relationship" (as defined in the Share Award Agreements) shall be deemed to have occurred on January 1, 2017 (the "Effective Date"). You further agree that the applicable period of time any Restrictive Covenant is in effect following the Effective Date, as determined pursuant to Section 7 of the Share Award Agreements, as applicable, shall be extended by the same amount of time that you are in breach of any Restrictive Covenant.

9. In consideration for the compensation and benefits provided hereunder and conditioned upon the Company satisfying its obligations hereunder, you, and anyone claiming through you, agree to fully, finally and forever waive, release and discharge the Company and any and all parents, divisions, subsidiaries, partnerships, affiliates and/or other related entities of the Company (whether or not such entities are wholly owned) and each of those entities' past, present, and future owners, trustees, fiduciaries, shareholders, directors, officers, administrators, agents, representatives, members, associates, partners, employees, attorneys, and the predecessors, successors, and assigns of each of them (collectively, the "Released Parties"), from any and all claims, whether known or unknown, which you have or have ever had against any of the Released Parties arising from or related to any act, omission, or thing occurring or existing at any time prior to or on the date of your signing this Agreement including, but not limited to, any and all claims that in any way result from, or relate to, your employment, compensation, other terms and conditions of employment, or termination from employment with the Company or any of the other Released Parties, except benefits to which you are entitled, such as COBRA, other insurance and pension and 401(k) plan benefits. These released and waived claims include (except as provided in this Agreement), but are not limited to: (a) all claims for any compensation payments, bonus, severance pay, equity or any other compensation or benefit, except benefits to which you are entitled, such as COBRA, other income and pension and 401(k) plan benefits, (b) all claims arising under the Share Award Agreements, or the Sixth Amended and Restated Shareholders Agreement of Athene Holding Ltd. dated as of April 4, 2014 (the "Shareholders Agreement"), (c) all claims that were or could have been asserted by you or on your behalf: (i) in any federal, state, or local court, commission, or agency; or (ii) under any common law theory (including without limitation all claims for breach of contract (oral, written or implied), wrongful termination, defamation, invasion of privacy, infliction of emotional distress, tortious interference, fraud, estoppel, unjust enrichment, and any other contract, tort or other common law claim of any kind); and (d) all claims that were or could have been asserted by you or on your behalf under the Age Discrimination in Employment Act (as amended, including by the Older Workers' Benefit Protection Act) and any other federal, state, or local, employment, services or other law, regulation, ordinance, constitutional provision, executive order or other source of law, including without limitation under any of the following laws, as amended from time to time: the Rehabilitation Act of 1973 (including Section 504 thereof), the Civil Rights Act of 1866, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Equal Pay Act, the National Labor Relations Act, the Worker Adjustment and Retraining Notification Act, the Americans With Disabilities Act, the Employee Retirement Income Security Act, the Lilly Ledbetter Fair Pay Act of 2009,

the Family and Medical Leave Act, the Fair Credit Reporting Act, and the Genetic Information Non-Discrimination Act. Notwithstanding the foregoing, the releases and waivers in this Paragraph 9 shall not apply to any claim that by law is non-waivable, such as claims for unemployment or workers' compensation benefits. In consideration of your release of the Company and the other Released Parties, the Company hereby releases you from any and all claims which it has or ever had against you, to the extent known by the Company or of which the Company should reasonably be aware, arising from or related to any act, omission or thing occurring or existing at any time prior to the date that the Company signs this Agreement including, but not limited to, any and all claims that in any way result from, or relate to, your employment, compensation other terms and conditions of employment, or termination from employment with the Company or any of the Released Parties, provided, however, that the Company is not releasing you from or with respect to, and the foregoing release by the Company does not include, any claims arising out of any criminal, fraudulent, intentionally wrongful or reckless conduct or other gross misconduct by you.

10. You represent and warrant that you have not filed or initiated any legal or other proceedings against any of the Released Parties, that no such proceedings have been initiated against any of the Released Parties on your behalf, that you are the sole owner of the claims that are released in Paragraph 9 above, that none of those claims has been transferred or assigned or caused to be transferred or assigned to any other person, firm or other legal entity, and that you have the full right and power to grant, execute, and deliver the releases, undertakings and agreements contained in this Agreement.

11. Except as otherwise expressly provided in this Agreement, you acknowledge and agree that you are not entitled to and will not receive any other compensation, payments, benefits or recovery of any kind from the Company or the other Released Parties. In the event of any further proceedings whatsoever based upon any claim released in this Agreement, you hereby waive, and agree that you will not have and the Released Parties will not be liable to you for, any further monetary or other recovery of any kind arising out of or related to any such matter, including without limitation any costs, expenses and attorneys' fees incurred by you or on your behalf.

12. You agree to refrain from all conduct that disparages or damages the reputation, goodwill, or standing in the community of the Company or any of the other Released Parties, provided that nothing herein shall prohibit you from giving truthful testimony or evidence to a governmental entity, or if properly subpoenaed or otherwise required to do so under applicable law. The Company agrees to direct its executive officers and/or senior management to refrain from all conduct, verbal or otherwise, that disparages or damages your reputation, goodwill, or standing in the community, provided that nothing herein shall prohibit any such executive officer and/or senior management from giving truthful testimony or evidence to a governmental entity, or if properly subpoenaed or otherwise required to do so under applicable law. You shall direct all third parties inquiring or reasonably likely to seek a reference verification about your employment with the Company to Kristi Kaye Burma, SVP, Human Resources or John Golden, EVP, Legal (or their respective successors), Athene USA Corporation, 7700 Mills Civic Parkway, West Des Moines, IA 50266. You agree that, should you seek personal references from any then current Company employee, you shall notify the Company of your intent to do so along with the names of such individuals. You acknowledge and agree that any personal reference provided by a current employee of the Company (i) shall be entirely voluntarily on behalf of such individual and shall not be considered to have been given in the individual's capacity as a Company employee, (ii) shall be considered as having been given outside the scope of such individual's duties and responsibilities as an employee of the Company and (iii) shall not be deemed as having been given or endorsed by the Company.

13. For a period of three years following the Separation Date, you agree to cooperate fully with the Company and the other Released Parties in any administrative, investigative, litigation or other legal or financial statement matter(s) that may arise or have arisen involving the Company or any of the other Released Parties and which in any way relate to or involve your employment with the Company, provided that any such cooperation shall not unreasonably interfere with your then current employment or business activities. Your obligation to cooperate hereunder shall include, without limitation, meeting and conferring with such persons at such times and in such places as the Company and the other Released Parties may reasonably require, and giving truthful evidence and truthful testimony and executing and delivering to the Company and any of the other Released Parties any truthful papers reasonably requested by any of them. You shall be

reimbursed for reasonable out-of-pocket expenses (including reasonable travel and hotel accommodations) that you incur in rendering cooperation requested by the Company after the Separation Date pursuant to this Paragraph 13 subject in each case to your provision to the Company of reasonable documentation of all such activities, time and amounts within fourteen (14) days after incurring such expenses or rendering such cooperation, as applicable. To the extent that the cooperation under this Paragraph 13 requires more than a de minimis amount of time, you and the Company agree to negotiate mutually acceptable remuneration for such additional cooperation. You shall be solely responsible for any and all federal, state, local and other taxes payable with respect to any and all such cooperation payments.

14. YOU ACKNOWLEDGE, UNDERSTAND, AND AGREE THAT: (i) YOU HAVE READ AND UNDERSTAND THE TERMS AND EFFECT OF THIS AGREEMENT; (ii) YOU RELEASE AND WAIVE CLAIMS UNDER THIS AGREEMENT KNOWINGLY AND VOLUNTARILY, IN EXCHANGE FOR CONSIDERATION IN ADDITION TO ANYTHING OF VALUE TO WHICH YOU ALREADY ARE ENTITLED; (iii) YOU HEREBY ARE AND HAVE BEEN ADVISED TO HAVE YOUR ATTORNEY REVIEW THIS AGREEMENT (AT YOUR COST) BEFORE SIGNING IT; (iv) YOU HAVE TWENTY-ONE (21) DAYS IN WHICH TO CONSIDER WHETHER TO EXECUTE THIS AGREEMENT; AND (v) WITHIN SEVEN (7) DAYS AFTER THE DATE ON WHICH YOU SIGN THIS AGREEMENT, YOU MAY, AT YOUR SOLE OPTION, REVOKE THE AGREEMENT UPON WRITTEN NOTICE TO KRISTI KAYE BURMA, SENIOR VICE PRESIDENT, HUMAN RESOURCES, ATHENE USA CORPORATION, 7700 MILLS CIVIC PARKWAY, WEST DES MOINES, IA 50266, AND THE AGREEMENT WILL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THIS SEVEN-DAY REVOCATION PERIOD HAS EXPIRED WITHOUT ANY REVOCATION BY YOU. IF YOU REVOKE THIS AGREEMENT, IT SHALL BE NULL AND VOID.

15. You expressly acknowledge and agree that the payments and benefits set forth in Paragraph 2 of this Agreement are expressly contingent upon (i) your signing this Agreement within 21 days after your original receipt thereof, (ii) your signing the Supplemental Release attached to this Agreement no earlier than the Separation Date, (iii) your returning the signed Agreement and the signed Supplemental Release to Kristi Kaye Burma, Senior Vice President, Human Resources, Athene Holding, 7700 Mills Civic Parkway, West Des Moines, IA 50266, (iii) the revocation period set forth in Paragraph 14 above and the Supplemental Release expiring without you having revoked this Agreement or the Supplemental Release, and (iv) your compliance with this Agreement (including without limitation the provisions of the Share Award Agreements referenced in Paragraph 8 above).

16. Nothing in this Agreement is intended to or shall be construed as an admission by the Company or any of the other Released Parties that any of them violated any law, interfered with any right, breached any obligation or otherwise engaged in any improper or illegal conduct with respect to you or otherwise. The Company and the other Released Parties expressly deny any such illegal or wrongful conduct.

17. All notices and other communications required or permitted under this Agreement shall be deemed to have been duly given and made if in writing and if served personally on the party for whom intended or deposited, postage prepaid, certified or registered mail, return receipt requested, in the United States mail to your address above, if the notice is to you, or if the notice is to the Company, to John Golden (or his successor), Athene USA Corporation, 7700 Mills Civic Parkway, West Des Moines, IA 50266, or to such other address as either party may designate in writing thereafter.

18. This Agreement shall be construed and interpreted in accordance with the internal laws of the State of New York, without regard to its choice of law rules.

19. The parties agree that in the event any of the provisions in this Agreement (including without limitation the Share Award Agreements) are found by a court of competent jurisdiction to be unreasonable or otherwise unenforceable (including without limitation as to scope, duration, area or otherwise), it is the purpose and intent of the parties that any such provisions be deemed modified or limited to the maximum extent permitted under applicable law so that, as modified or limited, such provisions may be enforced to the fullest extent possible. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and

valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law (after any appropriate modification or limitation pursuant to the preceding sentence), such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

20. This Agreement is intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and shall be interpreted and construed consistently with such intent. Payments provided herein are intended to be exempt from Section 409A of the Code to the maximum extent possible, under either the separation pay exemption pursuant to Treasury regulation §1.409A-1(b)(9)(iii) or as short-term deferrals pursuant to Treasury regulation §1.409A-1(b)(4). Each payment and benefit hereunder shall constitute a "separately identified" amount within the meaning of Treasury regulation §1.409A-2(b)(2). In the event the terms of this Agreement would subject you to taxes or penalties under Section 409A of the Code ("409A Penalties"), the Company and you shall cooperate diligently to amend the terms of this Agreement to avoid such 409A Penalties, to the extent possible; provided that in no event shall the Company be responsible for any 409A Penalties that arise in connection with any amounts payable under this Agreement. Any amount of expenses eligible for reimbursement, or in-kind benefit provided, during a calendar year shall not affect the amount of expenses eligible for reimbursement, or in-kind benefit to be provided, during any other calendar year. Any reimbursement shall be made no later than the last day of the calendar year following the calendar year in which the expenses to be reimbursed were incurred. The right to any reimbursement or in-kind benefit pursuant to this Agreement shall not be subject to liquidation or exchange for any other benefit.

If you understand and agree with the foregoing terms and conditions, please sign one original of this Agreement and return it to me.

Very truly yours,

ti Kaye Burma

Kristi Kaye Burma
SVP Human Resources
Athene Holding Ltd.

I have read, understand, and voluntarily agree to be bound by each of the terms contained in this Agreement.

/s/ Guy Smith III	December 19, 2016
Guy Smith III	Date

EXHIBIT

Award	Total Shares (Awarded or Purchased)	Vesting Type (if applicable)	Vested (or Purchased) Shares (as of the Separation Date)	Unvested Shares (as of the Separation Date)
Class M-2 Shares Award	-	Time	-	-
	-	Performance	-	-
Class M-3 Shares Award	14,000.00	Time	-	14,000.00
	-	Performance	-	-
Class M-4 Shares Award	80,000.00	Time	32,000.00	48,000.00
	*66,480.56	Performance	4,111.33	**62,369.23
Class A (2012 Subscription Agreement)	6,000.00	N/A	6,000.00	-
Class A (2014 Award)	26,100.00	N/A	26,100.00	-
Class A (2014 Bonus Award)	9,607.99	Time	6,405.33	3,202.66
Class A (2015 Bonus Award)	3,229.00	Time	2,153.00	1,076.00
Class A (M-2 Conversion 10/10/16)	119,850.00	N/A	119,850.00	-
Class A (M-3 Conversion 10/10/16)	71,800.00	N/A	71,800.00	-
Class A (M-3 Conversion 10/30/16)	8,975.00	N/A	8,975.00	-
Class A (2016 Option Award)	8,577.00	Time	2,859.00	5,718.00
Class A (2016 Restricted Share Unit Award)	1,473.00	Time	491.00	982.00
	2,946.00	Performance	-	2,946.00

** Reflects forfeitures in connection with IPO.*
***Remain eligible for vesting as provided in Paragraph 3.e.*

Exhibit 10.40

SUPPLEMENTAL RELEASE

Athene Holding Ltd. and its affiliates (the "Company") and Chip Smith (the "Employee") hereby enter into this Supplemental Release ("Release") in accordance with the Separation Agreement and General Release between the Company and the Employee dated as of _______________, ____ (the "Agreement"). Capitalized terms not expressly defined in this Release shall have the meanings set forth in the Agreement:

1. The Employee understands and agrees that the Employee's execution of this Release within 21 days after (but not before) the Separation Date, without revocation thereof as provided therein, is among the conditions precedent to the Company's obligation to provide any of the payments or benefits set forth in Paragraph 2 of the Agreement. The Company will provide such payments or benefits in accordance with the terms of the Agreement once the conditions set forth therein and in this Release have been met.

2. The term "Released Parties" as used in this Release includes the Company and any and all parents, divisions, subsidiaries, partnerships, affiliates and/or other related entities of the Company (whether or not such entities are wholly owned) and each of those entities' past, present, and future owners, trustees, fiduciaries, shareholders, directors, officers, administrators, agents, representatives, members, associates, partners, employees, attorneys, and the predecessors, successors, and assigns of each of them.

3. The Employee, and anyone claiming through the Employee or on the Employee's behalf, hereby agrees to fully, finally and forever waive, release and discharge the Released Parties from any and all claims, whether known or unknown, which the Employee has, has ever had, or may ever have against any of the Released Parties arising from or related to any act, omission, or thing occurring at any time prior to or on the date of this Release including, but not limited to, any and all claims that in any way result from, or relate to, the Employee's employment, compensation, other terms and conditions of employment, or termination from employment with the Company or any of the Released Parties, except benefits to which you are entitled, such as COBRA, other income and pension and 401(k) plan benefits. These released claims include, but are not limited to, (a) all claims for any compensation payments, bonus, severance pay, equity or any other compensation or benefit, except benefits to which you are entitled, such as COBRA, other income and pension and 401(k) plan benefits, (b) all claims arising under the Share Award Agreements (as defined in the Agreement), or the Sixth Amended and Restated Shareholders Agreement of Athene Holding Ltd. dated as of April 4, 2014 (the "Shareholders Agreement"), (c) all claims that were or could have been asserted by the Employee or on the Employee's behalf: (i) in any federal, state, or local court, commission, or agency; or (ii) under any common law theory (including without limitation all claims for breach of contract (oral, written or implied), wrongful termination, defamation, invasion of privacy, infliction of emotional distress, tortious interference, fraud, estoppel, unjust enrichment, and any other contract, tort or other common law claim of any kind); and (d) all claims that were or could have been asserted by the Employee or on the Employee's behalf under the Age Discrimination in Employment Act (as amended, including by the Older Workers' Benefit Protection Act) and any other federal, state, or local, employment, services or other law, regulation, ordinance, constitutional provision, executive order or other source of law, including without limitation under any of the following laws, as amended from time to time: the Rehabilitation Act of 1973 (including Section 504 thereof), the Civil Rights Act of 1866, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Equal Pay Act, the National Labor Relations Act, the Worker Adjustment and Retraining Notification Act, the Americans With Disabilities Act, the Employee Retirement Income Security Act, the Lilly Ledbetter Fair Pay Act of 2009, the Family and Medical Leave Act, the Fair Credit Reporting Act, and the Genetic Information Non-Discrimination Act. Notwithstanding the foregoing, the releases and waivers in this Paragraph 3 shall not apply to any claim that by law is non-waivable, such as claims for unemployment or workers' compensation benefits.

4. The Employee confirms that the Employee has not filed any legal or other proceeding(s) against any of the Released Parties, is the sole owner of and has not transferred the claims released herein, and has the full right to grant the releases and agreements in this Release. In the event of any further proceedings based upon any released matter, none of the Released Parties shall have any further monetary or other obligation of any kind to the Employee.

5. THE EMPLOYEE ACKNOWLEDGES, UNDERSTANDS, AND AGREES THAT: (a) THE EMPLOYEE HAS READ AND UNDERSTANDS THE TERMS AND EFFECT OF THIS RELEASE; (b)

THE EMPLOYEE RELEASES AND WAIVES CLAIMS UNDER THIS RELEASE KNOWINGLY AND VOLUNTARILY, IN EXCHANGE FOR CONSIDERATION IN ADDITION TO ANYTHING OF VALUE TO WHICH THE EMPLOYEE ALREADY IS ENTITLED; (c) THE EMPLOYEE HEREBY IS AND HAS BEEN ADVISED OF THE EMPLOYEE'S RIGHT TO HAVE THE EMPLOYEE'S ATTORNEY REVIEW THIS RELEASE (AT THE EMPLOYEE'S COST) BEFORE SIGNING IT; (d) THE EMPLOYEE HAS TWENTY-ONE (21) DAYS IN WHICH TO CONSIDER WHETHER TO EXECUTE THIS RELEASE; AND (e) WITHIN SEVEN (7) DAYS AFTER THE DATE ON WHICH THE EMPLOYEE SIGNS THIS RELEASE, THE EMPLOYEE MAY, AT THE EMPLOYEE'S SOLE OPTION, REVOKE THE RELEASE UPON WRITTEN NOTICE TO KRISTI KAYE BURMA, SENIOR VICE PRESIDENT, HUMAN RESOURCES, ATHENE HOLDING, 7700 MILLS CIVIC PARKWAY, WEST DES MOINES, IA 50266, AND THE RELEASE WILL NOT BECOME EFFECTIVE UNTIL THIS SEVEN-DAY REVOCATION PERIOD HAS EXPIRED WITHOUT ANY REVOCATION BY THE EMPLOYEE. IF THE EMPLOYEE REVOKES THIS RELEASE, IT SHALL BE NULL AND VOID, AND THE EMPLOYEE WILL NOT RECEIVE THE PAYMENTS OR BENEFITS UNDER THE AGREEMENT.

6. Nothing in this Release is intended to or shall be construed as an admission by any of the Released Parties that any of them violated any law, breached any obligation or otherwise engaged in any improper or illegal conduct with respect to the Employee or otherwise. The Released Parties expressly deny any such illegal or wrongful conduct. This Release, the Agreement and any other agreements specified in Paragraph 10 of the Agreement are the entire agreement of the parties regarding the matters described in such agreements and supersede any and all prior and/or contemporaneous agreements, oral or written, between the parties regarding such matters. This Release is governed by New York law, may be signed in counterparts, and may be modified only by a writing signed by all parties.

THE PARTIES STATE THAT THEY HAVE READ AND UNDERSTAND THE FOREGOING AND KNOWINGLY AND VOLUNTARILY INTEND TO BE BOUND THERETO:

ATHENE HOLDING LTD.

By: ______________________________

Title: ______________________________

Date: ______________________________

Exhibit 21.1

Subsidiaries of the Registrant

Subsidiary	Jurisdiction of incorporation
Athene Life Re Ltd.	Bermuda
Athene USA Corporation	Iowa
AGER Bermuda Holding Ltd.	Bermuda
Athene Deutschland Verwaltungs GmbH	Germany
Athene Deutschland Holding GmbH & Co. KG	Germany
Athene Deutschland GmbH	Germany
Athene Lebensversicherung AG	Germany
Athene Pensionskasse AG	Germany
Athene Deutschland Anlagemanagement GmbH	Germany
Athene Real Estate Management Company S.a.r.l	Luxembourg
Athene Employee Services, LLC	Iowa
Athene London Assignment Corporation	Delaware
Athene Assignment Corporation	Delaware
Athene Annuity & Life Assurance Company	Delaware
ACM Trademarks, L.L.C	Iowa
ARPH (Headquarters Building), LLC	Iowa
Athene Life Insurance Company	Delaware
Athene Annuity and Life Company	Iowa
P.L. Assigned Services, Inc.	New York
Athene Annuity & Life Assurance Company of New York	New York
Structured Annuity Reinsurance Company	Iowa
Athene Securities, LLC	Indiana
Centralife Annuities Service, Inc.	Arizona
Athene Re USA IV, Inc.	Vermont
AREI (Renaissance), LLC	Iowa
AREI (Marketplace), LLC	Iowa
AREI (Boyette), LLC	Iowa
AREI (Cedar Valley), LLC	Iowa
AREI (Watson), LLC	Iowa
AREI (Brookfield), LLC	Iowa
AREI (CPB), LLC	Iowa
AREI (Norwood-TX), LLC	Iowa
AREI (US Forest-WY), LLC	Iowa
AREI (BLM-NV), LLC	Iowa
Athene Life Insurance Company of New York	New York
Elemantae S.A.	Luxembourg
Athene UK Services Ltd.	United Kingdom

Exhibit 21.1

Subsidiary	Jurisdiction of incorporation
AADE RML, LLC	Iowa
AAIA RML, LLC	Iowa
Athene Bermuda Employee Company Ltd.	Bermuda
Athene IP Holding Ltd.	Bermuda
ARE Land Development, Inc.	Iowa
ACM Investors, LLC	Iowa
Presidential Life, LLC	Delaware
NCL Athene, LLC	Delaware

Exhibit 23.1.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-215031) of Athene Holding Ltd. our report dated March 16, 2017 relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Des Moines, Iowa
March 16, 2017

Exhibit 23.1.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-215031) of Athene Holding Ltd. of our report dated May 6, 2016, except for the effects of the revision discussed in Note 2 (not presented herein) to the consolidated financial statements appearing in the F pages of the Company's Amendment No. 6 to Form S-1, as to which the date is October 25, 2016 relating to the financial statements and financial statement schedules of Athene Holding Ltd., which appears in this Form 10-K.

/s/ PricewaterhouseCoopers Ltd.
Chartered Professional Accountants
Hamilton, Bermuda
March 16, 2017

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY OF 2002

I, James R. Belardi, certify that:

1. I have reviewed this Annual Report on Form 10-K of Athene Holding Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2017

/s/ James R. Belardi

James R. Belardi

Chairman, Chief Executive Officer and Chief Investment Officer

(principal executive officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY OF 2002

I, Martin P. Klein, certify that:

1. I have reviewed this Annual Report on Form 10-K of Athene Holding Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2017

/s/ Martin P. Klein

Martin P. Klein
Executive Vice President and Chief Financial Officer
(principal financial officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY OF 2002

I, James R. Belardi, certify that Athene Holding Ltd.'s Annual Report on Form 10-K for the year ended December 31, 2016 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Athene Holding Ltd.

Date: March 16, 2017	/s/ James R. Belardi
	James R. Belardi
	Chairman, Chief Executive Officer and Chief Investment Officer
	(principal executive officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY OF 2002

I, Martin P. Klein, certify that Athene Holding Ltd.'s Annual Report on Form 10-K for the year ended December 31, 2016 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Athene Holding Ltd.

Date: March 16, 2017

/s/ Martin P. Klein

Martin P. Klein

Executive Vice President and Chief Financial Officer

(principal financial officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

Consolidated Financial Statements

Years ended December 31, 2015, 2014, and 2013

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Athene Holding Ltd.:

In our opinion, the consolidated balance sheet and the related consolidated statements of income, comprehensive income (loss), equity and cash flows present fairly, in all material respects, the financial position of Athene Holding Ltd. and its subsidiaries at December 31, 2015, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules as of and for the year ended December 31, 2015 listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Des Moines, IA
May 9, 2016, except for the effects of the revision discussed in Note 2 to the consolidated financial statements, as to which the date is October 25, 2016

PricewaterhouseCoopers LLP, 699 Walnut Street, Suite 1300, Des Moines, IA 50309
T: (515) 246 3800, F: (515) 246 3811, www.pwc.com/us

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Athene Holding Ltd.:

In our opinion, the consolidated balance sheets and the related consolidated statements of income, comprehensive income (loss), equity and cash flows present fairly, in all material respects, the financial position of Athene Holding Ltd. and its subsidiaries at December 31, 2014, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules as of December 31, 2014 and for each of the two years in the period ended December 31, 2014 listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers Ltd.

Hamilton, Bermuda
May 6, 2016, except for the effects of the revision discussed in Note 2 to the consolidated financial statements, as to which the date is October 25, 2016

ATHENE HOLDING LTD.
Consolidated Balance Sheets

(In millions)	December 31, 2015	December 31, 2014
Assets		
Investments		
Available-for-sale securities, at fair value		
Fixed maturity securities (amortized cost: 2015 – $48,227 and 2014 – $43,407)	$ 47,816	$ 44,703
Equity securities (cost: 2015 – $367 and 2014 – $142)	407	190
Trading securities, at fair value	2,468	2,795
Mortgage loans, net of allowances (portion at fair value: 2015 – $48 and 2014 – $73)	5,500	5,465
Investment funds (portion at fair value: 2015 – $152 and 2014 – $214)	733	832
Policy loans	642	778
Funds withheld at interest (portion at fair value: 2015 – $36 and 2014 – $127)	3,482	2,774
Derivative assets	871	1,842
Real estate	566	—
Short-term investments, at fair value (cost: 2015 – $135 and 2014 – $17)	135	17
Other investments	83	56
Total investments	62,703	59,452
Cash and cash equivalents	2,714	2,628
Restricted cash	116	77
Investments in related parties		
Available-for-sale, fixed maturity securities, at fair value (amortized cost: 2015 – $332 and 2014 – $336)	308	326
Trading securities, at fair value	217	268
Investment funds	997	585
Short-term investments	55	—
Other investments	245	—
Accrued investment income (related party: 2015 – $9 and 2014 – $11)	520	505
Reinsurance recoverable (portion at fair value: 2015 – $2,377 and 2014 – $2,460)	7,257	11,584
Deferred acquisition costs, deferred sales inducements, and value of business acquired	2,663	2,229
Current income tax recoverable	113	126
Deferred tax assets	606	220
Other assets	749	950
Assets of consolidated variable interest entities		
Investments		
Trading securities, at fair value		
Fixed maturity securities (related party: 2015 – $53 and 2014 – $57)	722	763
Equity securities – related party	309	510
Loans held for investment, at fair value	—	2,071
Investment funds (related party, at fair value: 2015 – $516 and 2014 – $40)	534	65
Cash and cash equivalents	6	10
Restricted cash	—	43
Goodwill	—	226
Other assets	20	72
Total assets	$ 80,854	$ 82,710

(Continued)

See accompanying notes to consolidated financial statements

ATHENE HOLDING LTD.
Consolidated Balance Sheets

(In millions, except share and per share data)	December 31, 2015	December 31, 2014
Liabilities and Equity		
Liabilities		
Interest sensitive contract liabilities (portion at fair value: 2015 – $6,359 and 2014 – $5,854)	$ 57,296	$ 60,641
Future policy benefits (portion at fair value: 2015 – $2,478 and 2014 – $2,741)	14,540	11,137
Other policy claims and benefits	234	195
Dividends payable to policyholders	856	130
Derivative liabilities	17	143
Payables for collateral on derivatives	867	1,402
Reinsurance payable	45	187
Funds withheld liability (portion at fair value: 2015 – $35 and 2014 – $394)	388	1,595
Other liabilities (related party: 2015 – $63 and 2014 – $62)	731	598
Liabilities of consolidated variable interest entities		
Borrowings (portion at fair value: 2015 – $0 and 2014 – $1,517)	500	2,017
Other liabilities	17	77
Total liabilities	75,491	78,122
Equity		
Common stock		
Class A – par value $0.001 per share; authorized: 2015 and 2014 – 425,000,000 shares; issued and outstanding: 2015 – 50,151,265 and 2014 – 15,752,736 shares	—	—
Class B – par value $0.001 per share; authorized: 2015 and 2014 – 325,000,000 shares; issued and outstanding: 2015 – 135,963,975 and 2014 – 125,282,892 shares	—	—
Class M-1 – par value $0.001 per share; authorized: 2015 and 2014 – 7,109,560 shares; issued and outstanding: 2015 and 2014 – 5,198,273 shares	—	—
Class M-2 – par value $0.001 per share; authorized: 2015 and 2014 – 5,000,000 shares; issued and outstanding: 2015 and 2014 – 3,125,869 shares	—	—
Class M-3 – par value $0.001 per share; authorized: 2015 and 2014 – 7,500,000 shares; issued and outstanding: 2015 – 3,110,000 and 2014 – 3,350,000 shares	—	—
Class M-4 – par value $0.001 per share; authorized: 2015 and 2014 – 7,500,000 shares; issued and outstanding: 2015 – 5,038,443 and 2014 – 0 shares	—	—
Additional paid-in capital	3,281	2,153
Retained earnings	2,318	1,758
Accumulated other comprehensive income (loss) (related party: 2015 – $(24) and 2014 – $(7))	(237)	644
Total Athene Holding Ltd. shareholders' equity	5,362	4,555
Noncontrolling interest	1	33
Total equity	5,363	4,588
Total liabilities and equity	$ 80,854	$ 82,710

(Concluded)

See accompanying notes to consolidated financial statements

ATHENE HOLDING LTD.
Consolidated Statements of Income

	Years ended December 31,		
(In millions, except per share data)	2015	2014	2013
Revenue			
Premiums	$ 195	$ 100	$ (1,137)
Product charges	248	218	72
Net investment income (related party investment income: 2015 – $168, 2014 – $77, and 2013 – $44; and related party investment expense: 2015 – $268, 2014 – $258, and 2013 – $123)	2,508	2,333	1,074
Investment related gains (losses) (related party: 2015 – $(19), 2014 – $(1), and 2013 – $29)	(430)	1,210	927
Other-than-temporary impairment investment losses			
Other-than-temporary impairment losses	(40)	(7)	4
Other-than-temporary impairment losses recognized in other comprehensive income	10	1	(5)
Net other-than-temporary impairment losses	(30)	(6)	(1)
Other revenues	25	20	9
Bargain purchase gain	—	—	152
Revenues of consolidated variable interest entities			
Net investment income (related party: 2015 – $37, 2014 – $(5), and 2013 – $1)	67	174	89
Investment related gains (losses) (related party: 2015 – $46, 2014 – $46, and 2013 – $597)	33	51	564
Total revenues	2,616	4,100	1,749
Benefits and Expenses			
Interest sensitive contract benefits	690	1,822	1,064
Amortization of deferred sales inducements	20	4	16
Future policy and other policy benefits	517	696	(950)
Amortization of deferred acquisition costs and value of business acquired	203	119	144
Interest expense	17	22	8
Dividends to policyholders	28	44	11
Policy and other operating expenses (related party: 2015 – $18, 2014 – $240, and 2013 – $148)	532	797	431
Operating expenses of consolidated variable interest entities			
Interest expense	15	17	27
Other operating expenses	2	47	9
Total benefits and expenses	2,024	3,568	760
Income before income taxes	592	532	989
Income tax expense (benefit)	14	54	(8)
Net income	578	478	997
Less: Net income attributable to noncontrolling interests	16	15	81
Net income available to Athene Holding Ltd. shareholders	$ 562	$ 463	$ 916
Earnings per share on Class A and B shares			
Basic	$ 3.21	$ 3.58	$ 8.07
Diluted	$ 3.21	$ 3.52	$ 7.96

See accompanying notes to consolidated financial statements

ATHENE HOLDING LTD.
Consolidated Statements of Comprehensive Income (Loss)

	Years ended December 31,		
(In millions)	2015	2014	2013
Net income	$ 578	$ 478	$ 997
Other comprehensive income (loss), before tax			
Change in unrealized investment gains (losses) on available-for-sale securities, net of offsets	(1,314)	899	(224)
Change in noncredit component of other-than-temporary impairment losses, available-for-sale	(10)	(1)	5
Comprehensive income (loss) on hedging instruments	11	10	(2)
Comprehensive income (loss) on pension adjustments	12	(17)	1
Comprehensive income (loss) on foreign currency translation adjustments	(4)	—	—
Other comprehensive income (loss), before tax	(1,305)	891	(220)
Income tax expense (benefit) related to other comprehensive income (loss)	(424)	317	(71)
Other comprehensive income (loss), after tax	(881)	574	(149)
Comprehensive income (loss)	(303)	1,052	848
Less: comprehensive income attributable to noncontrolling interests	16	15	81
Comprehensive income (loss) available to Athene Holding Ltd. shareholders	$ (319)	$ 1,037	$ 767

See accompanying notes to consolidated financial statements

ATHENE HOLDING LTD.
Consolidated Statements of Equity

(In millions)	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Athene Holding Ltd. shareholders' equity	Non controlling interest	Total equity
Balance at December 31, 2012	$ —	$ 1,217	$ 427	$ 219	$ 1,863	$ —	$ 1,863
Net income	—	—	916	—	916	81	997
Other comprehensive loss	—	—	—	(149)	(149)	—	(149)
Issuance of shares, net of expenses	—	131	—	—	131	—	131
Change in equity of noncontrolling interests	—	—	—	—	—	13	13
Balance at December 31, 2013	—	1,348	1,343	70	2,761	94	2,855
Net income	—	—	463	—	463	15	478
Other comprehensive income	—	—	—	574	574	—	574
Issuance of shares, net of expenses	—	719	—	—	719	—	719
Stock-based compensation	—	116	—	—	116	—	116
Retirement or repurchase of shares	—	(30)	(48)	—	(78)	—	(78)
Change in equity of noncontrolling interests	—	—	—	—	—	(76)	(76)
Balance at December 31, 2014	—	2,153	1,758	644	4,555	33	4,588
Net income	—	—	562	—	562	16	578
Other comprehensive loss	—	—	—	(881)	(881)	—	(881)
Issuance of shares, net of expenses	—	1,112	—	—	1,112	—	1,112
Stock-based compensation	—	17	—	—	17	—	17
Retirement or repurchase of shares	—	(1)	(2)	—	(3)	—	(3)
Change in equity of noncontrolling interests	—	—	—	—	—	(48)	(48)
Balance at December 31, 2015	$ —	$ 3,281	$ 2,318	$ (237)	$ 5,362	$ 1	$ 5,363

See accompanying notes to consolidated financial statements

ATHENE HOLDING LTD.
Consolidated Statements of Cash Flows

	Years ended December 31,		
(In millions)	2015	2014	2013
Cash flows from operating activities			
Net income	$ 578	$ 478	$ 997
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred acquisition costs and value of business acquired	203	119	144
Amortization of deferred sales inducements	20	4	16
Amortization (accretion) of net investment premiums, discounts, and other (related party: 2015 – $(8), 2014 – $0, and 2013 – $(1))	(77)	92	(23)
Bargain purchase gain	—	—	(152)
Payment at inception of coinsurance agreement	(10)	—	(173)
Stock-based compensation	67	373	131
Net investment (income) loss (related party: 2015 – $(6), 2014 – $(53), and 2013 – $(16))	8	(134)	(221)
Net recognized (gains) losses on investments and derivatives (related party: 2015 – $42, 2014 – $0, and 2013 – $(25))	520	(1,463)	(806)
Policy acquisition costs deferred	(288)	(250)	(125)
Deferred income tax expense (benefit)	33	138	(89)
Changes in operating assets and liabilities:			
Accrued investment income	38	4	55
Interest sensitive contract liabilities	879	2,144	465
Future policy benefits, other policy claims and benefits, dividends payable to policyholders, reinsurance recoverable, and reinsurance payable	(574)	(702)	664
Current income tax recoverable	15	(77)	(74)
Funds withheld assets and liabilities	(278)	—	68
Other assets and liabilities	(58)	(37)	147
Consolidated variable interest entities related:			
Amortization (accretion) of net investment premiums, discounts, and other	4	(14)	12
Net investment (income) loss (related party: 2015 – $(1), 2014 – $(1), and 2013 – $(12))	3	1	3
Net recognized (gains) losses on investments and derivatives (related party: 2015 – $(46), 2014 – $(46), and 2013 – $(595))	(35)	(67)	(655)
Change in other assets and liabilities	1	(10)	25
Net cash provided by operating activities	1,049	599	409

(Continued)

See accompanying notes to consolidated financial statements

ATHENE HOLDING LTD.
Consolidated Statements of Cash Flows

	Years ended December 31,		
(In millions)	2015	2014	2013
Cash flows from investing activities			
Sales, maturities, and repayments of:			
Available-for-sale securities			
Fixed maturity securities (related party: 2015 – $65, 2014 – $259, and 2013 – $12)	$ 10,424	$ 9,909	$ 8,061
Equity securities (related party: 2015 – $0, 2014 – $0, and 2013 – $29)	53	11	109
Trading securities (related party: 2015 – $72, 2014 – $271, and 2013 – $68)	1,226	807	1,008
Mortgage loans	788	1,062	320
Investment funds (related party: 2015 – $99, 2014 – $228, and 2013 – $336)	343	793	768
Derivative instruments and other invested assets	1,151	1,863	484
Real estate	63	—	—
Short-term investments (related party: 2015 – $130, 2014 – $0, and 2013 – $0)	207	—	—
Purchases of:			
Available-for-sale securities			
Fixed maturity securities (related party: 2015 – $(64), 2014 – $(527), and 2013 – $(398))	(11,069)	(11,000)	(6,435)
Equity securities	(239)	(51)	(68)
Trading securities (related party: 2015 – $(52), 2014 – $(320), and 2013 – $(225))	(1,409)	(551)	(375)
Mortgage loans	(672)	(908)	(463)
Investment funds (related party: 2015 – $(510), 2014 – $(517), and 2013 – $(783))	(614)	(676)	(1,500)
Derivative instruments and other invested assets	(698)	(682)	(229)
Real estate	(6)	—	—
Short-term investments (related party: 2015 – $(85), 2014 – $0, and 2013 – $0)	(267)	(17)	—
Consolidated variable interest entities related:			
Sales, maturities, and repayments of investments (related party: 2015 – $244, 2014 – $1,401, and 2013 – $474)	257	1,410	474
Purchases of investments (related party: 2015 – $(17), 2014 – $(482), and 2013 – $(368))	(17)	(491)	(373)
Change in restricted cash	—	23	(22)
Acquisition of subsidiaries, net of cash acquired	162	33	1,386
Cash settlement of derivatives	25	1	(149)
Change in restricted cash	(39)	37	(71)
Other investing activities, net	279	(241)	80
Net cash (used in) provided by investing activities	(52)	1,332	3,005

(Continued)

See accompanying notes to consolidated financial statements

ATHENE HOLDING LTD.
Consolidated Statements of Cash Flows

	Years ended December 31,		
(In millions)	2015	2014	2013
Cash flows from financing activities			
Capital contributions	$ 1,116	$ 305	$ 82
Proceeds from note payables	—	—	500
Repayment of note payables	(4)	(300)	(302)
Deposits on investment-type policies and contracts	3,460	3,393	1,880
Withdrawals on investment-type policies and contracts	(4,783)	(5,551)	(2,849)
Payments for coinsurance agreements on investment-type contracts, net	(153)	(320)	(64)
Consolidated variable interest entities related:			
Proceeds from borrowings	—	319	154
Repayment on borrowings	—	(723)	(6)
Capital contributions from noncontrolling interests	—	21	—
Capital distributions to noncontrolling interests	(30)	(97)	(38)
Net change in cash collateral posted for derivative transactions	(535)	661	(76)
Repurchase of common stock	(3)	(78)	—
Other financing activities, net	21	42	(22)
Net cash used in financing activities	(911)	(2,328)	(741)
Effect of exchange rate changes on cash and cash equivalents	(4)	—	—
Net increase (decrease) in cash and cash equivalents	82	(397)	2,673
Cash and cash equivalents at beginning of year[1]	2,638	3,035	362
Cash and cash equivalents at end of year[1]	$ 2,720	$ 2,638	$ 3,035
Supplementary information			
Cash (refunded) paid for taxes	$ (34)	$ 59	$ 154
Cash paid for interest	22	56	36
Non-cash transactions			
Deposits on investment-type policies and contracts through reinsurance agreements	1,182	418	247
Withdrawals on investment-type policies and contracts through reinsurance agreements	373	219	166
Investment funds acquired in exchange for non-cash assets and liabilities	473	—	—
Issuance of capital for payment of liabilities	—	199	—
Issuance of capital for purchase of investment funds	—	—	50
Reduction in investments and other assets and liabilities relating to reinsurance	920	—	6,196
Increase in funds withheld liability for reinsurance receivable	—	—	1,450
Modco balances settled in investments	75	6	13

[1] *Includes cash and cash equivalents of consolidated variable interest entities*

(Concluded)

See accompanying notes to consolidated financial statements

1. Organization and Corporate Structure

Athene Holding Ltd. (AHL), a Bermuda exempted company, together with its subsidiaries (collectively, Athene, we, our, us, or the Company), is a leading retirement services company that issues, reinsures, and acquires retirement savings products in all 50 U.S. states, the District of Columbia, and Germany.

We conduct business primarily through the following consolidated subsidiaries:

- Athene Life Re Ltd., a Bermuda exempted company to which AHL's other insurance subsidiaries and third party ceding companies directly and indirectly reinsure a portion of their liabilities (ALRe);
- Athene USA Corporation, an Iowa corporation and its subsidiaries (Athene USA); and
- Athene Deutschland GmbH & Co. KG, a German partnership and its subsidiaries (ADKG).

In addition, we consolidate the following variable interest entities (VIE), for which we have determined that we are the primary beneficiary:

- AAA Investments (Co-Invest VI), L.P., a Delaware limited partnership (CoInvest VI);
- AAA Investments (Co-Invest VII), L.P., a Delaware limited partnership (CoInvest VII);
- AAA Investments (Other), L.P., a Marshall Islands limited partnership (CoInvest Other);
- London Prime Apartments Guernsey Holdings Limited, a Guernsey limited company (London Prime); and
- 2012 CMBS-I Fund L.P., a Delaware limited partnership, and 2012 CMBS-II Fund L.P., a Delaware limited partnership (collectively, CMBS Funds).

2. Change in Accounting Policy and Revisions

Subsequent to the original issuance of the consolidated financial statements, we adopted a change in accounting principle regarding the balance sheet presentation of assets and liabilities associated with reinsurance agreements written on a modified coinsurance (modco) basis. The funds withheld assets and liabilities arising from modco contracts are now presented gross of the corresponding policy benefit liabilities on the consolidated balance sheets, whereas these assets and liabilities were previously presented net on a contract-by-contract basis. We determined gross presentation is preferable to net presentation on the basis that gross presentation increases transparency and aligns the presentation of modco reinsurance with that of funds withheld coinsurance, which is an economically equivalent form of reinsurance. Additionally, we expect increased use of modco reinsurance in our ongoing business operations, and believe gross presentation is necessary to best reflect the economic impact of modco transactions.

We applied this change retrospectively on the consolidated balance sheets, as well as the corresponding classification changes within operating activities on the consolidated statements of cash flows. There was no impact to the consolidated statements of income, consolidated statements of comprehensive income, or consolidated statements of equity resulting from this change.

We have also revised our consolidated financial statements as a result of correcting immaterial misstatements. We assessed the materiality of these revisions and concluded these revisions are not material to the consolidated financial statements as a whole. However, we elected to revise the consolidated financial statements to increase accuracy of the consolidated financial statements, as well as consistency and comparability with balances and activities to be reported in future periods.

The following is a summary of the impacts of the change in accounting policy and revisions on the consolidated balance sheets:

	December 31, 2015			
(In millions)	As Previously Reported	Change in Accounting Policy	Revisions	As Adjusted
Assets				
Investments				
Funds withheld at interest	$ 2,104	$ 1,378	$ —	$ 3,482
Total investments	61,325	1,378	—	62,703
Reinsurance recoverable	7,134	122	1	7,257
Deferred acquisition costs, deferred sales inducements, and value of business acquired	2,654	—	9	2,663
Current income tax recoverable	121	—	(8)	113
Deferred tax assets	619	—	(13)	606
Assets of consolidated variable interest entities				
Investments				
Trading securities, at fair value				
Fixed maturity securities	717	—	5	722
Total assets	$ 79,360	$ 1,500	$ (6)	$ 80,854
Liabilities and Equity				
Liabilities				
Interest sensitive contract liabilities	$ 55,795	$ 1,480	$ 21	$ 57,296
Future policy benefits	14,544	—	(4)	14,540
Other policy claims and benefits	269	—	(35)	234
Reinsurance payable	180	(134)	(1)	45
Funds withheld liability	234	154	—	388
Other liabilities	728	—	3	731
Total liabilities	74,007	1,500	(16)	75,491
Equity				
Retained earnings	2,306	—	12	2,318
Accumulated other comprehensive income (loss)	(235)	—	(2)	(237)
Total Athene Holding Ltd. shareholders' equity	5,352	—	10	5,362
Noncontrolling interest	1	—	—	1
Total equity	5,353	—	10	5,363
Total liabilities and equity	$ 79,360	$ 1,500	$ (6)	$ 80,854

The following is a summary of the impacts of the change in accounting policy and revisions on the consolidated balance sheets:

	December 31, 2014			
(In millions)	As Previously Reported	Change in Accounting Policy	Revisions	As Adjusted
Assets				
Investments				
Funds withheld at interest	$ 2,451	$ 323	$ —	$ 2,774
Total investments	59,129	323	—	59,452
Accrued investment income	515	—	(10)	505
Reinsurance recoverable	11,436	145	3	11,584
Deferred acquisition costs, deferred sales inducements, and value of business acquired	2,226	—	3	2,229
Current income tax recoverable	95	—	31	126
Deferred tax assets	251	—	(31)	220
Other assets	940	—	10	950
Assets of consolidated variable interest entities				
Investments				
Trading securities, at fair value				
Fixed maturity securities	758	—	5	763
Total assets	$ 82,231	$ 468	$ 11	$ 82,710
Liabilities and Equity				
Liabilities				
Interest sensitive contract liabilities	$ 60,259	$ 349	$ 33	$ 60,641
Future policy benefits	11,140	—	(3)	11,137
Other policy claims and benefits	230	—	(35)	195
Reinsurance payable	241	(56)	2	187
Funds withheld liability	1,420	175	—	1,595
Other liabilities	597	—	1	598
Total liabilities	77,656	468	(2)	78,122
Equity				
Retained earnings	1,745	—	13	1,758
Total Athene Holding Ltd. shareholders' equity	4,542	—	13	4,555
Noncontrolling interest	33	—	—	33
Total equity	4,575	—	13	4,588
Total liabilities and equity	$ 82,231	$ 468	$ 11	$ 82,710

The following is a summary of the impacts of the revisions on the consolidated statements of income:

	Year ended December 31, 2015		
(In millions, except per share data)	As Previously Reported	Revisions	As Adjusted
Revenue			
Net investment income	$ 2,500	$ 8	$ 2,508
Investment related gains (losses)	(414)	(16)	(430)
Total revenues	2,624	(8)	2,616
Benefits and Expenses			
Interest sensitive contract benefits	711	(21)	690
Amortization of deferred sales inducements	21	(1)	20
Future policy and other policy benefits	516	1	517
Amortization of deferred acquisition costs and value of business acquired	208	(5)	203
Interest expense	19	(2)	17
Total benefits and expenses	2,052	(28)	2,024
Income before income taxes	572	20	592
Income tax expense (benefit)	(7)	21	14
Net income	579	(1)	578
Less: Net income attributable to noncontrolling interests	16	—	16
Net income available to Athene Holding Ltd. shareholders	$ 563	$ (1)	$ 562
Earnings per share on Class A and B shares			
Basic	$ 3.22	$ (0.01)	$ 3.21
Diluted	$ 3.22	$ (0.01)	$ 3.21

	Year ended December 31, 2014		
(In millions, except per share data)	As Previously Reported	Revisions	As Adjusted
Revenue			
Net investment income	$ 2,324	$ 9	$ 2,333
Investment related gains (losses)	1,248	(38)	1,210
Total revenues	4,129	(29)	4,100
Benefits and Expenses			
Interest sensitive contract benefits	1,841	(19)	1,822
Future policy and other policy benefits	702	(6)	696
Interest expense	29	(7)	22
Total benefits and expenses	3,600	(32)	3,568
Income before income taxes	529	3	532
Income tax expense	46	8	54
Net income	483	(5)	478
Less: Net income attributable to noncontrolling interests	15	—	15
Net income available to Athene Holding Ltd. shareholders	$ 468	$ (5)	$ 463
Earnings per share on Class A and B shares			
Basic	$ 3.61	$ (0.03)	$ 3.58
Diluted	$ 3.56	$ (0.04)	$ 3.52

The following is a summary of the impacts of the revisions on the consolidated statements of income:

	Year ended December 31, 2013		
(In millions, except per share data)	As Previously Reported	Revisions	As Adjusted
Revenue			
Investment related gains (losses)	$ 931	$ (4)	$ 927
Bargain purchase gain	146	6	152
Revenues of consolidated variable interest entities			
Investment related gains (losses)	559	5	564
Total revenues	1,742	7	1,749
Benefits and Expenses			
Interest sensitive contract benefits	1,068	(4)	1,064
Amortization of deferred acquisition costs and value of business acquired	147	(3)	144
Interest expense	10	(2)	8
Total benefits and expenses	769	(9)	760
Income before income taxes	973	16	989
Income tax benefit	—	(8)	(8)
Net income	973	24	997
Less: Net income attributable to noncontrolling interests	81	—	81
Net income available to Athene Holding Ltd. shareholders	$ 892	$ 24	$ 916
Earnings per share on Class A and B shares			
Basic	$ 7.86	$ 0.21	$ 8.07
Diluted	$ 7.75	$ 0.21	$ 7.96

The following is a summary of the impacts of the revisions on the consolidated statement of comprehensive loss:

	Year ended December 31, 2015		
(In millions)	As Previously Reported	Revisions	As Adjusted
Net income	$ 579	$ (1)	$ 578
Other comprehensive loss, before tax			
Comprehensive loss on foreign currency translation adjustments	(2)	(2)	(4)
Other comprehensive loss, before tax	(1,303)	(2)	(1,305)
Income tax benefit related to other comprehensive loss	(424)	—	(424)
Other comprehensive loss, after tax	(879)	(2)	(881)
Comprehensive loss	(300)	(3)	(303)
Less: comprehensive income attributable to noncontrolling interests	16	—	16
Comprehensive loss available to Athene Holding Ltd. shareholders	$ (316)	$ (3)	$ (319)

For the years ended December 31, 2014, and 2013, the only impact to the consolidated statements of comprehensive income were the revisions to net income for the corresponding year.

We revised the consolidated statements of equity for the years ended December 31, 2015, 2014, and 2013, for the changes to net income and other comprehensive income (loss) as presented above. In addition, the balance of retained earnings was revised from $433 million to $427 million as of December 31, 2012, as a result of revisions to periods prior to 2013.

The following is a summary of the impacts of change in accounting policy and revisions on the impacted lines of the consolidated statements of cash flows:

	Year ended December 31, 2015			
(In millions)	As Previously Reported	Change in Accounting Policy	Revisions	As Adjusted
Cash flows from operating activities				
Net income	$ 579	$ —	$ (1)	$ 578
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of deferred acquisition costs and value of business acquired	208	—	(5)	203
Amortization of deferred sales inducements	21	—	(1)	20
Net investment (income) loss	16	—	(8)	8
Net recognized (gains) losses on investments and derivatives	512	—	8	520
Deferred income tax expense	51	—	(18)	33
Changes in operating assets and liabilities:				
Accrued investment income	48	—	(10)	38
Interest sensitive contract liabilities	985	16	(122)	879
Future policy benefits, other policy claims and benefits, dividends payable to policyholders, reinsurance recoverable, and reinsurance payable[1]	(627)	(55)	108	(574)
Current income tax recoverable	(24)	—	39	15
Funds withheld assets and liabilities	(317)	39	—	(278)
Other asset and liabilities	(42)	—	(16)	(58)
Net cash provided by operating activities	1,075	—	(26)	1,049
Cash flows from investing activities				
Other investing activities, net	269	—	10	279
Net cash used in investing activities	(62)	—	10	(52)
Cash flows from financing activities				
Other financing activities, net	5	—	16	21
Net cash used in financing activities	(927)	—	16	(911)
Net increase in cash and cash equivalents	82	—	—	82
Cash and cash equivalents at beginning of year[2]	2,638	—	—	2,638
Cash and cash equivalents at end of year[2]	$ 2,720	$ —	$ —	$ 2,720
Supplementary information				
Non-cash transactions				
Modco balances settled in investments	$ —	$ —	$ 75	$ 75

[1] *Financial statement line item renamed for the current year presentation*

[2] *Includes cash and cash equivalents of consolidated variable interest entities*

The following is a summary of the impacts of change in accounting policy and revisions on the impacted lines of the consolidated statements of cash flows:

	Year ended December 31, 2014			
(In millions)	As Previously Reported	Change in Accounting Policy	Revisions	As Adjusted
Cash flows from operating activities				
Net income	$ 483	$ —	$ (5)	$ 478
Adjustments to reconcile net income to net cash provided by operating activities:				
Net investment (income) loss	(124)	—	(10)	(134)
Net recognized (gains) losses on investments and derivatives	(1,473)	—	10	(1,463)
Deferred income tax expense	99	—	39	138
Changes in operating assets and liabilities:				
Accrued investment income	(6)	—	10	4
Interest sensitive contract liabilities	2,139	5	—	2,144
Future policy benefits, other policy claims and benefits, dividends payable to policyholders, reinsurance recoverable, and reinsurance payable[1]	(667)	(42)	7	(702)
Current income tax recoverable	(46)	—	(31)	(77)
Funds withheld assets and liabilities	(37)	37	—	—
Other asset and liabilities	(4)	—	(33)	(37)
Net cash provided by operating activities	612	—	(13)	599
Cash flows from investing activities				
Other investing activities, net	(231)	—	(10)	(241)
Net cash provided by investing activities	1,342	—	(10)	1,332
Cash flows from financing activities				
Withdrawals on investment-type policies and contracts	(5,540)	—	(11)	(5,551)
Other financing activities, net	8	—	34	42
Net cash used in financing activities	(2,351)	—	23	(2,328)
Net decrease in cash and cash equivalents	(397)	—	—	(397)
Cash and cash equivalents at beginning of year[2]	3,035	—	—	3,035
Cash and cash equivalents at end of year[2]	$ 2,638	$ —	$ —	$ 2,638
Supplementary information				
Non-cash transactions				
Modco balances settled in investments	$ —	$ —	$ 6	$ 6

[1] *Financial statement line item renamed for the current year presentation*

[2] *Includes cash and cash equivalents of consolidated variable interest entities*

The following is a summary of the impacts of change in accounting policy and revisions on the impacted lines of the consolidated statements of cash flows:

	Year ended December 31, 2013			
(In millions)	As Previously Reported	Change in Accounting Policy	Revisions	As Adjusted
Cash flows from operating activities				
Net income	$ 973	$ —	$ 24	$ 997
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of deferred acquisition costs and value of business acquired	147	—	(3)	144
Bargain purchase gain	(146)	—	(6)	(152)
Deferred income tax benefit	(81)	—	(8)	(89)
Changes in operating assets and liabilities:				
Interest sensitive contract liabilities	467	—	(2)	465
Future policy benefits, other policy claims and benefits, dividends payable to policyholders, reinsurance recoverable, and reinsurance payable[1]	869	(159)	(46)	664
Funds withheld assets and liabilities	(91)	159	—	68
Other asset and liabilities	134	—	13	147
Consolidated variable interest entities related:				
Net recognized gains on investments and derivatives	(650)	—	(5)	(655)
Net cash provided by operating activities	442	—	(33)	409
Cash flows from financing activities				
Withdrawals on investment-type policies and contracts	(2,895)	—	46	(2,849)
Other financing activities, net	(9)	—	(13)	(22)
Net cash used in financing activities	(774)	—	33	(741)
Net increase in cash and cash equivalents	2,673	—	—	2,673
Cash and cash equivalents at beginning of year[2]	362	—	—	362
Cash and cash equivalents at end of year[2]	$ 3,035	$ —	$ —	$ 3,035
Supplementary information				
Non-cash transactions				
Modco balances settled in investments	$ —	$ —	$ 13	$ 13

[1] *Financial statement line item renamed for the current year presentation*

[2] *Includes cash and cash equivalents of consolidated variable interest entities*

3. Summary of Significant Accounting Policies

Consolidation and Basis of Presentation—The consolidated financial statements of the Company include our wholly owned subsidiaries, investees we control, and any variable interest entities where we are the primary beneficiary. Investments in entities that we do not control, but have the ability to exercise significant influence over operating and financing decisions, other than investments for which we have elected the fair value option, are accounted for under the equity method. Intercompany balances and transactions have been eliminated.

For entities that are consolidated, but not 100% owned, we allocate a portion of the income or loss and corresponding equity to the owners other than the Company. We include the aggregate of the income or loss and corresponding equity that is not owned by the Company in noncontrolling interests in the consolidated financial statements.

We report investments in related parties and assets and liabilities of consolidated VIEs separately, as further described in the accounting policies that follow.

We have prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual experience could materially differ from these estimates and assumptions. The Company's principal estimates impact:

- fair value of investments;
- impairment of investments and valuation allowances;
- derivatives valuation, including embedded derivatives;
- deferred acquisition costs (DAC), deferred sales inducements (DSI), and value of business acquired (VOBA);
- future policy benefit reserves;
- valuation allowances on deferred tax assets; and
- stock-based compensation.

Additional details around these principal estimates and assumptions are discussed in the significant accounting policies that follow and the related footnote disclosures.

Investments

Fixed Maturity and Equity Securities – Fixed maturity securities includes bonds, collateralized loan obligations (CLO), asset-backed securities (ABS), residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and redeemable preferred stock. Equity securities includes common stock, mutual funds, and non-redeemable preferred stock. We classify fixed maturity and equity securities as available-for-sale (AFS) or trading at the time of purchase and subsequently carry them at fair value. Fair value hierarchy and valuation methodologies are discussed in *Note 7 – Fair Value*. Classification is dependent on a variety of factors including our expected holding period, election of the fair value option, and asset and liability matching.

AFS Securities – Unrealized gains and losses on AFS securities, net of tax and adjustments to DAC, DSI, VOBA, and future policy benefits, if applicable, are generally reflected in accumulated other comprehensive income (AOCI) on the consolidated balance sheets. Unrealized gains or losses relating to identified risks within AFS securities in fair value hedging relationships are reflected in investment related gains (losses) on the consolidated statements of income.

Trading Securities – We elected the fair value option for certain fixed maturity securities. These fixed maturity securities are classified as trading, with changes to fair value included in investment related gains (losses) on the consolidated statements of income. Although the securities are classified as trading, the trading activity related to these investments is primarily focused on asset and liability matching activities and is not intended to be an income strategy based on active trading. As such, the activity related to these investments on the consolidated statements of cash flows is classified as investing activities. Trading securities include mutual funds supporting unit-linked investment contracts.

We generally record security transactions on a trade date basis, with any unsettled trades recorded in other assets or other liabilities on the consolidated balance sheets. Private placement and investment fund purchases are recorded on a settlement date basis.

Purchased Credit Impaired (PCI) Securities – We purchase certain structured securities, primarily RMBS, having deterioration in credit quality since their issuance, which meet the definition of PCI securities. We determined, based on our expectations as to the timing and amount of cash flows expected to be received, that it was probable at acquisition that we would not collect all contractually required payments, including both principal and interest and considering the effects of prepayments for these PCI securities. Based on these assumptions, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is accreted into investment income, net of related expenses, over their remaining lives on a level-yield basis. The difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. Over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, the accretable yield and the non-accretable difference can change.

Quarterly, we evaluate the undiscounted expected future cash flows associated with PCI securities based on updates to key assumptions. Changes to undiscounted expected future cash flows due solely to the changes in the contractual benchmark interest rates on variable rate PCI securities will change the accretable yield prospectively. Declines in undiscounted expected future cash flows due to further credit deterioration, as well as changes in the expected timing of the cash flows, can result in the recognition of an other-than-temporary impairment (OTTI) charge, as PCI securities are subject to our policy for evaluating investments for OTTI. Significant increases in undiscounted expected future cash flows are recognized prospectively as an adjustment to the accretable yield.

Mortgage Loans – Mortgage loans are primarily stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on its contractual interest rate. We record amortization of premiums and discounts using the effective yield method, and contractual cash flows on the underlying loan. We accrue interest on loans until it is probable we will not receive interest or the loan is 90 days past due. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income on the consolidated statements of income. We have also elected the fair value option on a portion of our mortgage loans.

Investment Funds – We invest in certain non-fixed income, alternative investments in the form of limited partnerships or similar legal structures (investment funds). For investment funds in which we have determined we are not the primary beneficiary, and therefore not required to consolidate, we typically record these investments using the equity method of accounting, where the cost is recorded as an investment in the fund. Adjustments to the carrying amount reflect our pro rata ownership percentage of the operating results as indicated by net asset value (NAV) in the investment fund financial statements, which can be on a lag of up to three months when investee information is not received in a timely manner.

We record our proportionate share of investment fund income within net investment income on the consolidated statements of income. Contributions paid or distributions received by the Company are recorded directly to the investment fund balance as an increase to carrying value or as a return of capital, thus reducing our carrying value.

Policy Loans – Policy loans are funds provided to policyholders in return for a claim on the policy's account value. The funds provided are limited to a specified percentage of the account balance. The majority of policy loans do not have a stated maturity and the balances and accrued interest are repaid with proceeds from the policy account balance. Policy loans are reported at the unpaid principal balance. Interest income is recorded as earned using the contract interest rate and is reported in net investment income on the consolidated statements of income.

Funds Withheld at Interest – Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which we act as reinsurer. Assets equal to statutory reserves are withheld and legally owned by the ceding company. We periodically settle interest accruing to those assets at rates defined by the terms of the agreement. The underlying agreements contain embedded derivatives as discussed below.

Real Estate – Real estate investments are stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful life of the asset, which is typically 40 years, and is included in net investment income on the consolidated statements of income. We periodically review our real estate investments for impairment and test for recoverability when events or changes in circumstances indicate the carrying value may not be recoverable and exceeds its estimated fair value. We recognize an impairment to fair value if the carrying amount of a property exceeds the expected undiscounted cash flows.

Real estate investments we commit to a plan to sell within one year and actively market are classified as held for sale. Real estate held for sale is stated at the lower of depreciated cost or estimated fair value less expected disposition costs and is not depreciated.

Short-term Investments – Short-term investments consists of financial instruments with maturities of greater than three months but less than twelve months when purchased. Short-term debt securities are accounted for as trading or available for sale consistent with our policies for those investments. Short-term loans are carried at amortized cost. Fair values are determined consistent with policies described in *Note 7 – Fair Value*, for the respective investment type.

Investment Income – We recognize investment income as it accrues or is legally due, net of investment management and custody fees. Investment income on fixed maturity securities includes coupon interest, as well as the amortization of any premiums and the accretion of any discount. Investment income on equity securities represents dividend income and preferred coupons. Realized gains and losses on sales of investments and other-than-temporary impairments are included on the consolidated statements of income in investment related gains (losses) and other comprehensive income (OCI). Realized gains and losses on investments sold are determined based on a first-in first-out method.

Other-Than-Temporary Impairment – We identify fixed maturity and equity securities that could potentially have impairments that are other-than-temporary by monitoring market events for changes in market interest rates, credit issues, changes in business climate, management changes, litigation, government actions, and other similar factors. Indicators of impairment may include changes in the issuers' credit ratings, late payments, pricing levels, rating agency actions, key financial ratios, financial statements, revenue forecasts, and cash flow projections.

We review all securities on a case-by-case basis to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other-than-temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in fair value; (3) the issuer's financial position and access to capital; and (4) for fixed maturity securities, our ability and intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value. To the extent we determine that a security is other-than-temporarily impaired, an impairment loss is recognized.

We report impairment losses on equity securities in investment related gains (losses) on the consolidated statements of income. The recognition of impairment losses on fixed maturity securities on the consolidated financial statements is dependent on the facts and circumstances related to the specific security. If we intend to sell a security or it is more likely than not that we would be required to sell a security before the recovery of its amortized cost less any recorded credit loss, we recognize an OTTI in investment related gains (losses) on the consolidated statements of income for the difference between amortized cost and fair value. If neither of these two conditions exists, then the recognition of the OTTI is bifurcated and we recognize the credit loss portion in investment related gains (losses) on the consolidated statements of income and the non-credit loss portion in AOCI on the consolidated balance sheets.

We estimate the amount of the credit loss component of a fixed maturity security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The techniques and assumptions for establishing the best estimate cash flows vary depending on the type of security. The structured security's cash flow estimates are based on security-specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity, prepayments, and structural support, including subordination and guarantees. The non-structured security's cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using security-specific facts and circumstances including timing, security interests, and loss severity.

In periods after an OTTI loss is recognized on a fixed maturity security, we report the impaired security as if it had been purchased on the date it was impaired and continue to estimate the present value of the estimated cash flows of the security. Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into net investment income over the remaining term of the fixed maturity security in a prospective manner based on the amount and timing of estimated future cash flows.

For equity method investments, we consider financial and other information provided by the investee, other known information and inherent risks in the underlying investments, as well as future capital commitments, in determining whether an impairment has occurred. Declines in value of equity method investments not expected to be recovered are reflected through impairment in other investment related gains (losses) on the consolidated statements of income.

We impair a mortgage loan when it is probable we will not collect all amounts due under the agreement. We establish a general valuation allowance on mortgage loans based on loss history. Additionally, we establish a valuation allowance on individual loans based on expected losses from future dispositions or settlement, including foreclosures. We calculate the allowance based on how much the carrying value exceeds one of these values:

- the present value of expected future cash flows discounted at the loan's original effective interest rate;
- the value of the loan's collateral if it is in the process of foreclosure or otherwise collateral dependent; or
- the loan's fair value if the loan is being sold.

We first apply any interest accrued or received on the net carrying amount of the impaired loan to the principal of the loan, and once the principal is repaid, we include amounts received in net investment income. We limit accrued interest income on impaired loans to 90 days of interest. Once accrued interest on the impaired loan is received, we recognize interest income on a cash basis. Loans deemed uncollectible or in foreclosure are charged off against the valuation allowances, and subsequent recoveries, if any, are credited to the valuation allowances. Changes in valuation allowances are reported in investment related gains (losses) on the consolidated statements of income.

The cost of other invested assets is adjusted for impairments in value deemed to be other-than-temporary in the period in which the determination is made. These impairments are included within investment related gains (losses), and the cost basis of the investment securities is reduced accordingly. We do not change the revised cost basis for subsequent recoveries in value.

Derivative Instruments—We invest in derivatives to hedge the risks experienced in our ongoing operations, such as equity risk, interest rate risk, cash flow risks, or for other risk management purposes, which primarily involve managing liability risks associated with our indexed annuity products and reinsurance agreements. Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or other underlying notional amount. Derivatives are carried at fair value on the consolidated balance sheets in derivative assets and derivative liabilities. We elect to present any derivatives subject to master netting provisions as a gross asset or liability and gross of collateral. Disclosures regarding balance sheet presentation of derivatives subject to master netting agreements are discussed in *Note 5 – Derivative Instruments*. We may designate derivatives as cash flow hedges. Derivatives in cash flow hedge relationships are designated as hedges of interest rate, market, foreign currency, or credit risk. Derivatives designated as cash flow hedges receive specialized accounting treatment and are thus subject to additional documentation and support requirements.

Hedge Documentation and Hedge Effectiveness – To qualify for hedge accounting, at the inception of the hedging relationship, we formally document our risk management objective and strategy for undertaking the hedging transaction, as well as our designation of the hedge as a cash flow hedge. In this documentation, we set forth how the hedging instrument is expected to hedge the designated risks related to the hedged item, the method that will be used to retrospectively and prospectively assess the hedging instrument's effectiveness, and the method which will be used to measure ineffectiveness. A derivative designated as a hedging instrument must be assessed as being highly effective in offsetting the designated risk of the hedged item. Hedge effectiveness is formally assessed at inception and periodically throughout the life of the designated hedging relationship.

Changes in the fair value of the hedging instrument measured as ineffective are reported within investment related gains (losses) on the consolidated statements of income.

For a cash flow hedge, changes in the fair value of the hedging derivative measured as effective are reported within AOCI, and the related gains or losses on the derivative are reclassified into the consolidated statements of income when the cash flows of the hedged item affect earnings. Any ineffectiveness is reported in investment related gains (losses) on the consolidated statements of income each reporting period as effectiveness is assessed.

For a derivative not designated as a hedge, changes in the derivative's fair value are included in investment related gains (losses) on the consolidated statements of income. Any income received or paid on derivatives at the settlement dates is included in net investment income on the consolidated statements of income.

We discontinue hedge accounting prospectively when: (1) we determine the derivative is no longer highly effective in offsetting changes in the estimated cash flows of a hedged item; (2) the derivative expires, is sold, terminated, or exercised; or (3) the derivative is de-designated as a hedging instrument.

When hedge accounting is discontinued, the derivative continues to be carried on the consolidated balance sheets at fair value, with changes in fair value recognized in investment related gains (losses) on the consolidated statements of income.

Embedded Derivatives – We issue and reinsure products, primarily fixed indexed annuity products, or purchase investments that contain embedded derivatives. If we determine the embedded derivative has economic characteristics not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately. Embedded derivatives are carried on the consolidated balance sheets at fair value in the same line item as the host contract. Changes in the fair value of embedded derivatives associated with fixed indexed annuities are reflected in interest sensitive contract benefits on the consolidated statements of income. Embedded derivatives that are not clearly and closely related to the host contract within a financial asset are required to be bifurcated and recorded at fair value unless the fair value option is elected on the host contract. Under the fair value option, bifurcation of the embedded derivative is not necessary as all related gains and losses on the host contract and derivative will be reflected within investment related gains (losses) on the consolidated statements of income.

Fixed indexed annuity and universal life insurance contracts allow the policyholder to elect a fixed interest rate return or an equity market component where interest credited is based on the performance of common stock market indices. The equity market option is an embedded derivative, similar to a call option. The benefit reserve is equal to the sum of the fair value of the embedded derivative and the host (or guaranteed) component of the contracts. The fair value of the embedded derivative is computed as the present value of benefits attributable to the excess of the projected policy contract values over the projected minimum guaranteed contract values. The projections of policy contract values are based on assumptions for future policy growth, which include assumptions for expected index credits on the next policy anniversary date, future equity option costs, volatility, interest rates, and policyholder behavior. The projections of minimum guaranteed contract values include the same assumptions for policyholder behavior as were used to project policy contract values. For contracts we issue to policyholders, the embedded derivative cash flows are discounted using the Company's own credit rating. For funds withheld reinsurance contracts, we do not use a credit spread as the funds are backed by the cedant's collateral. The host contract is established at contract inception as the initial account value less the initial fair value of the embedded derivative and accreted over the policy's life. The host contract accretion rate is updated each quarter so that the present value of actual and expected guaranteed cash flows is equal to the initial host value.

Additionally, reinsurance agreements written on a modco or funds withheld basis contain embedded derivatives. The fair value of the embedded derivatives on modco and funds withheld agreements is included in the funds withheld at interest and funds withheld liability lines on the consolidated balance sheets for assumed and ceded agreements, respectively. The change in the fair value of the embedded derivatives is recorded in investment related gains (losses) on the consolidated statements of income. Assumed and ceded earnings from funds withheld at interest, funds withheld liability, and changes in the fair value of embedded derivatives are reported in operating activities on the consolidated statements of cash flows. Contributions to and withdrawals from funds withheld at interest and funds withheld liability are reported in operating activities on the consolidated statements of cash flows.

Variable Interest Entities—An entity that does not have sufficient equity to finance its activities without additional financial support, or in which the equity investors, as a group, do not have the characteristics of a controlling financial interest is a VIE. The determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and may require significant judgment. Our investment funds generally qualify as VIEs and are evaluated for consolidation under the VIE model.

We are required to consolidate a VIE if we are the primary beneficiary, defined as the variable interest holder with both the power to direct the activities that most significantly impact the VIE's economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE. We determine whether we are the primary beneficiary of an entity based on a qualitative assessment of the VIE's capital structure, contractual terms, nature of the VIE's operations and purpose, and our relative exposure to the related risks of the VIE. Since affiliates of Apollo Global Management, LLC (AGM and, together with its subsidiaries, Apollo), a related party, are the decision makers in certain of the investment funds, we and a member of our related party group may together have the characteristics of the primary beneficiary of an investment fund. In this situation, we have generally concluded we are not under common control, as defined by ASU 2015-02, with the related party, and therefore consolidate in the circumstances when substantially all of the activities of the VIE are conducted on our behalf. We reassess the VIE and primary beneficiary determinations on an ongoing basis.

If we are not the primary beneficiary, but are able to exert significant influence over the VIE’s operations, we record the VIE as an equity method investment. If we are not able to exercise significant influence, generally on investment funds in which we own a less than a 3% interest, we elect the fair value option.

See *Note 6 – Variable Interest Entities* for discussion of our interest in entities that meet the definition of a VIE.

Business Combinations and Goodwill—Business combination transactions are accounted for under the acquisition method. Accordingly, the purchase consideration is allocated to assets and liabilities based on their estimated fair value at the acquisition date. The consideration for the net assets acquired is determined prior to the assessment of the fair value of the net assets at the acquisition date. We have identified several intangible assets acquired in business combinations including VOBA, acquired distribution channels, and state licenses. We value VOBA as described below under Deferred Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired. We value distribution channels using the multi-period excess earnings method under the income approach and the state licenses using the market approach. Distribution channels and state licenses are included in other assets on the consolidated balance sheets.

Goodwill represents the excess of purchase consideration over the acquisition date fair value of net assets acquired and is included in the other assets on the consolidated balance sheets for direct acquisitions by the Company. Goodwill representing the excess purchase price paid by CoInvest VII for MidCap Financial Holdings, LLC (MidCap Holdings) over the fair value of the net assets acquired is included in assets of consolidated VIEs on the consolidated balance sheets. As of January 2015, our consolidated VIEs no longer report goodwill as our consolidated VIE, CoInvest VII, no longer consolidates MidCap Holdings as discussed in *Note 6 – Variable Interest Entities.* Goodwill is not amortized but reviewed for impairment annually or more frequently if events occur or circumstances change indicating potential impairment has occurred. Goodwill impairment is first assessed using qualitative factors. Where the qualitative assessment indicates a potential impairment of goodwill, we complete a quantitative goodwill impairment test.

The quantitative goodwill impairment test follows a two-step process. In the first step, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the impairment. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. If the carrying amount of the reporting unit's goodwill exceeds the implied goodwill value, an impairment loss is recognized in an amount equal to the excess.

An excess of the acquisition date fair value of the net assets acquired over the purchase consideration in a business combination is recorded as a bargain purchase gain in the consolidated statements of income. See *Note 8 – Business Combinations* for details of business combination transactions.

Reinsurance—We assume and cede insurance and investment contracts under coinsurance, funds withheld coinsurance (funds withheld), and modified coinsurance (modco). We follow reinsurance accounting for transactions that provide indemnification against loss or liability relating to insurance risk (risk transfer). To meet risk transfer requirements, a reinsurance agreement must include insurance risk consisting of underwriting, investment, timing risk, and any other significant risks. Cessions under reinsurance do not discharge our obligations as the primary insurer, unless the requirements of assumption reinsurance have been met. We generally have the right of offset on reinsurance contracts, but have elected to present reinsurance settlement amounts due to and from the Company on a gross basis.

For investment contracts, assets and liabilities assumed or ceded under coinsurance, funds withheld, or modco are presented gross on the consolidated balance sheets. The change in assumed and ceded reserves, deposits, and withdrawals are presented net in the interest sensitive contract benefits line on the consolidated statements of income. For insurance contracts, assets and liabilities assumed or ceded are presented gross on the consolidated balance sheets. The change in assumed and ceded reserves and benefits are presented net in the future policy and other policy benefits line on the consolidated statements of income. Assumed or ceded premiums are included in the premiums line of the consolidated statements of income.

Accounting for reinsurance requires the use of assumptions upon agreement inception, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. We attempt to minimize our counterparty credit risk through the structuring of the terms of our reinsurance agreements, including the use of trusts, and we monitor credit ratings of counterparties for signs of declining credit quality. When a ceding company does not report information on a timely basis, we record accruals based on the best available information at the time, which includes the reinsurance agreement terms and historical experience. We periodically compare actual and anticipated experience to the assumptions used to establish reinsurance assets and liabilities. Refer to *Note 9 – Reinsurance* for more information.

Funds Withheld – For business assumed or ceded on a funds withheld basis, a funds withheld segregated portfolio comprised of invested assets and other assets is maintained by the ceding entity, which are sufficient to support the current balance of policy benefit liabilities of the ceded business on a statutory basis. The fair value of the funds withheld account is recorded as a funds withheld asset or liability and accrues interest payable at rates as defined by the agreement terms and is settled periodically. The underlying agreements include embedded derivatives, as further discussed above in the accounting policy for Derivative Instruments and *Note 7 – Fair Value*.

Modified Coinsurance – Modco is similar to funds withheld, except that the policy benefit liabilities are also not transferred to the assuming entity. For business assumed or ceded on a modco basis, the fair value of the funds withheld is accounted for under the same method described for funds withheld reinsurance above. Assumed policy benefit liabilities are included in interest sensitive contract benefits and ceded policy benefit liabilities are included in reinsurance recoverable on the consolidated balance sheets. The underlying agreements include embedded derivatives, as further discussed above in the accounting policy for Derivative Instruments and *Note 7 – Fair Value.*

Cash and Cash Equivalents—Cash and cash equivalents include deposits and short-term highly liquid investments with a maturity of less than 90 days from the date of acquisition. Amounts included are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Restricted Cash—Restricted cash consists of cash and cash equivalents held in funds in trust as part of certain coinsurance agreements to secure all statutory reserves and liabilities of the coinsured parties, as well as assets pledged to secure the obligations under the funding agreements. Restricted cash within consolidated variable interest entities consisted of borrowers' escrows and reserves required to be held in separate accounts with MidCap Holdings' lenders and MidCap Holdings' principal and interest collections pledged to certain credit facilities. As of January 2015, our consolidated VIEs no longer report restricted cash as our consolidated VIE, CoInvest VII, no longer consolidates MidCap Holdings as discussed in *Note 6 – Variable Interest Entities.* Restricted cash is reported as a separate line item on the consolidated balance sheets. Changes in the restricted cash balance are reported in investing activities on the consolidated statements of cash flows.

Investments in Related Parties—Investments in related parties and associated earnings, other comprehensive income, and cash flows are separately identified on the consolidated financial statements and accounted for consistently with the policies described above for each category of investment.

Deferred Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired

Deferred Acquisition Costs and Deferred Sales Inducements – Costs related to direct and successful efforts of acquiring new business are deferred to the extent they are recoverable from future premiums or gross profits. These costs consist of commissions and policy issuance costs, as well as sales inducements credited to policyholder account balances. We adjust the DAC and DSI balances due to the OCI effects of net unrealized investment gains and losses on AFS securities. We perform periodic tests to determine if the deferred costs remain recoverable, including at issue. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we record a cumulative charge to the current period. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process for the interest sensitive policies. We also periodically revise the key assumptions used in the calculation of the amortization of DAC which results in revisions to the estimated future gross profits. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

Deferred costs related to interest sensitive life and investment-type policies, with significant revenue streams from sources other than investment of the policyholder funds, are amortized over the lives of the policies, in relation to the present value of gross profits including investment spread margins, surrender charge income, policy administration, changes in the guaranteed lifetime withdrawal benefit (GLWB) and guaranteed minimum death benefit (GMDB) reserves, and realized gains and losses on investments. Current period gross profits for fixed indexed annuities also include the impact of amounts for the change in fair value of the derivatives and the change in fair value of the embedded derivatives. Estimates of the future gross profits are based on assumptions using accepted actuarial methods. The balances associated with the preceding amortization methodology are recorded in deferred acquisition costs, deferred sales inducements, and value of business acquired on the consolidated balance sheets.

Deferred costs related to contracts with only investment related sources of revenues are amortized using the interest method. The interest method amortizes the deferred costs by discounting the future liability cash flows at a break-even rate. The break-even rate is solved such that the present value of future liability cash flows is equal to the net liability at the inception of the contract. The balances associated with this amortization methodology are recorded in deferred acquisition costs, deferred sales inducements, and value of business acquired on the consolidated balance sheets.

Value of Business Acquired – We establish VOBA for insurance contract blocks assumed with the acquisition of insurance entities. We record the fair value of the liabilities assumed in two components: reserves and VOBA. Reserves are established using our best estimate assumptions, and are further described in future policy benefits and interest sensitive contract liabilities. VOBA is the difference between the fair value and the reserves. VOBA can be either positive or negative. For interest sensitive life and investment-type contracts, any negative VOBA is recorded in interest sensitive contract liabilities on the consolidated balance sheets. For long duration and insurance contracts, any negative VOBA is recorded as part of future policy benefits on the consolidated balance sheets. Positive VOBA is recorded in deferred acquisition costs, deferred sales inducements, and value of business acquired on the consolidated balance sheets.

VOBA associated with funding agreements and immediate annuity contracts classified as investment contracts is amortized using the interest method. VOBA associated with immediate annuity contracts classified as long duration contracts is amortized at a constant rate in relation to net policyholder liabilities. For accumulation products, which include interest sensitive life and investment-type contracts with significant non-investment sources of revenue, VOBA is amortized in relation to the present value of estimated gross profits using methods consistent with those used to amortize DAC. Negative VOBA is amortized at a constant rate in relation to applicable net policyholder liabilities.

We adjust the VOBA balance due to the OCI effects of unrealized investment gains or losses on AFS securities. We perform periodic tests to determine if the VOBA remains recoverable. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we record a cumulative charge to the current period. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process for the interest sensitive policies. We also periodically revise the key assumptions used in the calculation of the amortization of the VOBA which results in updates to the estimated future gross profits. The effects of changes in estimated future gross profits are recorded in the period in which the changes are made.

See *Note 10 – Deferred Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired* for further discussion.

Loans Held for Investment—Loans presented within assets of consolidated variable interest entities on the consolidated balance sheets consisted of commercial, industrial, and commercial real estate loans originated by MidCap Holdings. These loans were held for investment and MidCap Holdings had the ability and intent to hold them for the foreseeable future. We elected the fair value option to account for the loans held for investment and thus were carried at fair value. As of January 2015, our consolidated VIEs no longer report loans held for investment as our consolidated VIE, CoInvest VII, no longer consolidates MidCap Holdings as discussed in *Note 6 – Variable Interest Entities.*

Interest Sensitive Contract Liabilities—Interest sensitive life and investment-type contracts include fixed indexed and traditional fixed annuities in the accumulation phase, funding agreements, universal life insurance, fixed indexed universal life insurance, unit-linked contracts, and immediate annuities without significant mortality risk. We carry liabilities for fixed annuities, universal life insurance, unit-linked contracts, and funding agreements at the account balances without reduction for potential surrender or withdrawal charges, except for a block of universal life business ceded to Global Atlantic Financial Group Limited (Global Atlantic) which we carry at fair value. Liabilities for immediate annuities without significant mortality risk are calculated as a present value of future liability cash flows at contractual interest rates.

Changes in the interest sensitive contract liabilities are recorded in interest sensitive contract benefits or product charges on the consolidated statements of income. Interest sensitive contract liabilities are not reduced for amounts ceded under coinsurance agreements which are reported as reinsurance recoverable on the consolidated balance sheets. See *Note 9 – Reinsurance* for more information on reinsurance.

Future Policy Benefits—We issue contracts classified as long-duration, which includes endowments, term and whole life, accident and health, disability, and deferred and immediate annuities with life contingencies. Liabilities for non-participating long-duration contracts are established using accepted actuarial valuation methods which require the use of assumptions related to expenses, investment yields, mortality, morbidity, and persistency, with a provision for adverse deviation, at the date of issue or acquisition. Liabilities for participating long-duration contracts are established using accepted actuarial valuation methods, which require the use of guaranteed interest and mortality assumptions. As of December 31, 2015, and 2014, the reserve investment yield assumptions range from 1.25% to 5.44% and are specific to our expected earned rate on the asset portfolio supporting the reserves. We base other key assumptions, such as mortality and morbidity, on industry standard data adjusted to align with actual company experience, if necessary.

For long-duration contracts, the assumptions are locked in at contract inception and only modified if we deem the reserves to be inadequate. We periodically review actual and anticipated experience compared to the assumptions used to establish policy benefits. If the net GAAP liability (gross reserves less DAC, DSI, and VOBA) is less than the gross premium liability, impairment is deemed to have occurred, and the DAC, DSI, and VOBA asset balances are reduced until the net GAAP liability is equal to the gross premium liability. For deferred annuity policies classified as insurance contracts, if the DAC, DSI, and VOBA asset balances are completely written off and the net GAAP liability is still less than the gross premium liability, then an additional liability is posted to arrive at the gross premium liability.

We issue and reinsure deferred annuity contracts which contain GLWB and GMDB riders. We establish future policy benefits for GLWB and GMDB by estimating the expected value of withdrawal and death benefits in excess of the projected account balance. We recognize the excess proportionally over the accumulation period based on total expected assessments. The methods we use to estimate the liabilities have assumptions about policyholder behavior, mortality, and market conditions affecting the account balance growth.

Future policy benefits includes liabilities for no-lapse guarantees on universal life insurance and fixed indexed universal life insurance. We establish future policy benefits for no-lapse guarantees by estimating the expected value of death benefits paid after policyholder account balances have been exhausted. We recognize these benefits proportionally over the life of the contracts based on total expected assessments. The methods we use to estimate the liabilities have assumptions about policyholder behavior, mortality, and market conditions affecting the account balance growth.

Changes in future policy benefits are recorded in future policy and other policy benefits on the consolidated statements of income. Future policy benefits are not reduced for amounts ceded under coinsurance agreements which are reported as reinsurance recoverable on the consolidated balance sheets. See *Note 9 – Reinsurance* for more information on reinsurance.

Closed Block Business—Two closed blocks of policies were established in connection with the reorganization of two predecessor subsidiaries from mutual companies to stock companies (collectively referred to as the Closed Blocks and individually referred to as the AmerUs Closed Block and the ILICO Closed Block). Insurance policies which had a dividend scale in effect as of each closed block establishment date were included in the respective closed block. The Closed Blocks were designed to give reasonable assurance to owners of insurance policies included therein that, after the reorganization, assets would be available to maintain the dividend scales and interest credits in effect prior to the reorganization, if the experience underlying such scales and crediting continued. The assets, including related revenue, allocated to the Closed Blocks will accrue solely to the benefit of the policyholders included in the Closed Blocks until they no longer exist. A policyholder dividend obligation is required to be established for earnings in the Closed Blocks that are not available to the shareholders. See *Note 11 – Closed Block* for more information on the Closed Blocks.

Other Policy Claims and Benefits—Other policy claims and benefits include amounts payable relating to in course of settlements (ICOS) and incurred but not reported (IBNR) liabilities associated with interest sensitive contract liabilities and future policy benefits. For traditional life and universal life policies, ICOS claim liabilities are established when we are notified of the death of the policyholder but the claim has not been paid as of the reporting date. For immediate annuities and supplemental contracts, ICOS claim liabilities are established to accrue suspended benefit payments between the date of notification of death and the date of verification of death.

We determine IBNR claim liabilities using studies of past experience. The time that elapses from the death or claim date to when the claim is reported to us can vary significantly by product type, but generally ranges between one to six months for life business. We estimate IBNR claims on an undiscounted basis, using actuarial estimates of historical claims expense, adjusted for current trends and conditions. These estimates are continually reviewed and the ultimate liability may vary significantly from the amount recognized.

Dividends Payable to Policyholders—Participating policies entitle the policyholders to receive dividends based on actual interest, mortality, morbidity, and expense experience for the year. Dividends are distributed to the policyholders through annual or terminal dividends, which the Board of Directors of the applicable insurance subsidiary approves. As of December 31, 2015, and 2014, 78% and 49%, respectively, of traditional life policies inclusive of ceded policies were paying dividends, and the related liability is recorded in dividends payable to policyholders on the consolidated balance sheets. Premiums related to policies paying dividends represented 22%, 11%, and 10% of total life insurance direct premiums and deposits for the years ended December 31, 2015, 2014, and 2013, respectively. Traditional life policies inclusive of ceded policies represented 78% and 49% of the Company's individual life policies in force as of December 31, 2015, and 2014, respectively.

As of December 31, 2015, all of the non-separate account unit-linked policies were paying dividends, and the related liability is recorded in dividends payable to policyholders on the consolidated balance sheets. There were no material deposits related to non-separate account unit-linked policies paying dividends for the year ended December 31, 2015. Non-separate account unit-linked policies represented 2% of the Company’s interest sensitive contracts in force as of December 31, 2015. We did not have non-separate account unit-linked policies as of December 31, 2014, or 2013, since we acquired them in connection with the acquisition of Delta Lloyd Deutschland AG (DLD) on October 1, 2015, as discussed in *Note 8 – Business Combinations*.

Policyholder dividend liabilities are recorded in dividends payable to policyholders on the consolidated balance sheets and policyholder dividends are recorded in dividends to policyholders on the consolidated statements of income. For participating policies issued by our German subsidiaries, dividends payable to policyholders includes an adjustment to recognize timing differences between GAAP and local statutory earnings that reverse and enter into future calculations of dividends to policyholders. Except for changes due to unrealized gains or losses on AFS securities, the change in this adjustment is recorded in dividends to policyholders on the consolidated statements of income. Changes in this adjustment due to unrealized gains or losses on AFS securities are recorded in OCI.

Stock-Based Compensation—We have stock-based compensation plans under which restricted, incentive compensation share awards may be granted to the Company's employees and directors, and employees of Athene Asset Management, L.P. (AAM), an affiliated entity, as described in *Note 14 – Stock-based Compensation*. We recognize the fair value of stock-based compensation over a participant's requisite service period through a charge to compensation expense and a corresponding entry to equity or a liability based on vesting criteria and other pertinent terms of the awards. Stock-based awards are accounted for as equity awards in instances where the awards' vesting are linked to a market, performance, or service condition. Equity awards to employees are generally expensed based on the grant date fair value. For equity awards issued to non-employees, the fair value is remeasured through completion of counterparty performance. Employee and non-employee stock-based awards are accounted for as liabilities in instances where the awards' vesting criteria are linked to a factor other than a market, performance, or service condition. Liability awards are remeasured until settlement. In the event that awards are reclassified from liability to equity due to modification or other changes in circumstances, they are remeasured at fair value through the date of reclassification.

Earnings Per Share—We compute basic earnings per share (EPS) by dividing unrounded net income available to Athene Holding Ltd. shareholders by the weighted average number of Class A and Class B common shares outstanding for the period. As a result, it may not be possible to recalculate EPS as presented in our consolidated financial statements. Diluted earnings per share includes the effect of all potentially dilutive common shares outstanding during the period. See *Note 15 – Earnings Per Share* for further information.

Foreign Currency—The accounts of foreign-based subsidiaries are measured using the functional currency of the subsidiary. Revenue and expenses of these businesses are translated into United States dollars at the average exchange rate for the period. Assets and liabilities are translated at the exchange rate as of the end of the reporting period. The resulting translation adjustments are included in equity as a component of AOCI. Gains or losses arising from transactions denominated in a currency other than the functional currency of the entity that is party to the transaction are included in net income.

Recognition of Revenues and Related Expenses—Revenues for annuity and universal life-type products, including surrender and market value adjustments, costs of insurance, policy administration, GMDB, GLWB, and no-lapse guarantee charges, are earned when assessed against policyholder account balances during the period. Interest sensitive contract benefits related to annuity products include interest credited to policyholder account balances. In addition, the change in fair value of embedded derivatives within fixed indexed annuity contracts is included in interest sensitive contract benefits on the consolidated statements of income.

For certain assumed reinsurance transactions involving in force blocks of business, the ceding company may pay a premium equal to the initial required reserve (future policy benefit). In such transactions, we net the expense associated with the establishment of the reserve against the premiums from the transaction in interest sensitive contract benefits on the consolidated statements of income.

Premiums for traditional life insurance products, including products with fixed and guaranteed premiums and benefits, are recognized as revenues when due from policyholders.

All insurance related revenue is reported net of reinsurance ceded.

Income Taxes—We compute income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial statement carrying amounts and the tax basis of our assets and liabilities using estimated tax rates expected to be in effect for the year in which the differences are expected to reverse. Changes in deferred tax assets and liabilities attributable to changes in enacted income tax rates are recorded in the period of enactment. Such temporary differences are primarily due to the tax basis of reserves, DAC, unrealized investment gains/losses, reinsurance related differences, embedded derivatives, and net operating loss carryforwards. Changes in deferred income tax assets and liabilities associated with components of OCI are recorded directly to OCI. We routinely evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, we determine that it is more likely than not that some portion of the tax benefit will not be realized. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the relevant taxing authorities, based on the technical merits of our position. We recognize any income tax interest and penalties in income tax expense.

See *Note 17 – Income Taxes* for discussion on withholding taxes for undistributed earnings of subsidiaries.

Adopted Accounting Pronouncements

Business Combinations – Measurement-Period Adjustments (ASU 2015-16)
This update eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Alternatively, an acquirer should recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. We elected to early adopt this standard effective October 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Debt Issuance Costs (ASU 2015-15 and 2015-03)
These updates require debt issuance costs related to a recognized debt liability or line of credit arrangement to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability and bring existing SEC guidance into conformity with this debt issuance cost guidance. We elected to early adopt this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Consolidation Analysis (ASU 2015-02)
This update changes the analysis a reporting entity performs to determine whether it should consolidate certain types of legal entities. The Company elected to adopt this guidance effective July 1, 2015, using the full retrospective method. The Company's consolidated financial statements for the year ended December 31, 2014, were reissued to reflect the results of the retrospective adoption.

The adoption of ASU 2015-02 resulted in the following changes to our consolidation assessment of certain variable interest entities (VIEs):

- Two real estate investment funds and one mortgage investment fund, which we previously consolidated, are deemed to be investment companies. Under the previous guidance, we were determined to be the primary beneficiary as we receive the majority of the rights to receive benefits or absorb losses. Upon adoption of ASU 2015-02, we concluded that substantially all of the activities of the VIE were not conducted on our behalf. Therefore, these VIEs are accounted for under the equity method of accounting upon adoption of ASU 2015-02.
- AAA Investments (Co-Invest VI), L.P. (CoInvest VI), AAA Investments (Co-Invest VII), L.P. (CoInvest VII), AAA Investments (Other), L.P. (CoInvest Other), and London Prime Apartments Guernsey Holdings Limited (London Prime) were previously not consolidated as they did not meet the definition of an investment company and the general partners in each of these funds had been determined to be the primary beneficiary as they had met both the power and economics criteria, or had been determined to be the most closely associated with these investment funds upon application of the related party tiebreaker criteria. Upon adoption of ASU 2015-02, the Company concluded that fees paid to the decision maker were not deemed variable interests. Substantially all of the activities of these VIEs were being conducted on our behalf and, therefore, are consolidated upon adoption of ASU 2015-02.
- The consolidation of CoInvest Fund VII also includes the consolidated financial results of its investee, MidCap Holdings, as of December 31, 2014. As of January 2015, MidCap Holdings is no longer consolidated by CoInvest VII as described in *Note 6 – Variable Interest Entities*.

Transfers and Servicing (ASU 2014-11)
This update requires repurchase-to-maturity transactions and repurchase financing arrangements be accounted for as secured borrowings and provides for enhanced disclosures, including the nature of collateral pledged and the time to maturity. We fully adopted this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Discontinued Operations (ASU 2014-08)
This update changes the criteria related to reporting discontinued operations and introduces new disclosures. We adopted this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Troubled Debt Restructuring (ASU 2014-04)
This update clarifies when an in substance repossession or foreclosure occurs, and when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. We adopted this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Recently Issued Accounting Pronouncements

Revenue Recognition (ASU 2016-11, ASU 2016-10, ASU 2016-08, ASU 2015-14, and ASU 2014-09)
ASU 2014-09 indicates an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 provided for a one-year deferral of the effective date, which will require us to adopt this standard effective January 1, 2018. ASU 2016-08 amends the principal-versus-agent implementation guidance and illustrations in ASU 2014-09. ASU 2016-10 clarifies the identification of performance obligations as well as licensing implementation guidance. ASU 2016-11 brings existing SEC guidance into conformity with revenue recognition accounting guidance of ASU 2014-09 discussed above. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Improvements to Employee Share-Based Payment Accounting (ASU 2016-09)
This update simplifies several aspects of the accounting for share-based payment award transactions, including income tax consequences, forfeitures, and classification on the statement of cash flows. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Equity Method and Joint Ventures (ASU 2016-07)
This update eliminates the retroactive adjustments to an investment upon it qualifying for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence by the investor. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Derivatives and Hedging – Contingent Put and Call Options (ASU 2016-06)
This update is intended to clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to debt hosts. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Derivatives and Hedging – Effects of Derivative Contract Novation (ASU 2016-05)
This update is intended to clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require a de-designation of that hedging relationship provided all other hedge accounting criteria continue to be met. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Leases (ASU 2016-02)
This update is intended to increase transparency and comparability for lease transactions. A lessee is required to recognize an asset and a liability for all lease arrangements longer than 12 months. Lessor accounting is largely unchanged. We will be required to adopt this standard effective January 1, 2019. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Financial Instruments – Recognition and Measurement (ASU 2016-01)
This update retains the current accounting for classifying and measuring investments in debt securities and loans, but requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. We will be required to adopt this standard effective January 1, 2018. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Fair Value Measurement – Net Asset Value (ASU 2015-07)
This update has a disclosure-only impact for entities that measure investments using net asset value per share under the practical expedient in the fair value measurement guidance. We will be required to adopt this standard effective January 1, 2016. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Cloud Computing Arrangements (ASU 2015-05)
This update clarifies whether a cloud computing arrangement is an intangible asset or a service contract. We will be required to adopt this standard effective January 1, 2016. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Stock-Based Compensation (ASU 2014-12)
This update requires a performance target in a share-based payment arrangement that affects vesting and that could be achieved after the requisite service period to be treated as a performance condition. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. We will be required to adopt this standard effective January 1, 2016. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

4. Investments

AFS Securities—The following table represents our AFS investments by asset type. Our AFS investment portfolio includes direct investments in affiliates of Apollo where Apollo can exercise significant influence over the affiliates. These investments are presented as investments in related parties on the consolidated balance sheets, and are separately disclosed below.

	December 31, 2015				
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 44	$ 1	$ —	$ 45	$ —
U.S. state, municipals, and political subdivisions	1,075	100	(10)	1,165	7
Foreign governments	2,467	17	(20)	2,464	—
Corporate	26,979	523	(566)	26,936	2
CLO	4,943	4	(392)	4,555	—
ABS	2,944	33	(59)	2,918	—
CMBS	1,725	33	(20)	1,738	—
RMBS	8,050	128	(183)	7,995	6
Total fixed maturity securities	48,227	839	(1,250)	47,816	15
Equity securities	367	40	—	407	—
Total AFS securities	48,594	879	(1,250)	48,223	15
Fixed maturity securities – related party					
CLO	271	—	(23)	248	—
ABS	61	—	(1)	60	—
Total AFS securities – related party	332	—	(24)	308	—
Total AFS securities including related party	$ 48,926	$ 879	$ (1,274)	$ 48,531	$ 15

	December 31, 2014				
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 68	$ 3	$ —	$ 71	$ —
U.S. state, municipals, and political subdivisions	1,304	168	(1)	1,471	—
Corporate	26,750	1,062	(90)	27,722	—
CLO	3,719	16	(115)	3,620	1
ABS	2,636	48	(18)	2,666	—
CMBS	2,890	54	(14)	2,930	—
RMBS	6,040	221	(38)	6,223	4
Total fixed maturity securities	43,407	1,572	(276)	44,703	5
Equity securities	142	48	—	190	—
Total AFS securities	43,549	1,620	(276)	44,893	5
Fixed maturity securities – related party					
CLO	270	—	(10)	260	—
ABS	66	—	—	66	—
Total fixed maturity securities – related party	336	—	(10)	326	—
Total AFS securities including related party	$ 43,885	$ 1,620	$ (286)	$ 45,219	$ 5

The amortized cost and fair value of fixed maturity AFS securities, including related party fixed maturity AFS securities, are shown by contractual maturity below.

	December 31, 2015	
(In millions)	Amortized Cost	Fair Value
Due in one year or less	$ 1,167	$ 1,165
Due after one year through five years	6,441	6,464
Due after five years through ten years	11,579	11,532
Due after ten years	11,378	11,449
ABS, CLO, CMBS, and RMBS	17,662	17,206
Total fixed maturity securities	48,227	47,816
Fixed maturity securities – related party, ABS and CLO	332	308
Total fixed maturity securities including related party	$ 48,559	$ 48,124

Actual maturities can differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Unrealized Losses on AFS Securities—The following summarizes the fair value and gross unrealized losses for AFS securities, including related party AFS securities, aggregated by class of security and length of time the fair value has remained below amortized cost:

	December 31, 2015					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. government and agencies	$ 4	$ —	$ 2	$ —	$ 6	$ —
U.S. state, municipals, and political subdivisions	63	(9)	8	(1)	71	(10)
Foreign governments	711	(20)	—	—	711	(20)
Corporate	7,810	(450)	554	(116)	8,364	(566)
CLO	2,934	(169)	1,555	(223)	4,489	(392)
ABS	1,484	(37)	371	(22)	1,855	(59)
CMBS	577	(11)	119	(9)	696	(20)
RMBS	4,672	(128)	995	(55)	5,667	(183)
Total AFS securities	18,255	(824)	3,604	(426)	21,859	(1,250)
Fixed maturity securities – related party						
CLO	139	(14)	72	(9)	211	(23)
ABS	60	(1)	—	—	60	(1)
Total fixed maturity securities – related party	199	(15)	72	(9)	271	(24)
Total AFS securities including related party	$ 18,454	$ (839)	$ 3,676	$ (435)	$ 22,130	$ (1,274)

	December 31, 2014					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. state, municipals, and political subdivisions	$ 51	$ (1)	$ —	$ —	$ 51	$ (1)
Corporate	3,237	(80)	294	(10)	3,531	(90)
CLO	2,875	(109)	153	(6)	3,028	(115)
ABS	1,125	(9)	167	(9)	1,292	(18)
CMBS	974	(9)	109	(5)	1,083	(14)
RMBS	2,220	(32)	76	(6)	2,296	(38)
Total AFS securities	10,482	(240)	799	(36)	11,281	(276)
Fixed maturity securities – related party, CLO	239	(10)	—	—	239	(10)
Total AFS securities including related party	$ 10,721	$ (250)	$ 799	$ (36)	$ 11,520	$ (286)

At December 31, 2015, we held 2,855 AFS securities that were in an unrealized loss position. Of this total, 614 were in an unrealized loss position longer than 12 months. At December 31, 2015, we held 21 related party AFS securities that were in an unrealized loss position. Of this total, eight were in an unrealized loss position longer than 12 months. We did not recognize the unrealized losses in income because we have the intent and ability to hold these securities until sale or maturity, and believe the securities will recover the amortized cost basis prior to sale or maturity.

Other-Than-Temporary Impairments on AFS Securities—For the year ended December 31, 2015, on total AFS securities including related party of $48,531 million, we incurred $30 million of net OTTI losses, of which $9 million related to intent-to-sell impairments. These securities were impaired to fair value as of the impairment date. The remainder of net OTTI losses of $21 million related to credit impairments, of which $1 million related to credit loss impairments that we impaired to fair value and did not bifurcate a portion of the impairment in AOCI, and is also excluded from the rollforward below.

The following table represents a rollforward of the cumulative amounts recognized on the consolidated statements of income for OTTI related to pre-tax credit loss impairments on AFS fixed maturity securities, for which a portion of the securities' total OTTI was recognized in AOCI:

	Years ended December 31,		
(In millions)	2015	2014	2013
Beginning balance	$ 8	$ 3	$ 10
Initial impairments – credit loss OTTI recognized on securities not previously impaired	19	3	—
Additional impairments – credit loss OTTI recognized on securities previously impaired	1	2	—
Reduction in impairments from securities sold	(2)	—	(7)
Reduction for credit loss that no longer has a portion of the OTTI loss recognized in AOCI	(4)	—	—
Ending balance	$ 22	$ 8	$ 3

Net Investment Income—Net investment income by asset type consists of the following:

	Years ended December 31,		
(In millions)	2015	2014	2013
AFS securities			
Fixed maturity securities	$ 2,051	$ 1,868	$ 811
Equity securities	7	6	4
Trading securities	196	136	82
Mortgage loans, net of allowances	320	347	128
Investment funds	109	177	112
Cash and cash equivalents	2	5	1
Funds withheld at interest and modco	54	46	47
Policy loans	21	16	6
Other investments	21	3	7
Investment revenue	2,781	2,604	1,198
Investment expenses	(273)	(271)	(124)
Net investment income	$ 2,508	$ 2,333	$ 1,074

Investment Related Gains (Losses)—Investment related gains (losses) by asset type consist of the following:

	Years ended December 31,		
(In millions)	2015	2014	2013
AFS fixed maturity securities			
Gross realized gain on investment activity	$ 150	$ 203	$ 130
Gross realized loss on investment activity	(86)	(22)	(44)
Net realized investment gains on fixed maturity securities	64	181	86
AFS equity securities			
Gross realized gain on investment activity	1	1	8
Gross realized loss on investment activity	—	—	(1)
Net realized investment gains on equity securities	1	1	7
Net realized investment gains (losses) on trading securities	(228)	242	130
Derivative gains (losses)	(277)	792	707
Other gains (losses)	10	(6)	(3)
Investment related gains (losses)	$ (430)	$ 1,210	$ 927

Proceeds from sales of AFS securities were $6,899 million, $6,391 million, and $6,788 million, for the years ended December 31, 2015, 2014, and 2013, respectively.

Included in net realized investment gains (losses) on trading securities are losses of $133 million, gains of $258 million, and losses of $73 million resulting from the change in unrealized gains or losses for the underlying bonds we still held as of December 31, 2015, 2014, and 2013, respectively. Also included in net realized investment gains (losses) on trading securities are related party losses of $10 million, gains of $13 million, and gains of $22 million resulting from the change in unrealized gains or losses for the underlying bonds we still held as of December 31, 2015, 2014, and 2013, respectively.

Purchased Credit Impaired (PCI) Securities—The following table summarizes our PCI securities, which are included in AFS fixed maturity securities:

	December 31,	
(In millions)	2015	2014
Contractually required payments[1]	$ 7,291	$ 6,624
Less: Cash flows expected to be collected[2]	(4,986)	(4,632)
Non-accretable difference	$ 2,305	$ 1,992
Cash flows expected to be collected	$ 4,986	$ 4,632
Less: Amortized cost	(3,673)	(3,302)
Accretable difference	$ 1,313	$ 1,330
Fair value	$ 3,647	$ 3,432

[1] *Includes principal and accrued interest.*

[2] *Represents the acquisition date undiscounted principal and interest cash flows expected.*

We acquired PCI investments with the following amounts at the time of purchase:

	December 31,	
(In millions)	2015	2014
Contractually required principal and interest	$ 1,999	$ 4,167
Expected cash flows	1,277	2,400
Estimated fair value	937	2,375

The following tables summarize the activity for the accretable yield on PCI securities:

	Years ended December 31,		
(In millions)	2015	2014	2013
Beginning balance	$ 1,330	$ 1,254	$ 636
Purchases of PCI securities, net	243	513	683
Accretion	(113)	(117)	(72)
Changes in expected cash flows	(147)	(320)	7
Ending balance	$ 1,313	$ 1,330	$ 1,254

Mortgage Loans—Mortgage loans, net of allowances, consist of the following:

	December 31,	
(In millions)	2015	2014
Commercial mortgage loans	$ 5,400	$ 5,465
Residential mortgage loans	100	—
Mortgage loans, net of allowances	$ 5,500	$ 5,465

We primarily make commercial mortgage loans on income producing properties including hotels, industrial properties, retail buildings, and office buildings. We diversify the commercial mortgage loan portfolio by geographic region and property type to reduce concentration risk. Typically, we only lend up to 75% of the estimated fair value of the underlying real estate to manage risk in origination of a commercial mortgage loan. Subsequent to origination, we evaluate mortgage loans based on relevant current information to confirm if properties are performing at a consistent and acceptable level to secure the related debt.

The distribution of commercial mortgage loans, net of valuation allowances, by property type and geographic region is as follows:

	December 31,			
	2015		2014	
(In millions)	Net Carrying Value	Percentage of Total	Net Carrying Value	Percentage of Total
Property type				
Hotels	$ 877	16.2%	$ 705	12.9%
Retail	1,230	22.8%	1,338	24.5%
Office building	1,274	23.6%	1,301	23.8%
Industrial	821	15.2%	936	17.1%
Apartment	907	16.8%	809	14.8%
Other commercial	291	5.4%	376	6.9%
Total commercial mortgage loans	$ 5,400	100.0%	$ 5,465	100.0%
U.S. Region				
East North Central	$ 443	8.2%	$ 494	9.0%
East South Central	129	2.4%	151	2.8%
Middle Atlantic	804	14.9%	786	14.4%
Mountain	583	10.8%	692	12.7%
New England	181	3.3%	142	2.6%
Pacific	838	15.5%	836	15.3%
South Atlantic	1,231	22.8%	1,228	22.5%
West North Central	291	5.4%	320	5.8%
West South Central	792	14.7%	816	14.9%
Total U.S. Region	5,292	98.0%	5,465	100.0%
International Region	108	2.0%	—	—%
Total commercial mortgage loans	$ 5,400	100.0%	$ 5,465	100.0%

Mortgage Loan Valuation Allowance—We have a high quality, well performing commercial mortgage loan portfolio with the majority of mortgage loans classified as performing at December 31, 2015, and 2014. We have established a valuation allowance for collection loss on the mortgage loan portfolio. The valuation allowance was $2 million and $1 million at December 31, 2015, and 2014, respectively. There were no material impairments recorded or significant activity in the valuation allowance during the years ended December 31, 2015, 2014, and 2013.

The following provides the aging of our commercial mortgage loan portfolio, net of valuation allowances:

	December 31,	
(In millions)	2015	2014
Current (less than 30 days past due)	$ 5,360	$ 5,461
30 to 60 days past due	1	4
Over 90 days past due	39	—
Total commercial mortgage loans	$ 5,400	$ 5,465

Loan-to-value and debt service coverage ratios are measures we use to assess the risk and quality of mortgage loans.

The loan-to-value ratio is expressed as a percentage of the amount of the loan relative to the value of the underlying property. A loan-to-value ratio in excess of 100% indicates the unpaid loan amount exceeds the underlying collateral. The following represents the loan-to-value ratio of the commercial mortgage loan portfolio, net of valuation allowances:

	December 31,	
(In millions)	2015	2014
Less than 50%	$ 2,159	$ 2,156
50% to 60%	1,173	1,579
61% to 70%	1,299	910
71% to 100%	698	820
Greater than 100%	71	—
Total commercial mortgage loans	$ 5,400	$ 5,465

The debt service coverage ratio, based upon the most recent financial statements, is expressed as a percentage of a property's net income to its debt service payments. A debt service ratio of less than 1.0 indicates a property's operations do not generate enough income to cover debt payments. The following represents the debt service coverage ratio of the commercial mortgage loan portfolio, net of valuation allowances:

	December 31,	
(In millions)	2015	2014
Greater than 1.20x	$ 4,455	$ 4,446
1.00x – 1.20x	471	474
Less than 1.00x	474	545
Total commercial mortgage loans	$ 5,400	$ 5,465

Real Estate—We did not record any material depreciation expense or accumulated depreciation on real estate during the year ended December 31, 2015. We acquired real estate investments in connection with the acquisition of DLD on October 1, 2015, as discussed in *Note 8 – Business Combinations*.

Funds Withheld at Interest—For reinsurance agreements written on a coinsurance funds withheld basis, assets equal to the net statutory reserves are withheld and legally owned by the ceding company. These are reflected as funds withheld at interest on the consolidated balance sheets. In the event of a ceding company's insolvency, we would need to assert a claim on the assets supporting our reserve liabilities. However, we have the ability to offset amounts we owe to the ceding company, which reduces our risk of loss. The embedded derivative of the funds withheld is separated from the host contract. See *Note 5 – Derivative Instruments* for further discussion.

Interest accrues at a risk free rate and the weighted average yield across all cedants was 1.8% and 2.1% as of December 31, 2015, and 2014, respectively. The return on the underlying assets directly impacts the host contract and the embedded derivative. The Company is subject to the investment performance on the withheld assets, although it does not directly control them. However, in each case, the ceding company has hired AAM, a related party investment management company, to manage the withheld assets in accordance with investment guidelines agreed to among the Company, the ceding company, and AAM. AAM manages these portfolios in accordance with such guidelines, taking into account the investment objectives of the Company given the applicable reinsurance relationship, and these portfolios remain subject to oversight of the applicable ceding company.

Investment Funds—Our investment fund portfolio consists of funds that employ various strategies and include investments in mortgage and real estate, credit, private equity, natural resources, and hedge funds. Investment funds meet the definition of variable interest entities and are discussed further in *Note 6 – Variable Interest Entities*.

5. Derivative Instruments

We use a variety of derivative instruments to manage equity risk, interest rate risk, credit risk, foreign currency risk, and market volatility. See *Note 3 – Summary of Significant Accounting Policies* for a description of our accounting policies for derivatives and *Note 7 – Fair Value* for information about the fair value hierarchy for derivatives.

The following table presents the notional amount and fair value of derivative instruments:

	December 31,					
	2015			2014		
	Notional	Fair Value		Notional	Fair Value	
(In millions)	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Derivatives designated as hedges						
Foreign currency swaps	177	$ 14	$ —	223	$ 9	$ —
Derivatives not designated as hedges						
Equity options	25,176	831	—	27,402	1,792	108
Futures	—	9	1	—	15	—
Total return swaps	54	—	—	84	3	1
Foreign currency swaps	47	5	—	58	10	—
Interest rate swaps	859	2	8	1,184	2	14
Credit default swaps	10	—	7	10	—	7
Variance swaps	—	5	—	2	5	13
Foreign currency forwards	367	5	1	223	6	—
Embedded derivatives						
Funds withheld and modco	—	36	35	—	127	394
Interest sensitive contract liabilities	—	—	4,477	—	—	4,437
Total non-hedging derivatives		893	4,529		1,960	4,974
Total derivatives		$ 907	$ 4,529		$ 1,969	$ 4,974

Derivatives are included in derivative assets or liabilities on the consolidated balance sheets, with the exception of embedded derivatives. Funds withheld or modco embedded derivatives are included in funds withheld at interest or funds withheld liability on the consolidated balance sheets. Indexed annuity products embedded derivatives are included in interest sensitive contract liabilities on the consolidated balance sheets.

Derivative gains (losses) included in investment related gains (losses) on the consolidated statements of income are as follows:

	Years ended December 31,		
(In millions)	2015	2014	2013
Cash flow hedges	$ —	$ —	$ 1
Derivatives not designated as hedges	(277)	792	706
Total derivative gains (losses)	$ (277)	$ 792	$ 707

Derivatives Designated as Hedges

Cash flow hedges – We use foreign currency swaps to convert foreign currency denominated cash flows of an investment to U.S. dollars to reduce cash flow fluctuations due to changes in currency exchange rates. As of December 31, 2015, and 2014, we had five foreign currency swaps designated and accounted for as cash flow hedges. The foreign currency swaps will expire by June 25, 2027. There were no amounts deemed ineffective for the years ended December 31, 2015, 2014, and 2013. The following represents foreign currency swap gains (losses):

	Years ended December 31,		
(In millions)	2015	2014	2013
Gains (losses) recorded in AOCI	$ 9	$ (7)	$ (9)
Amounts reclassified to income in investment related gains (losses)	—	—	1
Total foreign currency swap gains (losses)	$ 9	$ (7)	$ (8)

Derivatives Not Designated as Hedges

Equity options – We use equity indexed options to economically hedge fixed indexed annuity products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specified market index, primarily the S&P 500. To hedge against adverse changes in equity indices, we enter into contracts to buy the equity indexed options within a limited time at a contracted price. The contracts are net settled in cash based on differentials in the indices at the time of exercise and the strike price.

Equity swaps – We entered into an equity swap transaction with Apollo in connection with the termination of the quarterly monitoring fee under the Transaction Advisory Services Agreement (TASA). See *Note 19 – Related Parties* for additional information.

Futures – Futures contracts are purchased to hedge the growth in interest credited to the customer as a direct result of increases in the related indicies. We enter into exchange-traded futures with regulated futures commission clearing brokers who are members of a trading exchange. Under exchange-traded futures contracts, we agree to purchase a specified number of contracts with other parties and to post variation margin on a daily basis in an amount equal to the difference in the daily fair values of those contracts.

Total return swaps – We purchase total rate of return swaps to gain exposure and benefit from a reference asset without ownership. Total rate of return swaps are contracts in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying asset, which includes both the income it generates and any capital gains.

Interest rate swaps – We use interest rate swaps to reduce market risks from interest rate changes and to alter interest rate exposure arising from mismatches between assets and liabilities. With an interest rate swap, we agree with another party to exchange the difference between fixed-rate and floating-rate interest amounts tied to an agreed-upon notional principal amount at specified intervals.

Certain of our consolidated VIE investment funds use interest rate swaps to manage exposure to variable cash flows on portions of their borrowings under repurchase agreements (see *Note 6 – Variable Interest Entities*).

Credit default swaps – Credit default swaps provide a measure of protection against the default of an issuer or allow us to gain credit exposure to an issuer or traded index. We use credit default swaps coupled with a bond to synthetically create the characteristics of a bond and to hedge credit risk. These transactions have a lower cost and are more liquid relative to the cash market. We receive a periodic premium for these transactions as compensation for accepting credit risk.

Hedging credit risk involves buying protection for existing credit risk. The exposure resulting from the agreements, which is usually the notional amount, is equal to the maximum proceeds that must be paid by a counterparty for a defaulted security. If a credit event occurs on a reference entity, then a counterparty who sold protection is required to pay the buyer the trade notional amount less any recovery value of the security.

Variance swaps – We have variance swaps to hedge the growth in interest credited to the customer as a direct result of changes in the volatility. In a variance swap transaction, we agree to exchange future realized volatility for current implied volatility. This type of forward contract pays the difference between the realized variance and a predefined strike multiplied by a notional value.

Swaptions – To achieve protection against a rapid and sustained rise in interest rates, we have entered into payor swaptions. Swaptions are options to enter into an interest rate swap arrangement with a counterparty at a specified future date. At expiration, the counterparty is required to pay us the present value of the difference between the fixed interest rate and a specified strike rate multiplied by the notional amount of the swap agreement. These transactions would lessen the negative impact to us of a significant and prolonged increase in interest rates.

Foreign currency forwards – We use foreign currency forward contracts to hedge certain invested assets against movement in foreign currency. The price is agreed upon at the time of the contract and payment is made at a specified future date.

Embedded derivatives – We have embedded derivatives which are required to be separated from their host contracts and reported as derivatives. Host contracts include reinsurance agreements structured on a modco or funds withheld basis and indexed annuity products.

The following is a summary of the gains (losses) related to derivatives not designated as hedges:

	Years ended December 31,		
(In millions)	2015	2014	2013
Equity options	$ (372)	$ 955	$ 807
Total return swaps	—	11	(136)
Futures	(3)	52	51
Interest rate swaps	(4)	(4)	35
Interest rate caps	—	—	(10)
Credit default swaps	—	1	—
Variance swaps	—	(1)	(1)
Foreign currency swaps	12	3	1
Foreign currency forwards	21	21	(6)
Swaptions	—	—	(69)
Embedded derivatives in modco or funds withheld	69	(246)	34
Amounts recognized in investment related gains (losses)	(277)	792	706
Embedded derivatives in indexed annuity products[1]	158	(976)	(544)
Equity swaps[2]	—	—	(131)
Total gains (losses) for derivatives not designated as hedges	$ (119)	$ (184)	$ 31

[1] *Included in interest sensitive contract benefits*

[2] *Included in policy and other operating expenses*

Credit Risk—We may be exposed to credit-related losses in the event of counterparty nonperformance on derivative financial instruments. Generally, the current credit exposure of our derivative contracts is the fair value at the reporting date less any collateral received from the counterparty.

We manage credit risk related to over-the-counter derivatives by entering into transactions with creditworthy counterparties. Where possible, we maintain collateral arrangements and use master agreements that provide for a single net payment from one counterparty to another at each due date and upon termination. We have also established counterparty exposure limits, where possible, in order to evaluate if there is sufficient collateral to support the net exposure.

Collateral arrangements typically require the posting of collateral in connection with its derivative instruments. Collateral agreements often contain posting thresholds, some of which may vary depending on the posting party's financial strength ratings. Additionally, a decrease in our financial strength rating to a specified level can result in settlement of the derivative position. As of December 31, 2015, and 2014, we had $9 million and $8 million, respectively, of collateral pledged to counterparties. The securities pledged as collateral are included in AFS fixed maturity securities on the consolidated balance sheets.

The estimated fair value of our net derivative and other financial assets and liabilities after the application of master netting agreements and collateral were as follows:

		Gross amounts not offset on the consolidated balance sheets				
(In millions)	Gross amount recognized[1]	Financial instruments[2]	Collateral received/pledged	Net amount	Off-balance sheet securities collateral[3]	Net amount after securities collateral
December 31, 2015						
Derivative assets	$ 871	$ (7)	$ (867)	$ (3)	$ (57)	$ (60)
Derivative liabilities	(17)	7	9	(1)	—	(1)
December 31, 2014						
Derivative assets	$ 1,794	$ (132)	$ (1,402)	$ 260	$ (351)	$ (91)
Derivative liabilities	(143)	132	8	(3)	—	(3)

[1] *The gross amounts of recognized derivative assets and derivative liabilities are reported on the consolidated balance sheets. The above excludes $0 million and $48 million of derivative assets as of December 31, 2015, and December 31, 2014, respectively, that are not subject to master netting agreements or similar agreements. The gross amounts of the derivative assets and derivative liabilities are not netted against each other for presentation on the consolidated balance sheets.*

[2] *Represents amounts offsetting derivative assets and derivative liabilities that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative assets or gross derivative liabilities for presentation on the consolidated balance sheets.*

[3] *For securities collateral received, we do not have the right to sell or re-pledge the collateral. As such, we do not record the securities on the balance sheet.*

Certain derivative instruments contain provisions for credit related events, such as downgrades in our credit ratings or for a negative credit event of a credit default swap's reference entity. If a credit event were to occur, we may be required to post additional collateral or settle an outstanding liability. The following is a summary of our exposure to credit related events:

	December 31,	
(In millions)	2015	2014
Fair value of derivative liabilities with credit related provisions	$ 7	$ 7
Maximum exposure for credit default swaps	10	10

There was no additional collateral required for default or termination event as of December 31, 2015, or 2014.

We also have invested in a fixed maturity security classified as trading that contains credit default swaps. This security is subject to the credit risk of the issuer, which consists of the underlying credit default swaps and high quality fixed maturities that serve as collateral. A default event occurs if the cumulative losses exceed a specified attachment point, which is typically not the first loss of the portfolio. If a default event occurs that exceeds the specified attachment point, our investment may not be fully returned. We would have no future potential payments under this investment. As of December 31, 2015, the amortized cost of the investment is $42 million, the carrying value is $43 million, and the weighted average expected life is six years.

6. Variable Interest Entities

Our investment funds generally meet the definition of a VIE, and in certain cases these investment funds are consolidated in our financial statements because we meet the criteria of the primary beneficiary.

Consolidated VIEs—We consolidate CoInvest VI, CoInvest VII, CoInvest Other, London Prime, and CMBS Funds, which are investment funds. We are the only limited partner in these investment funds and receive all of the economic benefits and losses, other than management fees and carried interest, as applicable, paid to the general partner in each entity, which are related parties. We do not have any voting rights as limited partner and do not solely satisfy the power criteria to direct the activities that significantly impact the economics of the VIE. However, the criteria for the primary beneficiary are satisfied by our related party group and because substantially all of the activities are conducted on our behalf, we consolidate the investment funds.

No arrangement exists requiring us to provide additional funding in excess of our committed capital investment, liquidity, or the funding of losses or an increase to our loss exposure in excess of our investment in the VIEs. We elected the fair value option for loans held for investment, investment funds, and borrowings, which are reported in the consolidated variable interest entity sections on the consolidate balance sheets. We elected the fair value option to maintain consistency with our previous fair value option election for these VIEs prior to consolidating them under ASU 2015-02.

CoInvest VI, CoInvest VII, and CoInvest Other were formed to make investments, including co-investments alongside private equity funds sponsored by Apollo. We received our interests in CoInvest VI, CoInvest VII, and CoInvest Other in connection with the Contribution Agreement discussed in *Note 19 – Related Parties*, in order to provide a capital base to support future acquisitions. London Prime was formed for the purpose of investing in Prime London Ventures Limited, a Guernsey limited company, which purchases rental residential assets across prime central London. The CMBS Funds were formed with the objective of generating high risk-adjusted investment returns by investing primarily in a portfolio of eligible CMBS and using leverage through repurchase agreements treated as collateralized financing.

ALRe formed Highland Re Ltd. (HRL), a Bermuda special purpose insurer, as its direct subsidiary. ALRe entered into two non-proportional reinsurance agreements with HRL to cede claims risk associated with an affiliate reinsurance deal. HRL issued voting common shares, all owned by ALRe, and one non-voting preferred share, owned by a third party, in order to capitalize HRL. The initial investment of HRL, using the cash received from the sale of the preferred share, was the purchase of a note from the buyer of the preferred share. HRL was restricted from selling or transferring the note absent the occurrence of defined trigger events. The preferred share supported the reinsurance transaction of HRL only, and that capital was not available to the Company for any other purpose. The preferred share was issued in connection with over collateralization provided by the preferred share buyer in a transaction with an affiliate of HRL. The preferred share buyer was entitled to request redemption of all or fractional portions of the preferred share under certain conditions during the term of the note. The note was repaid during 2014 and HRL was dissolved in the fourth quarter of 2014.

In January 2015, CoInvest VII contributed its primary investment, MidCap Holdings, valued at $551 million, to a newly formed entity, MidCap FinCo Limited (MidCap FinCo) in exchange for subordinated notes issued by MidCap FinCo and shares in MidCap FinCo's parent company. Concurrent with this restructuring, CoInvest VII distributed to its general partner, an affiliate of Apollo, $30 million of the MidCap FinCo notes, in satisfaction of the carried interest that had been earned by the general partner under the previous MidCap Holdings structure through the date of the restructuring. Additionally, unrelated investors made cash contributions to MidCap FinCo of $1,017 million through December 31, 2015. Following the restructuring and the funding by unrelated investors, CoInvest VII owned 32% of the outstanding economic interests of MidCap FinCo. Also, CoInvest VII agreed to certain transfer restrictions and has foregone certain rights associated with its investment in MidCap FinCo for a period of two years, resulting in a discount applied to the value of the notes held by CoInvest VII as described above, equal to 7% as of December 31, 2015.

In addition, MidCap FinCo and one of its subsidiaries succeeded as borrower under the credit facilities we had previously advanced to MidCap Holdings in the amount of $300 million at December 31, 2015.

As a result of this restructuring, CoInvest VII owns the MidCap Holdings investment indirectly through MidCap FinCo. The significant investment by the new, unrelated investors, and a qualitative assessment of the impact of the restructuring resulted in a determination that substantially all of the activities of MidCap Finco are not being conducted on behalf of CoInvest VII, but are being conducted for the benefit of all investors. Therefore, CoInvest VII is not the primary beneficiary of MidCap FinCo and accounts for it as an equity method investment at fair value as of December 31, 2015, resulting in MidCap Holdings no longer being consolidated in our financial statements after the restructuring.

Prior to the restructuring, in conjunction with certain of MidCap Holdings' borrowing facilities, MidCap Holdings established and contributed loans to separate single-purpose entities, structured to be legally isolated, and bankruptcy-remote. We determined these entities were VIEs. As a result of MidCap Holdings' power to direct the activities that most significantly impact the economic performance and its economic interest in these VIEs, we concluded MidCap Holdings is the primary beneficiary, and therefore the assets and liabilities of the entities are reported in our consolidated financial statements through December 31, 2014. As of December 31, 2014, $1,224 million of the assets of MidCap Holdings, consisting of loans, accrued interest and fees, and restricted cash, can only be used to settle the obligations of its consolidated VIEs. In addition, $855 million of MidCap Holdings' liabilities as of December 31, 2014, represent obligations of its consolidated VIEs, for which there is no recourse to general credit of MidCap Holdings. Upon the MidCap Holdings restructuring described above, these VIEs are no longer consolidated by CoInvest VII, or, therefore, by the Company.

Trading securities – including related party – Trading securities represents investments in fixed maturity and equity securities with changes in fair value recognized in investment related gains (losses) within revenues of consolidated variable interest entities on the consolidated statements of income. For the years ending December 31, 2015, 2014, and 2013, investment related gains (losses) included losses of $23 million, losses of $74 million, and gains of $380 million, respectively, resulting from the change in unrealized gains and losses underlying trading securities we still held as of the respective year end date. Trading securities held by CoInvest VI and CoInvest VII are considered related party investments because Apollo affiliates exercise significant influence over the operations of these investees.

Loans held for investment – MidCap Holdings' primary operations are to originate loans to middle market healthcare companies. We elected the fair value option to account for MidCap Holdings' loans. The loan portfolio, by type, recorded at fair value is as follows:

(In millions)	December 31, 2014
Commercial and industrial loans	$ 1,486
Commercial real estate loans	585
Total loans held for investment	$ 2,071

Investment funds – including related party – Investment funds include non-fixed income, alternative investments in the form of limited partnerships or similar legal structures that meet the definition of VIEs; however, our consolidated VIEs are not considered the primary beneficiary of these investment funds. Changes in fair value of these investment funds are included in investment related gains (losses) within revenues of consolidated variable interest entities on the consolidated statements of income. Investment funds held by CoInvest VII and CoInvest Other are considered related party investments as they are sponsored or managed by Apollo affiliates.

Borrowings – CMBS-I and II Funds each entered into individual repurchase agreements with UBS to borrow up to $250 million each, on a non-recourse basis, to finance the acquisition of AAA rated CMBS. Both UBS facilities have four-year terms and one one-year extension available with the mutual agreement of the parties. Upon extension, each security purchased with funds from UBS facilities will be assigned a spread in line with the current market rates, to be determined by UBS. Advances under the facilities accrue interest at an annual rate of three-month LIBOR plus a pricing margin of 2.5% – 2.9%. The CMBS purchase price is determined on a per asset basis by applying an advance rate schedule, as agreed upon by the funds and UBS.

All of the repurchase facility agreements contain customary affirmative and negative covenants and provisions regarding events of default at the investment fund level. At December 31, 2015, and 2014, the CMBS Funds were in compliance with all debt covenants under these facilities.

The CMBS Funds' repurchase agreements included borrowings with the following maturities and weighted average interest rates:

	December 31, 2015			December 31, 2014		
(In millions)	Balance	Remaining Maturity[1]	Weighted Average Interest Rate[2]	Balance	Remaining Maturity[1]	Weighted Average Interest Rate[2]
2012 CMBS-I Fund L.P.	$ 250	1.7 years	3.2%	$ 250	2.7 years	3.0%
2012 CMBS-II Fund L.P.	250	1.7 years	3.2%	250	2.7 years	3.0%
Total	$ 500			$ 500		

[1] *Assumes extension options on borrowing repurchase agreement are exercised.*

[2] *The borrowings are on a floating rate basis; however, the CMBS Funds have entered into an interest rate swap to convert these borrowings to fixed rate.*

MidCap Holdings had the following borrowing capacity and outstanding borrowings:

	December 31, 2014					
(In millions)	Total Commitment	Borrowing Capacity[1]	Outstanding Balance	Outstanding Principal of Loans Pledged	Interest Rate(s)[2]	Maturity Date(s)
Capital One Facility[3]	$ 75	$ 66	$ 66	$ 103	3.75%	September 5, 2017
Capital Source Facility	75	46	46	58	3.92%	October 30, 2019
City National	85	83	74	127	3.17%	November 1, 2017
Fortress Facilities	270	253	253	302	5.21%	July 9, 2017 – July 1, 2019
Real Estate Participants	302	302	302	370	4.01%	January 31, 2015 – April 22, 2019
Private Bank Facility	35	13	13	16	5.00% – 5.50%	June 13, 2016 – February 20, 2019
Silicon Valley Bank Facility	45	27	27	45	3.53%	October 3, 2016
Wells Fargo Health Care Asset-Backed Facility	795	624	584	791	2.85%	January 1, 2017
Wells Fargo Leveraged Loan Facility	250	140	140	210	2.76%	November 8, 2018
Wells Fargo General Asset-Backed Facility	110	20	12	54	2.41%	September 26, 2019
Total	$ 2,042	$ 1,574	$ 1,517	$ 2,076		

[1] *Represents the amount MidCap Holdings is able to draw based on collateral pledged according to each agreement.*

[2] *Interest rates are variable rates. The interest rate disclosed represents the interest rate as of December 31, 2014.*

[3] *No loan may collateralize in the credit facility for a period in excess of 120 days.*

Fair Value – See *Note 7 – Fair Value* for a description of the levels of our fair value hierarchy and our process for determining the level to which we assign our assets and liabilities carried at fair value.

The following represents the hierarchy for assets and liabilities of our consolidated VIEs measured at fair value on a recurring basis:

	December 31, 2015			
(In millions)	Total	Level 1	Level 2	Level 3
Assets of consolidated variable interest entities				
Investments				
Trading securities				
Fixed maturity securities	$ 722	$ —	$ 669	$ 53
Equity securities	309	271	—	38
Investment funds	516	—	—	516
Cash and cash equivalents	6	6	—	—
Total assets of consolidated variable interest entities measured at fair value	$ 1,553	$ 277	$ 669	$ 607

	December 31, 2014			
(In millions)	Total	Level 1	Level 2	Level 3
Assets of consolidated variable interest entities				
Investments				
Trading securities				
Fixed maturity securities	$ 763	$ —	$ 706	$ 57
Equity securities	510	448	—	62
Loans held for investment	2,071	—	—	2,071
Investment funds	40	—	—	40
Cash and cash equivalents	10	10	—	—
Restricted cash	43	43	—	—
Total assets of consolidated variable interest entities measured at fair value	$ 3,437	$ 501	$ 706	$ 2,230
Liabilities of consolidated variable interest entities				
Borrowings	$ 1,517	$ —	$ —	$ 1,517
Total liabilities of consolidated variable interest entities measured at fair value	$ 1,517	$ —	$ —	$ 1,517

Fair Value Valuation Methods—Refer to *Note 7 – Fair Value* for the valuation methods used to determine the fair value of trading securities, investment funds, and cash and cash equivalents.

Loans held for investment – The fair value of loans held for investment is determined by reference to current market pricing and credit factors compared to market pricing and credit factors during the original underwriting, as well as any changes to the underlying collateral, if applicable. The loans' fair values are estimated using discounted cash flow techniques.

Borrowings – The fair value of borrowings is estimated based on consideration of the current market interest rates for similar debt instruments. The fair value is estimated using discounted cash flow techniques.

Level 3 Financial Instruments – The following is a reconciliation for all VIE Level 3 assets and liabilities measured at fair value on a recurring basis:

	December 31, 2015							
(In millions)	Beginning Balance	Total realized and unrealized gains (losses) included in income	Purchases/ Borrowings	Sales/ Repayments	Transfers in (out)	Other[2]	Ending Balance	Total gains (losses) included in earnings[1]
Assets of consolidated variable interest entities								
Trading securities								
Fixed maturity securities	$ 57	$ (6)	$ 2	$ —	$ —	$ —	$ 53	$ (6)
Equity securities	62	(15)	—	—	—	(9)	38	(15)
Loans held for investment	2,071	—	—	—	—	(2,071)	—	—
Investment funds	40	3	15	(15)	—	473	516	(7)
Total Level 3 assets of consolidated variable interest entities	$ 2,230	$ (18)	$ 17	$ (15)	$ —	$ (1,607)	$ 607	$ (28)
Liabilities of consolidated variable interest entities								
Borrowings	$ (1,517)	$ —	$ —	$ —	$ —	$ 1,517	$ —	$ —
Total Level 3 liabilities of consolidated variable interest entities	$ (1,517)	$ —	$ —	$ —	$ —	$ 1,517	$ —	$ —

[1] *Related to instruments held at end of year.*

[2] *Other activity primarily relates to the deconsolidation of MidCap Holdings due to the restructuring described above.*

	December 31, 2014							
(In millions)	Beginning Balance	Total realized and unrealized gains (losses) included in income	Purchases/ Borrowings	Sales/ Repayments	Transfers in (out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Assets of consolidated variable interest entities								
Trading securities								
Fixed maturity securities	$ 74	$ —	$ —	$ (17)	$ —	$ —	$ 57	$ (1)
Equity securities	145	32	—	(115)	—	—	62	(26)
Loans held for investment	1,563	26	482	—	—	—	2,071	11
Investment funds	78	22	8	(68)	—	—	40	14
Total Level 3 assets of consolidated variable interest entities	$ 1,860	$ 80	$ 490	$ (200)	$ —	$ —	$ 2,230	$ (2)
Liabilities of consolidated variable interest entities								
Borrowings	$ (1,194)	$ (8)	$ (319)	$ 4	$ —	$ —	$ (1,517)	$ —
Total Level 3 liabilities of consolidated variable interest entities	$ (1,194)	$ (8)	$ (319)	$ 4	$ —	$ —	$ (1,517)	$ —

[1] *Related to instruments held at end of year.*

There were no transfers between Level 1, Level 2, or Level 3 during the years ended December 31, 2015, and 2014.

Significant Unobservable Inputs – For certain Level 3 trading securities and investment funds, the valuations have significant unobservable inputs for comparable multiples and weighed average cost of capital rates applied in the valuation models. These inputs in isolation can cause significant increases or decreases in fair value. Specifically, the comparable multiples are multiplied by the underlying investment's earnings

before interest, tax, depreciation, and amortization to establish the total enterprise value of the underlying investments. We use a comparable multiple consistent with the implied trading multiple of public industry peers.

For other Level 3 trading securities, investment funds, loans held for investment, and borrowings, valuations are performed using a discounted cash flow model. For a discounted cash flow model, the significant input is the discount rate applied to present value the projected cash flows. An increase in the discount rate can significantly lower the fair value; a decrease in the discount rate can significantly increase the fair value. The discount rate is determined by considering the weighted average cost of capital calculation of companies in similar industries with comparable debt to equity ratios.

We apply a discount to the values reported by the investment funds for certain Level 3 trading securities and investment funds held within consolidated VIEs related to the lack of marketability of the underlying investment. As the degree of marketability increases, the related discount applied to the underlying investment is decreased. The weighted average of the discount rates applied to each individual investment was 34% and 35% as of December 31, 2015, and 2014, respectively.

Fair Value Option – The following represents the gains (losses) recorded for instruments within the consolidated VIEs for which we have elected the fair value option:

	Years ended December 31,		
(In millions)	2015	2014	2013
Trading securities			
Fixed maturity securities	$ (5)	$ (2)	$ 7
Equity securities	(4)	27	540
Loans held for investment	—	4	—
Investment funds	12	20	53
Total gains	$ 3	$ 49	$ 600

For fair value option loans held for investment, we record interest income in net investment income within revenues of consolidated variable interest entities on the consolidated statements of income. Gains or losses from initial measurement, and subsequent changes in fair value, are recorded in investment related gains (losses) within revenues of consolidated variable interest entities on the consolidated statements of income. Gains and losses on borrowings are recorded in interest expense within operating expenses of consolidated variable interest entities on the consolidated statements of income.

Fair Value of Financial Instruments Not Held at Fair Value – Assets includes $18 million and $25 million of investment funds accounted for under the equity method and, therefore, not carried at fair value as of December 31, 2015, and 2014, respectively; however, the carrying amount approximates fair value. Liabilities includes $500 million of borrowings held at cost as of December 31, 2015, and 2014. The unpaid principal balance of borrowings approximates fair value.

Commitments and Contingencies – MidCap Holdings had unfunded commitments to extend credit to its borrowers of $525 million as of December 31, 2014. As of December 31, 2014, for $270 million of the unfunded commitments, there were no prerequisites for future funding by MidCap Holdings, and its borrowers were able to draw on these unfunded commitments at any time. For the remaining $255 million of the unfunded commitments as of December 31, 2014, MidCap Holdings' obligations to fund these unfunded commitments were subject to its borrowers' ability to meet certain requirements (i.e. provide collateral to secure the requested additional funding), as well as to comply with all provisions of the loan agreements.

Included in assets of CoInvest VI, one of our consolidated VIEs on the consolidated balance sheets as of December 31, 2015, are equity investments in publicly traded shares of Caesars Entertainment Corporation (CEC) and Caesars Acquisition Company (CAC), which are carried at their fair value of $25 million and $23 million, respectively. We received the CEC and CAC positions as part of the Contribution Agreement discussed in *Note 19 – Related Parties*, in order to provide a capital base to support the Aviva USA transaction. There are several pending actions against CEC and CAC and other defendants, related to certain restructuring activities and transactions involving Caesars Entertainment Operating Company, a subsidiary of CEC. The general partner of the VIE which holds the equity investments in CEC and CAC has reported that the outcome of the disputes cannot be ascertained but that it believes the resolution will not have a material effect on the VIE. It also reports that the disputes may have a material effect on the operating results of the VIE in future periods. Given the uncertainty associated with the litigation, we are uncertain as to whether our VIE's equity investments in CEC or CAC could be negatively impacted in the event of an adverse outcome in the disputes.

Non-Consolidated VIEs—We invest in other entities meeting the definition of a VIE. We do not consolidate these investments because we do not meet the criteria of primary beneficiary as described below.

Fixed Maturity Securities – We invest in securitization entities as a debt holder or an investor in the residual interest of the securitization vehicle, which are included in fixed maturity securities on the consolidated balance sheets. These entities are deemed VIEs due to insufficient equity within the structure and lack of control by the equity investors over the activities that significantly impact the economics of the entity. In general, we are a debt investor within these entities and, as such, hold a variable interest; however, due to the debt holders' lack of ability to

control the decisions within the trust that significantly impact the entity, and the fact the debt holders are protected from losses due to the subordination by the equity tranche, the debt holders are not deemed the primary beneficiary. Securitization vehicles in which we hold the residual tranche are not consolidated because we do not unilaterally have substantive rights to remove the general partner, or when assessing related party interests, we are not under common control, as defined by ASU 2015-02, with the related party, nor are substantially all of the activities conducted on our behalf; therefore, we are not deemed the primary beneficiary. Debt investments and investments in the residual tranche of securitization entities are considered debt instruments under US GAAP and are held at fair value on the balance sheet and classified as AFS or trading.

Investment funds – Investment funds include non-fixed income, alternative investments in the form of limited partnerships or similar legal structures that meet the definition of VIEs.

A portion of these investment funds are sponsored and managed by unrelated parties in which we, as limited partner, do not have the power to direct the activities that most significantly impact the economic performance of the fund, nor do we unilaterally have substantive rights to remove the general partner or dissolve the entity without cause. As a result, we do not meet the power criterion to be considered the primary beneficiary and do not consolidate these VIEs in our financial statements.

We also have equity interests in investment funds where the general partner or investment manager is a related party. We have determined we are not under common control, as defined by ASU 2015-02, with the related party, nor are we deemed to be the primary beneficiary. As a result, investments in these VIEs are not consolidated.

We account for non-consolidated investment funds where we are able to exercise significant influence over the entity under the equity method or by electing the fair value option, in which NAV is used as a practical expedient for fair value.

The Company's investments in investment funds are generally passive in nature as we do not take an active role in the investment fund's management. Our risk of loss is limited and depends on the investment as follows: (1) investment funds accounted for under the equity method are limited to the Company’s initial investment plus unfunded commitments; (2) investment funds under the fair value option are limited to the fair value plus unfunded commitments; (3) available-for-sale securities and other investments are limited to amortized cost; and (4) trading securities are limited to carrying value.

The following summarizes the carrying value and maximum loss exposure of these non-consolidated VIEs:

	December 31,			
	2015		2014	
(In millions)	Carrying Value	Maximum Loss Exposure	Carrying Value	Maximum Loss Exposure
Investment funds	$ 733	$ 878	$ 832	$ 928
Investment in related parties – investment funds	997	1,454	585	1,067
Assets of consolidated variable interest entities, investment funds	534	558	65	101
Investment in fixed maturity securities	17,673	18,146	15,724	15,554
Investment in related parties – fixed maturity securities	525	554	585	597
Total assets	$ 20,462	$ 21,590	$ 17,791	$ 18,247

The following summarizes the Company's investment funds, including related party investment funds and investment funds owned by consolidated VIEs:

	December 31,					
	2015			2014		
(In millions)	Carrying value	Percent of total	Weighted average life in years	Carrying value	Percent of total	Weighted average life in years
Investment funds						
Private equity	$ 263	35.9%	3	$ 205	24.6%	3
Mortgage and real estate	101	13.8%	5	99	11.9%	5
Natural resources	6	0.8%	1	9	1.1%	1
Hedge funds	86	11.7%	4	239	28.7%	4
Credit funds	277	37.8%	2	280	33.7%	2
Total investment funds	733	100.0%		832	100.0%	
Investment funds – related parties						
Private equity – A-A Mortgage[1]	225	22.6%	6	52	8.9%	8
Private equity – other	36	3.6%	7	29	4.9%	8
Mortgage and real estate	234	23.5%	4	163	27.9%	5
Natural resources	46	4.6%	6	45	7.7%	6
Hedge funds	256	25.6%	6	186	31.8%	6
Credit funds	200	20.1%	5	110	18.8%	5
Total investment funds – related parties	997	100.0%		585	100.0%	
Investment funds – assets of consolidated variable interest entities						
Private equity – MidCap FinCo[2]	482	90.3%	N/A	—	—%	0
Credit funds	34	6.3%	4	40	61.5%	5
Mortgage and real assets	18	3.4%	4	25	38.5%	5
Total investment funds – assets of consolidated variable interest entities	534	100.0%		65	100.0%	
Total investment funds including related parties and assets of consolidated variable interest entities	$ 2,264			$ 1,482		

[1] *A-A Mortgage Opportunities, LP (A-A Mortgage) is a platform to originate residential mortgage loans and mortgage servicing rights.*

[2] *Our total investment in MidCap FinCo, including amounts advanced under the credit facilities, totaled $782 million at December 31, 2015, which is greater than 10% of total AHL shareholders' equity.*

Summarized Financial Information of Investment Funds—The following is the aggregated summarized financial information of equity method investees, including those where we elected the fair value option, and may be presented on a lag due to the availability of financial information from the investee:

	December 31,	
(In millions)	2015	2014
Assets	$ 51,649	$ 97,961
Liabilities	6,990	22,298
Equity	44,659	75,663

	Years ended December 31,		
(In millions)	2015	2014	2013
Net income	$ 5,945	$ 8,418	$ 11,962

The following table presents the carrying value by ownership percentage of equity method investment funds, including related party investment funds and consolidated VIE investment funds:

(In millions)	December 31, 2015	December 31, 2014
Ownership Percentage		
100%	$ 49	$ 50
50% – 99%	322	108
Greater than 3% – 49%	1,225	1,070
Equity method investment funds	$ 1,596	$ 1,228

The following table presents the carrying value by ownership percentage of investment funds where we elected the fair value option, including related party investment funds and investment funds owned by consolidated VIEs:

(In millions)	December 31, 2015	December 31, 2014
Ownership Percentage		
Greater than 3% – 49%	$ 516	$ 40
3% or less	152	214
Fair value option investment funds	$ 668	$ 254

7. Fair Value

Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. We determine fair value based on the following fair value hierarchy:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 – Quoted prices for inactive markets or valuation techniques that require observable direct or indirect inputs for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets,
- Observable inputs other than quoted market prices, and
- Observable inputs derived principally from market data through correlation or other means.

Level 3 – Prices or valuation techniques with unobservable inputs significant to the overall fair value estimate. These valuations use critical assumptions not readily available to market participants. Level 3 valuations are based on market standard valuation methodologies, including discounted cash flows, matrix pricing, or other similar techniques.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the instrument's fair value measurement.

We use a number of valuation sources to determine fair values. Valuation sources can include quoted market prices; third-party commercial pricing services; third-party brokers; industry-standard, vendor modeling software that uses market observable inputs; and other internal modeling techniques based on projected cash flows. We periodically review the assumptions and inputs of third-party commercial pricing services through internal valuation price variance reviews, comparisons to internal pricing models, back testing to recent trades, or monitoring trading volumes.

The following represents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis:

	December 31, 2015			
(In millions)	Total	Level 1	Level 2	Level 3
Assets				
AFS securities				
Fixed maturity securities				
U.S. government and agencies	$ 45	$ 41	$ 4	$ —
U.S. state, municipals, and political subdivisions	1,165	—	1,165	—
Foreign governments	2,464	—	2,447	17
Corporate	26,936	—	26,300	636
CLO	4,555	—	4,038	517
ABS	2,918	—	1,105	1,813
CMBS	1,738	—	1,671	67
RMBS	7,995	—	7,237	758
Total fixed maturity securities	47,816	41	43,967	3,808
Equity securities	407	82	316	9
Total AFS securities	48,223	123	44,283	3,817
Trading securities				
Fixed maturity securities				
U.S. government and agencies	1	1	—	—
U.S. state, municipals, and political subdivisions	133	—	116	17
Corporate	1,450	—	1,434	16
CLO	108	—	—	108
ABS	98	—	—	98
CMBS	99	—	99	—
RMBS	161	—	132	29
Total fixed maturity securities	2,050	1	1,781	268
Equity securities	418	—	418	—
Total trading securities	2,468	1	2,199	268
Mortgage loans	48	—	—	48
Investment funds	152	—	—	152
Funds withheld at interest – embedded derivative	36	—	—	36
Derivative assets	871	9	862	—
Short-term investments	135	4	131	—
Cash and cash equivalents	2,714	2,714	—	—
Restricted cash	116	116	—	—
Investments in related parties				
AFS, fixed maturity securities				
CLO	248	—	241	7
ABS	60	—	—	60
Total fixed maturity securities – related party	308	—	241	67
Trading securities, CLO	217	—	26	191
Reinsurance recoverable	2,377	—	—	2,377
Total assets measured at fair value	$ 57,665	$ 2,967	$ 47,742	$ 6,956

(Continued)

	December 31, 2015			
(In millions)	Total	Level 1	Level 2	Level 3
Liabilities				
Interest sensitive contract liabilities				
Embedded derivative	$ 4,477	$ —	$ —	$ 4,477
Universal life benefits	1,464	—	—	1,464
Unit-linked contracts	418	—	418	—
Future policy benefits				
AmerUs Closed Block	1,581	—	—	1,581
ILICO Closed Block and life benefits	897	—	—	897
Derivative liabilities	17	1	9	7
Funds withheld liability – embedded derivative	35	—	35	—
Total liabilities measured at fair value	$ 8,889	$ 1	$ 462	$ 8,426

(Concluded)

The following represents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis:

	December 31, 2014			
(In millions)	Total	Level 1	Level 2	Level 3
Assets				
AFS securities				
Fixed maturity securities				
U.S. government and agencies	$ 71	$ 61	$ 10	$ —
U.S. state, municipals, and political subdivisions	1,471	—	1,419	52
Corporate	27,722	—	27,514	208
CLO	3,620	—	3,438	182
ABS	2,666	—	1,742	924
CMBS	2,930	—	2,861	69
RMBS	6,223	—	5,569	654
Total fixed maturity securities	44,703	61	42,553	2,089
Equity securities	190	76	114	—
Total AFS securities	44,893	137	42,667	2,089
Trading securities				
Fixed maturity securities				
U.S. government and agencies	3	3	—	—
U.S. state, municipals, and political subdivisions	276	—	276	—
Corporate	2,230	—	2,230	—
CLO	146	—	—	146
CMBS	116	—	116	—
RMBS	22	—	22	—
Total fixed maturity securities	2,793	3	2,644	146
Equity securities	2	2	—	—
Total trading securities	2,795	5	2,644	146

(Continued)

	December 31, 2014			
(In millions)	Total	Level 1	Level 2	Level 3
Mortgage loans	73	—	—	73
Investment funds	214	—	—	214
Funds withheld at interest – embedded derivative	127	—	—	127
Derivative assets	1,842	15	1,827	—
Short-term investments	17	—	17	—
Cash and cash equivalents	2,628	2,628	—	—
Restricted cash	77	77	—	—
Investments in related parties				
AFS, fixed maturity securities				
CLO	260	—	245	15
ABS	66	—	—	66
Total fixed maturity securities – related party	326	—	245	81
Trading securities, CLO	268	—	—	268
Reinsurance recoverable	2,460	—	—	2,460
Total assets measured at fair value	$ 55,720	$ 2,862	$ 47,400	$ 5,458
Liabilities				
Interest sensitive contract liabilities				
Embedded derivative	$ 4,437	$ —	$ —	$ 4,437
Universal life benefits	1,417	—	—	1,417
Future policy benefits				
AmerUs Closed Block	1,715	—	—	1,715
ILICO Closed Block and life benefits	1,026	—	—	1,026
Derivative liabilities	143	—	135	8
Funds withheld liability – embedded derivative	394	—	394	—
Total liabilities measured at fair value	$ 9,132	$ —	$ 529	$ 8,603

(Concluded)

Refer to *Note 6 – Variable Interest Entities* for fair value disclosures associated with consolidated VIEs.

Fair Value Valuation Methods—We used the following valuation methods and assumptions to estimate fair value:

AFS and trading securities
Fixed maturity – We obtain the fair value for most marketable bonds without an active market from several commercial pricing services. These are classified as Level 2 assets. The pricing services incorporate a variety of market observable information in their valuation techniques, including benchmark yields, broker-dealer quotes, credit quality, issuer spreads, bids, offers, and other reference data. This category typically includes U.S. and non-U.S. corporate bonds, U.S. agency and government guaranteed securities, ABS, CMBS, and RMBS.

We value privately placed fixed maturity securities based on the credit quality and duration of comparable marketable securities, which may be securities of another issuer with similar characteristics. In some instances, we use a matrix-based pricing model. These models consider the current level of risk-free interest rates, corporate spreads, credit quality of the issuer, and cash flow characteristics of the security. We also consider additional factors such as net worth of the borrower, value of collateral, capital structure of the borrower, presence of guarantees, and our evaluation of the borrower's ability to compete in its relevant market. Privately placed fixed maturity securities are classified as Level 2 or 3.

Equity securities – Fair values of publicly traded equity securities are based on quoted market prices and classified as Level 1. Other equity securities, typically private equities or equity securities not traded on an exchange, we value based on other sources, such as analytics or brokers and are classified as Level 2 or 3.

Mortgage loans – Mortgage loans for which we have elected the fair value option or those held for sale are carried at fair value. We estimate fair value on a monthly basis using discounted cash flow analysis and rates being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The discounted cash flow model uses unobservable inputs, including estimates of discount rates and loan prepayments. Mortgage loans are classified as Level 3.

Investment funds – Investment funds are valued based on NAV information provided by the general partner or related asset manager. These partnership interests usually include multiple underlying investments for which either observable market prices or other valuation methods are

used to determine the fair value. These investments are classified as Level 3 due to the limited market activity and price transparency inherent in the market for such investments.

Funds withheld (embedded derivative) – We estimate the fair value of the embedded derivative based on the change in the fair value of the assets supporting the funds withheld payable under the combined coinsurance, modco and coinsurance funds withheld reinsurance agreements. As a result, the fair value of the embedded derivative is classified as Level 2 or 3 based on the valuation methods used for the assets held in trust supporting the reinsurance agreements.

Derivatives – Derivative contracts can be exchange traded or over-the-counter. Exchange-traded derivatives typically fall within Level 1 of the fair value hierarchy depending on trading activity. Over-the-counter derivatives are valued using valuation models or an income approach using third-party broker valuations. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, and correlation of the inputs. We consider and incorporate counterparty credit risk in the valuation process through counterparty credit rating requirements and monitoring of overall exposure. We also evaluate and include our own nonperformance risk in valuing derivatives. The majority of our derivatives trade in liquid markets; therefore, we can verify model inputs and model selection does not involve significant management judgment. These are typically classified within Level 2 of the fair value hierarchy.

Cash and cash equivalents – The carrying amount for cash equals fair value. We estimate the fair value for cash equivalents based on quoted market prices. These assets are classified as Level 1.

Interest sensitive contract liabilities (embedded derivative) – Embedded derivatives related to interest sensitive contract liabilities with fixed indexed annuity products are classified as Level 3. The valuations include significant unobservable inputs associated with actuarial assumptions for policyholder behavior.

Unit-linked contracts – Unit-linked contracts are valued based on the fair value of the investments supporting the contract. The underlying investments are trading securities comprised primarily of mutual funds. The valuations of these are based on quoted market prices for similar assets and are classified in Level 2, resulting in a corresponding classification for the unit-linked contracts.

AmerUs Closed Block – We elected the fair value option for the future policy benefits liability in the AmerUs Closed Block, as discussed in *Note 11 – Closed Block*. Our valuation technique is to set the fair value of policyholder liabilities equal to the fair value of assets. There is an additional component which captures the fair value of the open block's cost to hold capital in excess of existing liabilities on the closed block. This component uses a present value of future cash flows, which includes investment earnings and policyholder liability movements. Unobservable inputs include estimates for these items. The target surplus as a percentage of statutory reserves is 3.89% based on the statutory risk-based capital ratio applicable to this block of business. The AmerUs Closed Block policyholder liabilities and any corresponding reinsurance recoverable are classified as Level 3.

ILICO Closed Block – We elected the fair value option for the ILICO Closed Block, as discussed in *Note 9 – Reinsurance*. Our valuation technique is to set the fair value of policyholder liabilities equal to the fair value of assets. There is an additional component which captures the fair value of the open block's obligations to the closed block business. This component uses the present value of future cash flows. The cash flows include commissions, administrative expenses, reinsurance premiums and benefits, and an explicit cost of capital. Unobservable inputs include estimates for these items. The explicit cost of capital assumption is 9% of required capital, post tax. A margin of 6.11% is included in the discount rates to reflect the business risk. An additional 0.31% is included to reflect non-performance risk. The ILICO Closed Block policyholder liabilities and corresponding reinsurance recoverable are classified as Level 3.

Universal life liabilities and other life benefits – We elected the fair value option for certain blocks of universal and other life business ceded to Global Atlantic, as discussed in *Note 9 – Reinsurance*. We use a present value of liability cash flows. Unobservable inputs include estimates of mortality, persistency, expenses, premium payments, and a risk margin used in the discount rates that reflects the riskiness of the business. The risk margin was 0.09%. These universal life policyholder liabilities and corresponding reinsurance recoverable are classified as Level 3.

Fair Value Option—The following represents the gains or losses recorded for instruments we have elected the fair value option:

	Years ended December 31,		
(In millions)	2015	2014	2013
Trading securities	$ (313)	$ 254	$ 25
Mortgage loans	—	5	(3)
Investment funds	(8)	31	41
Future policy benefits	134	(102)	8
Total gains (losses)	$ (187)	$ 188	$ 71

For fair value option mortgage loans, we record interest income, gains or losses from initial measurement, and subsequent changes in fair value in net investment income on the consolidated statements of income. Investment funds and related parties investment funds gains and losses are recorded in net investment income on the consolidated statements of income. We record the change in fair value of future policy benefits to future policy and other policy benefits on the consolidated statements of income.

The following summarizes information for fair value option mortgage loans:

	December 31,	
(In millions)	2015	2014
Unpaid principal balance	$ 46	$ 68
Mark to fair value	2	5
Fair value	$ 48	$ 73

There were no fair value option mortgage loans 90 days or more past due as of December 31, 2015, and 2014.

Transfers Between Levels—Transfers into Level 3 represent securities that were valued using pricing sources which, due to changing market conditions, were less observable than in prior periods as indicated by the lack of commercially available vendor prices with observable inputs. Additionally, changes in pricing sources also led to securities transferring into Level 3.

Transfers out of Level 3 represent securities that were valued using pricing sources which, due to changing market conditions, were more observable than in prior periods as indicated by commercially available vendor prices with observable inputs. Additionally, changes in pricing sources also led to securities transferring into Level 2.

Transfers into or out of any level are assumed to occur at the end of the period. For the years ended December 31, 2015, and 2014, there were no transfers between Level 1 and Level 2.

Level 3 Financial Instruments—The following is a reconciliation for all Level 3 assets and liabilities measured at fair value on a recurring basis:

	Year ended December 31, 2015									
		Total realized and unrealized gains (losses)				Transfers				
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases	Sales	In	(Out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Assets										
AFS securities										
Fixed maturity										
U.S. state, municipal, and political subdivisions	$ 52	$ (1)	$ 1	$ —	$ (35)	$ —	$ —	$ (17)	$ —	$ —
Foreign governments	—	—	—	—	—	—	—	17	17	—
Corporate	208	(1)	(13)	311	(81)	225	(13)	—	636	—
CLO	182	3	(9)	112	—	337	(108)	—	517	—
ABS	924	18	(35)	367	(146)	703	(18)	—	1,813	—
CMBS	69	1	(2)	25	(2)	23	(47)	—	67	—
RMBS	654	11	(15)	91	(138)	155	—	—	758	—
Equity securities	—	—	—	10	—	—	—	(1)	9	—
Trading securities										
Fixed maturity										
U.S. state, municipal, and political subdivisions	—	—	—	—	—	17	—	—	17	—
Corporate	—	—	—	—	—	16	—	—	16	—
CLO	146	(16)	—	26	(48)	—	—	—	108	(15)
ABS	—	(2)	—	100	—	—	—	—	98	(1)
RMBS	—	(1)	—	30	—	—	—	—	29	—
Mortgage loans	73	(3)	—	—	(4)	—	—	(18)	48	(3)
Investment funds	214	(20)	—	20	(34)	—	—	(28)	152	8
Funds withheld at interest - embedded derivative	127	(91)	—	—	—	—	—	—	36	—
Investments in related parties										
AFS securities										
Fixed maturity										
CLO	15	(1)	(2)	9	(8)	—	(6)	—	7	—
ABS	66	—	(1)	—	(5)	—	—	—	60	—
Trading securities, CLO	268	(29)	—	51	(73)	—	(26)	—	191	(17)
Reinsurance recoverable	2,460	(83)	—	—	—	—	—	—	2,377	—
Total Level 3 assets	$ 5,458	$ (215)	$ (76)	$ 1,152	$ (574)	$1,476	$ (218)	$ (47)	$ 6,956	$ (28)

(Continued)

	Year ended December 31, 2015									
		Total realized and unrealized gains (losses)				Transfers				
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases	Sales	In	(Out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative[2]	$ (4,437)	$ 158	$ —	$ —	$ —	$ —	$ —	$ (198)	$ (4,477)	$ —
Universal life liabilities	(1,417)	(47)	—	—	—	—	—	—	(1,464)	—
Future policy benefits										
AmerUs Closed Block	(1,715)	134	—	—	—	—	—	—	(1,581)	—
ILICO Closed Block and life benefits	(1,026)	129	—	—	—	—	—	—	(897)	—
Derivative liabilities										
Total return swap	(1)	1	—	—	—	—	—	—	—	—
Credit default swap	(7)	—	—	—	—	—	—	—	(7)	—
Total Level 3 liabilities	$ (8,603)	$ 375	$ —	$ —	$ —	$ —	$ —	$ (198)	$ (8,426)	$ —

[1] *Related to instruments held at end of year.*

[2] *Other activity represents the change in fair value due to issuances of $341 million, offset by settlements of $143 million.*

(Concluded)

The following is a reconciliation for all Level 3 assets and liabilities measured at fair value on a recurring basis:

	Year ended December 31, 2014									
		Total realized and unrealized gains (losses)				Transfers				
(In millions)	Beginning balance	Included in income	Included in OCI	Purchases	Sales	In	Out	Other	Ending balance	Total gains (losses) included in earnings[1]
Assets										
AFS securities										
Fixed maturity										
U.S. state, municipal, and political subdivisions	$ —	$ —	$ (3)	$ 55	$ —	$ —	$ —	$ —	$ 52	$ —
Corporate	352	1	(5)	105	(128)	72	(114)	(75)	208	—
CLO	34	—	(1)	111	—	38	—	—	182	—
ABS	33	—	1	322	(16)	518	(9)	75	924	—
CMBS	—	—	—	17	—	52	—	—	69	—
RMBS	516	—	8	586	(187)	—	(269)	—	654	—
Trading securities, CLO	117	5	—	87	(53)	—	—	(10)	146	14
Mortgage loans	70	3	—	—	—	—	—	—	73	5
Investment funds	511	17	—	9	(196)	—	—	(127)	214	27
Funds withheld at interest - embedded derivative	138	(11)	—	—	—	—	—	—	127	—
Investments in related parties										
AFS securities										
Fixed maturity										
CLO	12	—	(1)	—	(3)	14	(7)	—	15	—
ABS	—	—	—	68	(2)	—	—	—	66	—
Trading securities, CLO	171	(13)	—	357	(247)	—	—	—	268	14
Investment funds	18	1	—	—	(17)	—	—	(2)	—	102
Reinsurance recoverable	1,718	742	—	—	—	—	—	—	2,460	—
Total Level 3 assets	$ 3,690	$ 745	$ (1)	$ 1,717	$ (849)	$ 694	$ (399)	$ (139)	$ 5,458	$ 162

(Continued)

	Year ended December 31, 2014									
		Total realized and unrealized gains (losses)				Transfers				
(In millions)	Beginning balance	Included in income	Included in OCI	Purchases	Sales	In	Out	Other	Ending balance	Total gains (losses) included in earnings[1]
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative[2]	$ (3,240)	$ (976)	$ —	$ —	$ —	$ —	$ —	$ (221)	$ (4,437)	$ —
Universal life liabilities	(813)	(604)	—	—	—	—	—	—	(1,417)	—
Future policy benefits										
AmerUs Closed Block	(1,613)	(102)	—	—	—	—	—	—	(1,715)	—
ILICO Closed Block and life benefits	(889)	(137)	—	—	—	—	—	—	(1,026)	—
Derivative liabilities										
Total return swap	(11)	1	—	—	9	—	—	—	(1)	(1)
Credit default swap	(8)	1	—	—	—	—	—	—	(7)	(1)
Equity swap	(131)	—	—	—	131	—	—	—	—	—
Total Level 3 liabilities	$ (6,705)	$ (1,817)	$ —	$ —	$ 140	$ —	$ —	$ (221)	$ (8,603)	$ (2)

[1] *Related to instruments held at end of year.*

[2] *Other activity represents the change in fair value due to issuances of $325 million, offset by settlements of $104 million.*

(Concluded)

Significant Unobservable Inputs—Significant unobservable inputs occur when we could not obtain or corroborate the quantitative detail of the inputs. This applies to AFS fixed maturity securities, mortgage loans, total return swaps, and credit default swaps. Additional significant unobservable inputs are described below.

Fixed maturity securities – For certain fixed maturity securities, internal models are used to calculate the fair value. A discounted cash flow approach is utilized. The discount rate is the significant unobservable input due to the determined credit spread being internally developed, illiquid, or other adjustments made to the base rate. The base rate represents a market comparable rate for securities with similar characteristics. Discounts ranged from 4% to 10%. This excludes assets for which significant unobservable inputs are not developed internally, primarily consisting of broker quotes.

Investment funds – The underlying investments may have significant unobservable inputs for comparable multiples and weighted average cost of capital rates applied in the valuation models. These inputs in isolation can cause significant increases or decreases in fair value. Specifically, the comparable multiples are multiplied by the underlying investment's earnings before interest, tax, depreciation, and amortization to establish the total enterprise value of the underlying investments. We use a comparable multiple consistent with the implied trading multiple of public industry peers.

Similarly, for certain underlying investments we may use a discounted cash flow model. When we use a discounted cash flow model, the significant input is the discount rate applied to present value the projected cash flows. An increase in the discount rate can significantly lower the fair value; a decrease in the discount rate can significantly increase the fair value. We determine the discount rate considering the weighted average cost of capital calculation of companies in similar industries with comparable debt to equity ratios.

Interest sensitive contract liabilities – embedded derivative – Significant unobservable inputs we use in the fixed indexed annuities embedded derivative of the interest sensitive contract liabilities valuation include:

1. Non-performance risk – For contracts we issue, we use the credit spread from the U.S. treasury curve based on our public credit rating as of the valuation date. This represents our credit risk for use in the estimate of the fair value of embedded derivatives. For contracts reinsured through funds withheld reinsurance, the cedant company holds collateral against its exposure; therefore, immaterial non-performance risk is ascribed to these contracts.
2. Option budget – The Company assumes future hedge costs in the derivative's fair value estimate. The level of option budgets determines the future costs of the options and impacts future policyholder account value growth.
3. Policyholder behavior – We regularly review the lapse and withdrawal assumptions. These are based on the Company's initial pricing assumptions updated for actual experience. Actual Company experience may be limited for recently issued products.

The following summarizes the unobservable inputs for the embedded derivative of interest sensitive contract liabilities:

	December 31, 2015				
(In millions)	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Fixed indexed annuities embedded derivatives	$ 4,477	Option budget method	Non-performance risk	0.6% – 1.8%	Decrease
			Option budget	0.8% – 3.8%	Increase
			Surrender rate	0.0% – 10.7%	Decrease

Fair Value of Financial Instruments Not Carried at Fair Value—The following represents the Company's financial instruments not carried at fair value on the consolidated balance sheets:

		December 31, 2015		December 31, 2014	
(In millions)	Fair Value Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets					
Mortgage loans	3	$ 5,452	$ 5,567	$ 5,392	$ 5,638
Investment funds	3	581	581	618	618
Policy loans	2	642	642	778	778
Funds withheld at interest	3	3,446	3,446	2,647	2,647
Other investments	3	83	83	56	56
Investments in related parties					
Investment funds	3	997	997	585	585
Short-term investments	2	55	55	—	—
Other investments	3	245	256	—	—
Total assets not carried at fair value		$ 11,501	$ 11,627	$ 10,076	$ 10,322
Liabilities					
Interest sensitive contract liabilities	3	50,937	50,755	54,787	55,471
Funds withheld liability	2	353	353	1,201	1,201
Total liabilities not carried at fair value		$ 51,290	$ 51,108	$ 55,988	$ 56,672

We estimate the fair value for financial instruments not carried at fair value using the same methods and assumptions as those we do carry at fair value. The financial instruments presented above are reported at carrying value on the consolidated balance sheets; however, in the case of policy loans, funds withheld at interest and liability, other investments, and investments in related parties – short-term investments, the carrying amount approximates or equals fair value.

Investment in related parties – Other investments – The fair value of investment in related party – other investments is determined using a discounted cash flow model using discount rates for similar investments.

Interest sensitive contract liabilities – The carrying and fair value of interest sensitive contract liabilities above excludes embedded derivatives and certain universal life liabilities, which are held at fair value. We consider the embedded value, which is an appraisal valuation of the in force business using internal assumptions and discount the distributable earnings using market participant rate of return. We then reduce the fair value of the assets by the total embedded value of the Company to determine the fair value of the total liabilities. This amount represents what the

Company would need to pay to transfer all the liabilities to another party. All non-interest sensitive liabilities are then subtracted from the fair value of the total liabilities to arrive at the fair value of the interest sensitive liabilities.

8. Business Combinations

Delta Lloyd Deutschland—Effective October 1, 2015, we acquired 100% of the voting equity interests of DLD and $50 million of intercompany loans from Delta Lloyd N.V. for a cash purchase price of $74 million. DLD was a Germany-domiciled insurance group with an in force book of business primarily made up of participating long-duration savings products. We acquired DLD to strategically expand our core business into Germany. Following the acquisition, DLD was renamed Athene Deutschland GmbH.

Aviva USA—Effective October 2, 2013, we acquired 100% of the common shares of Aviva USA Corporation (Aviva USA) from Aviva plc. Upon close, we ceded the majority of Aviva USA's life insurance business to affiliates of Global Atlantic. The Company paid $529 million, of which $368 million was cash, $170 million was a surplus note, and $9 million settled existing debt between Aviva plc and Aviva USA. Following the acquisition, Aviva USA was renamed Athene USA.

During 2014, we finalized our purchase accounting for the Aviva USA acquisition. We recorded measurement period adjustments for the final valuation of interest sensitive contract benefits, deferred tax assets, and final purchase price adjustment.

The acquisition resulted in VOBA of $1,696 million. It also created $638 million of negative VOBA, of which $411 million is related to investment-type contracts and $227 million is related to insurance contracts. We recorded a bargain purchase gain of $152 million during the year ended December 31, 2013. We believe three main factors created this bargain purchase gain:

- The Company was able to acquire the entire business since we had a partner to reinsure the life business,
- Anticipated future regulatory capital requirements motivated the seller to divest the business, and
- The value of business acquired as determined by a market participant calculation was greater than the consideration paid. This was mostly due to better assumed investment earned rates going forward, partially offset by a higher required rate of return and a higher ratio of required capital to reserves than Aviva plc held against the business.

To preserve the economics of the transaction, prior to closing the Company entered into a series of interest rate swaptions to hedge the value of the embedded gains in the investment portfolio until the acquisition was complete. The loss on these derivatives including embedded cost was $69 million in 2013.

The following summarizes the fair values of the assets acquired and liabilities assumed in the DLD and Aviva USA acquisitions.

	October 1, 2015	October 2, 2013
(In millions)	DLD	Aviva USA
Investments	$ 5,539	$ 51,627
Cash and cash equivalents	236	1,948
Accrued investment income	67	550
Reinsurance recoverable	4	1,079
Deferred tax assets	—	536
Value of business acquired	—	1,696
Other assets	83	764
Total identifiable assets acquired	5,929	58,200
Interest sensitive contract liabilities	403	47,629
Future policy benefits	4,519	7,795
Other policy claims and benefits	55	116
Dividends payable to policyholders	771	202
Income taxes payable	—	46
Derivative liabilities	—	194
Other liabilities	107	1,537
Total identifiable liabilities assumed	5,855	57,519
Net identifiable assets acquired	74	681
Goodwill (Bargain purchase gain)	—	(152)
Net assets acquired	$ 74	$ 529

DLD contributed $129 million of revenue and $6 million of net income during the year ended December 31, 2015. Aviva USA contributed $(7) million of revenue and $180 million of net income during the year ended December 31, 2013. Transaction costs incurred during the years ended December 31, 2015, 2014, and 2013, for these acquisitions were $15 million, $7 million, and $13 million, respectively, and are included in policy and other operating expenses on the consolidated statements of income.

The following unaudited pro forma revenue and net income assumes a January 1, 2014, acquisition date for DLD and January 1, 2012, acquisition date for Aviva USA:

	Years ended December 31,		
(In millions)	2015	2014	2013
Revenue	$ 3,002	$ 4,622	$ 6,001
Net income	579	473	1,896

9. Reinsurance

The following summarizes the effect of reinsurance on premiums and future policy and other policy benefits on the consolidated statements of income:

	Years ended December 31,		
(In millions)	2015	2014	2013
Premiums			
Direct	$ 445	$ 387	$ 282
Reinsurance assumed	24	28	12
Reinsurance ceded	(274)	(315)	(1,431)
Total premiums	$ 195	$ 100	$ (1,137)
Future policy and other policy benefits			
Direct	$ 1,041	$ 1,320	$ 577
Reinsurance assumed	30	(134)	21
Reinsurance ceded	(554)	(490)	(1,548)
Total future policy and other policy benefits	$ 517	$ 696	$ (950)

Reinsurance typically provides for recapture rights on the part of the ceding company for certain events of default. Additionally, some agreements require us to place assets in trust accounts for the benefit of the ceding entity. As of December 31, 2015, and 2014, we held assets in trusts of $1,314 million and $1,545 million, respectively. While we own assets placed in trust, their use is restricted based on the trust agreement terms. If the statutory book value of the assets, or in certain cases fair value, in a trust declines because of impairments or other reasons, we may be required to contribute additional assets to the trust. In addition, the assets within a trust may be subject to a pledge in favor of the applicable reinsurance company.

Global Atlantic ceded reinsurance transactions—We entered into a series of reinsurance agreements with affiliates of Global Atlantic to cede the majority of the Aviva USA acquired life business for a combined ceding commission of $112 million during the year ended December 31, 2013.

In conjunction with the Company's business combination with Aviva USA, we elected the fair value option for the ILICO Closed Block and certain blocks of universal and other life business ceded to Global Atlantic whereby the Aviva USA acquired life business was adjusted to fair value at the acquisition date of October 2, 2013, and is measured at fair value each reporting period.

We have a 100% coinsurance and assumption agreement with Accordia Life and Annuity Company (Accordia), an affiliate of Global Atlantic. The agreement ceded all existing open block life insurance business issued by Athene Annuity and Life Company (AAIA), with the exception of enhanced guarantee universal life insurance products. We also entered into a 100% coinsurance agreement with Accordia to cede all policy liabilities of the ILICO Closed Block. The ILICO Closed Block consists primarily of participating whole life insurance policies. We also have an excess of loss arrangement with Accordia to reimburse the Company for any payments required from the Company's general assets to meet the contractual obligations of the AmerUs Closed Block not covered by existing reinsurance through Athene Re USA IV. The AmerUs Closed Block consists primarily of participating whole life insurance policies. Since all liabilities were covered by the existing reinsurance at close, no reinsurance premiums were ceded. The assets backing the AmerUs Closed Block are managed, on AAIA's behalf, by Goldman Sachs Asset Management, an affiliate of Global Atlantic.

During the third quarter of 2015, AAIA agreed to novate certain open blocks of business ceded to Accordia, that were in force as of August 1, 2015, in accordance with the terms of the coinsurance and assumption agreement. As a result of the novation, interest sensitive contract

liabilities decreased $4,179 million, future policy benefits decreased $67 million, policy loans decreased $129 million, and reinsurance recoverable decreased $4,117 million.

We also have reinsurance agreements with First Allmerica Financial Life Insurance Company (FAFLIC), an affiliate of Global Atlantic. These agreements, comprising funds withheld coinsurance and coinsurance and assumption reinsurance, ceded existing life business. The assets backing the funds withheld liabilities are managed, on our behalf, by Goldman Sachs Asset Management.

During the third quarter of 2015, portions of the reinsurance agreements between us and FAFLIC were amended to change the reinsurance agreements from funds withheld coinsurance to coinsurance, which resulted in a $930 million decrease to funds withheld liability, and a corresponding decrease to assets, primarily consisting of investments.

At December 31, 2015, and 2014, Global Atlantic maintained a series of trust and custody accounts under the terms of these agreements with assets having a fair value of $4,614 million and $6,743 million, respectively.

Protective Life ceded reinsurance transactions—We reinsured substantially all of the existing life and health business of Athene Annuity & Life Assurance Company (AADE) to Protective Life under a coinsurance agreement in 2011. At December 31, 2015, and 2014, Protective Life maintained a trust for our benefit with assets having a fair value of $1,616 million and $1,753 million, respectively.

Ceded Reinsurance Transactions—The following summarizes our reinsurance recoverable from the following:

	December 31,	
(In millions)	2015	2014
Global Atlantic	$ 5,090	$ 9,306
Protective Life	1,760	1,798
Other[1]	407	480
Reinsurance recoverable	$ 7,257	$ 11,584

[1]*Represents all other reinsurers, with no single reinsurer having a carrying value in excess of 5% of total recoverable.*

Assumed Coinsurance Transactions—We have coinsurance agreements with Transamerica Life Insurance Corporation (Transamerica) and Liberty Bankers Life Insurance Company, under which we assumed fixed annuities. The following summarizes our assumed coinsurance reserves:

	December 31,	
(In millions)	2015	2014
Transamerica Life Insurance Corporation	$ 1,122	$ 1,343
Liberty Bankers Life Insurance Company	371	445

10. Deferred Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired

The following represents a rollforward of DAC, DSI, and VOBA:

(In millions)	DAC	DSI	VOBA	Total
Balance at December 31, 2012	$ 117	$ 70	$ 177	$ 364
Additions	125	37	1,727	1,889
Unlocking	9	3	2	14
Amortization	(32)	(19)	(123)	(174)
Impact of unrealized investment (gains) losses	(9)	—	51	42
Balance at December 31, 2013	210	91	1,834	2,135
Additions	250	113	—	363
Unlocking	2	6	28	36
Amortization	(20)	(10)	(129)	(159)
Impact of unrealized investment (gains) losses	(17)	(12)	(117)	(146)
Balance at December 31, 2014	425	188	1,616	2,229
Additions	288	136	—	424
Unlocking	(6)	(2)	(27)	(35)
Amortization	(34)	(18)	(136)	(188)
Impact of unrealized investment (gains) losses	34	17	182	233
Balance at December 31, 2015	$ 707	$ 321	$ 1,635	$ 2,663

The unlocking impact in 2015 was primarily driven by a decrease in expected long term net investment earned rates. In 2014, the unlocking impact was primarily driven by an increase in expected long term net investment earned rates. The unlocking impact in 2013 was primarily the result of lowering lapse rates on one of the fixed indexed annuity products to better reflect actual experience, offset by lowering the future hedge budget on the same product.

We did not make any adjustments to DAC recoverability during the years ended December 31, 2015, 2014, or 2013.

The expected amortization of VOBA for the next five years is as follows:

(In millions)	Expected Amortization
2016	$ 161
2017	152
2018	144
2019	131
2020	121

11. Closed Block

The Company pays guaranteed benefits under all policies included in the Closed Blocks. In the event the Closed Blocks' assets are insufficient to meet the benefits of the Closed Blocks' guaranteed benefits, we would use general assets to meet the contractual benefits of the Closed Blocks' policyholders. We ceded the ILICO Closed Block of policies to Global Atlantic. In addition, Global Atlantic is responsible for managing the dividend scale of the AmerUs Closed Block.

In conjunction with the Company's business combination with Aviva USA, the fair value option was elected for the AmerUs Closed Block, whereby all assets and liabilities of the AmerUs Closed Block were adjusted to fair value at the acquisition date of October 2, 2013. The fair value of liabilities of the AmerUs Closed Block was derived as the sum of the fair value of the AmerUs Closed Block assets plus our cost of capital in the AmerUs Closed Block. The cost of capital was determined to be the present value of the projected future after tax earnings on the required capital of the AmerUs Closed Block, discounted at a rate which represents a market participant's required rate of return.

The election of the fair value option on the AmerUs Closed Block results in the change in liabilities, exclusive of the cost of capital, to be equal to the change in the assets in periods subsequent to the acquisition date. We do not record additional policyholder dividend obligations, as there are no future GAAP earnings available to the policyholders.

The excess of the fair value of the liabilities over the fair value of the assets represents our cost of capital in the AmerUs Closed Block. The maximum amount of future earnings from the assets and liabilities of the AmerUs Closed Block is represented by the reduction in the cost of capital in future years based on the operations of the AmerUs Closed Block and recalculation of the cost of capital each reporting period.

Summarized financial information of the AmerUs Closed Block is presented below.

	December 31,	
(In millions)	2015	2014
Liabilities		
Future policy benefits	$ 1,581	$ 1,715
Other policy claims and benefits	12	15
Dividends payable to policyholders	94	96
Other liabilities	10	11
Total liabilities	1,697	1,837
Assets		
Trading securities	1,316	1,470
Mortgage loans, net of allowances	48	55
Policy loans	181	186
Total investments	1,545	1,711
Cash and cash equivalents	45	12
Accrued investment income	18	18
Reinsurance recoverable	22	31
Other assets	3	3
Total assets	1,633	1,775
Maximum future earnings to be recognized from AmerUs Closed Block	$ 64	$ 62

The following represents the contribution from AmerUs Closed Block.

	Years ended December 31,		
(In millions)	2015	2014	2013
Revenues			
Premiums	$ 58	$ 64	$ 17
Net investment income	86	86	21
Investment related gains (losses)	(124)	110	(6)
Total revenues	20	260	32
Benefits and expenses			
Future policy and other policy benefits	(24)	212	20
Dividends to policyholders	45	45	11
Total benefits and expenses	21	257	31
Contribution (to) from AmerUs Closed Block before income taxes	(1)	3	1
Federal income taxes funded by the Closed Block	1	6	—
Contribution (to) from AmerUs Closed Block, net of income taxes	$ (2)	$ (3)	$ 1

12. Debt

Refer to *Note 6 – Variable Interest Entities* for disclosures regarding borrowings of the Company's consolidated VIEs.

Revolving Credit Facility—In 2013, AHL and ALRe entered into a three-year revolving credit agreement (Credit Facility) with Citibank, N.A., as administrative agent. Beginning in 2014, Athene USA was added as a borrower. The amount available under the Credit Facility was $500 million. In connection with the Credit Facility, AHL guaranteed all of the obligations of ALRe and Athene USA, ALRe guaranteed certain of the obligations of AHL and Athene USA, and Athene USA guaranteed the obligations of AHL and ALRe. The agreement contained various standard covenants with which we had to comply. The following are significant covenants we were required to meet:

1. Consolidated debt to capitalization ratio of less than 35%, or in certain circumstances 25%,
2. Minimum consolidated net worth of no less than 70% of the Company's consolidated net worth on the date of the Company's acquisition of Aviva USA plus 50% of the cash received in any subsequent equity issuances and 50% of the Company's positive consolidated net income for each subsequent fiscal year,
3. The Company's material U.S. insurance subsidiaries to maintain a ratio of total adjusted capital to authorized control level risk-based capital (each as defined by the National Association of Insurance Commissioners (NAIC)) of no less than 400%,
4. ALRe to maintain capital and surplus of no less than 70% of ALRe's capital and surplus on the date of the Company's acquisition of Aviva USA plus 50% of ALRe's positive net income for each fiscal year, and
5. Restrictions on our ability to incur debt and liens and to declare or pay dividends, in each case with certain exceptions.

As of December 31, 2015, we had no amounts outstanding under the Credit Facility and were in compliance with all covenants.

Interest accrued on outstanding borrowings at LIBOR plus a margin based on the debt to capitalization ratio of the Company. Total interest expense was not material during the years ended December 31, 2015, 2014, or 2013. The Credit Facility had a commitment fee of 0.50% of the unused commitment. We incurred $8 million of loan origination fees which were amortized to interest expense over the term of the facility using the straight line method.

On January 22, 2016, we terminated the Credit Facility and entered into a five-year revolving credit agreement (Revolving Credit Facility) with Citibank, N.A., as administrative agent. The amount available under the Revolving Credit Facility is $1 billion, with AHL, ALRe, and Athene USA as borrowers on the agreement. Interest will accrue on outstanding borrowings at LIBOR plus a margin or a base rate plus a margin, based on the credit rating of AHL. The Revolving Credit Facility has a commitment fee on the unused commitment, based on the credit rating of AHL.

13. Common Stock

We have six classes of common stock: Class A, Class B, Class M-1, Class M-2, Class M-3, and Class M-4. The Class M-1, Class M-2, Class M-3, and Class M-4 shares are collectively referred to as Class M shares.

Class A shares collectively represent 55% of the total voting power of the Company. Class B shares represent the remaining 45% of the total voting power of the Company, and are beneficially owned by shareholders who are members of the Apollo Group, as defined in our bye-laws. Class M shares are restricted, non-voting shares issued under equity incentive plans. See additional discussion of incentive compensation in *Note 14 – Stock-based Compensation*. Our bye-laws place certain restrictions on Class A shares such that (1) a holder of Class A shares, including its affiliates, cannot control greater than 9.9% of the total outstanding vote and if a holder of Class A shares were to control greater than 9.9%, then a holder's voting power is automatically reduced to 9.9% and the other holders of Class A shares would vote the remainder on a prorated basis, (2) the total voting power held by members of our management and employees of the Apollo Shareholder Group is limited to 3%, and (3) Class A shares may be deemed non-voting when owned by a shareholder who owns Class B shares, has an equity interest in certain Apollo entities, or is a member of the Apollo Shareholder Group.

Share Activities
2015

- We received $1,038 million to settle remaining capital commitments executed on April 4, 2014 in connection with a private placement offered to accredited investors. As a result, we issued 31,564,339 Class A Shares and 8,369,230 Class B Shares at $26.00 per share.
- We received commitments and issued an additional 2,315,113 Class A Shares at $26.02 per share, resulting in proceeds received of $60 million.
- In satisfaction of our final obligations under the TASA earned by Apollo in 2014, we issued 2,311,853 Class B shares. See *Note 19 – Related Parties* for further information on the TASA.

2014

- We received commitments for 41,201,578 Class A shares and 8,730,769 Class B shares as a result of a private placement offered to accredited investors launched in late 2013. Of that commitment, 8,240,316 Class A shares and 1,746,154 Class B shares were issued at $26.00 per share in April 2014, which represented a drawdown of 20% of the committed capital in the private placement at the time. The commitment for the remaining 39,945,877 shares was recorded as common shares subscribed but unissued, with an offsetting subscription receivable as described under *Subscriptions Receivable* below.
- To encourage significant investment by key employees, we issued 3,693,730 Class A shares at a discounted price of $13.46 pursuant to our equity incentive plan.
- We issued a total of 11,426,883 Class B shares in satisfaction of certain of our obligations under the TASA. This agreement is further described in *Note 19 – Related Parties.*
- The convertible note issued in 2012 as part of the Contribution Agreement was converted to shares, resulting in the issuance of 3,808,626 Class B shares. This agreement is further described in *Note 19 – Related Parties.*
- We authorized the following additional shares at a par value of $0.001 per share: (1) 87,110,662 Class A shares, (2) 175,000,000 Class B shares, (3) two new classes of incentive compensation shares consisting of 7,500,000 Class M-3 shares and 7,500,000 Class M-4 shares, and (4) 149,998,898 shares of capital stock, which remain undesignated.

2013

- We issued shares totaling 8,869,562 upon the satisfaction of previous share purchase commitments.

Subscriptions Receivable – As of December 31, 2015, we had no subscriptions receivable. At December 31, 2014, we had 39,933,569 common shares subscribed but unissued and an offsetting subscription receivable of $1,038 million as a result of the 2014 private placement discussed above. There were no subscriptions receivable at December 31, 2013.

The table below shows the changes in each class of shares issued and outstanding:

	2015	2014	2013
Class A			
Beginning balance	15,752,736	494,200	494,200
Issued shares	34,498,220	11,950,844	—
Repurchased shares	(99,691)	—	—
Transferred from Class B shares, net	—	3,307,692	—
Ending balance	50,151,265	15,752,736	494,200
Class B			
Beginning balance	125,282,892	114,605,747	111,594,479
Issued shares	10,681,083	16,981,664	8,869,562
Repurchased shares	—	(2,996,827)	(5,858,294)
Transferred to Class A shares, net	—	(3,307,692)	—
Ending balance	135,963,975	125,282,892	114,605,747
Class M-1			
Beginning balance	5,198,273	5,198,273	5,198,273
Ending balance	5,198,273	5,198,273	5,198,273
Class M-2			
Beginning balance	3,125,869	3,226,792	3,125,870
Issued shares	—	—	100,922
Forfeited shares	—	(80,738)	—
Repurchased shares	—	(20,185)	—
Ending balance	3,125,869	3,125,869	3,226,792
Class M-3			
Beginning balance	3,350,000	—	—
Issued shares	—	3,390,000	—
Forfeited shares	(216,000)	(32,000)	—
Repurchased shares	(24,000)	(8,000)	—
Ending balance	3,110,000	3,350,000	—
Class M-4			
Beginning balance	—	—	—
Issued shares	5,316,751	—	—
Forfeited shares	(242,050)	—	—
Repurchased shares	(36,258)	—	—
Ending balance	5,038,443	—	—

14. Stock-based Compensation

We adopted share incentive plans in 2009, 2012, and 2014 (Share Incentive Plans). The 2009 and 2012 Share Incentive Plans were amended and restated in 2014 (2014 Modification), along with the adoption of the 2014 Share Incentive Plan (2014 Plan). The purpose of the Share Incentive Plans is to provide an incentive to achieve long-term company goals and align the interests of our employees and directors, and AAM employees, with those of shareholders. See *Note 19 – Related Parties* regarding our relationship with AAM. Under the Share Incentive Plans, we may issue nonqualified share options, rights to purchase shares, restricted shares, restricted stock units (RSUs), and other awards which may be settled in, or based upon, our common shares.

The aggregate number of shares authorized for issuance under the Share Incentive Plans includes:

- 7,109,560 Class M-1 shares
- 5,000,000 Class M-2 shares
- 7,500,000 Class M-3 shares
- 7,500,000 Class M-4 shares
- 8,000,000 Class A common shares

Through the Share Incentive Plans, we have issued the following two categories of stock-based compensation: Class M awards and Class A awards.

Class M awards—We have issued Class M shares and RSUs concurrently with the timing of capital raises, in order to align management incentives with shareholder investments.

Class M shares function similarly to options in that they are exchangeable into Class A shares upon payment of a conversion price and other conditions being met. The settlement value of the RSUs is based upon the value of the Class A shares at the time of settlement after deducting the conversion price of the RSUs. RSUs may be settled either in cash or Class A shares at the Company's election. One portion of the Class M shares and RSUs is subject to time vesting conditions (Tranche 1), and the other portion is subject to certain performance-based vesting conditions (Tranche 2). Both Tranche 1 and Tranche 2 RSUs require an initial public offering (IPO) as an additional vesting condition. Vesting conditions are further described below.

The nature and terms of the Class M shares are generally consistent across each class. In October 2015, we issued Class M-4 shares with a different Tranche 2 performance condition than the original Class M-4 award. These shares are referred to as Class M-4 Prime. This vesting condition and any other significant differences between classes will be separately discussed throughout the following discussion.

Class M share vesting – Tranche 1 shares generally vest in 20% increments on the first through fifth anniversaries of the earlier of the date of grant or vesting inception date. Tranche 1 shares also automatically vest upon the sale of the Company or change in control, prior to the participant's termination or within six months following a qualifying termination. Unvested Tranche 1 shares are forfeited upon a participant's termination.

Tranche 2 awards vest if certain performance hurdles are met, described as follows:

- *Class M (excluding M-4 Prime)* – The vesting performance hurdle is based on the rate of return and realized cash received by certain holders of our shares (Relevant Investors), as defined in each incentive plan, upon sale of their shares prior to or during an IPO or within a 15 month period thereafter (Lock-Up End Date). Vesting may also occur if the performance hurdles are met based on a deemed sale by a Relevant Investor on the dates 7.5, 12, and 15 months after an IPO, and on each trading day thereafter, through the Contractual Term of each M share class, at a price equal to the volume weighted average closing trading price during the 90 day period prior to such date. Based on the results of the performance hurdle calculations, the vesting percentages of the Tranche 2 awards can range from 0% to 100%. Upon a participant's qualifying termination, unvested Tranche 2 awards remain outstanding and eligible to vest for a period of 18 months following the later of the IPO date or date of a qualifying termination. Any unvested Tranche 2 shares remaining at the end of this 18 month period are forfeited.
- *Class M-4 Prime* – The vesting performance hurdle is based on the attainment of a specified Class A share price following an IPO. Vesting will also occur upon a sale of the Company or change in control in which Class A Shares are valued at the respective hurdle share price. Any unvested Tranche 2 shares remaining as of the tenth anniversary of the grant date are forfeited.

Upon a participant's termination, vested Class M shares and converted Class A shares are eligible to be repurchased, at the Company's option, for a price determined based on the reason for termination.

Contractual Terms – Unvested Class M share are forfeited as of the following dates:

- *Class M-1* – 10 years from the grant date
- *Class M-2* – 10 years from the grant date
- *Class M-3* – 4.25 years following an IPO (three years after Lock-Up End Date)
- *Class M-4* – 5.25 years following an IPO (four years after Lock-Up End Date)

Although the Class M shares function similarly to options, they are equity shares, and have dividend rights and no expiration date once vested. Prior to vesting, Class M shares generally do not participate in the Company's dividends, if any.

Conversion to Class A shares – Vested Class M shares become eligible for conversion to Class A shares upon the occurrence of the following events:

- *Class M (excluding M-4 Prime)* – The earlier of (1) the realization by Relevant Investors of cash proceeds equal to their investment in the Company or (2) the effective date of an IPO.
- *Class M-4 Prime* – The earlier of (1) a sale of the Company or change in control or (2) the effective date of an IPO.

Following this date, a holder of vested Class M shares may elect to exchange vested shares for an equivalent number of Class A shares upon payment to the Company, in cash or in shares, of the conversion price less the amount of certain dividends paid by the Company on Class A shares subsequent to the granting of Class M shares. Following a conversion to Class A shares, shares can be sold subject to contractual transfer or legal restrictions, such as lockups, blackout periods, or affiliate sale volume caps.

As of December 31, 2015, no Class M shares were exchangeable into Class A shares.

2014 Modification – During 2014, we adopted amendments to the terms of the existing Class M-1 and M-2 shares to conform the vesting and repurchase terms of the Class M-1 and M-2 shares to those of the Class M-3 and M-4 shares, described above. Twenty-nine individuals were impacted by the modification.

Under the terms of the original plans for the Class M-1 and M-2 shares, we had the right to repurchase vested shares at the lower of purchase cost or fair value if an employee resigned without good reason, either before an IPO or under other conditions as defined in the original plans. As a result of this repurchase option, the expense associated with vested incentive shares would not be recognized on the consolidated statements of income until the date on which such shares would have been converted to Class A shares. Therefore, no expense had been recorded related to the Class M-1 or M-2 shares prior to the 2014 Modification, which revised the terms to generally call for a repurchase price equal to the fair market value of a Class A share less the conversion price of the respective Class M share.

Upon modification of a share award, the share awards are revalued and remeasured as if a new share award was issued. The 2014 Modification of the Class M-1 and M-2 shares resulted in non-recurring additional stock based compensation expense of $81 million.

Class A awards—The 2014 Plan also allows for the purchase of Class A shares by certain employees and directors of the Company and its affiliates. In 2015, we issued an aggregate of 442,590 fully-paid Class A shares for total proceeds of $12 million under the 2014 Plan. In April 2014, we issued an aggregate of 3,693,730 fully-paid Class A shares for total proceeds of $50 million under the 2014 Plan. For the years ended December 31, 2015, and 2014, we recognized $2 million and $46 million, respectively, of stock-based compensation expense associated with the Class A shares to the extent shares were purchased at a discounted price from fair value on the issuance date.

Additionally, we may issue restricted Class A shares to management of the Company and its affiliates. In 2015, we issued 160,754 restricted Class A shares to management of the Company and its affiliates. These awards had a grant date fair value of $26.02 per share. The restricted Class A shares had a service commencement date of January 1, 2015, and vest ratably over three years. No shares were legally vested at grant date. The restricted Class A shares are classified as equity awards measured using fair value of Class A shares on grant date.

A new annual bonus plan began in 2015 under which certain employees are eligible to receive a percentage of their bonus in restricted Class A shares which generally vest over three years. Employees receiving equity under this plan for the 2015 bonus period only will have one third of their awards vested at time of grant in February 2016. As the service inception date for these awards occurred in 2015 and precedes the grant date, compensation expense for the portion to be vested at grant date was recognized in 2015 at the current period fair value.

Compensation expense—Class M shares with Tranche 1 vesting requirements are accounted for as equity awards and related compensation expense is recognized ratably over the vesting period. The expense for Tranche 1 shares issued to employees is calculated based on grant date fair value multiplied by the number of shares awarded. The expense for Tranche 1 shares issued to non-employees (i.e. AAM participants) is recognized initially at the grant date fair value multiplied by the number of shares. However, the fair value of the awards are revalued each reporting period through completion of counterparty performance to coincide with the fair value of the services provided by the non-employees. The result of the revaluation is recognized in the period in which the revaluation occurs.

Employee and non-employee Tranche 2 shares, excluding M-4 Prime, are accounted for as liability awards. Compensation expense for all participants is remeasured each reporting period through settlement at the fair value of the awards, factoring in the probability of achieving the vesting targets described above. Upon vesting of Tranche 2 shares, the liability is reclassified to equity, because the vesting condition which resulted in liability classification is no longer present, and measured at fair value on the date of reclassification.

Tranche 2 M-4 Prime shares are accounted for as equity awards with expense recognition commencing upon completion of an IPO by the Company and calculated based on the grant date fair value of such awards multiplied by the number of shares awarded.

We also issued a net of 181,050 Class M-4 RSUs during the year ended December 31, 2015. Since there is no vesting of the RSUs prior to an IPO, there is no current period expense associated with these awards.

Class A shares are accounted for as equity awards and related compensation expense is recognized ratably over the vesting period, if any. The compensation expense for Class A shares is calculated based on the grant date fair value of the Class A common shares, less the purchase price, multiplied by the number of shares awarded.

Components of stock compensation expense recorded on the consolidated statements of income are as follows:

	Years ended December 31,	
(In millions)	2015	2014
Class M – Tranche 1	$ 12	$ 54
Class M – Tranche 2	50	47
Class A	5	47
Stock-based compensation expense	$ 67	$ 148

Of the total compensation expense amount in 2014, $131 million represents a non-recurring expense that was primarily the result of the 2014 Modification and the purchase of discounted Class A shares under the 2014 Plan as previously discussed. There was no compensation expense recognized in connection with the stock-based compensation plans in 2013. No compensation costs were capitalized as part of the cost of an asset during any of the reported years.

As of December 31, 2015, the Class M shares had unrecognized compensation expense of $23 million associated with the Tranche 1 vesting awards and $62 million associated with the Tranche 2 vesting awards. The cost is expected to be recognized over a weighted-average period of 1.7 years and 1.2 years, associated with the Tranche 1 vesting awards and Tranche 2 vesting awards, respectively. There was no unrecognized compensation expense associated with discounted Class A shares.

Valuation Assumptions—The fair value of the Class M shares issued prior to 2014 was estimated on the date of grant using a lattice-based valuation model. Beginning in 2014, we determined the fair value of the Class M shares using the Black-Scholes option pricing model, with application of a Monte-Carlo simulation to determine the value of the Tranche 2 Class M shares. Assumptions used for valuation of all Class M shares are as follows:

Assumptions used	December 31, 2015	December 31, 2014	2014 Modification Date
Athene Class A and B share value	$34.23	$26.02	$26.00
Risk-free interest rate	0.9% – 1.1%	0.6%	0.3%
Expected dividend yield	—%	—%	—%
Volatility	25.9%	17.5%	20.0%
Expected term	2.42 years	2.39 years	2.27 years

The fair value of the Class A and B shares at December 31, 2015 is determined based on GAAP book value multiple approach. Under this approach we utilized a comparable peer set of public companies and their share price to book value ratio, less applicable discounts for lack of marketability of AHL in order to determine the AHL Class A and B share price. The fair value of Class A shares on December 31, 2014 was determined using the embedded value method which is based on the present value of the future expected regulatory distributable income generated by the net assets plus the excess capital. The fair value of Class A shares on the modification date of the Class M-1 shares and M-2 shares was determined to be $26.00 per share as the modification date coincided with a private placement of our Class A shares at a price of $26.00 per share.

The risk-free interest rates are derived from U.S. Constant Maturity Treasury yield at the valuation date, with maturity corresponding to weighted-average expected term. The expected dividend yields are based on our historical and expected dividend payments, which have been zero to date. Absent a public market for our shares, we have historically estimated volatility of our share price based on the published historical volatilities of comparable publicly-traded companies over a period consistent with the expected life of the award being valued.

We estimate the weighted-average expected term of the Class M shares based on the weighted-average time to an expected liquidity event, such as an IPO or other Relevant Investor sale, according to the terms of the Class M shares and including an assumption as to expected employee exercise behavior after such liquidity event. The weighted-average expected term is determined from the 2014 modification date, the grant date, or the period end date depending on the accounting treatment for each award.

In addition, the Tranche 2 Class M share assumptions include an estimate of the probability of the vesting conditions being met. This assumption is developed by using a Monte-Carlo simulation to generate the possible future value of the Company's equity at a liquidity event to determine the percentage of Tranche 2 Class M shares that vest for each simulated path. The fair value of the Tranche 2 Class M shares is then estimated by averaging the value for all simulated paths and discounting the results at the risk-free interest rate to the valuation date.

Award activity—A rollforward of award activity for the year ended December 31, 2015, of the Class M shares is as follows:

	Tranche 1			Tranche 2			Total	
(In millions, except share and per share data)	Class M Shares	Weighted Average Conversion Price	Aggregate Intrinsic Value	Class M Shares	Weighted Average Conversion Price	Aggregate Intrinsic Value	Class M Shares	Weighted Average Conversion Price
Outstanding at the beginning of the year	5,144,481	$ 11.36		6,529,661	$ 11.07		11,674,142	$ 11.20
Granted during the year	1,925,600	26.96		2,868,934	27.29		4,794,534	27.16
Forfeited during the year	(203,675)	20.09		(254,375)	20.08		(458,050)	20.09
Repurchased during the year	(50,902)	20.09		—	—		(50,902)	20.09
Outstanding at the end of the year	6,815,504	$ 15.44		9,144,220	$ 15.91		15,959,724	$ 15.71
Vested and expected to vest at December 31, 2015	6,712,794	$ 13.79	$ 127	8,882,321	$ 14.66	$ 163		

There were no convertible, converted, or expired shares during the years ended December 31, 2015, 2014, and 2013.

The following represents the activity of nonvested Class M shares for the year ended December 31, 2015:

	Tranche 1		Tranche 2		Total	
	Class M Shares	Weighted Average Grant Date Fair Value	Class M Shares	Weighted Average Grant Date Fair Value	Class M Shares	Weighted Average Grant Date Fair Value
Nonvested at the beginning of the year	1,743,777	$ 7.36	5,421,995	$ 2.25	7,165,772	$ 3.50
Granted during the year	1,925,600	7.06	2,868,934	9.74	4,794,534	8.66
Vested during the year	(804,411)	5.35	—	—	(804,411)	5.35
Forfeited during the year	(203,675)	7.60	(254,375)	3.49	(458,050)	5.32
Nonvested at the end of the year	2,661,291	$ 7.74	8,036,554	$ 4.88	10,697,845	$ 5.59

The weighted average grant date fair value of Class M share awards granted during the years ended December 31, 2014, and 2013, was $9.31 and $0.16, respectively.

The total fair value of vested Tranche 1 Class M shares was $98 million, $49 million, and zero as of December 31, 2015, 2014, and 2013, respectively. The total fair value of vested Tranche 2 Class M shares was $28 million, $17 million, and zero as of December 31, 2015, 2014, and 2013, respectively.

In 2014, we issued 6,184,948 of our Class B shares to Apollo in satisfaction of settlement amounts earned in 2014 by Apollo under the TASA discussed in *Note 19 – Related Parties*. In 2014, we also settled the equity swap transaction related to the TASA through the issuance of 5,241,935 Class B shares to Apollo.

15. Earnings Per Share

The following table represents basic and diluted earnings per share calculation:

(In millions, except share and per share data)	Years ended December 31, 2015	2014	2013
Net income available to AHL shareholders	$ 562	$ 463	$ 916
Basic weighted average shares outstanding	175,091,802	129,519,108	113,506,457
Dilutive effect of stock compensation plans	86,846	11	9
Dilutive effect of equity swap[1]	—	2,089,345	1,603,564
Diluted weighted average shares outstanding	175,178,648	131,608,464	115,110,030
Earnings per share[2]			
Basic	$ 3.21	$ 3.58	$ 8.07
Diluted	$ 3.21	$ 3.52	$ 7.96

[1] *Equity swap relates to TASA. See Note 18 – Related Parties for additional information.*

[2] *Calculated using whole figures.*

Dilutive shares are calculated using the treasury stock method. Earnings per share for all Class M shares is zero, as no earnings are attributable to these classes of shares.

The number of shares and RSUs excluded from diluted shares outstanding were 16,653,624 shares, 11,674,141 shares, and 8,425,063 shares for the years ended December 31, 2015, 2014, and 2013, respectively. These are related to Class M shares and RSUs, as the issuance restrictions had not been satisfied as of each year end.

16. Accumulated Other Comprehensive Income

The following is a detail of AOCI, net of offsets:

(In millions)	December 31, 2015	2014
AFS securities	$ (405)	$ 1,328
DAC, DSI, VOBA, and future policy benefit adjustment on AFS securities	91	(328)
Noncredit component of other-than-temporary impairment losses on AFS securities	(15)	(5)
Hedging instruments	15	4
Pension adjustments	(4)	(16)
Foreign currency translation adjustments	(4)	—
Accumulated other comprehensive income (loss), before taxes	(322)	983
Deferred income tax asset (liability)	85	(339)
Accumulated other comprehensive income (loss)	$ (237)	$ 644

Changes in AOCI are presented below.

(In millions)	Years ended December 31, 2015	2014	2013
Unrealized gains (losses) on AFS securities			
Unrealized holding gains (losses) arising during the year	$ (1,661)	$ 1,225	$ (221)
Change in DAC, DSI, VOBA, and future policy benefits	419	(317)	66
Less: Reclassification adjustment for gains (losses) realized in net income[1]	72	9	69
Less: Income tax expense (benefit)	(428)	318	(73)
Change in unrealized gains (losses) on AFS securities	(886)	581	(151)
Noncredit component of other-than-temporary impairment losses on AFS securities			
Noncredit component of other-than-temporary impairment losses on AFS securities recognized during the year	(13)	(1)	1
Less: Reclassification adjustment for losses realized in net income[1]	(3)	—	(4)
Less: Income tax expense (benefit)	(4)	1	2
Change in noncredit component of other-than-temporary impairment losses on AFS securities	(6)	(2)	3
Unrealized gain (loss) on hedging instruments			
Change in hedging instruments during the year	11	10	(2)
Less: Income tax expense	4	4	—
Change in hedging instruments	7	6	(2)
Pension adjustments			
Pension adjustments during the year	12	(17)	1
Less: Income tax expense (benefit)	4	(6)	—
Change in pension adjustments	8	(11)	1
Foreign currency translation adjustments			
Foreign currency translation adjustments during the year	(4)	—	—
Change in AOCI	$ (881)	$ 574	$ (149)

[1] *Recognized in investment related gains (losses) on the consolidated statements of income*

17. Income Taxes

Income tax expense consists of the following:

(In millions)	Years ended December 31, 2015	2014	2013
Current	$ (19)	$ (84)	$ 81
Deferred	33	138	(89)
Income tax expense (benefit)	$ 14	$ 54	$ (8)

Income tax expense was calculated based on the following components of income before income taxes:

(In millions)	Years ended December 31, 2015	2014	2013
Pre-tax income – Bermuda	$ 510	$ 271	$ 1,040
Pre-tax income – Germany	8	—	—
Pre-tax income (loss) – U.S.	74	261	(51)
Income before income taxes	$ 592	$ 532	$ 989

The expected tax provision computed on pre-tax income at the weighted average tax rate has been calculated as the sum of the pre-tax income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. Statutory tax rates of 0%, 31%, and 35% have been used for Bermuda, Germany, and the United States, respectively. A reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted average tax rate is as follows:

	Years ended December 31,		
(In millions)	2015	2014	2013
Expected tax provision computed on pre-tax income at weighted average income tax rate	$ 28	$ 91	$ (18)
(Decrease) increase in income taxes resulting from:			
Deferred tax valuation allowance	(6)	(22)	8
Prior year true-up	2	(12)	5
Interest expense on surplus notes	—	—	(1)
Corporate owned life insurance	(7)	(6)	(2)
State taxes and other	(3)	3	—
Total income tax expense (benefit)	$ 14	$ 54	$ (8)
Effective tax rate	2%	10%	(1)%

Total income taxes were as follows:

	Years ended December 31,		
(In millions)	2015	2014	2013
Income tax expense (benefit)	$ 14	$ 54	$ (8)
Income tax from OCI	(424)	317	(71)
Total income taxes	$ (410)	$ 371	$ (79)

Deferred income tax assets and liabilities consisted of the following:

	December 31,	
(In millions)	2015	2014
Deferred tax assets		
Insurance liabilities	$ 1,351	$ 2,075
Investments, including derivatives	144	8
Net unrealized losses on AFS	84	—
Net operating and capital loss carryforwards	160	162
VOBA	72	—
Employee benefits	57	50
Other	20	27
Total deferred tax assets	1,888	2,322
Valuation allowance	(193)	(133)
Deferred tax asset, after valuation allowance	1,695	2,189
Deferred tax liabilities		
Investments, including derivatives	573	1,166
Net unrealized gains on AFS	—	339
VOBA	372	354
Deferred acquisition costs	98	81
Other	46	29
Total deferred tax liability	1,089	1,969
Net deferred tax asset	$ 606	$ 220

At December 31, 2015, we have gross deferred tax assets associated with U.S. federal and state net operating losses of $448 million, which will begin to expire in 2022.

The valuation allowance consists of the following:

	December 31,	
(In millions)	2015	2014
U.S. federal and state net operating losses	$ 100	$ 92
U.S. other deferred tax assets	27	41
German other deferred tax assets	66	—
Total valuation allowance	$ 193	$ 133

AHL and its Bermuda subsidiaries file protective U.S. income tax returns and its U.S. subsidiaries file income tax returns with the U.S. federal government and various U.S. state governments. AADE is not subject to U.S. federal and state examinations by tax authorities for years prior to 2007, while Athene Annuity & Life Assurance Company of New York (AANY) and Athene Life Insurance Company (ALIC) are not subject to examinations for years prior to 2012. IRS examinations for Aviva USA and subsidiaries have been completed for all tax years prior to 2011. We have protested certain unfavorable adjustments related to tax years 2008 through 2010 for Aviva USA. We do not believe any tax payments resulting from these examinations will materially impact the Company's effective tax rate or net income. Additionally, Aviva plc, the former parent company of Aviva USA, would be obligated to pay any additional tax. The IRS is currently auditing the 2011 through 2013 consolidated tax returns filed by Aviva USA. The burden of any proposed adjustments for tax periods, or portions thereof, ending on or prior to the acquisition would be borne by Aviva plc. No material proposed adjustments have been issued with respect to this exam.

Under current Bermuda law, we are not required to pay any taxes in Bermuda on either income or capital gains. We have received an undertaking from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2035.

Withholding taxes have not been provided on undistributed earnings of AHL's U.S. and German subsidiaries as of December 31, 2015, or 2014. Although withholding taxes may apply in the event a dividend is paid by AHL's U.S. or German subsidiaries, we have not accrued withholding taxes as we do not intend to remit these earnings. The cumulative amount subject to withholding tax, if distributed, as well as the determination of the associated tax liability, is not practicable to compute; however, it may be material to the Company's financial position and results of operations. Any dividends remitted to AHL from ALRe are not subject to withholding tax.

18. Statutory Requirements

AHL's insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate including Bermuda, all 50 states in the United States, and the District of Columbia. Certain regulations include restrictions that limit the dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the insurance regulatory authorities. The differences between financial statements prepared for insurance regulatory authorities and GAAP financial statements vary by jurisdiction.

Bermuda statutory requirements—ALRe is licensed by the Bermuda Monetary Authority (BMA) as a long term insurer and is subject to the Insurance Act 1978, as amended (Bermuda Insurance Act) and regulations promulgated thereunder. The statutory financial statements of ALRe are prepared in accordance with the Bermuda Insurance Act, as well as directions issued by the BMA. Under the Bermuda Insurance Act, ALRe is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin (MSM) and the Enhanced Capital Requirement (ECR). The MSM is equal to the greater of $8 million or 2% of the first $500 million of assets plus 1.5% of assets above $500 million and the ECR is calculated based on either an internally developed risk-based capital model or a standard risk-based capital model developed by the BMA. At December 31, 2015, the MSM and ECR were $723 million and $1,751 million, respectively.

Under the Bermuda Insurance Act, ALRe is prohibited from paying a dividend in an amount exceeding 25% of the prior year's statutory capital and surplus, unless at least two members of ALRe's board of directors sign and submit to the BMA, an affidavit attesting that a dividend in excess of this amount would not cause ALRe to fail to meet its relevant margins. In certain instances, ALRe would also be required to provide prior notice to the BMA in advance of the payment of dividends. In the event that such an affidavit is submitted to the BMA in accordance with the Bermuda Insurance Act, and further subject to ALRe meeting its MSM and ECR, ALRe is permitted to distribute up to the sum of 100% of statutory surplus and an amount less than 15% of statutory capital. Distributions in excess of this amount require the approval of the BMA. As of December 31, 2015, and 2014, the maximum distribution ALRe was permitted to pay AHL without the need for prior approval was $3,529 million and $3,068 million, respectively.

The BMA has granted ALRe permission to use amortized cost instead of fair value as the basis for non-equity securities, including investments underlying funds withheld and modco reinsurance agreements. Excluded from ALRe's statutory returns were $162 million of unrealized losses and $1,255 million of unrealized gains as of December 31, 2015, and 2014, respectively.

Germany statutory requirements—Athene Lebensversicherung AG (ALV) and Athene Pensionskasse AG (APK) (collectively, the life entities of ADKG) are regulated by the Federal Financial Supervisory Authority of Germany (BaFin) as private insurance undertakings and are subject to the Insurance Supervision Act and regulations promulgated thereunder. The life entities of ADKG are required to maintain minimum statutory capital as calculated against reserves; however, we are permitted to use dividend payable balances held for policyholder participation in determining the total capital of the respective life entity. The following table demonstrates the capital requirements of each life entity:

	December 31, 2015	
(In millions)	Required Capital (Solvency I)	Solvency I Ratio
ALV	$ 195	166.8%
APK	3	138.6%

The life entities of ADKG are restricted as to the payment of dividends pursuant to calculations, which are based upon the analysis of current euro swap rates against existing policyholder guarantees. As of December 31, 2015, the life entities of ADKG individually and collectively did not exceed this threshold and no amounts were available for distribution.

U.S. statutory requirements—AHL's regulated U.S. subsidiaries and the corresponding insurance regulatory authorities are as follows:

Subsidiary	Regulatory Authority
AADE	Delaware Department of Insurance
ALIC	Delaware Department of Insurance
AANY	New York Department of Financial Services
Athene Life Insurance Company of New York (ALICNY)	New York Department of Financial Services
AAIA	Iowa Insurance Division
Structured Annuity Reinsurance Company (STAR)	Iowa Insurance Division
Athene Re USA IV	State of Vermont Department of Financial Regulation

Each entity's statutory statements are presented on the basis of accounting practices determined by the respective regulatory authority. The regulatory authority recognizes only statutory accounting practices prescribed or permitted by the corresponding state for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under insurance law.

The maximum dividend these subsidiaries can pay to shareholders, without prior approval of the respective state insurance department, is subject to restrictions relating to statutory surplus or net gain from operations. The maximum dividend payment over a twelve-month period may not, without prior approval, be paid from a source other than earned surplus and may not exceed the greater of (1) the prior year's net gain from operations or (2) 10% of policyholders' surplus. Based on these restrictions, the maximum dividend AADE could pay to Athene USA, and ultimately to AHL's shareholders, absent regulatory approval was $125 million as of December 31, 2015. Other requirements limit the amount that could be withdrawn from AADE and the maximum AADE could dividend while staying in compliance with these state regulations was $65 million as of December 31, 2015. No other subsidiaries could pay a dividend to AHL as of December 31, 2015, without prior regulatory approval.

As of December 31, 2015, AHL's U.S. subsidiaries' solvency, liquidity, and risk-based capital amounts were significantly in excess of the minimum levels required.

In some instances, the states of domicile of our U.S. subsidiaries have adopted prescribed accounting practices that differ from the required accounting outlined in NAIC Statutory Accounting Principles (SAP). These subsidiaries also have certain accounting practices permitted by the states of domicile that differ from those found in NAIC SAP. These prescribed and permitted practices are described as follows:

AAIA – Among the products issued by AAIA are indexed universal life insurance and fixed indexed annuities. These products allow a portion of the premium to earn interest based on certain indices, primarily the S&P 500. We purchase call options, futures, and variance swaps to hedge the growth in interest credited to the customer as a direct result of increases in the related index. The Iowa Insurance Division allows an insurer to elect to recognize changes in the fair value of derivative instruments purchased to hedge indexed products in the statutory statement of operations. AAIA has elected this option for its futures and variance swaps. Application of this option does not impact AAIA's statutory surplus.

Additionally, the Iowa Insurance Division allows an insurer to elect (1) to use an amortized cost method to account for certain derivative instruments, such as call options, purchased to hedge the growth in interest credited to the customer on indexed insurance products and (2) to use an indexed annuity reserve calculation methodology under which call options associated with the current index interest crediting term are valued at zero. AAIA has elected to apply this option to its over-the-counter call options and reserve liabilities. As a result, AAIA's statutory surplus increased by $14 million and $85 million as of December 31, 2015, and 2014, respectively.

The NAIC requires annuities issued by life insurance companies on or after January 1, 2015, to use the 2012 Individual Annuity reserving (IAR) Mortality Table. During 2015, the Iowa Insurance Division set an alternative effective date of January 1, 2016 for adoption of the 2012 IAR

Mortality Table. AAIA has chosen to use the Annuity 2000 Mortality Table for annuities issued between January 1, 2015, and December, 31, 2015. As a result, AAIA's statutory surplus increased by $3 million as of December 31, 2015. This prescribed practice had no impact to any period prior to 2015.

Athene Re USA IV – AAIA has ceded the AmerUs Closed Block to Athene Re USA IV on a 100% funds withheld basis. A permitted practice in the State of Vermont allows Athene Re USA IV to include as admitted assets the face amount of all issued and outstanding letters of credit used to fund its reinsurance obligations to AAIA in its statutory financial statements. If Athene Re USA IV had not followed this permitted practice, then it would not have exceeded authorized control level risk based capital requirements. At December 31, 2015, the face amount of the letters of credit is $153 million.

Statutory capital and surplus and net income (loss)—The following table presents, for each of the our insurance subsidiaries, the statutory capital and surplus and the statutory net income (loss), based on the most recently filed statutory financial statements filed with insurance regulators:

	Statutory Capital & Surplus		Statutory Net Income (Loss)		
	December 31,		Years ended December 31,		
(In millions)	2015	2014	2015	2014	2013
ALRe	$ 5,650	$ 4,048	$ 461	$ 632	$ 2,704
AADE	1,251	1,154	68	116	50
ALIC	77	76	1	1	1
AANY	208	168	8	7	12
ALICNY	73	55	14	88	(108)
AAIA	1,109	1,040	597	263	43
STAR	76	74	4	35	(56)
Athene Re USA IV	38	39	1	6	18
ALV[1]	325	N/A	8	N/A	N/A
APK[1]	4	N/A	1	N/A	N/A

N/A – Not applicable due to acquisition in 2015.

[1]*Note that capital includes dividend balances accrued for policyholder participation.*

19. Related Parties

Athene Asset Management

Investment related expenses – Substantially all of our investments, with the exception of ADKG, are managed by AAM, a subsidiary of AGM. AAM provides direct investment management, asset allocation, mergers and acquisition asset diligence, and certain operational support services for our investment portfolio, including investment compliance, tax, legal, and risk management support. As of December 31, 2015, AAM directly manages $47,441 million of our investment portfolio assets, of which 82.7% are rated one or two by the NAIC. For certain assets which require specialized sourcing and underwriting capabilities, AAM has chosen to mandate sub-advisors rather than building out in-house capabilities. For the services related to these investments, AAM earns a fee of 0.40% per annum on all assets managed in accounts owned by or related to the Company, including sub-advised assets but excluding assets of ADKG and certain other limited exceptions. Additionally, AAM recharges the sub-advisory fees to the Company.

AAM has entered into a Master Sub-Advisory Agreement (MSAA) with certain Apollo affiliates to sub-advise AAM with respect to a portion of our assets, with the fees recharged to us, in addition to the gross fee of 0.40% per annum paid to AAM as described above. The MSAA covers services rendered by Apollo-affiliated sub-advisors relating to investments in certain asset classes, primarily CLO, CMBS, and ABS.

The following represents the assets sub-advised by Apollo affiliates:

(In millions, except for percentages)	December 31, 2015	December 31, 2014
Fixed maturity securities		
U.S. state, municipals, and political subdivisions	$ 10	$ 147
Foreign governments	107	—
Corporate	1,435	1,146
CLO	4,339	3,431
ABS	1,746	1,478
CMBS	1,010	845
RMBS	21	21
Mortgage loans	1,594	1,329
Investment funds	21	19
Trading securities	207	146
Funds withheld at interest	1,182	1,136
Other investments	83	56
Total assets	$ 11,755	$ 9,754
Percent of total AAM managed Company assets	20%	16%

Apollo Asset Management Europe

Investments of ADKG are managed internally. In addition, ADKG has entered into an investment advisory agreement with Apollo Asset Management Europe (AAME), also a subsidiary of AGM, pursuant to which AAME provides advisory services for a significant portion of our ADKG investment portfolio. In providing these services, AAME has access to Apollo's European expertise and capabilities. The ADKG investments sub-advised by AAME consist primarily of corporate and sovereign bonds, as opposed to the more diverse range of securities managed by AAM. As compensation for the investment advisory services rendered, AAME receives a fee of 0.10% per year on the assets it sub-advises.

Pursuant to a new advisory agreement dated March 1, 2016, certain ADKG asset categories are no longer sub-advised by AAME. The new agreement has the same fee rate but excludes certain assets. These excluded assets are operating cash, mortgage loans secured by residential and commercial properties that are not identified and advised by AAME, assets related to unit-linked policies, and assets held in German special investment funds managed or advised by Apollo, AAME, AAM, or any of their respective affiliates, to the extent that such entity receives a management or advisory fee in connection with the fund. The previous advisory agreement excluded only assets related to unit-linked policies.

The following represents the assets sub-advised by AAME:

(In millions)	December 31, 2015
Fixed maturity securities	
Foreign governments	$ 2,349
Corporate	1,607
Mortgage loans	139
Other investments	961
Total assets	$ 5,056

The following summarizes the asset management fees and sub-advisory fees we have incurred related to AAM, AAME, and other Apollo affiliates:

(In millions)	Years ended December 31, 2015	2014	2013
Asset management fees	$ 226	$ 222	$ 103
Sub-advisory fees	42	36	20

The management and sub-advisory fees are included within the net investment income line on the consolidated statements of income. The management fees payable as of December 31, 2015, and 2014, were $35 million and $30 million, respectively. The sub-advisory fees payable as of December 31, 2015, and 2014, were $24 million and $35 million, respectively.

In addition, we have invested in various investment funds managed by related parties, as discussed in *Note 6 – Variable Interest Entities*, that pay management fees and carried interest, as applicable, to Apollo entities. To the extent these investment funds have been consolidated, fees are included in net investment income on the consolidated statements of income. Allocations of carried interest to the general partner were made based on unrealized gains and losses within the fund and are reflected in net income attributable to noncontrolling interests on the consolidated statements of income. The following summarizes the management fees and carried interest reported:

	Years ended December 31,		
(In millions)	2015	2014	2013
Management fees of consolidated investment funds	$ 6	$ 10	$ 15
Carried interest allocation	16	8	81

The investment management or advisory agreements with AAM or AAME have no stated term and any party can terminate upon notice. However, our bye-laws provide that we will not exercise our termination rights under the agreements, except that any agreement may only be terminated on October 31, 2018, or any third anniversary thereafter. Any termination on that date without cause requires (1) approval of our board of directors and the holders of our common shares that hold a majority of total voting power (giving effect to the voting allocation provisions set forth in our bye-laws) and (2) six months' prior written notice to AAM or AAME of termination. We may terminate the investment management agreement for cause, with the approval of our board of directors.

Because the Apollo Group has a significant voting interest in us, in order to protect against potential conflicts of interest resulting from transactions that we have entered, and will continue to enter into with the Apollo Group, our board of directors has formed a conflicts committee, consisting of five of our directors who are not officers or employees of any member of the Apollo Group, other than us. The conflicts committee reviews and a majority of the committee members must approve certain material transactions between us and the Apollo Group, subject to certain exceptions.

Service fees – We have entered into shared services agreements with AAM. Under these agreements, we and AAM make available to each other certain personnel and services. Expenses for the services are based on the amount of time spent on the affairs of the other party, in addition to actual expenses incurred and certain cost reimbursements. For the years ended December 31, 2015, 2014, and 2013, net expenses allocated from (to) AAM under these agreements were $2 million, $(13) million, and $16 million, respectively. The Company had $2 million of net expenses payable to AAM as of December 31, 2015, and $4 million of net expenses receivable from AAM as of December 31, 2014.

Other AGM Affiliates

Contribution agreement – In 2012, in order to provide pre-funding for and increase certainty to close future acquisitions, AAA Guarantor – Athene, L.P. and its subsidiary, Apollo Life Re Ltd. (collectively, the AAA Investor), together the largest single investor in the Company at the time, and certain other parties entered into a Contribution Agreement. The AAA Investor contributed investment assets to the Company in exchange for our Class B shares, a promissory note, and cash. A portion of the purchase price for 1,509,091 Class B shares was initially held back pending the transfer of certain assets requiring regulatory approval; and, these shares were subsequently issued in 2013 after the required approvals were received. The Company partially repaid $62 million of the promissory note in cash. The Company paid the note in full during the third quarter of 2014 through the issuance of Class B shares.

Transaction Advisory Services Agreement (TASA) – Since our founding, Apollo has provided a diverse array of services in order to grow our balance sheet, source, underwrite, and integrate transactions and has provided us access to their infrastructure. Through October 30, 2012, we had a standard 10-year monitoring contract with Apollo Alternative Assets, L.P., Apollo Management Holdings, L.P. and Apollo Global Securities, LLC (collectively, the Apollo TASA Parties) for these services that required cash payment of a quarterly monitoring fee of 0.50% of our capital and surplus, as defined, plus out of pocket expenses, with a termination date of July 15, 2019.

As we began to implement public company readiness initiatives in late 2012, both parties voluntarily agreed to an early termination of the monitoring contract. In exchange for early termination of the monitoring contract, Apollo received settlement fees on a quarterly basis from January 1, 2013, to December 31, 2014. Also, to promote alignment between Apollo and Athene's shareholders and to preserve cash to support Athene's growth plan, Apollo elected to receive its settlement fees under the agreement in shares of Athene rather than cash.

On January 1, 2013, we entered into an equity swap transaction with Apollo in connection with the termination of the quarterly monitoring fee discussed above. Pursuant to this swap, the quarterly settlement amount continued to accrue to Apollo, but the payment of those amounts (whether in stock or cash) would not be made to Apollo until the earlier of the time when Apollo was no longer deemed to control the Company within the meaning of the derivative instrument delivered pursuant to the TASA and October 31, 2017.

In April 2014, as a result of the external capital raise, Apollo was no longer deemed to control the Company (as defined under the swap) and, as a result, the swap was settled in stock for settlement amounts owed through that date.

Additionally, in April 2014, we further amended the TASA to exclude from capital and surplus, on which the quarterly monitoring fee was calculated, the capital received in the April 2014 capital raise, and any capital raised in connection with certain potential future acquisitions as defined in the amended TASA.

The total costs incurred pursuant to the TASA, including direct expenses, were $228 million and $134 million for the years ended December 31, 2014, and 2013, respectively, and are recorded in policy and other operating expenses on the consolidated statements of income. The total liability outstanding was fully settled as of December 31, 2014, and no additional fees will accrue under TASA.

Other related party transactions—In 2015, we entered into a loan purchase agreement with AmeriHome Mortgage Company, LLC (AmeriHome), an investee of A-A Mortgage, an equity method investee. The agreement allows us to purchase certain residential mortgage loans which they have purchased from correspondent sellers and pooled for sale in the secondary market. AmeriHome retains the servicing rights to the sold loans. We have purchased $83 million of residential mortgage loans under this agreement during the year ended December 31, 2015.

20. Commitments and Contingencies

Contingent Commitments—The Company had commitments to make additional capital contributions to certain investment funds of $825 million and $833 million as of December 31, 2015, and 2014, respectively. The Company expects most of its current commitments will be invested over the next five years; however, these commitments could become due any time upon counterparty request.

Funding Agreements—ALIC and AAIA are members of the Federal Home Loan Bank (FHLB) of Indianapolis and Des Moines, respectively. Through membership, we have issued funding agreements with a carrying value of $1,112 million and $1,271 million as of December 31, 2015, and 2014, respectively, to the FHLB in exchange for cash advances. We are required to provide collateral equal to the funding agreements, considering any discounts to the securities posted and prepayment penalties. See below detail of assets restricted under these agreements.

In the second quarter of 2015, AAIA and AADE entered into a purchase agreement, pursuant to which Athene Global Funding, a special purpose, non-affiliated statutory-trust may offer up to $5 billion of its senior secured medium-term notes, under a funding agreement backed notes (FABN) program. Athene Global Funding uses the net proceeds from each sale to purchase one or more funding agreements from either AAIA or AADE. Funding agreements issued under this program have a carrying value of $250 million as of December 31, 2015.

Pledged Assets and Funds in Trust (Restricted Assets)—The total restricted assets included on the consolidated balance sheets are as follows:

	December 31,	
(In millions)	2015	2014
AFS securities		
Fixed maturity	$ 1,865	$ 2,136
Equity	56	62
Investment funds	27	25
Mortgage loans	1,134	1,261
Restricted cash	116	77
Total restricted assets	$ 3,198	$ 3,561

The restricted assets are primarily a result of the FHLB funding agreements described above. Additionally, AADE has established reinsurance trusts of assets equal to statutory reserves, plus an additional amount of assets, as a result of coinsurance agreements with Transamerica described in *Note 9 – Reinsurance*.

Litigation, Claims, and Assessments—On June 12, 2015, a putative class action complaint was filed in the United States District Court, Northern District of California against the Company, AAM, and AGM. The complaint, which is similar to complaints recently filed against other large insurance companies, primarily alleges that captive reinsurance and other transactions had the effect of misrepresenting the financial condition of AAIA. The complaint purports to be brought on behalf of a class of purchasers of annuity products issued by AAIA between 2007 and the present. There are also various allegations related to the purchase of Aviva USA and concerning entry into a modified coinsurance transaction with ALRe in October 2013. The suit asserts claims of violation of the Racketeer Influenced and Corrupt Organizations Act and seeks compensatory damages, trebled, in an amount to be determined, costs, and attorneys' fees. On March 25, 2016, our motion to transfer to the United States District Court, Southern District of Iowa was granted. We believe that we have meritorious defenses to the claims set forth in the complaint, intend to vigorously defend the litigation, and are seeking dismissal of the complaint. In light of the inherent uncertainties involved in this matter, reasonably possible losses, if any, cannot be estimated at this time.

On July 27, 2015, a putative class action complaint was filed in the United States District Court, District of Massachusetts, against us. An amended complaint was filed on December 18, 2015. The complaint alleges a putative class action on behalf of all persons who are the beneficial owners of assets which were used to purchase structured settlement annuities that Aviva London Assignment Corporation, Aviva Life Insurance Company, and CGU International Insurance, plc (Aviva Entities) or their predecessors, as applicable, delivered to purchasers on or after April 1, 2003. The complaint alleges that the Aviva Entities sold structured settlement annuities to the public on the basis that such products were backed by a capital maintenance agreement by CGU International Insurance, plc, which was alleged as a source of great financial strength. The complaint further alleges that the Aviva Entities used this capital maintenance agreement to enhance the sales volume and raise the price of

the annuities. The complaint claims that, as a result of Aviva USA's sale to AHL, the capital maintenance agreement terminated. According to the complaint, no notice was provided to the owners of the structured settlement annuities and the termination of the capital maintenance agreement constituted a breach of contract and the plaintiffs further assert other causes of action. AHL is a named defendant due to its purchase of Aviva USA, and AAIA and Athene London Assignment are named as successors to Aviva Life Insurance Company and Aviva London Assignment Corporation, respectively. We believe that we have meritorious defenses to the claims set forth in the complaint and intend to vigorously defend the litigation. In light of the inherent uncertainties involved in this matter, reasonably possible losses, if any, cannot be estimated at this time.

21. Segment Information

We operate our core business strategies out of one reportable segment, Retirement Services. In addition to Retirement Services, we report certain other operations in Corporate and Other.

Retirement Services—Retirement Services is comprised of our United States and Bermuda operations which issue and reinsure retirement savings products and institutional products. Retirement Services has retail operations, which provide annuity retirement solutions to our policyholders. Retirement Services also has reinsurance operations, which reinsure multi-year guaranteed annuities, fixed indexed annuities, traditional one-year guarantee fixed deferred annuities, immediate annuities, and institutional products from our reinsurance partners. In addition, our FABN program is included in our Retirement Services segment.

Corporate and Other—Corporate and Other includes certain other operations related to our corporate activities and our German operations, which is primarily comprised of participating long-duration savings products. In addition to our German operations, included in Corporate and Other are corporate allocated expenses, merger and acquisition costs, debt costs, certain integration and restructuring costs, certain stock-based compensation, and intersegment eliminations. In Corporate and Other, we also hold the capital in excess of the level of capital we hold in Retirement Services to support our operating strategy.

Financial Measures—Segment operating income, net of tax, and net investment income are internal measures used by the chief operating decision maker to evaluate and assess the results of our segments.

Operating revenue is a component of operating income, net of tax, and excludes market volatility and adjustments for other non-operating activity. Our operating revenue equals the total revenue of the Company, adjusted to eliminate the impact of the following non-operating adjustments:

- Investment gains (losses), net of offsets;
- Change in fair values of derivatives and embedded derivatives – index annuities, net of offsets;
- VIE expenses and noncontrolling interest
- Bargain purchase gain; and
- Other adjustments to revenues.

The table below reconciles segment operating revenues to total revenues presented on the consolidated statements of income:

	Years ended December 31,		
(In millions)	2015	2014	2013
Operating revenue by segment			
Retirement Services	$ 2,977	$ 2,834	$ 315
Corporate and Other	112	55	367
Total segment operating revenues	3,089	2,889	682
Non-operating adjustments			
Investment gains (losses), net of offsets	(132)	298	20
Change in fair values of derivatives and embedded derivatives – index annuities, net of offsets	(390)	814	772
VIE expenses and noncontrolling interest	33	79	117
Bargain purchase gain	—	—	152
Other adjustments to revenues	16	20	6
Total non-operating adjustments	(473)	1,211	1,067
Total revenues	$ 2,616	$ 4,100	$ 1,749

Operating income, net of tax, is an internal measure used to evaluate our financial performance excluding market volatility and expenses related to integration, restructuring, stock compensation, and other expenses. Our operating income, net of tax, equals net income available to AHL's shareholders adjusted to eliminate the impact of the following non-operating adjustments:

- Investment gains (losses), net of offsets;
- Change in fair values of derivatives and embedded derivatives – index annuities, net of offsets;
- Integration, restructuring and other non-operating expenses;
- Stock compensation expense;
- Bargain purchase gain; and
- Provision for income taxes – non-operating.

The table below reconciles segment operating income, net of tax, to net income available to Athene Holding Ltd. shareholders presented on the consolidated statements of income:

	Years ended December 31,		
(In millions)	2015	2014	2013
Operating income, net of tax by segment			
Retirement Services	$ 769	$ 764	$ 416
Corporate and other	(29)	29	361
Total segment operating income, net of tax	740	793	777
Non-operating adjustments			
Investment gains (losses), net of offsets	(56)	151	(4)
Change in fair values of derivatives and embedded derivatives – index annuities, net of offsets	(27)	(30)	154
Integration, restructuring and other non-operating expenses	(58)	(279)	(184)
Stock compensation expense	(67)	(148)	—
Bargain purchase gain	—	—	152
Provision for income taxes – non-operating	30	(24)	21
Total non-operating adjustments	(178)	(330)	139
Net income available to AHL shareholders	$ 562	$ 463	$ 916

Net investment income used to evaluate the performance of our segments is an internal measure that does not correspond to GAAP net investment income. Adjustments are made to GAAP net investment income to arrive at a net investment income measure that reflects the profitability of our core deferred annuities business. Accordingly, we adjust net investment income to include earnings from our consolidated VIEs and earnings on certain alternative investments (primarily CLOs) classified in investment related gains (losses) on the consolidated statements of income. Additionally, impacts of reinsurance embedded derivatives on net investment income are removed. The table below reconciles segment net investment income to net investment income presented on the consolidated statements of income:

	Years ended December 31,		
(In millions)	2015	2014	2013
Net investment income by segment			
Retirement Services	$ 2,572	$ 2,483	$ 1,363
Corporate and Other	36	55	367
Total segment net investment income	2,608	2,538	1,730
Adjustments to net investment income			
Reinsurance embedded derivative impacts	(84)	(67)	(156)
Net VIE earnings	(67)	(146)	(535)
Alternative income gain (loss)	42	(4)	22
Other	9	12	13
Total adjustments to arrive at net investment income	(100)	(205)	(656)
Net investment income	$ 2,508	$ 2,333	$ 1,074

Operating income, net of tax, excludes the tax impact of the taxable non-operating adjustments presented above. The tax impact of non-operating income adjustments is 35% of the non-operating adjustments subject to income tax. The table below reconciles segment provision for income taxes – operating to income tax expense presented on the consolidated statements of income:

	Years ended December 31,		
(In millions)	2015	2014	2013
Provision for income taxes – operating by segment			
Retirement Services	$ 41	$ 30	$ 13
Corporate and Other	3	—	—
Total segment income tax expense – operating	44	30	13
Provision for income taxes – non-operating	(30)	24	(21)
Income tax expense (benefit)	$ 14	$ 54	$ (8)

The following represents total assets by segment:

	December 31,		
(In millions)	2015	2014	2013
Total assets by segment			
Retirement Services	$ 73,710	$ 81,606	$ 80,058
Corporate and Other	7,144	1,104	749
Total assets	$ 80,854	$ 82,710	$ 80,807

We market annuity products, primarily fixed rate and fixed indexed annuities. Deposits, which are generally not included in revenues on the consolidated statements of income, and premiums collected are as follows:

	Years ended December 31,		
(In millions)	2015	2014	2013
Fixed indexed annuities	$ 2,808	$ 2,560	$ 1,148
Fixed rate annuities	883	323	362
Payouts without life contingencies	166	163	68
Funding agreements	250	—	—
Life and other deposits	11	15	3
Total deposits	4,118	3,061	1,581
Payouts with life contingencies	53	32	25
Life and other premiums	142	68	(1,162)
Total premiums	195	100	(1,137)
Total premiums and deposits, net of ceded	$ 4,313	$ 3,161	$ 444

Deposits and premiums collected by the geographical location are as follows:

	Years ended December 31,		
(In millions)	2015	2014	2013
United States	$ 3,097	$ 2,810	$ 275
Bermuda	1,135	351	169
Germany	81	—	—
Total premiums and deposits, net of ceded	$ 4,313	$ 3,161	$ 444

22. Subsequent Events

In connection with the reissuance of the consolidated financial statements, we have evaluated subsequent events through October 25, 2016, the date the consolidated financial statements were available to be reissued.

In January 2016, AAIA agreed to novate certain open blocks of business ceded to Accordia, that were in force as of January 1, 2016, in accordance with the terms of the coinsurance and assumption agreement. As a result of the novation, interest sensitive contract liabilities decreased $716 million, future policy benefits decreased $93 million, and reinsurance recoverable decreased $809 million.

In January 2016, we purchased a pool of loans sourced by MidCap FinCo and contemporaneously sold participation interests in the loans to a subsidiary of MidCap FinCo, receiving aggregate consideration of $24 million. The participation does not meet transfer requirements and, therefore, the full amount of the purchased loans are reflected in mortgage loans, and no gain or loss was recognized upon transfer. Amounts due to MidCap FinCo under the subordinated participation agreement are reflected as a secured borrowing in other liabilities on the consolidated balance sheets.

Events Subsequent to the Original Issuance of the Consolidated Financial Statements (Unaudited)—During 2016, we novated additional open blocks of business ceded to affiliates of Global Atlantic, that were in force as of January 1, 2016, in accordance with the terms of the coinsurance and assumption agreement. As a result of the additional novation, interest sensitive contract liabilities decreased $290 million, future policy benefits decreased $95 million, policy loans decreased $8 million, and reinsurance recoverable decreased $377 million.

On August 31, 2016, we completed a series of transactions with Apollo Commercial Real Estate Finance, Inc. (ARI), a related party managed by an affiliate of Apollo. Pursuant to an agreement between ARI and Apollo Residential Mortgage, Inc. (AMTG), another related party managed by an Apollo affiliate, AMTG merged with and into ARI, effective as of August 31, 2016. In accordance with an Asset Purchase and Sale Agreement between us and ARI, we purchased $1,090 million of primarily non-agency RMBS from ARI subsequent to its merger with AMTG. We also provided ARI with a secured short-term $175 million loan to consummate the merger, which was subsequently repaid with the proceeds of the sale of such RMBS. Finally, subsequent to the merger, we purchased $20 million of ARI shares of common stock pursuant to a stock purchase agreement that required such purchase if ARI's common stock price fell below the per share price at which such shares were issued to AMTG stockholders during the 30 trading days following the closing of the merger, which provided for additional liquidity to ARI stockholders.

During the third quarter of 2016, we modified Class M-1, M-2, and M-3 share agreements to vest all Tranche 2 awards as of September 30, 2016; whereas, under the original agreement, Tranche 2 awards vested only when certain performance hurdles were met. We also amended the conversion option, which previously only allowed conversion subsequent to an Initial Public Offering (IPO). Under the modified conversion terms, individuals can elect one of three options including conversion at a specified date prior to an IPO, on the date of an IPO, or ratably each month for six months after an IPO. The modifications impacted 28 individuals. As a result of the modifications, as of September 30, 2016, we recorded an $83 million increase to additional paid-in capital, due to the reclassification from liability awards to equity awards. We also recorded an additional $42 million charge to stock-based compensation expense and additional paid-in capital for the vesting of Tranche 2 shares, primarily related to the acceleration of previously unrecognized compensation expense.

During the third quarter of 2016, the CMBS Funds each sold invested assets to fully settle the borrowings under their respective repurchase agreements. The remaining invested assets were distributed directly to the Company.

Schedule I
Summary of Investments — Other Than Investments in Related Parties

(In millions)	December 31, 2015		
	Cost	**Fair Value**	**Amount Shown on Consolidated Balance Sheet**
Fixed maturity securities:			
U.S government and agencies	$ 44	$ 45	$ 45
U.S. state, municipals, and political subdivisions	1,075	1,165	1,165
Foreign governments	2,467	2,464	2,464
Public utilities	4,234	4,221	4,221
Other corporate	22,713	22,682	22,682
Collateralized loan obligations	4,943	4,555	4,555
Asset-backed securities	2,944	2,918	2,918
Commercial mortgage-backed securities	1,725	1,738	1,738
Residential mortgage-backed securities	8,050	7,995	7,995
Redeemable preferred stock	32	33	33
Total fixed maturity securities	48,227	47,816	47,816
Equity securities:			
Banks, trust and insurance companies common stock	30	62	62
Industrial, miscellaneous and all other common stock	273	276	276
Nonredeemable preferred stocks	64	69	69
Total equity securities	367	407	407
Total available-for-sale securities	48,594	$ 48,223	48,223
Trading securities, at fair value	2,457		2,468
Mortgage loans, net of allowances	5,498		5,500
Investment funds	629		733
Policy loans	642		642
Funds withheld at interest	3,482		3,482
Derivative assets	889		871
Real estate	569		566
Short-term investments	135		135
Other investments	83		83
Total investments	$ 62,978		$ 62,703

Schedule II
Condensed Financial Information of Registrant
Balance Sheets — Parent Company Only

(In millions, except share and per share data)	December 31, 2015	December 31, 2014
Assets		
Investments		
Available-for-sale, fixed maturity securities, at fair value (amortized cost: 2015 – $29 and 2014 – $293)	$ 31	$ 295
Cash and cash equivalents	260	61
Investments in related parties		
Available-for-sale, fixed maturity securities, at fair value (amortized cost: 2015 – $0 and 2014 – $38)	—	37
Other assets	11	20
Note receivable from subsidiary	20	100
Intercompany receivable	—	19
Investments in subsidiaries	5,137	4,115
Total assets	$ 5,459	$ 4,647
Liabilities		
Other liabilities	$ 97	$ 92
Total liabilities	97	92
Equity		
Common stock		
Class A – par value $0.001 per share; authorized: 2015 – 425,000,000 and 2014 – 425,000,000 shares; issued and outstanding: 2015 – 50,151,265 and 2014 – 15,752,736 shares	—	—
Class B – par value $0.001 per share; authorized: 2015 – 325,000,000 and 2014 – 325,000,000 shares; issued and outstanding: 2015 – 135,963,975 and 2014 – 125,282,892 shares	—	—
Class M-1 – par value $0.001 per share; authorized: 2015 – 7,109,560 and 2014 – 7,109,560 shares; issued and outstanding: 2015 – 5,198,273 and 2014 – 5,198,273 shares	—	—
Class M-2 – par value $0.001 per share; authorized: 2015 – 5,000,000 and 2014 – 5,000,000 shares; issued and outstanding: 2015 – 3,125,869 and 2014 – 3,125,869 shares	—	—
Class M-3 – par value $0.001 per share; authorized: 2015 – 7,500,000 and 2014 – 7,500,000 shares; issued and outstanding: 2015 – 3,110,000 and 2014 – 3,350,000 shares	—	—
Class M-4 – par value $0.001 per share; authorized: 2015 – 7,500,000 and 2014 – 7,500,000 shares; issued and outstanding: 2015 – 5,038,443 and 2014 – 0 shares	—	—
Additional paid-in capital	3,281	2,153
Retained earnings	2,318	1,758
Accumulated other comprehensive income (loss) (related party: 2015 – $(24) and 2014 – $(7))	(237)	644
Total Athene Holding Ltd. Shareholders' equity	5,362	4,555
Total liabilities and equity	$ 5,459	$ 4,647

See accompanying notes to the condensed financial statements

Schedule II
Condensed Financial Information of Registrant
Statements of Income — Parent Company Only

(In millions)	Years ended December 31, 2015	2014	2013
Revenue			
Net investment income (related party: 2015 - $(5), 2014 - $0 and 2013 - $(1)	$ —	$ 8	$ 3
Investment related gains (losses)	—	—	3
Bargain purchase gain	—	—	152
Total revenues	—	8	158
Benefits and Expenses			
Other operating expenses (related party: 2015 – $16, 2014 – $253 and 2013 – $131)	130	450	144
Interest expense	—	1	2
Total benefits and expenses	130	451	146
Income (loss) before income taxes and equity earnings in subsidiaries	(130)	(443)	12
Provision for income taxes	—	—	—
Equity earnings in subsidiaries	692	906	904
Net income available to Athene Holding Ltd. shareholders	562	463	916
Other comprehensive income (loss), after tax	(881)	574	(149)
Comprehensive income available to Athene Holding Ltd. shareholders	$ (319)	$ 1,037	$ 767

See accompanying notes to the condensed financial statements

Schedule II
Condensed Financial Information of Registrant
Statements of Cash Flows — Parent Company Only

(In millions)	Years ended December 31, 2015	2014	2013
Net cash provided by operating activities	$ (82)	$ 319	$ 648
Cash flows from investing activities			
Capital contributions to subsidiary	(506)	(232)	(72)
Acquisition of subsidiaries, net of cash acquired	—	33	(570)
Receipts on loans to subsidiaries	188	—	—
Issuances of loans to subsidiaries	(103)	(100)	—
Investment in note receivable	(5)	—	—
Sales, maturities, and repayments of:			
Available-for-sale, fixed maturity securities	17	9	74
Investment funds	—	—	9
Purchases of:			
Available-for-sale, fixed maturity securities (related party: 2015 – $0, 2014 – $(38) and 2013 – $0)	(423)	(294)	(15)
Investment funds	—	—	—
Net cash used in investing activities	(832)	(584)	(574)
Cash flows from financing activities			
Capital contributions	1,116	305	82
Proceeds from note payables	—	—	500
Repayment of note payables	—	(300)	(262)
Repurchase of common stock	(3)	(78)	—
Deferred financing costs	—	—	(9)
Net cash (used in) provided by financing activities	1,113	(73)	311
Net (decrease) increase in cash and cash equivalents	199	(338)	385
Cash and cash equivalents at beginning of year	61	399	14
Cash and cash equivalents at end of year	$ 260	$ 61	$ 399
Supplementary information			
Cash paid for interest	—	1	1
Non-cash transactions			
Non-cash capital contribution to ALRe	708	—	—
Issuance of capital for payment of liabilities	2	199	—
Issuance of capital for purchase of investment funds	—	—	50

See accompanying notes to the condensed financial statements

Schedule II
Notes to Condensed Financial Information of Registrant

1. Basis of Presentation

The accompanying condensed financial statements of Athene Holding Ltd. (AHL) should be read in conjunction with the consolidated financial statements and the notes thereto (Consolidated Financial Statements) of AHL and its subsidiaries.

For purposes of these condensed financial statements, AHL's wholly owned and majority owned subsidiaries are presented under the equity method of accounting. Under this method, the assets and liabilities of subsidiaries are not consolidated. The investments in subsidiaries are recorded on the condensed balance sheets. The income from subsidiaries is reported on a net basis as equity earnings of subsidiaries on the condensed statements of income.

2. Revisions

As discussed in *Note 2 – Change in Accounting Policy and Revisions* to the Consolidated Financial Statements, revisions were made to the Consolidated Financial Statements as a result of correcting immaterial misstatements. AHL revised its bargain purchase gain recorded during the year ended December 31, 2013 from $146 million to $152 million. The remaining revisions related to AHL's subsidiaries. As the assets and liabilities of subsidiaries are not consolidated for purposes of these condensed financial statements, the adjustments to equity are consistent with those disclosed in *Note 2 – Change in Accounting Policy and Revisions* to the Consolidated Financial Statements, with the offset of these adjustments recorded to investments in subsidiaries. The total net income impact of these revisions was adjusted to equity earnings of subsidiaries on the condensed statements of income, and the adjustments to other comprehensive income are consistent with those disclosed in *Note 2 – Change in Accounting Policy and Revisions* to the Consolidated Financial Statements.

3. Intercompany Transactions

On December 15, 2014, Athene USA Corporation (Athene USA) issued an unsecured promissory note to AHL totaling $100 million due in June 2015, or earlier at AHL's request. The loan was used by Athene USA to fund the restructuring of a wholly owned investment fund and carries an interest rate of 0.35% per annum. Interest was payable on a quarterly basis. In June 2015, the promissory note was amended to extend the due date to June 1, 2020, or earlier at AHL's request. During 2015, a total of $80 million was repaid by Athene USA. As of December 31, 2015, $20 million remained outstanding on the loan. This loan was fully repaid by Athene USA on January 20, 2016. This intercompany transaction was eliminated upon consolidation.

On January 14, 2015, AHL entered into a facility agreement with Delta Lloyd Deutschland AG (DLD) whereby AHL agreed to make available to DLD a loan facility without a fixed term in the maximum principal amount of EUR 5 million. Interest accrues under the facility at a rate of 6-month Euribor. DLD withdrew EUR 5 million prior to the October 1, 2015 acquisition of DLD by AHL, and full payment was made on October 9, 2015. DLD's withdrawal of the facility was not eliminated upon consolidation since it was prior to the acquisition, but the repayment of the loan was an intercompany transaction that eliminated upon consolidation.

On September 22, 2015, AHL entered into a loan agreement with Athene Deutschland Gmbh & Co. KG (ADKG), whereby AHL agreed to lend ADKG EUR 51 million to be used for the DLD acquisition. Interest accrued at a fixed rate of 1.5%, which was due and payable on the maturity date of the loan. The loan and interest accrued were due and fully repaid on October 9, 2015. This intercompany transaction was eliminated upon consolidation.

Certain costs were allocated between AHL and its subsidiaries. Total intercompany receivables arising from these allocations were $0 million and $19 million as of December 31, 2015 and 2014, respectively. This intercompany transaction was eliminated upon consolidation.

4. Debt and Guarantees

In 2013, AHL entered into a three-year revolving credit agreement (Credit Facility) with Citibank, N.A. as administrative agent. The amount available under the Credit Facility was $500 million. In connection with the Credit Facility, AHL guaranteed all of the obligations of ALRe and Athene USA. On January 22, 2016, we terminated the Credit Facility and entered into a five-year revolving credit agreement (Revolving Credit Facility) with Citibank, N.A., as administrative agent. The amount available under the Revolving Credit Facility is $1 billion. See *Note 12 – Debt* to our consolidated financial statements for further information.

5. Related parties

AHL pays investment management fees to Athene Asset Management (AAM), a related party, in relation to its portfolio of assets managed by AAM and assets held in certain subsidiary portfolios. In addition, AHL also pays service fees pursuant to a shared service agreement between AAM and AHL for various internal expenses AAM allocates to AHL. See *Note 19 – Related Parties* of the Consolidated Financial Statements for further information.

AHL entered into a Transaction Advisory Services Agreement (TASA) with Apollo, a related party until December 31, 2014. TASA required AHL to pay Apollo a quarterly monitoring fee. See *Note 5 – Derivative Instruments* and *Note 19 – Related Parties* of the Consolidated Financial Statements for further information.

Schedule II
Notes to Condensed Financial Information of Registrant

6. Dividends and Return of Capital

AHL received cash dividends and returns of capital from the following subsidiaries:

	Years ended December 31,		
(In millions)	**2015**	**2014**	**2013**
Athene Life Re Ltd.	$ —	$ 350	$ 655
Athene USA	—	—	3
Total	$ —	$ 350	$ 658

Schedule III
Supplementary Insurance Information

	DAC, DSI, and VOBA	Future policy benefits, losses, claims and loss expenses[1]	Other policy claims and benefits	Premiums	Net investment income	Benefits, claims, losses, and settlement expenses[2]	Amortization of DAC and VOBA	Policy and other operating expenses
2015								
Retirement Services	$ 2,663	$ 67,211	$ 167	$ 121	$ 2,473	$ 1,149	$ 203	$ 386
Corporate and other	—	4,625	67	74	35	106	—	146
Total	$ 2,663	$ 71,836	$ 234	$ 195	$ 2,508	$ 1,255	$ 203	$ 532
2014								
Retirement Services	$ 2,229	$ 71,778	$ 195	$ 100	$ 2,278	$ 2,566	$ 119	$ 380
Corporate and other	—	—	—	—	55	—	—	417
Total	$ 2,229	$ 71,778	$ 195	$ 100	$ 2,333	$ 2,566	$ 119	$ 797
2013								
Retirement Services				$ (1,137)	$ 707	$ 141	$ 144	$ 287
Corporate and other				—	367	—	—	144
Total				$ (1,137)	$ 1,074	$ 141	$ 144	$ 431

(1) Represents interest sensitive contract liabilities and future policy benefits on the consolidated balance sheets.

(2) Represents interest sensitive contract benefits, amortization of deferred sales inducements, future policy and other policy benefits, and dividends to policyholders on the consolidated statements of income.

Schedule IV
Reinsurance

(In millions)	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
Year ended December 31, 2015					
Life insurance in force at end of year	$ 77,994	$ 83,548	$ 10,123	$ 4,569	221.6 %
Premiums	445	274	24	195	12.3 %
Year ended December 31, 2014					
Life insurance in force at end of year	132,755	142,660	10,748	843	1,275.0 %
Premiums	387	315	28	100	28.0 %
Year ended December 31, 2013					
Life insurance in force at end of year	140,480	151,045	11,489	924	1,243.4 %
Premiums	282	1,431	12	(1,137)	(1.1)%

Schedule V
Valuation and Qualifying Accounts

(In millions)		Additions			
Description	**Balance at beginning of year**	**Charged to costs and expenses**	**Assumed through acquisitions** (1)	**Deductions**	**Balance at end of year**
Reserves deducted from assets to which they apply					
Year ended December 31, 2015					
Valuation allowance on deferred tax assets	$ 133	$ 7	$ 66	$ (13)	$ 193
Valuation allowance on mortgage loans	1	—	1	—	2
Year ended December 31, 2014					
Valuation allowance on deferred tax assets	155	—	—	(22)	133
Valuation allowance on mortgage loans	1	1	—	(1)	1
Year ended December 31, 2013					
Valuation allowance on deferred tax assets	5	10	142	(2)	155
Valuation allowance on mortgage loans	—	1	—	—	1

(1) Assumed through acquisitions represents the valuation allowances recorded related to the acquisitions of DLD in October 2015 and Aviva USA in October 2013.

Financial Statements

Years ended 2016, 2015, and 2014

ATHENE LIFE RE LTD.
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April 14, 2017

Report of Independent Auditors

To the Board of Directors and Shareholder of Athene Life Re Ltd.

We have audited the accompanying financial statements of Athene Life Re Ltd., which comprise the balance sheets as of December 31, 2016, 2015, and 2014, and the related statements of income (loss), comprehensive income (loss), equity and cash flows for the years then ended.

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Athene Life Re Ltd. as of December 31, 2016, 2015, and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

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ATHENE LIFE RE LTD.
Balance Sheets

	December 31,		
(In millions)	2016	2015	2014
Assets			
Investments			
Available-for-sale securities, fixed maturity securities, at fair value (amortized cost: 2016 - $3,801, 2015 - $3,020 and 2014 - $1,063)	$ 3,800	$ 2,943	$ 1,080
Trading securities, at fair value	323	238	181
Investment funds	531	624	607
Funds withheld at interest	49,455	43,879	45,329
Derivative assets	1	1	1
Short-term investments, at fair value	26	37	17
Total investments	54,136	47,722	47,215
Cash and cash equivalents	130	253	313
Restricted cash	11	9	24
Accrued investment income	31	22	10
Deferred acquisition costs and deferred sales inducements	2,392	2,028	1,547
Other assets	54	4	6
Total Assets	$ 56,754	$ 50,038	$ 49,115
Liabilities and Equity			
Liabilities			
Interest sensitive contract liabilities (portion at fair value: 2016 - $4,285, 2015 - $3,540 and 2014 - $3,532)	$ 47,707	$ 42,975	$ 42,817
Future policy benefits	4,134	3,682	3,813
Other policy claims and benefits	14	30	20
Reinsurance payable	—	1	2
Other liabilities	26	35	42
Due to affiliates	3	—	—
Total Liabilities	51,884	46,723	46,694
Equity			
Common shares	2	2	2
Additional paid-in-capital	2,292	2,292	1,152
Retained earnings	2,563	1,098	1,250
Accumulated other comprehensive income (loss)	13	(77)	17
Total Equity	4,870	3,315	2,421
Total Liabilities and Equity	$ 56,754	$ 50,038	$ 49,115

See accompanying notes to financial statements

ATHENE LIFE RE LTD.
Statements of Income (Loss)

	Years ended December 31,		
(In millions)	2016	2015	2014
Revenue			
Premiums	$ 15	$ 37	$ 15
Product charges	220	191	167
Net investment income[1]	3,492	452	3,789
Net investment income from consolidated variable interest entities	—	—	16
Other revenues	2	—	—
Total revenues	3,729	680	3,987
Benefits and Expenses			
Interest sensitive contract benefits	948	519	1,424
Future policy and other policy benefits	670	116	657
Amortization of deferred sales inducements	53	(8)	15
Amortization of deferred acquisition costs	264	(98)	469
Policy and other operating expenses	329	303	305
Operating expenses of consolidated variable interest entities	—	—	3
Total benefits and expenses	2,264	832	2,873
Net Income (Loss)	$ 1,465	$ (152)	$ 1,114

[1] *Includes the change in unrealized gain (loss) mark-to-market impacts of $882 million, $(1,415) million and $1,013 million for the years ended December 31, 2016, 2015 and 2014, respectively. See Note 2 - Investments for more information.*

See accompanying notes to financial statements

Statements of Comprehensive Income (Loss)

	Years ended December 31,		
(In millions)	2016	2015	2014
Net income (loss)	$ 1,465	$ (152)	$ 1,114
Other comprehensive income (loss)			
Change in unrealized investment gains (losses) on available-for-sale securities	76	(94)	(6)
Other comprehensive income on equity method investment funds	14	—	—
Other comprehensive income (loss)	90	(94)	(6)
Comprehensive income (loss)	$ 1,555	$ (246)	$ 1,108

See accompanying notes to financial statements

ATHENE LIFE RE LTD.
Statements of Equity

(In millions)	Common shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Athene Life Re Ltd. shareholder's equity	Non controlling interest	Total equity
Balance at December 31, 2013	$ 2	$ 1,152	$ 479	$ 23	$ 1,656	$ 7	$ 1,663
Net income	—	—	1,114	—	1,114	—	1,114
Other comprehensive loss	—	—	—	(6)	(6)	—	(6)
Dividends paid	—	—	(350)	—	(350)	—	(350)
Change in equity of noncontrolling interests	—	—	7	—	7	(7)	—
Balance at December 31, 2014	$ 2	$ 1,152	$ 1,250	$ 17	$ 2,421	$ —	$ 2,421
Net loss	—	—	(152)	—	(152)	—	(152)
Other comprehensive loss	—	—	—	(94)	(94)	—	(94)
Capital contributions received	—	1,140	—	—	1,140	—	1,140
Balance at December 31, 2015	$ 2	$ 2,292	$ 1,098	$ (77)	$ 3,315	$ —	$ 3,315
Net income	—	—	1,465	—	1,465	—	1,465
Other comprehensive income	—	—	—	90	90	—	90
Balance at December 31, 2016	$ 2	$ 2,292	$ 2,563	$ 13	$ 4,870	$ —	$ 4,870

See accompanying notes to financial statements

ATHENE LIFE RE LTD.
Statements of Cash Flows

(In millions)	Years ended December 31, 2016	2015	2014
Cash flows from operating activities			
Net income (loss)	$ 1,465	$ (152)	$ 1,114
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred acquisition costs	264	(98)	469
Amortization of deferred sales inducements	53	(8)	15
Amortization (accretion) of net investment premiums, discounts, and other	(53)	(18)	(9)
Product charges[1]	(220)	(191)	(167)
Interest sensitive contract benefits[1, 2]	948	519	1,424
Net investment (income) loss[3]	63	69	42
Other non-cash income adjustments related to funds withheld and modified coinsurance agreements			
Premiums	(15)	(37)	(15)
Net investment (income) on funds withheld at interest	(3,386)	(423)	(3,777)
Policy and other operating expenses	311	286	270
Future policy benefits and other policy claims and benefits	670	116	657
Other changes in operating assets and liabilities:			
Accrued investment income	(9)	(12)	(8)
Cash profit settlements on funds withheld and modified coinsurance agreements	182	130	619
Other assets and liabilities	(6)	(10)	(17)
Other assets and liabilities of consolidated variable interest entities	—	—	(20)
Net cash provided by operating activities	267	171	597
Cash flows from investing activities			
Sales, maturities, and repayments of:			
Available-for-sale securities	979	443	220
Trading securities	21	96	53
Investment funds	82	161	291
Short-term investments	223	56	—
Purchases of:			
Available-for-sale securities	(1,315)	(1,050)	(681)
Trading securities	(113)	(62)	(114)
Investment funds	(73)	(232)	(64)
Short-term investments	(210)	(78)	—
Sales, maturities, and repayments of investments of consolidated variable interest entities	—	—	845
Net changes of cash collateral posted for derivative transactions	(2)	—	—
Cash settlement of derivatives	—	2	—
Change in restricted cash	(1)	14	(16)
Net cash (used in) provided by investing activities	(409)	(650)	534

(Continued)

[1] *Comprised of impacts related to funds withheld, modified coinsurance, and coinsurance agreements.*
[2] *Comprised of interest credited to policyholder account balances, changes in fair value of embedded derivatives associated with fixed indexed annuities, and amortization of unearned revenue reserves.*
[3] *Comprised of realized (gains) losses on investments, (income) losses on equity method investments net of dividend distributions, and changes in fair value of trading securities.*

See accompanying notes to financial statements

ATHENE LIFE RE LTD.
Statements of Cash Flows

(In millions)	Years ended December 31, 2016	2015	2014
Cash flows from financing activities			
Capital contributions	$ —	$ 432	$ —
Dividends paid	—	—	(350)
Deposits on investment-type policies and contracts	33	—	—
Withdrawals on investment-type policies and contracts	(14)	(13)	(15)
Repayment on borrowings of consolidated variable interest entities	—	—	(719)
Net cash provided by (used in) financing activities	19	419	(1,084)
Net increase (decrease) in cash and cash equivalents	(123)	(60)	47
Cash and cash equivalents at beginning of year	253	313	266
Cash and cash equivalents at end of year	$ 130	$ 253	$ 313
Supplementary information			
Cash paid for interest	$ —	$ 6	$ 3
Non-cash transactions			
Premiums and deposits on policies reinsured through funds withheld and modified coinsurance agreements, excluding block reinsurance transactions	7,073	3,731	2,525
Day one premiums and deposits reinsured through block reinsurance transactions	790	—	—
Claims and surrenders on policies reinsured through funds withheld and modified coinsurance agreements	4,233	4,155	4,372
Non-cash capital contributions in the form of securities	—	708	—
Non-cash net profit settlements on funds withheld and modified coinsurance agreements in the form of securities	404	727	255

Profit withdrawals from our funds withheld and modco reinsurance accounts are based on the statutory earnings of the associated assets and liabilities. The profit (loss) under these agreements is typically settled on a quarterly basis and can be settled in either cash or securities. The portion settled in both cash and securities is included in the table below, with the cash basis portion being reflected within cash from operations, and the securities portion disclosed as a non-cash transaction.

	Years ended December 31, 2016	2015	2014
Net cash provided by operating activities	$ 267	$ 171	$ 597
Non-cash net settlements on funds withheld and modified coinsurance agreements in the form of securities	404	727	255
Total	$ 671	$ 898	$ 852

(Concluded)

See accompanying notes to financial statements

1. Business, Basis of Presentation, and Significant Accounting Policies

Athene Life Re Ltd. (ALRe, the Company, we, us, or our) a Bermuda exempted company, is a leading retirement services company that reinsures retirement savings products that originate in all 50 U.S. states and the District of Columbia. ALRe is wholly owned by Athene Holding Ltd. (AHL, or the Parent), a Bermuda exempted company. ALRe reinsures business from both third party cedants and affiliates. See *Note 7 - Reinsurance* for more information.

The Company was registered as a Long-Term Insurer on June 26, 2009 under the Insurance Act, 1978 of Bermuda and is classified as a Class E insurer. The Company is engaged in the business of annuity reinsurance, focusing on contracts reinsuring a quota share of future sales (flow transactions) of various fixed annuity product lines. The Company also reinsures closed blocks of existing business (block transactions). Liabilities for reinsurance include immediate annuities, fixed deferred annuities (including fixed indexed products) and funding agreements.

As of December 31, 2016, Fitch, S&P and A.M. Best had issued credit ratings, financial strength ratings and/or outlook statements regarding us, as listed below. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurer or reinsurer to meet its obligations under an insurance policy or reinsurance arrangement and generally involve quantitative and qualitative evaluations by rating agencies of a company's financial condition and operating performance. Generally, rating agencies base their financial strength ratings upon information furnished to them by the company and upon their own investigations, studies and assumptions. Financial strength ratings are based upon factors of concern to policyholders, agents, intermediaries and ceding companies and are not directed toward the protection of investors. Credit and financial strength ratings are not recommendations to buy, sell or hold securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

	December 31, 2016		
	A.M. Best	S&P	Fitch
Financial Strength Rating	A-	A-	A-
Outlook	Positive	Stable	Stable

Consolidation and Basis of Presentation - The financial statements of the Company include any variable interest entities for which we are the primary beneficiary. Investments in entities that we do not control, but have the ability to exercise significant influence over operating and financing decisions, other than investments for which we have elected the fair value option, are accounted for under the equity method.

For entities that are consolidated, but not 100% owned, we allocate a portion of the income or loss and corresponding equity to the owners other than the Company. We include the aggregate of the income or loss and corresponding equity that is not owned by the Company in noncontrolling interests in the financial statements.

The financial statements reflect consolidated variable interest entities that were fully liquidated in 2014. As a result, there was income statement activity related to consolidated variable interest entities for the year ended December 31, 2014. We did not consolidate any entities for the years ended December 31, 2015 and 2016. See *Note 4 - Variable Interest Entities* for more information.

We have prepared the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual experience could materially differ from these estimates and assumptions. The Company's principal estimates impact:

- fair value of investments;
- impairment of investments and valuation allowances;
- derivatives valuation, including embedded derivatives;
- deferred acquisition costs (DAC), deferred sales inducements (DSI), and reinsurance intangibles; and
- future policy benefit reserves.

Additional details regarding these principal estimates and assumptions are discussed in the significant accounting policies that follow and the related footnote disclosures.

Investments

Fixed Maturity and Equity Securities – Fixed maturity securities includes corporate bonds, collateralized loan obligations (CLO's), asset-backed securities (ABS), residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and redeemable preferred stock. Equity securities in the funds withheld at interest portfolio include common stock, mutual funds, and non-redeemable preferred stock. We classify fixed maturity securities as available-for-sale (AFS) or trading at the time of purchase and subsequently carry them at fair value. Fair value hierarchy and valuation methodologies are discussed in *Note 5 - Fair Value*. Classification is dependent on a variety of factors including our expected holding period, election of the fair value option, and asset and liability matching.

AFS Securities – Unrealized gains and losses on AFS securities are reflected in accumulated other comprehensive income (AOCI) on the balance sheets.

Trading Securities – We elected the fair value option for certain fixed maturity securities. These fixed maturity securities are classified as trading, with changes to fair value included in net investment income on the statements of income and (loss). Although the securities are classified as trading, the trading activity related to these investments is primarily focused on asset and liability matching activities and is not intended to be an income strategy based on active trading. As such, the activity related to these investments on the statements of cash flows is classified as investing activities.

We generally record security transactions on a trade date basis, with any unsettled trades recorded in other assets or other liabilities on the balance sheets. Private placement and investment fund purchases are recorded on a settlement date basis.

Purchased Credit Impaired (PCI) Securities – We purchase certain structured securities, primarily RMBS, having deterioration in credit quality since their issuance, which meet the definition of PCI securities. We determined, based on our expectations as to the timing and amount of cash flows expected to be received, that it was probable at acquisition that we would not collect all contractually required payments, including both principal and interest and considering the effects of prepayments for these PCI securities. Based on these assumptions, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is accreted into investment income, net of related expenses, over their remaining lives on a level-yield basis. The difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. Over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, the accretable yield and the non-accretable difference can change.

Quarterly, we evaluate the undiscounted expected future cash flows associated with PCI securities based on updates to key assumptions. Changes to undiscounted expected future cash flows due solely to the changes in the contractual benchmark interest rates on variable rate PCI securities will change the accretable yield prospectively. Declines in undiscounted expected future cash flows due to further credit deterioration, as well as changes in the expected timing of the cash flows, can result in the recognition of an other-than-temporary impairment (OTTI) charge, as PCI securities are subject to our policy for evaluating investments for OTTI. Significant increases in undiscounted expected future cash flows are recognized prospectively as an adjustment to the accretable yield.

Mortgage Loans – We hold mortgage loans through our funds withheld and modified coinsurance (modco) arrangements. Accordingly, these mortgages are valued at fair value, which is comprised of the amortized cost plus mark-to-market unrealized gains or losses. We calculate amortized cost to be unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on its contractual interest rate. We record amortization of premiums and discounts using the effective yield method, and contractual cash flows on the underlying loan. We accrue interest on loans until it is probable we will not receive interest or the loan is 90 days past due. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income on the statements of income and (loss).

Investment Funds – We invest in certain non-fixed income, alternative investments in the form of limited partnerships or similar legal structures (investment funds). For investment funds in which we have determined we are not the primary beneficiary, and therefore not required to consolidate, we typically record these investments using the equity method of accounting, where the cost is recorded as an investment in the fund. Adjustments to the carrying amount reflect our pro rata ownership percentage of the operating results as indicated by net asset value (NAV) in the investment fund financial statements, which can be on a lag of up to three months when investee information is not received in a timely manner.

We record our proportionate share of investment fund income within net investment income on the statements of income and (loss). Contributions paid or distributions received by the Company are recorded directly to the investment fund balance as an increase to carrying value or as a return of capital, thus reducing our carrying value.

Policy Loans – We hold policy loans through our funds withheld and modco arrangements accordingly, these policy loans are held at fair value which approximates the unpaid principal balance. Policy loans are funds provided to policyholders in return for a claim on the policy's account value. The funds provided are limited to a specified percentage of the account balance. The majority of policy loans do not have a stated maturity and the balances and accrued interest are repaid with proceeds from the policy account balance.

Funds Withheld at Interest – Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which we act as reinsurer or a modified coinsurer. While the assets in funds withheld and modco trusts are legally owned by the ceding company, the assets are legally segregated from the general accounts of our cedants and all economic rights and obligations on the assets accrue to us. We periodically settle interest accruing to those assets at rates defined by the terms of the agreement. The underlying agreements contain embedded derivatives as discussed below, and as a result the carrying value of Funds Withheld at Interest is equal to the fair value of the underlying assets. The resulting impact on the statement of cash flows from funds withheld and modco agreements after non-cash activity is backed out is that the net cash interest settlements are included in operating activities. Any securities transfers as part of interest settlements, as well as deposits and withdrawals on the underlying agreements, are disclosed as non-cash items. See additional information in *Note 6 - Funds Withheld at Interest*.

Short-term Investments – Short-term investments consists of financial instruments with maturities of greater than three months but less than twelve months when purchased. Short-term securities are held at fair value which approximates amortized cost.

Net Investment Income – We recognize investment income as it accrues or is legally due, net of investment management and custody fees. Investment income on fixed maturity securities includes coupon interest, as well as the amortization of any premiums and the accretion of any discount. Investment income on equity securities represents dividend income and preferred coupons. Realized gains and losses on sales of investments are included on the statements of income and (loss) in net investment income. Other-than-temporary impairments are included on the statements of income and (loss) in net investment income. Realized gains and losses on investments sold are determined based on a first-in first-out method. Included in net investment income is the investment income from funds withheld and modco reinsurance, which is the total return from the assets supporting funds withheld and modco reinsurance.

Other-Than-Temporary Impairment – We identify fixed maturity and equity securities that could potentially have impairments that are other-than-temporary by monitoring market events for changes in market interest rates, credit issues, changes in business climate, management changes, litigation, government actions, and other similar factors. Indicators of impairment may include changes in the issuers' credit ratings, late payments, pricing levels, rating agency actions, key financial ratios, financial statements, revenue forecasts, and cash flow projections.

We review all securities on a case-by-case basis to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other-than-temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in fair value; (3) the issuer's financial position and access to capital; and (4) for fixed maturity securities, our ability and intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value. To the extent we determine that a security is other-than-temporarily impaired, an impairment loss is recognized.

The recognition of impairment losses on fixed maturity securities on the financial statements is dependent on the facts and circumstances related to the specific security. If we intend to sell a security or it is more likely than not that we would be required to sell a security before the recovery of its amortized cost less any recorded credit loss, we recognize an OTTI in net investment income on the statements of income and (loss) for the difference between amortized cost and fair value. If neither of these two conditions exists, then the recognition of the OTTI is bifurcated and we recognize the credit loss portion in net investment income on the statements of income and (loss) and the non-credit loss portion in AOCI on the balance sheets.

We estimate the amount of the credit loss component of a fixed maturity security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The techniques and assumptions for establishing the best estimate cash flows vary depending on the type of security. The structured security's cash flow estimates are based on security-specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity, prepayments, and structural support, including subordination and guarantees. The non-structured security's cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using security-specific facts and circumstances including timing, security interests, and loss severity.

In periods after an OTTI loss is recognized on a fixed maturity security, we report the impaired security as if it had been purchased on the date it was impaired and continue to estimate the present value of the estimated cash flows of the security. Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into net investment income over the remaining term of the fixed maturity security in a prospective manner based on the amount and timing of estimated future cash flows.

We impair a mortgage loan when it is probable we will not collect all amounts due under the agreement. We establish a valuation allowance on individual loans based on expected losses from future dispositions or settlement, including foreclosures. We calculate the allowance based on how much the carrying value exceeds one of these values:

- the present value of expected future cash flows discounted at the loan's original effective interest rate;
- the value of the loan's collateral if it is in the process of foreclosure or otherwise collateral dependent; or
- the loan's fair value if the loan is being sold.

We first apply any interest accrued or received on the net carrying amount of the impaired loan to the principal of the loan, and once the principal is repaid, we include amounts received in net investment income. We limit accrued interest income on impaired loans to 90 days of interest. Once accrued interest on the impaired loan is received, we recognize interest income on a cash basis. Loans deemed uncollectible or in foreclosure are charged off against the valuation allowances, and subsequent recoveries, if any, are credited to the valuation allowances. Changes in valuation allowances are reported in net investment income on the statements of income and (loss).

The cost of other invested assets is adjusted for impairments in value deemed to be other-than-temporary in the period in which the determination is made. These impairments are included within net investment income, and the cost basis of the investment securities is reduced accordingly. We do not change the revised cost basis for subsequent recoveries in value.

Derivative Instruments—We invest in derivatives in both our general account and funds withheld at interest for managing risks experienced in our ongoing operations, such as equity risk, interest rate risk, cash flow risks, which primarily involve managing liability risks associated with our indexed annuity products and reinsurance agreements. Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or other underlying notional amount. Derivatives are carried at fair value on the balance sheets in derivative assets and derivative liabilities. We elect to present any derivatives subject to master netting provisions as a gross asset or liability and gross of collateral. Disclosures regarding balance sheet presentation of derivatives subject to master netting agreements are discussed in *Note 3 - Derivative Instruments*.

Embedded Derivatives – We reinsure products, primarily fixed indexed annuity products, or purchase investments that contain embedded derivatives. If we determine the embedded derivative has economic characteristics not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately. Embedded derivatives are carried on the balance sheets at fair value in the same line item as the host contract. Changes in the fair value of embedded derivatives associated with fixed indexed annuities are reflected in interest sensitive contract benefits on the statements of income and (loss). Embedded derivatives that are not clearly and closely related to the host contract within a financial asset are required to be bifurcated and recorded at fair value unless the fair value option is elected on the host contract. Under the fair value option, bifurcation of the embedded derivative is not necessary as all related gains and losses on the host contract and derivative will be reflected within net investment income on the statements of income and (loss).

Fixed indexed annuity contracts allow the policyholder to elect a fixed interest rate return or an equity market component where interest credited is based on the performance of common stock market indices. The equity market option is an embedded derivative, similar to a call option. The benefit reserve is equal to the sum of the fair value of the embedded derivative and the host (or guaranteed) component of the contracts. The fair value of the embedded derivative is computed as the present value of benefits attributable to the excess of the projected policy contract values over the projected minimum guaranteed contract values. The projections of policy contract values are based on assumptions for future policy growth, which include assumptions for expected index credits on the next policy anniversary date, future equity option costs, volatility, interest rates, and policyholder behavior. The projections of minimum guaranteed contract values include the same assumptions for policyholder behavior as were used to project policy contract values. For certain funds withheld and modco reinsurance contracts the embedded derivative cash flows are discounted using the Company's own credit rating. The host contract is established at contract inception as the initial account value less the initial fair value of the embedded derivative and accreted over the policy's life. The host contract accretion rate is updated each quarter so that the present value of actual and expected guaranteed cash flows is equal to the initial host value.

Additionally, reinsurance agreements written on a funds withheld coinsurance or modco basis contain embedded derivatives. The fair value of the embedded derivatives on funds withheld and modco agreements is included in the funds withheld at interest line item on the balance sheets. The fair value of the embedded derivative is equal to the unrealized gain or loss on the underlying assets in the funds withheld or modco trust and the fair value of stand-alone derivatives in the portfolios. The change in the fair value of the embedded derivatives related to the change in unrealized gain or loss is recorded in net investment income on the statements of income and (loss).

Variable Interest Entities—An entity that does not have sufficient equity to finance its activities without additional financial support, or in which the equity investors, as a group, do not have the characteristics of a controlling financial interest is a variable interest entity (VIE). The determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and may require significant judgment. Our investment funds generally qualify as VIEs and are evaluated for consolidation under the VIE model.

We are required to consolidate a VIE if we are the primary beneficiary, defined as the variable interest holder with both the power to direct the activities that most significantly impact the VIE's economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE. We determine whether we are the primary beneficiary of an entity based on a qualitative assessment of the VIE's capital structure, contractual terms, nature of the VIE's operations and purpose, and our relative exposure to the related risks of the VIE. Since affiliates of Apollo Global Management, LLC (AGM and, together with its subsidiaries, Apollo), a related party, are the decision makers in certain of the investment funds, we and a member of our related party group may together have the characteristics of the primary beneficiary of an investment fund. In this situation, we have generally concluded we are not under common control, as defined by ASU 2015-02, with the related party, and therefore consolidate in the circumstances when substantially all of the activities of the VIE are conducted on our behalf. We reassess the VIE and primary beneficiary determinations on an ongoing basis.

If we are not the primary beneficiary, but are able to exert significant influence over the VIE's operations, we record the VIE as an equity method investment. If we are not able to exercise significant influence, generally on investment funds in which we own a less than a 3% interest, we elect the fair value option.

See *Note 4 - Variable Interest Entities* for discussion of our interest in entities that meet the definition of a VIE.

Reinsurance—We assume insurance and investment contracts under coinsurance, funds withheld, and modco. We follow reinsurance accounting for transactions that provide indemnification against loss or liability relating to insurance risk (risk transfer). To meet risk transfer requirements, a reinsurance agreement must include insurance risk consisting of underwriting, investment, timing risk, and any other significant risks. Assumed premiums are included in the premiums line of the statements of income and (loss).

For investment contracts, assets and liabilities assumed under coinsurance, funds withheld, or modco are presented gross on the balance sheets. The change in assumed reserves, deposits and withdrawals are presented net in the interest sensitive contract benefits line on the statements of income. For insurance contracts, assets and liabilities assumed or ceded are presented gross on the balance sheets. The change in assumed reserves and benefits are presented net in the future policy and other policy benefits line on the statements of income. Assumed premiums are included in the premiums line of the statements of income.

Assets and liabilities assumed under modco or funds withheld are presented gross on the balance sheets. The total return on funds withheld at interest is presented in net investment income on the statements of income and (loss).

Accounting for reinsurance requires the use of assumptions upon agreement inception, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. We attempt to minimize our counterparty credit risk through the structuring of the terms of our reinsurance agreements, including the use of trusts and segregated accounts, and we monitor credit ratings of counterparties for signs of declining credit quality. When a ceding company does not report information on a timely basis, we record accruals based on the best available information at the time, which includes the reinsurance agreement terms and historical experience. We periodically compare actual and anticipated experience to the assumptions used to establish reinsurance assets and liabilities. Refer to *Note 8 - Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles* for more information.

Cash and Cash Equivalents—Cash and cash equivalents include deposits and short-term highly liquid investments with a maturity of less than 90 days from the date of acquisition. Amounts included are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Restricted Cash—Restricted cash consists of cash and cash equivalents held in funds in trust as part of certain coinsurance agreements to secure all statutory reserves and liabilities of the coinsured parties. Changes in the restricted cash balance are reported in investing activities on the statements of cash flows.

Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles

Deferred Acquisition Costs (DAC) and Deferred Sales Inducements (DSI) - Costs related to direct and successful efforts of acquiring new business are deferred to the extent they are recoverable from future premiums or gross profits. These costs consist of commissions and policy issuance costs, as well as sales inducements credited to policyholder account balances. We include the effects of net unrealized investment gains and losses in the calculation of DAC, DSI and reinsurance intangible balances due to the funds withheld at interest assets being marked-to-market through income. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we record a cumulative charge to the current period. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process for the interest sensitive policies. We also periodically revise the key assumptions used in the calculation of the amortization of DAC and DSI which results in revisions to the estimated future gross profits. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

Deferred costs related to interest sensitive investment-type policies, with significant revenue streams from sources other than investment of the policyholder funds, are amortized over the lives of the policies, in relation to the present value of gross profits including investment spread margins, surrender charge income, policy administration, changes in the guaranteed lifetime withdrawal benefit (GLWB) and guaranteed minimum death benefit (GMDB) reserves, and realized gains and losses on investments. Current period gross profits for fixed indexed annuities also include the impacts of the change in fair value of the embedded derivatives and the change in fair value of the derivative instruments purchased to economically hedge the indexed liabilities. Estimates of the future gross profits are based on assumptions using accepted actuarial methods. The balances associated with the preceding amortization methodology are recorded in deferred acquisition costs and deferred sales inducements on the balance sheets.

Deferred costs related to contracts with only investment related sources of revenues are amortized using the interest method. The interest method amortizes the deferred costs by discounting the future liability cash flows at a break-even rate. The break-even rate is solved such that the present value of future liability cash flows is equal to the net liability at the inception of the contract. The balances associated with this amortization methodology are recorded in deferred acquisition costs and deferred sales inducements on the balance sheets.

Reinsurance Intangibles - For block reinsurance transactions, the difference between the fair value of assets and the sum of the reserves reinsured, other liabilities reinsured, and ceding commission payable or receivable is deferred and recognized on a product-by-product basis

either as an unearned revenue reserve (URR) or DAC. In this context, the URR may also be referred to as the day one gain on reinsurance and DAC as the day one loss on reinsurance. Day one losses are included in deferred acquisition costs and deferred sales inducements and day one gains are included in interest sensitive contract liabilities on the balance sheets. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we record a cumulative charge to the current period. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process for the interest sensitive policies. We also periodically revise the key assumptions used in the calculation of the amortization of reinsurance intangibles which results in revisions to the estimated future gross profits. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

Day one gains and losses related to interest sensitive investment-type policies, with significant revenue streams from sources other than investment of the policyholder funds, are amortized over the lives of the policies, in relation to the present value of gross profits including investment spread margins, surrender charge income, policy administration, changes in the guaranteed lifetime withdrawal benefit (GLWB) and guaranteed minimum death benefit (GMDB) reserves, and realized gains and losses on investments. Current period gross profits for fixed indexed annuities also include the impacts of the change in fair value of the embedded derivatives and the change in fair value of the derivative instruments purchased to economically hedge the indexed liabilities. Estimates of the future gross profits are based on assumptions using accepted actuarial methods. If we project a negative future gross profit, the day one gain or loss is amortized proportional to the change in the present value of account value over the lives of the policies.

See *Note 8 - Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles* for further discussion.

Interest Sensitive Contract Liabilities—Interest sensitive investment-type contracts include fixed indexed and traditional fixed annuities in the accumulation phase, funding agreements, and immediate annuities without significant mortality risk. We carry liabilities for fixed annuities, and funding agreements at the account balances without reduction for potential surrender or withdrawal charges. Liabilities for immediate annuities without significant mortality risk are calculated as a present value of future liability cash flows at contractual interest rates.

Changes in the interest sensitive contract liabilities are recorded in interest sensitive contract benefits or product charges on the statements of income and (loss).

Future Policy Benefits—We reinsure contracts classified as long-duration, and deferred and immediate annuities with life contingencies. Liabilities for long-duration contracts are established using accepted actuarial valuation methods which require the use of assumptions related to expenses, investment yields, mortality, morbidity, and persistency, with a provision for adverse deviation, at the date of issue or acquisition. The reserve investment yield assumptions are specific to our expected earned rate on the asset portfolio supporting the reserves. We base other key assumptions, such as mortality and morbidity, on industry standard data adjusted to align with actual company experience, if necessary.

For long-duration contracts, the assumptions are locked in at contract inception and only modified if we deem the reserves to be inadequate. We periodically review actual and anticipated experience compared to the assumptions used to establish policy benefits. If the net GAAP liability (gross reserves less DAC and DSI) is less than the gross premium liability, then the impairment is deemed to have occurred. Accordingly, the DAC and DSI asset balances are reduced until the net GAAP liability is equal to the gross premium liability. For deferred annuity policies classified as insurance contracts, if the DAC and DSI asset balances are completely written off and the net GAAP liability is still less than the gross premium liability, then an additional liability is posted to arrive at the gross premium liability.

We reinsure deferred annuity contracts which contain GLWB and GMDB riders. We establish future policy benefits for GLWB and GMDB by estimating the expected value of withdrawal and death benefits in excess of the projected account balance. We recognize the excess proportionally over the accumulation period based on total expected assessments. The methods we use to estimate the liabilities have assumptions about policyholder behavior, mortality, and market conditions affecting the account balance growth.

Changes in future policy benefits are recorded in future policy and other policy benefits on the statements of income and (loss).

Other Policy Claims and Benefits—Other policy claims and benefits include amounts payable relating to in course of settlements (ICOS) liabilities associated with interest sensitive contract liabilities and future policy benefits. For immediate annuities and supplemental contracts, ICOS claim liabilities are established to accrue suspended benefit payments between the date of notification of death and the date of verification of death.

Recognition of Revenues and Related Expenses—Revenues for annuities, including surrender and market value adjustments, costs of insurance, policy administration, GMDB, and GLWB, are earned when assessed against policyholder account balances during the period. Interest sensitive contract benefits related to annuity products include interest credited to policyholder account balances. In addition, the change in fair value of embedded derivatives within fixed indexed annuity contracts is included in interest sensitive contract benefits on the statements of income and (loss).

For certain assumed reinsurance transactions involving in force blocks of business, the ceding company may pay a premium equal to the initial required reserve (future policy benefit). In such transactions, we net the expense associated with the establishment of the reserve against the premiums from the transaction in interest sensitive contract benefits on the statements of income and (loss).

Premiums for traditional life insurance products, including products with fixed and guaranteed premiums and benefits, are recognized as revenues when due from policyholders.

Recently Adopted Accounting Pronouncements

Fair Value Measurement – Net Asset Value (ASU 2015-07)
This update has a disclosure-only impact for entities that measure investments using net asset value per share (NAV) under the practical expedient in the fair value measurement guidance. We adopted this standard effective January 1, 2016, and have removed investments that are measured at NAV as a practical expedient from the fair value hierarchy in all periods presented in the notes to the financial statements.

Cloud Computing Arrangements (ASU 2015-05)
This update clarifies whether a cloud computing arrangement is an intangible asset or a service contract. We adopted this standard effective January 1, 2016, and the adoption of this update did not have a material effect on our financial statements.

Recently Issued Accounting Pronouncements

Gains and Losses from the Derecognition of Nonfinancial Assets (ASU 2017-05)
The amendments in this update clarify the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets. We will be required to adopt this standard on a retrospective or modified retrospective basis effective January 1, 2018. Early adoption is permitted. We are currently evaluating the impact of this guidance on our financial statements.

Business Combinations - Clarifying the Definition of a Business (ASU 2017-01)
The amendments in this update clarify the definition of a business with the objective of assisting entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. We will be required to adopt this standard effective January 1, 2018. We are currently evaluating the impact of this guidance on our financial statements.

Statement of Cash Flows - Restricted Cash (ASU 2016-18)
This update requires amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statements of cash flows. We will be required to adopt this standard retrospectively for each period presented effective January 1, 2018. Early adoption is permitted. The adoption of this update will require us to change the presentation on the statements of cash flows for restricted cash or restricted cash equivalents; however, we do not expect the adoption of this update to have a material effect on our financial statements.

Consolidation – Interest Held through Related Parties under Common Control (ASU 2016-17)
This update amends the consolidation guidance to change how indirect interests in VIEs are evaluated by a reporting entity when determining whether or not it is the primary beneficiary of that VIE. The primary beneficiary of a VIE is the reporting entity that has a controlling financial interest in a VIE and, therefore, consolidates the VIE. A reporting entity has an indirect interest in a VIE if it has a direct interest in a related party that, in turn, has a direct interest in the VIE. Currently, if a single decision maker and its related parties are under common control, the single decision maker is required to consider indirect interests held through related parties to be the equivalent of direct interests in their entirety. The amendments change the evaluation of indirect interests to be considered on a proportionate basis. We will be required to adopt this standard retrospectively for each period presented effective January 1, 2017. We do not expect the adoption of this update to have a material effect on our financial statements.

Statement of Cash Flows (ASU 2016-15)
This update provides specific guidance to clarify how entities should classify certain cash receipts and cash payments on the statement of cash flows. The update also clarifies the application of the predominance principle when cash receipts and cash payments have aspects of more than one class of cash flows. We will be required to adopt this standard effective January 1, 2018. We do not expect the adoption of this update to have a material effect on our financial statements.

Financial Instruments – Credit Losses (ASU 2016-13)
This update is designed to reduce complexity by limiting the number of credit impairment models used for different assets. The model will result in accelerated credit loss recognition on assets held at amortized cost, which includes our commercial and residential mortgage investments held through our funds withheld and modco reinsurance agreements. The identification of credit-deteriorated securities will include all assets that have experienced a more-than-insignificant deterioration in credit since origination. Additionally, any changes in the expected cash flows of credit-deteriorated securities will be recognized immediately in the income statement. Available-for-sale fixed maturity securities are not in scope of the new credit loss model, but will undergo targeted improvements to the current reporting model including the establishment of a valuation allowance for credit losses versus the current direct write down approach. We will be required to adopt this standard effective January 1, 2020. Early adoption is permitted effective January 1, 2019. We are currently evaluating the impact of this guidance on our financial statements.

Revenue Recognition (ASU 2016-12, ASU 2016-11, ASU 2016-10, ASU 2016-08, ASU 2015-14, and ASU 2014-09)
ASU 2014-09 indicates an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 provided for a one-year deferral of the effective date, which will require us to adopt this standard effective January 1, 2018. ASU 2016-08 amends the principal-

versus-agent implementation guidance and illustrations in ASU 2014-09. ASU 2016-10 clarifies the identification of performance obligations as well as licensing implementation guida nce. ASU 2016-11 brings existing SEC guidance into conformity with revenue recognition accounting guidance of ASU 2014-09 discussed above. ASU 2016-12 provides clarification on assessing collectability, presentation of sales tax, non-cash consideration, and transition. ASU 2016-20 addresses necessary technical corrections and improvements to clarify codification amended by ASU 2014-09 within Topic 606. The revenue recognition updates replace all general and most industry-specific revenue recognition guidance, excluding insurance contracts, leases, financial instruments and guarantees, which have been scoped out of the update. Since the guidance does not apply to revenue on contracts accounted for under the financial instruments or insurance contracts standards, only a portion of our revenues are impacted by this guidance. Our evaluation process includes, but is not limited to, identifying contracts within the scope of the guidance, reviewing and documenting our accounting for these contracts, and identifying and determining the accounting for any related contract costs.

Equity Method and Joint Ventures (ASU 2016-07)
This update eliminates the retroactive adjustments to an investment upon it qualifying for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence by the investor. We will be required to adopt this standard effective January 1, 2017. We do not expect the adoption of this update to have a material effect on our financial statements.

Derivatives and Hedging – Contingent Put and Call Options (ASU 2016-06)
This update is intended to clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to debt hosts. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We do not expect the adoption of this update to have a material effect on our financial statements.

Derivatives and Hedging – Effects of Derivative Contract Novation (ASU 2016-05)
This update is intended to clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require a de-designation of that hedging relationship provided all other hedge accounting criteria continue to be met. We will be required to adopt this standard effective January 1, 2017. We do not expect the adoption of this update to have a material effect on our financial statements.

Leases (ASU 2016-02)
This update is intended to increase transparency and comparability for lease transactions. A lessee is required to recognize an asset and a liability for all lease arrangements longer than 12 months. Lessor accounting is largely unchanged. We will be required to adopt this standard effective January 1, 2019. Early adoption is permitted. We are currently evaluating the impact of this guidance on our financial statements.

Financial Instruments – Recognition and Measurement (ASU 2016-01)
This update retains the current accounting for classifying and measuring investments in debt securities and loans, but requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. We will be required to adopt this standard effective January 1, 2018. We are currently evaluating the impact of this guidance on our financial statements.

2. Investments

Available-for-sale securities - The following table represents our AFS investments by asset type. Our AFS investment portfolio includes direct investments in affiliates of Apollo where Apollo can exercise significant influence over the affiliates.

	December 31, 2016				
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 3	$ —	$ —	$ 3	$ —
U.S. State, municipals, and political subdivisions	46	6	—	52	—
Corporate	1,448	20	(18)	1,450	—
CLO	736	1	(16)	721	—
ABS	321	2	(9)	314	—
CMBS	46	—	(2)	44	—
RMBS	1,201	28	(13)	1,216	3
Total AFS securities	$ 3,801	$ 57	$ (58)	$ 3,800	$ 3

	December 31, 2015				
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 4	$ 1	$ —	$ 5	$ —
U.S. State, municipals, and political subdivisions	44	8	—	52	—
Corporate	955	15	(17)	953	—
CLO	670	—	(59)	611	—
ABS	256	1	(7)	250	—
CMBS	39	—	(1)	38	—
RMBS	1,052	9	(27)	1,034	3
Total AFS securities	$ 3,020	$ 34	$ (111)	$ 2,943	$ 3

	December 31, 2014				
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 6	$ 1	$ —	$ 7	$ —
U.S. State, municipals, and political subdivisions	54	10	—	64	—
Corporate	259	9	(1)	267	—
CLO	367	2	(12)	357	—
ABS	58	—	—	58	—
RMBS	319	11	(3)	327	—
Total AFS securities	$ 1,063	$ 33	$ (16)	$ 1,080	$ —

The amortized cost and fair value of fixed maturity AFS securities, including related party fixed maturity AFS securities, are shown by contractual maturity below. Actual maturities can differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2016	
(In millions)	Amortized Cost	Fair Value
Fixed maturity securities		
Due in one year or less	$ 62	$ 62
Due after one year through five years	281	283
Due after five year through ten years	748	751
Due after ten years	405	408
ABS, CLO, CMBS and RMBS	2,305	2,296
Total fixed maturity securities	$ 3,801	$ 3,800

	December 31, 2015	
(In millions)	Amortized Cost	Fair Value
Fixed maturity securities		
Due in one year or less	$ 81	$ 82
Due after one year through five years	219	218
Due after five year through ten years	450	451
Due after ten years	253	258
ABS, CLO, CMBS and RMBS	2,017	1,934
Total fixed maturity securities	$ 3,020	$ 2,943

	December 31, 2014	
(In millions)	Amortized Cost	Fair Value
Fixed maturity securities		
Due in one year or less	$ 7	$ 7
Due after one year through five years	112	114
Due after five year through ten years	101	104
Due after ten years	99	113
ABS, CLO, CMBS and RMBS	744	742
Total fixed maturity securities	$ 1,063	$ 1,080

Unrealized Losses on AFS Securities-The following summarizes the fair value and gross unrealized losses for AFS securities, including related party AFS securities, aggregated by class of security and length of time the fair value has remained below amortized cost:

	December 31, 2016					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. State, municipals, and political subdivisions	$ 2	$ —	$ —	$ —	$ 2	$ —
Corporate	575	(17)	23	(1)	598	(18)
CLO	93	(1)	457	(15)	550	(16)
ABS	108	(2)	87	(7)	195	(9)
CMBS	37	(2)	—	—	37	(2)
RMBS	240	(3)	253	(10)	493	(13)
Total AFS securities	$ 1,055	$ (25)	$ 820	$ (33)	$ 1,875	$ (58)

	December 31, 2015					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. State, municipals, and political subdivisions	$ 3	$ —	$ —	$ —	$ 3	$ —
Corporate	379	(15)	14	(2)	393	(17)
CLO	528	(49)	52	(10)	580	(59)
ABS	198	(7)	—	—	198	(7)
CMBS	11	(1)	—	—	11	(1)
RMBS	723	(21)	103	(6)	826	(27)
Total AFS securities	$ 1,842	$ (93)	$ 169	$ (18)	$ 2,011	$ (111)

	December 31, 2014					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. State, municipals, and political subdivisions	$ 10	$ —	$ 1	$ —	$ 11	$ —
Corporate	33	—	21	(1)	54	(1)
CLO	292	(12)	17	(1)	309	(13)
ABS	32	—	—	—	32	—
RMBS	100	(1)	18	(2)	118	(3)
Total AFS securities	$ 467	$ (13)	$ 57	$ (4)	$ 524	$ (17)

At December 31, 2016, we held 331 AFS securities that were in an unrealized loss position. Of this total, 124 were in an unrealized loss position longer than 12 months. We did not recognize the unrealized losses in income as we intend to hold these securities and it not more likely than not we will be required to sell a security before the recovery of its amortized cost.

Other-Than-Temporary Impairments on AFS Securities-For the year ended December 31, 2016, on total AFS securities, including related party investments, of $3,800 million, we incurred less than $1 million of net OTTI losses. These securities were impaired to fair value as of the impairment date.

The following table represents a rollforward of the cumulative amounts recognized on the statements of income for OTTI related to pre-tax credit loss impairments on AFS fixed maturity securities, for which a portion of the securities' total OTTI was recognized in AOCI:

	December 31,		
(In millions)	2016	2015	2014
Beginning balance	$ 1	$ —	$ —
Initial impairments – credit loss OTTI recognized on securities not previously impaired	—	1	—
Ending balance	$ 1	$ 1	$ —

Net Investment Income - Net investment income by asset type consists of the following:

	December 31,		
(In millions)	2016	2015	2014
Fixed maturity securities	$ 192	$ 107	$ 40
Trading securities	27	7	—
Investment funds	(3)	21	46
Cash and cash equivalents	—	—	4
Funds withheld at interest[1]			
Investment income	2,201	2,043	2,014
Investment related gains (losses)	1,184	(1,620)	1,763
Investment expenses	(112)	(98)	(85)
Gross realized gain on AFS securities	13	7	6
Gross realized loss on AFS securities	(11)	(17)	(3)
Derivative gains (losses)	—	2	—
Other losses	1	—	4
Net investment income	$ 3,492	$ 452	$ 3,789

[1] *The total income related to funds withheld at interest is comprised of the total return, including (1) investment income which is comprised of book income on the underlying securities, and (2) investment related gains (losses) which is comprised of realized gains (losses), mark-to-market impacts (change in unrealized gains or losses), and total return on derivatives. The portion related to mark-to-market was a gain (loss) of $882 million, $(1,415) million and $1,013 million for years ended December 31, 2016, 2015 and 2014, respectively.*

Included in net investment income on trading securities are losses of $5 million, losses of $1 million, and losses of $3 million resulting from the change in unrealized gains or losses for the underlying bonds we still held as of December 31, 2016, 2015, and 2014, respectively. Also included in net investment income on trading securities are related party losses of $0 million, losses of $8 million, and losses of $2 million resulting from the change in unrealized gains or losses for the underlying bonds we still held as of December 31, 2016, 2015, and 2014, respectively.

Credit Quality

The Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC) is responsible for the credit quality assessment and valuation of securities owned by state regulated insurance companies. Insurance companies report ownership of securities to the SVO when such securities are eligible for filing on the relevant schedule of the NAIC Financial Statement Blank. The SVO conducts credit analysis on these securities for the purpose of assigning an NAIC designation and/or unit price. Typically, if a security has been rated by a Nationally Recognized Statistical Rating Organization (NRSRO), the SVO utilizes that rating and assigns an NAIC designation based upon the following system:

NAIC designation	NRSRO equivalent rating
1	AAA/AA/A
2	BBB
3	BB
4	B
5	CCC
6	CC and lower

The SVO's loan-backed and structured securities ("LBaSS") methodology is focused on determining the risk associated with the recovery of the amortized cost of each security. In contrast, the NRSRO ratings methodology is focused on the likelihood of recovery of all contractual payments, including principal at par regardless of entry price. The NRSRO rating assumes that the holder is the original purchaser at par whereas the modeled and non-modeled LBaSS ratings are focused on the recovery of current amortized cost. As the NAIC ratings methodology considers our investment and amortized cost, and the likelihood of recovery of that book value as opposed to the likelihood of default of the security, we view the NAIC ratings methodology as the most appropriate way to view our fixed maturity portfolio from a ratings perspective since a large portion of our holdings were purchased at a significant discount to par.

Specific to LBaSS, the SVO has developed a ratings process and provides instruction on both modeled and non-modeled LBaSS. The modeled LBaSS process is specific to the RMBS and CMBS asset classes. In order to establish ratings at the individual security level, the SVO obtains loan-level analysis of each RMBS and CMBS using a selected vendor's proprietary financial model. The SVO ensures that the vendor has extensive internal quality-control processes in place and the SVO conducts its own quality-control checks of the selected vendor's valuation process. The NAIC retained the services of Pacific Investment Management Co.'s advisory services ("PIMCO Advisory") to model non-agency RMBS owned by U.S. insurers in 2014. The SVO switched from PIMCO Advisory to Blackrock, Inc. ("Blackrock") for non-agency RMBS in 2015. For CMBS, the SVO has retained the services of Blackrock for all years presented. PIMCO Advisory and Blackrock, specific to the periods referred to above (the "selected vendors"), provide five prices ("breakpoints" based on each U.S. insurer's statutory book value price) to utilize in determining the NAIC designation for each modeled LBaSS. For non-modeled LBaSS (ABS and CLOs) with the initial rating of NAIC 1 or NAIC 6, the rating remains the same through the life of the security. For non-modeled LBaSS with the initial rating of NAIC 2 through NAIC 5, the selected vendors are not utilized and the NAIC designations are set using a standardized table of breakpoints provided by the SVO for application to the insurer's statutory book value price. The NAIC designation determines the associated level of RBC that an insurer is required to hold for modeled LBaSS owned

A summary of our AFS fixed maturity securities by NAIC designation is as follows (dollars in millions):

(In millions)	December 31, 2016		
	Amortized Cost	Fair Value	Percent of Total
NAIC Designation			
1	$ 2,196	$ 2,209	58%
2	1,205	1,191	31%
Total investment grade	3,401	3,400	89%
3	342	344	10%
4	57	56	1%
5	—	—	—%
6	1	—	—%
Total below investment grade	400	400	11%
Total	$ 3,801	$ 3,800	100%

(In millions)	December 31, 2015		
	Amortized Cost	Fair Value	Percent of Total
NAIC Designation			
1	$ 1,937	$ 1,912	65%
2	818	778	26%
Total investment grade	2,755	2,690	91%
3	256	245	9%
4	8	8	—%
5	—	—	—%
6	1	—	—%
Total below investment grade	265	253	9%
Total	$ 3,020	$ 2,943	100%

	December 31, 2014		
(In millions)	Amortized Cost	Fair Value	Percent of Total
NAIC Designation			
1	$ 811	$ 827	77%
2	200	202	19%
Total investment grade	1,011	1,029	96%
3	47	46	4%
4	2	2	—%
5	3	3	—%
6	—	—	—%
Total below investment grade	52	51	4%
Total	$ 1,063	$ 1,080	100%

Substantially all of the fixed maturity portfolio, 89%, 91% and 96% as of December 31, 2016, 2015 and 2014 respectively was invested in investment grade assets with a NAIC rating of 1 or 2.

A summary of our AFS fixed maturity securities by NRSRO ratings is set forth below (dollars in millions):

	December 31, 2016		December 31, 2015		December 31, 2014	
(In millions)	Fair Value	Percent of Total	Fair Value	Percent of Total	Fair Value	Percent of Total
AAA/AA/A	$ 950	25%	$ 758	26%	$ 359	33%
BBB	1,203	32%	940	32%	299	28%
Non-Rated[1]	510	13%	287	10%	5	—%
Total Investment grade	2,663	70%	1,985	68%	663	61%
BB	331	9%	225	8%	153	14%
B	82	2%	38	1%	33	3%
CCC	221	6%	210	7%	103	10%
CC and lower	486	13%	417	14%	128	12%
Non-Rated[1]	17	—%	68	2%	—	—%
Total below investment grade	1,137	30%	958	32%	417	39%
Total fixed maturity securities	$ 3,800	100%	$ 2,943	100%	$ 1,080	100%

[1]Securities denoted as non-rated by the NRSRO were classified as investment or non-investment grade according to the security's respective NAIC rating. The percentage of investment grade securities under NRSRO ratings is lower than under NAIC ratings due to NRSRO ratings not factoring in the Company specific price point of carrying value on structured securities, whereas NAIC ratings factor this in as previously described.

Consistent with the NAIC Process and Procedures Manual, an NRSRO rating was assigned based on the following criteria: (a) the equivalent S&P rating where the security is rated by one NRSRO; (b) the equivalent S&P rating of the lowest NRSRO when the security is rated by two NRSROs; and (c) the equivalent S&P rating of the second lowest NRSRO if the security is rated by three or more NRSROs. If the lowest two NRSRO ratings are equal, then such rating will be the assigned rating. NRSRO ratings available for the periods presented were S&P, Fitch, Moody's Investor Service ("Moody's"), DBRS, and Kroll Bond Rating Agency, Inc. ("KBRA").

The portion of our AFS fixed maturity portfolio that was considered below investment grade based on NRSRO ratings decreased to 30% from 32% and 39% as of December 31, 2016, 2015 and 2014, respectively. The primary driver of the difference in the ratio of securities considered below investment grade by NRSROs as compared to the securities considered below investment grade by the NAIC relates to the difference in ratings methodologies between the NRSRO and NAIC for RMBS due to investments acquired at a discount to par value, as discussed above. The primary driver of the change in the percentage of NRSRO below investment grade securities and the change in NAIC below investment grade securities is driven by the reinvestment activity and volatile economic environment in 2016.

Purchased Credit Impaired (PCI) Securities - The following table summarizes our PCI securities, which are included in AFS fixed maturity securities:

	December 31,		
(In millions)	2016	2015	2014
Contractually required principal and interest[1]	$ 1,312	$ 1,092	$ 325
Less: Cash flows expected to be collected[2]	(866)	(704)	(237)
Non-accretable difference	$ 446	$ 388	$ 88
Cash flows expected to be collected	$ 866	$ 704	$ 237
Less: Amortized cost	(664)	(533)	(180)
Accretable difference	$ 202	$ 171	$ 57
Fair value	$ 677	$ 523	183

[1] *Includes principal and accrued interest.*
[2] *Represents the acquisition date undiscounted principal and interest cash flows expected.*

We acquired PCI investments with the following amounts at the time of purchase:

	Years ended December 31,		
(In millions)	2016	2015	2014
Contractually required principal and interest	$ 419	$ 622	$ 219
Expected cash flows	266	385	154
Estimated fair value	193	279	120

The following table summarize the activity for the accretable yield on PCI securities:

	Years ended December 31,		
(In millions)	2016	2015	2014
Balance at beginning of year	$ 171	$ 57	$ 42
Purchases of PCI securities, net	56	99	38
Accretion	(11)	(7)	5
Changes in expected cash flows	(14)	22	(28)
Balance at end of year	$ 202	$ 171	$ 57

3. Derivative Instruments

We use a variety of derivative instruments to manage equity risk, interest rate risk, credit risk, foreign currency risk, and market volatility. See *Note 1 - Business, Basis of Presentation, and Significant Accounting Policies* for a description of our accounting policies for derivatives and *Note 5 - Fair Value* for information about the fair value hierarchy for derivatives.

The following table presents the notional amount and fair value of derivative instruments:

	December 31, 2016		
		Fair Value	
(In millions)	Notional Amount	Assets	Liabilities
Foreign currency forwards	$ 61	$ 1	$ —
Embedded derivatives			
Funds withheld	—	1,806	—
Interest sensitive contract liabilities	—	—	4,285
Total derivatives	$ 61	$ 1,807	$ 4,285

	December 31, 2015		
		Fair Value	
(In millions)	Notional Amount	Assets	Liabilities
Foreign currency forwards	$ 41	$ 1	$ —
Embedded derivatives			
Funds withheld	—	469	—
Interest sensitive contract liabilities	—	—	3,540
Total derivatives	$ 41	$ 470	$ 3,540

	December 31, 2014		
		Fair Value	
(In millions)	Notional Amount	Assets	Liabilities
Foreign currency forwards	$ 37	$ 1	$ —
Embedded derivatives			
Funds withheld	—	2,478	—
Interest sensitive contract liabilities	—	—	3,532
Total derivatives	$ 37	$ 2,479	$ 3,532

Derivatives are included in derivative assets or liabilities on the balance sheets, with the exception of embedded derivatives. Funds withheld and modco embedded derivatives are included in funds withheld at interest on the balance sheets. Indexed annuity products embedded derivatives are included in interest sensitive contract liabilities on the balance sheets. None of our derivatives are designated as hedges.

Foreign currency forwards - We use foreign currency forward contracts to hedge certain invested assets against movement in foreign currency. The price is agreed upon at the time of the contract and payment is made at a specified future date.

Embedded derivatives - We have embedded derivatives which are required to be separated from their host contracts and reported as derivatives. Host contracts include reinsurance agreements structured on a modco or funds withheld basis and indexed annuity products. Included in net investment income is the total return of the funds withheld embedded derivatives.

Credit Risk - We may be exposed to credit-related losses in the event of counterparty nonperformance on derivative financial instruments. Generally, the current credit exposure of our derivative contracts is the fair value at the reporting date less any collateral received from the counterparty.

As of December 31, 2016, 2015, and 2014 we had no collateral pledged to counterparties in connection with derivative instruments.

4. Variable Interest Entities

Our investment funds generally meet the definition of a VIE, and in certain cases these investment funds are consolidated in our financial statements because we meet the criteria of the primary beneficiary.

Consolidated VIEs - Our consolidated VIEs were fully liquidated as at December 31, 2014 and we did not consolidate any VIEs for the years ended December 31, 2015 and 2016.

On September 29, 2011, ALRe formed Highland Re Ltd (HRL). HRL was a Bermuda special purpose insurer and a direct subsidiary of ALRe. HRL issued voting Common Shares, 100% owned by ALRe, and one non-voting preferred share, 100% owned by a third party, in order to capitalize HRL. On December 16, 2011 ALRe entered into two non-proportional reinsurance agreements with HRL to cede claims risk associated with an affiliate reinsurance deal. ALRe's interest in HRL represents an interest in a VIE under current authoritative guidance. The Company has determined that it is the primary beneficiary as it satisfies both the power and benefits criteria in that guidance. Accordingly, HRL is consolidated in the financial statements of the Company at December 31, 2013. The preferred share buyer was entitled to request redemption of all or fractional portions of the preferred share under certain conditions during the term of the note. The note was repaid during 2014 and HRL was dissolved in the fourth quarter of 2014.

On November 10, 2010, 2011 A4 Fund, L.P. was formed to purchase commercial mortgage-backed securities in a leveraged structure for the benefit of the limited partners and met the definition of a VIE. The 2011 A4 Fund, L.P. ("A4 Fund") entered into a repurchase agreement with Wells Fargo Bank, N.A. Under this agreement, the A4 Fund could borrow up to $800 million to finance the acquisition of CMBS originally AAA rated. The facility had a three-year term, with two one-year extensions available at the A4 Fund's option with the payment of a 25 basis point extension fee on the outstanding balance of the facility. The A4 Fund was fully liquidated during 2014. As a result, there was income statement activity related to consolidated variable interest entities for the year ended December 31, 2014.

Non-consolidated VIEs - We invest in other entities meeting the definition of a VIE. We do not consolidate these investments because we do not meet the criteria of primary beneficiary as described below.

Fixed Maturity Securities - We invest in securitization entities as a debt holder or an investor in the residual interest of the securitization vehicle, which are included in fixed maturity securities on the balance sheets. These entities are deemed VIEs due to insufficient equity within the structure and lack of control by the equity investors over the activities that significantly impact the economics of the entity. In general, we are a debt investor within these entities and, as such, hold a variable interest; however, due to the debt holders' lack of ability to control the decisions within the trust that significantly impact the entity, and the fact the debt holders are protected from losses due to the subordination by the equity tranche, the debt holders are not deemed the primary beneficiary. Securitization vehicles in which we hold the residual tranche are not consolidated because we do not unilaterally have substantive rights to remove the general partner, or when assessing related party interests, we are not under common control, as defined by GAAP, with the related party, nor are substantially all of the activities conducted on our behalf; therefore, we are not deemed to be the primary beneficiary. Debt investments and investments in the residual tranche of securitization entities are considered debt instruments and are held at fair value on the balance sheet and classified as AFS or trading.

Investment funds - Investment funds include non-fixed income, alternative investments in the form of limited partnerships or similar legal structures that meet the definition of VIEs.

A portion of these investment funds are sponsored and managed by unrelated parties in which we, as limited partner, do not have the power to direct the activities that most significantly impact the economic performance of the fund, nor do we unilaterally have substantive rights to remove the general partner or dissolve the entity without cause. As a result, we do not meet the power criterion to be considered the primary beneficiary and do not consolidate these VIEs in our financial statements.

We also have equity interests in investment funds where the general partner or investment manager is a related party. We have determined in accordance with GAAP we are not under common control with the related party, nor are we deemed to be the primary beneficiary. As a result, investments in these VIEs are not consolidated.

We account for non-consolidated investment funds where we are able to exercise significant influence over the entity under the equity method or by electing the fair value option, in which NAV is used as a practical expedient for fair value.

Income from investment funds is recorded in net investment income on the statements of income and (loss) and represents the change in fair value of investment fund, net of expenses.

The Company's investments in investment funds are generally passive in nature as we do not take an active role in the investment fund's management. Our risk of loss is limited and depends on the investment as follows: (1) investment funds accounted for under the equity method are limited to the Company's initial investment plus unfunded commitments; (2) investment funds under the fair value option are limited to the fair value plus unfunded commitments; (3) available-for-sale securities and other investments are limited to amortized cost; and (4) trading securities are limited to carrying value.

The following summarizes the carrying value and maximum loss exposure of these non-consolidated VIEs:

	December 31, 2016	
(in millions)	Carrying Amount	Maximum Loss Exposure
Investment funds	$ 531	$ 578
Investment in fixed maturity securities	2,573	2,582
Total assets	$ 3,104	$ 3,160

	December 31, 2015	
(in millions)	Carrying Amount	Maximum Loss Exposure
Investment funds	$ 624	$ 647
Investment in fixed maturity securities	2,127	2,222
Total assets	$ 2,751	$ 2,869

	December 31, 2014	
(in millions)	Carrying Amount	Maximum Loss Exposure
Investment funds	$ 607	$ 628
Investment in fixed maturity securities	877	880
Total assets	$ 1,484	$ 1,508

The following summarizes the Company's investment funds, including related party investment funds and investment funds owned by consolidated VIEs:

	December 31, 2016		
(in millions)	Carrying Value	Percent of Total	Weighted Avg Life (WAL)
Investment funds			
Public equities	$ 133	25%	N/A
Private equity	73	14%	1-8
Private equity Apollo Alternative Assets (AAA)	136	26%	2-3
Hedge funds	20	4%	3-3
Credit funds	169	31%	1-2
Total investment funds	$ 531	100%	

	December 31, 2015		
(in millions)	Carrying Value	Percent of Total	Weighted Avg Life (WAL)
Investment funds			
Private equity	$ 84	13%	4-7
Mortgage and real assets	23	4%	3-4
Private equity Apollo Alternative Assets (AAA)	315	51%	1-4
Credit funds	202	32%	1-7
Total investment funds	$ 624	100%	

	December 31, 2014		
(in millions)	Carrying Value	Percent of Total	Weighted Avg Life (WAL)
Investment funds			
Private equity	$ 77	13%	5-8
Private equity Apollo Alternative Assets (AAA)	472	77%	2-5
Credit funds	58	10%	2-3
Total investment funds	$ 607	100%	

Summarized Financial Information of Investment Funds-The following is the aggregated summarized financial information of equity method investees and may be presented on a lag due to the availability of financial information from the investee:

	December 31,		
(in millions)	2016	2015	2014
Balance Sheets			
Assets	$ 2,130	$ 1,969	$ 4,214
Liabilities	4	3	940
Equity	2,126	1,966	3,274

(in millions)	December 31,		
Statements of Income	2016	2015	2014
Net income	$ 26	$ 27	$ 239

The following table presents the carrying value by ownership percentage of equity method investment funds, including related party investment funds and consolidated VIE investment funds:

	December 31,		
(in millions)	2016	2015	2014
Ownership Percentage			
100%	$ 26	$ 49	$ 48
50% – 99%	268	315	471
3% – 49%	237	260	88
Equity method investment funds	$ 531	$ 624	$ 607

5. Fair Value

Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. We determine fair value based on the following fair value hierarchy:

Level 1 - Unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 - Quoted prices for inactive markets or valuation techniques that require observable direct or indirect inputs for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets,
- Observable inputs other than quoted market prices, and
- Observable inputs derived principally from market data through correlation or other means.

Level 3 - Prices or valuation techniques with unobservable inputs significant to the overall fair value estimate. These valuations use critical assumptions not readily available to market participants. Level 3 valuations are based on market standard valuation methodologies, including discounted cash flows, matrix pricing, or other similar techniques.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the instrument's fair value measurement.

We use a number of valuation sources to determine fair values. Valuation sources can include quoted market prices; third-party commercial pricing services; third-party brokers; industry-standard, vendor modeling software that uses market observable inputs; and other internal modeling techniques based on projected cash flows. We periodically review the assumptions and inputs of third-party commercial pricing services through internal valuation price variance reviews, comparisons to internal pricing models, back testing to recent trades, or monitoring trading volumes.

The following represents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis:

	December 31, 2016			
(in millions)	Total	Level 1	Level 2	Level 3
Assets				
AFS fixed maturity securities				
U.S. government and agencies	$ 3	$ 3	$ —	$ —
U.S. State, municipals, and political subdivisions	51	—	51	—
Corporate	1,450	—	1,416	34
CLO	722	—	719	3
ABS	313	—	283	30
CMBS	45	—	45	—
RMBS	1,216	—	1,216	—
Total fixed maturity securities	3,800	3	3,730	67
Trading fixed maturity securities				
U.S. State, municipals, and political subdivisions	46	—	46	—
CLO	83	—	—	83
RMBS	194	—	156	38
Total trading fixed maturity securities	323	—	202	121
Short-term investments	26	—	26	—
Funds withheld at interest[1]	49,455	—	—	49,455
Derivative assets	1	—	1	—
Cash and cash equivalents	130	130	—	—
Restricted cash	11	11	—	—
Total assets measured at fair value	$ 53,746	$ 144	$ 3,959	$ 49,643
Liabilities				
Interest sensitive contract liabilities - embedded derivatives	$ 4,285	$ —	$ —	$ 4,285
Total liabilities measured at fair value	$ 4,285	$ —	$ —	$ 4,285

[1] Comprised of host contract and embedded derivative of $1,806 million. The carrying value is equal to the fair value for both the host and embedded derivative. See Note 6 - Funds Withheld at Interest for more detail.

	December 31, 2015			
(in millions)	Total	Level 1	Level 2	Level 3
Assets				
AFS fixed maturity securities				
U.S. government and agencies	$ 5	$ 5	$ —	$ —
U.S. State, municipals, and political subdivisions	52	—	52	—
Corporate	953	—	917	36
CLO	611	—	566	45
ABS	250	—	142	108
CMBS	38	—	38	—
RMBS	1,034	—	1,034	—
Total AFS fixed maturity securities	2,943	5	2,749	189
Trading fixed maturity securities				
U.S. State, municipals, and political subdivisions	45	—	45	—
CLO	72	—	—	72
RMBS	121	—	97	24
Total trading fixed maturity securities	238	—	142	96
Short-term investments	37	—	37	—
Funds withheld at interest[1]	43,879	—	—	43,879
Derivative assets	1	—	1	—
Cash and cash equivalents	253	253	—	—
Restricted cash	9	9	—	—
Total assets measured at fair value	$ 47,360	$ 267	$ 2,929	$ 44,164
Liabilities				
Interest sensitive contract liabilities - embedded derivatives	$ 3,540	$ —	$ —	$ 3,540
Total liabilities measured at fair value	$ 3,540	$ —	$ —	$ 3,540

[1] *Comprised of host contract and embedded derivative of $469 million. The carrying value is equal to the fair value for both the host and embedded derivative. See Note 6 - Funds Withheld at Interest for more detail.*

(in millions)	December 31, 2014 Total	Level 1	Level 2	Level 3
Assets				
AFS fixed maturity securities				
U.S. government and agencies	$ 7	$ 7	$ —	$ —
U.S. State, municipals, and political subdivisions	64	—	64	—
Corporate	267	—	267	—
CLO	357	—	346	11
ABS	58	—	54	4
RMBS	327	—	327	—
Total fixed maturity securities	1,080	7	1,058	15
Trading fixed maturity securities				
U.S. government and agencies	—	—		
U.S. State, municipals, and political subdivisions	47	—	47	—
CLO	112	—	—	112
RMBS	22	—	22	—
Total trading fixed maturity securities	181	—	69	112
Short-term investments	17	—	17	—
Funds withheld at interest[1]	45,329	—	—	45,329
Derivative assets	1	—	1	—
Cash and cash equivalents	313	313	—	—
Restricted cash	24	24	—	—
Total assets measured at fair value	$ 46,945	$ 344	$ 1,145	$ 45,456
Liabilities				
Interest sensitive contract liabilities - embedded derivatives	$ 3,532	$ —	$ —	$ 3,532
Total liabilities measured at fair value	$ 3,532	$ —	$ —	$ 3,532

[1] *Comprised of host contract and embedded derivative of $2,478 million. The carrying value is equal to the fair value for both the host and embedded derivative. See Note 6 - Funds Withheld at Interest for more detail.*

Fair Value Valuation Methods-We used the following valuation methods and assumptions to estimate fair value:

AFS and trading securities
Fixed maturity - We obtain the fair value for most marketable bonds without an active market from several commercial pricing services. These are classified as Level 2 assets. The pricing services incorporate a variety of market observable information in their valuation techniques, including benchmark yields, broker-dealer quotes, credit quality, issuer spreads, bids, offers, and other reference data. This category typically includes U.S. and non-U.S. corporate bonds, U.S. agency and government guaranteed securities, ABS, CMBS, and RMBS.

We value privately placed fixed maturity securities based on the credit quality and duration of comparable marketable securities, which may be securities of another issuer with similar characteristics. In some instances, we use a matrix-based pricing model. These models consider the current level of risk-free interest rates, corporate spreads, credit quality of the issuer, and cash flow characteristics of the security. We also consider additional factors such as net worth of the borrower, value of collateral, capital structure of the borrower, presence of guarantees, and our evaluation of the borrower's ability to compete in its relevant market. Privately placed fixed maturity securities are classified as Level 2 or 3.

Equity securities - Fair values of publicly traded equity securities are based on quoted market prices and classified as Level 1. Other equity securities, typically private equities or equity securities not traded on an exchange, we value based on other sources, such as analytics or brokers and are classified as Level 2 or 3.

Funds withheld (embedded derivative) - The fair value of funds withheld at interest is classified as Level 3 as a more than insignificant amount of the underlying assets are Level 3. See *Note 6 - Funds Withheld at Interest* for more information.

Derivatives - Derivative contracts can be exchange traded or over-the-counter. Exchange-traded derivatives typically fall within Level 1 of the fair value hierarchy depending on trading activity. Over-the-counter derivatives are valued using valuation models or an income approach using third-party broker valuations. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, and correlation of the inputs. We consider and incorporate counterparty credit risk in the

valuation process through counterparty credit rating requirements and monitoring of overall exposure. We also evaluate and include our own nonperformance risk in valuing derivatives. The majority of our derivatives trade in liquid markets; therefore, we can verify model inputs and model selection does not involve significant management judgment. These are typically classified within Level 2 of the fair value hierarchy.

Cash and cash equivalents - The carrying amount for cash equals fair value. We estimate the fair value for cash equivalents based on quoted market prices. These assets are classified as Level 1.

Interest sensitive contract liabilities (embedded derivative) - Embedded derivatives related to interest sensitive contract liabilities with fixed indexed annuity products are classified as Level 3. The valuations include significant unobservable inputs associated with actuarial assumptions for policyholder behavior.

Fair Value Option-The following represents the gains or losses recorded for instruments we have elected the fair value option:

	Twelve months ended December 31,		
(In millions)	2016	2015	2014
Trading securities	$ 19	$ (88)	$ (1)
Total (loss) on fair value option	$ 19	$ (88)	$ (1)

Transfers Between Levels-Transfers into Level 3 represent securities that were valued using pricing sources which, due to changing market conditions, were less observable than in prior periods as indicated by the lack of commercially available vendor prices with observable inputs. Additionally, changes in pricing sources also led to securities transferring into Level 3.

Transfers out of Level 3 represent securities that were valued using pricing sources which, due to changing market conditions, were more observable than in prior periods as indicated by commercially available vendor prices with observable inputs. Additionally, changes in pricing sources also led to securities transferring into Level 2.

For the years ended December 31, 2016, 2015, and 2014, there were no transfers between Level 1 and Level 2.

Level 3 Financial Instruments-The following is a reconciliation for all Level 3 assets and liabilities measured at fair value on a recurring basis:

	Year ended December 31, 2016									
		Total realized and unrealized gains (losses)								
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases	Sales, maturities, redemptions	Transfers In	Transfers (Out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Assets										
AFS Securities										
Corporate	$ 36	$ —	$ (1)	$ 1	$ (2)	$ —	$ —	$ —	$ 34	$ —
CLO	45	1	9	—	(6)	3	(49)	—	3	—
ABS	108	5	(1)	13	(52)	10	(53)	—	30	—
Trading securities										
CLO	72	(1)	—	33	(21)	—	—	—	83	9
RMBS	24	(10)	—	45	(6)	—	(15)	—	38	(5)
Funds withheld at interest	43,879	1,184	—	—	—	—	—	4,392	49,455	—
Total Level 3 assets	$ 44,164	$ 1,179	$ 7	$ 92	$ (87)	$ 13	$ (117)	$ 4,392	$ 49,643	$ 4
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	$ (3,540)	$ (244)	$ —	$ —	$ —	$ —	$ —	$ (501)	$ (4,285)	$ —
Total Level 3 liabilities	$ (3,540)	$ (244)	$ —	$ —	$ —	$ —	$ —	$ (501)	$ (4,285)	$ —

[1] *Related to instruments held at end of year.*

	Year ended December 31, 2015									
		Total realized and unrealized gains (losses)								
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases	Sales, maturities, redemptions	Transfers In	Transfers (Out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Assets										
AFS securities										
Corporate	$ —	$ —	$ —	$ 37	$ (1)	$ —	$ —	$ —	$ 36	$ —
CLO	11	—	(1)	—	—	45	(10)	—	45	—
ABS	4	—	—	54	(6)	56	—	—	108	—
Trading securities										
CLO	112	(2)	1	55	(94)	—	—	—	72	(9)
RMBS	—	(1)	—	25	—	—	—	—	24	—
Funds withheld at interest	45,329	(1,620)	—	—	—	—	—	170	43,879	—
Total Level 3 assets	$ 45,456	$ (1,623)	$ —	$ 171	$ (101)	$ 101	$ (10)	$ 170	$ 44,164	$ (9)
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	$ (3,532)	$ 226	$ —	$ —	$ —	$ —	$ —	$ (234)	$ (3,540)	$ —
Total Level 3 liabilities	$ (3,532)	$ 226	$ —	$ —	$ —	$ —	$ —	$ (234)	$ (3,540)	$ —

[1] *Related to instruments held at end of year.*

	Year ended December 31, 2014									
		Total realized and unrealized gains (losses)								
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases	Sales, maturities, redemptions	Transfers In	Transfers (Out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Assets										
AFS securities										
CLO	$ —	$ —	$ —	$ —	$ —	$ 11	$ —	$ —	$ 11	$ —
ABS	5	—	—	3	(4)	—	—	—	4	—
Trading securities										
CLO	—	(2)	—	114	—	—	—	—	112	(2)
Funds withheld at interest	44,627	1,763	—	—	—	—	—	(1,061)	45,329	—
Total Level 3 assets	$ 44,632	$ 1,761	$ —	$ 117	$ (4)	$ 11	$ —	$ (1,061)	$ 45,456	$ (2)
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	$ (2,587)	$ (699)	$ —	$ —	$ —	$ —	$ —	$ (246)	$ (3,532)	$ —
Total Level 3 liabilities	$ (2,587)	$ (699)	$ —	$ —	$ —	$ —	$ —	$ (246)	$ (3,532)	$ —

[1] *Related to instruments held at end of year.*

Significant Unobservable Inputs-Significant unobservable inputs occur when we could not obtain or corroborate the quantitative detail of the inputs. This applies to AFS fixed maturity securities. Additional significant unobservable inputs are described below.

Funds withheld at interest – For certain fixed maturity securities that support the funds withheld at interest, internal models are used to calculate the fair value. A discounted cash flow approach is utilized. The discount rate is the significant unobservable input due to the determined credit spread being internally developed, illiquid, or other adjustments made to the base rate. The base rate represents a market comparable rate for securities with similar characteristics. Discounts ranged from 4% to 8%. This excludes assets for which significant unobservable inputs are not developed internally, primarily consisting of broker quotes.

Interest sensitive contract liabilities - embedded derivative - Significant unobservable inputs we use in the fixed indexed annuities embedded derivative of the interest sensitive contract liabilities valuation include:

1. Non-performance risk - For funds withheld and modco contracts we reinsure with affiliated parties, we use the credit spread from the U.S. treasury curve based on our public credit rating as of the valuation date. This represents our credit risk for use in the estimate of the fair value of embedded derivatives. For non-affiliated contracts reinsured through funds withheld and modco reinsurance, the cedant company holds collateral against its exposure; therefore, immaterial non-performance risk is ascribed to these contracts.
2. Option budget - The Company assumes future hedge costs in the derivative's fair value estimate. The level of option budgets determines the future costs of the options and impacts future policyholder account value growth.
3. Policyholder behavior - We regularly review the lapse and withdrawal assumptions. These are based on the Company's initial pricing assumptions updated for actual experience. Actual Company experience may be limited for recently issued products.

	December 31, 2016				
(In millions)	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Fixed indexed annuities embedded derivatives	$ 4,285	Option budget method	Non-performance risk	0% - 1.5%	Decrease
			Option budget	0.8% - 3.8%	Increase
			Surrender rate	0% - 16.3%	Decrease

	December 31, 2015				
(In millions)	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Fixed indexed annuities embedded derivatives	$ 3,540	Option budget method	Non-performance risk	0% - 1.8%	Decrease
			Option budget	0.8% - 3.8%	Increase
			Surrender rate	0% - 10.7%	Decrease

	December 31, 2014				
(In millions)	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Fixed indexed annuities embedded derivatives	$ 3,532	Option budget method	Non-performance risk	0% - 2.1%	Decrease
			Option budget	0.9% - 3.9%	Increase
			Surrender rate	0% - 10.2%	Decrease

Fair Value of Financial Instruments Not Carried at Fair Value-The following represents the Company's financial instruments not carried at fair value on the balance sheets:

		December 31, 2016		December 31, 2015		December 31, 2014	
(In millions)	Fair Value Level	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets							
Investment funds	NAV[1]	$ 153	$ 153	$ 220	$ 220	$ 106	$ 106
Investment funds in related parties	NAV[1]	378	378	404	404	501	501
Total assets not carried at fair value		$ 531	$ 531	$ 624	$ 624	$ 607	$ 607
Liabilities							
Interest sensitive contract liabilities[2]	3	$ 23,134	$ 22,332	$ 19,737	$ 19,225	$ 19,662	$ 19,464
Total liabilities not carried at fair value		$ 23,134	$ 22,332	$ 19,737	$ 19,225	$ 19,662	$ 19,464

[1] *Investments measured at NAV as a practical expedient in determining fair value have not been classified in the fair value hierarchy.*
[2] *During 2016, we changed the disclosure of interest sensitive contract liabilities to exclude insurance contracts, which are not required to be included. We determined contract types that meet the definition of insurance contracts include universal life and traditional fixed and fixed indexed annuities with significant mortality or morbidity risks. In previous periods, all contracts within interest sensitive contract liabilities not held at fair value were included. As such, the carrying and fair values reported for December 31, 2015, and 2014, were adjusted to be comparable.*

We estimate the fair value for financial instruments not carried at fair value using the same methods and assumptions as those we do carry at fair value. The financial instruments presented above are reported at carrying value on the balance sheets; however, in the case of investment funds, investment funds in related parties and interest sensitive contract liabilities, the carrying amount approximates or equals fair value.

Investment funds in related parties - Other investments - The fair value of investment funds in related party - other investments is determined using a discounted cash flow model using discount rates for similar investments.

Interest sensitive contract liabilities - The carrying and fair value of interest sensitive contract liabilities above includes fixed indexed and traditional fixed annuities without mortality or morbidity risks, funding agreements, and payout annuities without life contingencies. The embedded derivatives within fixed indexed annuities without mortality or morbidity risks are excluded, as they are carried at fair value. The valuation of these investment contracts is based on discounted cash flow methodologies using significant unobservable inputs. The estimated fair value is determined using current market risk-free interest rates, adding a spread to reflect our nonperformance risk and subtracting a risk margin to reflect uncertainty inherent in the projected cash flows.

6. Funds Withheld at Interest

Funds withheld at interest represents the receivable for assets supporting funds withheld and modco reinsurance. These assets are held in trusts or custodial accounts that are legally segregated from our third party ceding companies' general accounts and are managed by Athene Asset Management (AAM), a related party to ALRe. In the event of a ceding company's insolvency, we would need to assert a claim on the assets supporting our reserve liabilities. However, we have the ability to offset amounts we owe to the ceding company, which reduces our risk of loss. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Company is subject to the investment performance and has all economic rights and obligations on the funds withheld assets in a fashion similar to invested assets held directly by the Company.

Information on the underlying assets within the funds withheld at interest is presented below.

	Assets Supporting Funds withheld at Interest		
(In millions)	December 31, 2016	December 31, 2015	December 31, 2014
Fixed maturity securities			
U.S. government and agencies	$ 8	$ 8	$ 15
U.S. state, municipal, and political subdivisions	1,067	894	1,219
Foreign governments	140	101	—
Corporate	19,909	17,178	19,848
CLOs	5,039	4,803	4,265
ABS	2,498	2,389	2,042
CMBS	1,861	1,674	2,867
RMBS	8,244	6,923	5,833
Equity securities	168	179	192
Mortgage loans	5,472	5,007	5,003
Investment funds	2,443	2,551	2,503
Policy loans	43	39	36
Derivatives	1,146	688	1,284
Short-term investments	196	114	—
Other investments	344	255	254
Cash and cash equivalents	587	1,068	525
Other assets and liabilities[1]	290	8	(557)
Funds Withheld at Interest	$ 49,455	$ 43,879	$ 45,329

[1] Other assets and liabilities includes the net of accrued investment income, open payable and receivable for security trades, excise tax payable, deposits and premiums receivable, claims and surrenders payable, and other assets and liabilities associated with the funds withheld and modco reinsurance treaties.

Approximately 92.3%, 94.2% and 93.5% of the fixed maturity securities within the funds withheld at interest are investment grade by NAIC designation as of December 31, 2016, 2015 and 2014, respectively.

7. Reinsurance

Third-party reinsurance

In January 2014, the Company reinsured a flow of multi-year guaranteed annuities of Midland National Life Insurance Company (Midland) and American Equity Investment Life Insurance ("AEL"), on a modified coinsurance basis.

Affiliated reinsurance

The Company continues to reinsure new business related to annuities and funding agreements from Athene Annuity and Life Company (IA) (AAIA) and Athene Annuity & Life Assurance Company (AADE).

8. Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles

Included within *Deferred Acquisition Costs and Deferred Sales Inducements* on the balance sheets of $2,392 million sheets are deferred acquisition costs (DAC) of $990 million, deferred sales inducements (DSI) of $382 million, and day one losses of $1,020 million. The day one losses are summarized separately within the reinsurance intangibles section below.

Deferred Acquisitions Costs and Deferred Sales Inducements

The following summarizes a rollforward of DAC and DSI:

(In millions)	DAC	DSI	Total
Balance at December 31, 2013	$ 201	$ 82	$ 283
Additions	232	91	323
Amortization	(46)	(15)	(61)
Balance at December 31, 2014	387	158	545
Additions	264	111	375
Amortization	15	8	23
Balance at December 31, 2015	666	277	943
Additions	472	158	630
Amortization	(148)	(53)	(201)
Balance at December 31, 2016	$ 990	$ 382	$ 1,372

We did not make any adjustments to DAC or DSI recoverability during the years ended December 31, 2016, 2015, or 2014.

Reinsurance Intangibles

For each block reinsurance transaction, the Company defers the net of the fair value of assets acquired and the sum of reserves acquired, other liabilities acquired, and ceding commission payable or receivable as DAC or unearned revenue reserve (URR) and referred as day one loss and day one gain, respectively.

The following summarizes the day one losses and day one gains included within *Deferred acquisition costs and deferred sales inducements* and *Interest sensitive contract liabilities* respectively on the balance sheets.

(In millions)	Day one gain	Day one loss	Total
Balance at December 31, 2013	$ 963	$ (1,425)	$ (462)
Amortization	(102)	423	321
Balance at December 31, 2014	861	(1,002)	(141)
Amortization	(96)	(83)	(179)
Balance at December 31, 2015	765	(1,085)	(320)
Additions	—	(51)	(51)
Amortization[1]	(102)	116	14
Balance at December 31, 2016	$ 663	$ (1,020)	$ (357)

[1] *2016 day one loss amortization includes $(103) million credit for an out of period adjustment that relates to 2015.*

9. Reserves

Included in *Interest sensitive contract liabilities* are day one gains as of December 31, 2016, December 31, 2015 and December 31, 2014. See *Note 8 - Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles* for a summary of day one gains and losses.

The following table summarizes the interest sensitive contract liability reserves by product:

	December 31,		
(in millions)	2016	2015	2014
Deferred annuities	$ 11,328	$ 8,857	$ 8,989
Fixed indexed annuities	33,672	30,891	30,685
Funding agreements	1,091	1,539	1,318
Single premium immediate annuities and supplemental contracts - non-life contingent	953	923	964
Total	$ 47,044	$ 42,210	$ 41,956

The following table summarizes the future policy benefit reserves by product:

	December 31,		
(in millions)	2016	2015	2014
Deferred annuities	$ 43	$ 23	$ 27
Fixed indexed annuities	1,134	603	624
Single premium immediate annuities and supplemental contracts - life contingent	2,957	3,056	3,162
Total	$ 4,134	$ 3,682	$ 3,813

10. Debt

Refer to *Note 4 - Variable Interest Entities* for disclosures regarding borrowings of the Company's consolidated VIEs.

Revolving Credit Facility—On September 20, 2013, AHL and ALRe entered into a three-year revolving credit agreement (Credit Facility) with Citibank, N.A., as administrative agent. Beginning in 2014, Athene USA was added as a borrower. The amount available under the Credit Facility was $500 million. In connection with the Credit Facility, AHL guaranteed all of the obligations of ALRe and Athene USA, ALRe guaranteed certain of the obligations of AHL and Athene USA, and Athene USA guaranteed the obligations of AHL and ALRe. The agreement contained various standard covenants with which we had to comply.

On January 22, 2016, AHL, Athene USA and ALRe terminated the Credit Facility and entered into a five-year revolving credit agreement with Citibank, N.A., as administrative agent. The amount available under the new Credit Facility is $1 billion, with AHL, ALRe, and Athene USA as joint and several borrowers and guarantors. Interest will accrue on outstanding borrowings at LIBOR plus a margin or a base rate plus a margin, based on the credit rating of AHL. The new Credit Facility has a commitment fee on the unused commitment, based on the credit rating of AHL. As of December 31, 2016, we had no amounts outstanding under the Credit Facility and were in compliance with all covenants.

11. Common Shares

The Company has one class of common stock, which represents 100% of the total voting power of the Company, and is beneficially owned by Athene Holding Ltd. (“AHL”). The Company is authorized to and has issued 1,500,000 shares at a par value of $1.00 each to AHL.

12. Stock-Based Compensation

AHL has adopted share incentive plans to issue non-qualified share options, rights to purchase shares, restricted shares, restricted stock units, and other awards which may be settled in, or based upon, AHL’s common shares. Through its incentive plans, AHL has issued the following three categories of stock-based compensation to the Company’s employees: long-term incentive plan (LTIP) awards, Class M awards and Class A awards. These awards have certain service and performance conditions. As a result, a portion of stock-based compensation expense incurred during the year is allocated to the Company by AHL.

During 2014, AHL adopted amendments to the terms of existing stock-based compensation agreements to conform certain vesting and repurchase terms. Prior to 2014, AHL had the right to repurchase vested shares at the lower of purchase cost or fair value if an employee resigned without good reason, either before an IPO or under other conditions as defined in the original plans. As a result of this repurchase option, the expense associated with vested incentive shares would not be recognized on the income statement until the date on which such shares would have been converted to Class A shares.

Total stock-based compensation expense incurred by the Company was $4 million, $3 million and $14 million for the years ended December 31, 2016, 2015 and 2014 respectively. These amounts are reflected within the policy and other operating expenses on the statements of income and (loss).

13. Accumulated Other Comprehensive Income

The following is a detail of AOCI:

	December 31,		
(In millions)	2016	2015	2014
AFS securities	$ (1)	$ (77)	$ 17
Investment funds	14	—	—
Accumulated other comprehensive income (loss)	$ 13	$ (77)	$ 17

Changes in AOCI are presented below.

	Years ended December 31,		
(In millions)	2016	2015	2014
Unrealized gains (losses) on AFS securities			
Unrealized holding gain (losses) arising during the year	$ 74	$ (84)	$ (12)
Less: Reclassification adjustment for gains (losses) realized in net income[1]	2	(10)	6
Change in unrealized gains (losses) on AFS securities	76	(94)	(6)
Unrealized gains (losses) on investment funds			
Other comprehensive income on equity method investment funds	14	—	—
Change in AOCI	$ 90	$ (94)	$ (6)

[1] *Recognized in net investment income on the statements of income and (loss).*

14. Income Taxes

Under current Bermuda law, we are not required to pay any taxes in Bermuda on either income or capital gains. We have received an undertaking from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2035.

15. Statutory Requirements

ALRe is licensed by the Bermuda Monetary Authority (BMA) as a Class E long term insurer and is subject to the Insurance Act 1978, as amended (Bermuda Insurance Act) and regulations promulgated thereunder. Effective January 1, 2016, in connection with the implementation of its broader regulatory regime, the BMA integrated the Economic Balance Sheet (EBS) framework into the determination of Bermuda Solvency and Capital Requirement (BSCR). The European Commission has granted the BMA's regulatory regime for reinsurance, group solvency calculation and group supervision full equivalence to the European Union's Directive (2009/138/EC, or "Solvency II"). Under this framework a Class E insurer must produce three sets of financial statements:

1. ***GAAP Financial Statements* -** Financial statements prepared in accordance with an internationally recognized comprehensive base of accounting, and for which ALRe has elected to prepare US GAAP financial statements. These financial statements form the basis for the preparation of both the Statutory Financial Statements and the Economic Balance Sheet.

2. ***Statutory Financial Statements (SFS)*** - Equal to the GAAP financial statements adjusted for:
    a. Prudential filters that include a) adjustments to eliminate non-admitted assets including goodwill and other similar intangible assets, not considered admissible for solvency purposes, and b) adjustments to include certain assets and liabilities that are generally off-balance sheet under general purpose reporting. These include items such as guarantees and other instruments that do not relate to the insurer's own insurance contracts.
    b. Directions (aka permitted practices) issued by the BMA.

3. ***Economic Balance Sheet (EBS)*** - A balance sheet where assets are recorded based on GAAP fair values and insurance reserves are based on technical provisions comprised of the sum of a best estimate liability plus a risk margin. The best estimate liability may be calculated by applying the standard approach or the scenario approach. Under the standard approach the discount rate for insurance reserves is a rate prescribed by the BMA. Under the scenario approach the discount rate for insurance reserves is based on the yield on eligible assets owned by the insurer as determined under the worst result of nine prescribed stressed scenarios.

Under the Bermuda Insurance Act, ALRe is required to maintain SFS capital and surplus to meet the Minimum Margin of Solvency (MMS) which is equal to the greater of $8 million or 2% of the first $500 million of SFS assets plus 1.5% of SFS assets above $500 million. As of January 1, 2017 the MMS will also be subject to a floor of 25% of the Enhanced Capital Ratio (ECR).

Under the Bermuda Insurance Act, ALRe is also required to maintain minimum EBS capital and surplus to meet the ECR which is equal to a risk based capital model where risk factor charges are applied to the EBS balance sheet in order to determine the ECR.

The following table presents the ALRE actual and required GAAP, SFS, and EBS capital and surplus and net income amounts as of and for the year ended December 31, 2016.

	Year ended December 31, 2016		
(In millions)	GAAP	SFS	EBS
Actual Capital and Surplus	$ 4,870	$ 6,124	$ 4,411
Required Capital and Surplus [(1)]	N/A	798	1,932
BSCR Ratio [(2)]	N/A	N/A	228%
Net Income (Loss) [(3)]	1,465	460	N/A

(1) Represents the MMS for the SFS and the ECR for EBS. There is not a required capital and surplus amount for the GAAP financial statements.
(2) BSCR ratio for the current binding regulatory solvency constraint of EBS is shown. The BSCR ratio under EBS for December 31, 2016 is not comparable to the BSCR ratio applied to the SFS for years ended December 31, 2015 and prior due to the change in the calculations and addition of the EBS basis to the BMA regime in 2016.
(3) EBS comprises of only a balance sheet.

The BMA has granted ALRe direction in the SFS to utilize amortized cost for the valuation of certain investments instead of fair value as well direction to use U.S. statutory reserving principles for the calculation of insurance reserves instead of US GAAP, subject to the reserves being proven to be adequate based on cash flow testing. The impact on the SFS of these directions is approximately equal to the difference between GAAP and SFS capital and surplus and net income.

To enable the BMA to better assess the quality of the insurer's capital resources, a Class E insurer is required to disclose the makeup of its capital in accordance with the '3-tiered capital system.' Highest quality capital is classified as Tier 1 Capital, lesser quality capital is classified as either Tier 2 Capital or Tier 3 Capital. The Bermuda Insurance Act requires that Class E insurers have Tier 1 Capital equal to or greater than 50% of the value of its ECR and Tier 3 Capital of not more than 17.65% of the aggregate of its Tier 1 Capital and Tier 2 Capital. As of December 31, 2016 all of the eligible capital used by ALRe to meet the MSM and ECR was Tier 1 Capital. ALRe monitors its capital tiers and any

encumbrances on capital when determining capital tiers, including assessing any capital restricted in trusts and funds withheld or modco arrangements.

Under the Bermuda Insurance Act, ALRe is prohibited from paying a dividend in an amount exceeding 25% of the prior year's SFS capital and surplus, unless at least two members of ALRe's board of directors sign and submit to the BMA, an affidavit attesting that a dividend in excess of this amount would not cause ALRe to fail to meet its relevant margins. In certain instances, ALRe would also be required to provide prior notice to the BMA in advance of the payment of dividends. In the event that such an affidavit is submitted to the BMA in accordance with the Bermuda Insurance Act, and further subject to ALRe meeting its MMS and ECR, ALRe is permitted to distribute up to the sum of 100% of SFS surplus and an amount less than 15% of SFS capital. Distributions in excess of this amount require the approval of the BMA. As of December 31, 2016 the binding constraint on the maximum distribution ALRe was permitted to pay AHL without the need for prior approval was the EBS capital and surplus in excess of the ECR and was $2,479.

16. Related Party Transactions

The following summarizes related party balances included on the balance sheets and the statements of income and (loss). The tables below include related party balances not previously disclosed.

	December 31,		
(in millions)	2016	2015	2014
Assets			
Investments			
Available for sale securities, CLOs, at fair value	$ 158	$ 136	$ 60
Trading securities, CLOs, at fair value	83	72	77
Investment funds	378	404	501
Funds withheld at interest[1]	42,920	40,396	42,556
Total investments	43,539	41,008	43,194
Deferred acquisition costs and deferred sales inducements[1]	2,104	1,841	1,388
Other assets[2]	1	3	—
Total related party assets	$ 45,644	$ 42,852	$ 44,582
Liabilities			
Interest sensitive contract liabilities[1]	$ 40,785	$ 39,178	$ 39,891
Future policy benefits[1]	4,022	3,623	3,736
Other policy claims and benefits[1]	14	30	32
Other liabilities[3]	20	34	40
Due to affiliates	3	—	—
Total related party liabilities	$ 44,844	$ 42,865	$ 43,699

(in millions)	Years ended December 31, 2016	2015	2014
Revenue			
Premiums[1]	$ 15	$ 37	$ 15
Product charges[1]	214	186	163
Net investment income[4]	2,907	264	3,535
Benefits and Expenses			
Interest sensitive contract benefits[1]	$ 799	$ 436	$ 1,312
Amortization of deferred sales inducements[1]	47	(9)	18
Future policy and other policy benefits[1]	617	107	644
Amortization of deferred acquisition costs[1]	214	(106)	464
Policy and other operating expenses[5]	283	271	259

[1] *We have intercompany modco reinsurance agreements with our affiliates. See Note 7 - Reinsurance for more information. Accordingly, these balances result from our intercompany reinsurance transactions with our affiliates.*
[2] *Included in other assets are amounts due from affiliate(s).*
[3] *Included in other liabilities are amounts due to affiliate(s).*
[4] *Included in net investment income is the net income earned from the assets supporting the funds withheld at interest of our intercompany modco reinsurance agreements of $3,019 million, $345 million and $3,586 million for the years ended* December 31, 2016, 2015, and 2014 *respectively. Also included in net investment income is the income earned on the assets directly managed by Apollo, net of Apollo's management fee and sub-advise fee, of $(112) million, $(81) million and $(51) million for the years ended* December 31, 2016, 2015, and 2014 *respectively.*
[5] *Included in policy and other operating expenses are policy benefit expenses to our affiliates in relation to the intercompany modco reinsurance agreements for $283 million, $273 million and $259 million for the years ended* December 31, 2016, 2015, and 2014*, respectively. Also included in policy and other operating expenses are cost sharing expenses (recovery) with Apollo for $0 million, $(1) million and $0 million for the years ended* December 31, 2016, 2015, and 2014 *respectively.*

Significant cash flows from related party modco reinsurance are included in cash from operations and are disclosed below, along with non-cash profit settlements in the form of security transfers.

	Years ended December 31, 2016	2015	2014
Cash profit settlements on modified coinsurance agreements - related party	$ 89	$ 102	$ 586
Non-cash profit settlements on modified coinsurance agreements in the form of securities - related party	361	653	249
Total	$ 450	$ 755	$ 835

A summary of significant related party investing cash flows is as follows:

	Years ended December 31, 2016	2015	2014
Cash flow from investing activities			
Sales, maturities, and repayments of:			
Available for sale securities, fixed maturity securities	$ 8	$ —	$ —
Trading securities	20	53	—
Investment funds	59	154	291
Purchases of:			
Available for sale securities, fixed maturity securities	(18)	(47)	(61)
Trading securities	(33)	(52)	(79)
Investment funds	(73)	(121)	(5)

Investment related expenses - Substantially all of our investments are managed by AAM, a subsidiary of AGM. AAM provides direct investment management, asset allocation, mergers and acquisition asset diligence, and certain operational support services for our investment portfolio, including investment compliance, tax, legal, and risk management support. As of December 31, 2016, AAM directly manages $4,042 million of our investment portfolio assets, of which 75% are rated one or two by the NAIC. For certain assets which require specialized sourcing and underwriting capabilities, AAM has chosen to mandate sub-advisors rather than building out in-house capabilities. For the services related to these investments, AAM earns a fee of 0.40% per annum on all assets managed in accounts owned by or related to the Company, including sub-advised assets but excluding certain other limited exceptions. Additionally, A AM recharges the sub-advisory fees to the Company.

Assets supporting funds withheld at interest: The majority of the assets supporting the funds withheld at interest are managed by AAM. See *Note 6 - Funds Withheld at Interest* for more information.

AAM has entered into a Master Sub-Advisory Agreement (MSAA) with certain Apollo affiliates to sub-advise AAM with respect to a portion of our assets, with the fees recharged to us, in addition to the gross fee of 0.40% per annum paid to AAM as described above. The MSAA covers services rendered by Apollo-affiliated sub-advisors relating to investments in certain asset classes, primarily CLO, CMBS, and ABS.

The following represents the assets sub-advised by Apollo affiliates:

	December 31,		
(In millions, except for percentages)	2016	2015	2014
Fixed maturity securities			
U.S. state, municipals, and political subdivisions	$ —	$ —	$ 6
Corporate	131	57	29
CLO	574	475	273
ABS	8	48	28
CMBS	37	38	—
Trading securities	—	—	35
Total assets	$ 750	$ 618	$ 371
Percent of total AAM managed Company assets	16%	15%	17%

The management and sub-advisory fees are included within the net investment income line on the statements of income and (loss). The management fees payable as of December 31, 2016, 2015, and 2014 were $2 million, $14 million and $10 million respectively. The sub-advisory fees payable as of December 31, 2016, 2015, and 2014 were $19 million, $19 million, and $12 million respectively.

Because the Apollo Group has a significant voting interest in AHL, in order to protect against potential conflicts of interest resulting from transactions that we and AHL have entered, and will continue to enter into with the Apollo Group, the AHL board of directors has formed a conflicts committee, consisting of three of its directors (two of whom are also ALRe directors) who are not officers or employees of any member of the Apollo Group. The conflicts committee reviews and a majority of the committee members must approve certain material transactions between AHL and/or its subsidiaries and the Apollo Group, subject to certain exceptions.

Service fees - AHL has entered into shared services agreements with AAM. Under these agreements, we and AAM make available to each other certain personnel and services. Expenses for the services are based on the amount of time spent on the affairs of the other party, in addition to actual expenses incurred and certain cost reimbursements. For the years ended December 31, 2016, 2015, and 2014, net expenses allocated from (to) AAM under these agreements were $0 million, $(1) million, and $0 million, respectively. The Company had no net expenses payable to AAM as of December 31, 2016, 2015, and 2014.

17. Commitments and Contingencies

Contingent Commitments-The Company had commitments to make additional capital contributions to certain investment funds of $116 million, $57 million and $48 million as of December 31, 2016, 2015, and 2014 respectively. The Company expects most of its current commitments will be invested over the next five years; however, these commitments could become due any time upon counterparty request.

Restricted Assets - The total restricted assets included on the balance sheets are as follows:

	December 31,		
(In millions)	2016	2015	2014
Fixed maturity securities - AFS	$ 260	$ 124	$ 143
Short term - AFS	16	—	—
Restricted cash	11	9	24
Total restricted assets	$ 287	$ 133	$ 167

ALRe has established reinsurance trusts of assets equal to statutory reserves, plus an additional amount of assets, as a result of a coinsurance agreement with United American Corporation.

ALRe has established escrow account of assets equal to a portion of statutory reserves, as a result of the modified coinsurance agreement with Midland described in *Note 7 - Reinsurance*.

Litigation, Claims, and Assessments - On June 12, 2015, a putative class action complaint was filed in the United States District Court, Northern District of California against ALRe, AHL, AUSA, AAIA, AAM, and AGM. The complaint, which is similar to complaints previously filed against other large insurance companies, primarily alleges that captive reinsurance and other transactions had the effect of misrepresenting the financial condition of AAIA. The complaint purports to be brought on behalf of a class of purchasers of annuity products issued by AAIA between 2007 and the present. There are also various allegations related to the purchase of Aviva USA and concerning entry into a modco transaction with ALRe in October 2013. The suit asserts claims of violation of the Racketeer Influenced and Corrupt Organizations Act and seeks compensatory damages, trebled, in an amount to be determined, costs, and attorneys' fees. On March 25, 2016, our motion to transfer to the United States District Court, Southern District of Iowa was granted. On May 24, 2016, plaintiff filed an Amended Complaint that removed plaintiff Silva and defendant Aviva plc from the action. Defendants re-filed their motion to dismiss, which is fully briefed. The court, however, stayed consideration of the motion and all discovery pending a ruling from the Eighth Circuit in *Ludwick*. (For background, *Ludwick* is a putative class action against Fidelity & Guaranty Life that involves similar issues and arguments. F&G obtained a dismissal in federal district court, and plaintiffs in the case appealed to the Eighth Circuit. The Eighth Circuit heard oral arguments on the appeal on November 16, 2016, but no decision has been issued). We believe that we have meritorious defenses to the claims set forth in the complaint and intend to vigorously defend the litigation. In light of the inherent uncertainties involved in this matter, reasonably possible losses, if any, cannot be estimated at this time.

18. Subsequent Events

On April 13, 2017, A.M. Best upgraded the Financial Strength Rating of the Company to "A" (Excellent) from "A-" (Excellent) and the Long-Term Issuer Credit Rating (Long-Term ICR) to "a" from "a-". The outlook of these credit ratings has been revised to stable from positive.

The Company has evaluated the impact of subsequent events through April 14, 2017, the date at which the financial statements were available to be issued.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): June 13, 2017

ATHENE HOLDING LTD.

(Exact name of registrant as specified in its charter)

Bermuda	**001-37963**	**98-0630022**
(State or other jurisdiction of incorporation or organization)	(Commission file number)	(I.R.S. Employer Identification Number)

96 Pitts Bay Road
Pembroke, HM08, Bermuda
(Address of principal executive offices and zip code)

(441) 279-8400
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 8.01 Other Events.

As previously disclosed in amendment no. 1 to the registration statement on Form S-1 (File Nos. 333-218163), filed by Athene Holding Ltd. (the "Company") with the U.S. Securities and Exchange Commission on June 5, 2017, the Company has undertaken an initiative to improve controls in its business processes and confirm the accuracy of its data relating to blocks of business acquired from Aviva USA as well as deposits earned since such acquisition. In connection with these efforts, in May 2017, the Company identified an error relating to the impact of certain inputs used to calculate certain actuarial balances, which had the result of misstating the Company's net investment earned rate used in the amortization calculation of deferred acquisition costs and the change in future policy benefits. The impact of this adjustment and other adjustments relating to each individual annual period in 2016, 2015, 2014 and 2013, as well as interim periods in 2017, 2016 and 2015 is immaterial. While the Company's management believes that this issue has been sufficiently mitigated, there is no assurance that the Company's initiative to improve its business processes and controls will not result in the discovery of further errors associated with the blocks of business acquired from Aviva USA and may have an adverse effect on the Company's financial results in the future.

The Company elected to revise its annual financial statements and schedules included in its Annual Report on Form 10-K for the year ended December 31, 2016 to correct immaterial errors identified relating to the periods disclosed therein. Such revised annual financial statements are being filed as Exhibit 99.1 hereto. The Company also elected to revise its quarterly financial statements included in the Quarterly Report on Form 10-Q for the three months ended March 31, 2017 to correct immaterial errors identified relating to the periods disclosed therein. Such revised quarterly financial statements are being filed as Exhibit 99.2 hereto.

Item 9.01 Financial Statements and Exhibits

(d)	**Exhibits**
23.1.1	Consent of PricewaterhouseCoopers LLP regarding Athene Holding Ltd. financial statements.
23.1.2	Consent of PricewaterhouseCoopers Ltd. regarding Athene Holding Ltd. financial statements.
99.1	Revised 2016 Annual Report Sections:
	Part II - Item 8. Financial Statements and Supplementary Data
	Part IV - Item 15. Exhibits and Financial Statement Schedules
99.2	Revised 2017 Quarterly Report Section:
	Part I - Item 1. Financial Statements
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	ATHENE HOLDING LTD.
Date: June 13, 2017	/s/ Martin P. Klein
	Martin P. Klein
	Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

001-37963

(Commission file number)

ATHENE HOLDING LTD.

(Exact name of registrant as specified in its charter)

Bermuda	**98-0630022**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

96 Pitts Bay Road

Pembroke, HM08, Bermuda

(441) 279-8400

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of each class of our common stock outstanding is set forth in the table below, as of September 30, 2017:

Class A common shares	120,108,463	Class M-2 common shares	867,923
Class B common shares	69,544,914	Class M-3 common shares	1,253,000
Class M-1 common shares	3,388,890	Class M-4 common shares	4,793,212

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As used in this Form 10-Q, unless the context otherwise indicates, any reference to "Athene," "our Company," "the Company," "us," "we" and "our" refer to Athene Holding Ltd. together with its consolidated subsidiaries and any reference to "AHL" refers to Athene Holding Ltd. only.

Forward-Looking Statements

Certain statements in this Quarterly Report on Form 10-Q (report), other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results and the assumptions upon which those statements are based, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "anticipate," "estimate," "expect," "project," "plan," "intend," "seek," "assume," "believe," "may," "will," "should," "could," "would," "likely" and other words and terms of similar meaning, including the negative of these or similar words and terms, in connection with any discussion of the timing or nature of future operating or financial performance or other events. However, not all forward-looking statements contain these identifying words. Forward-looking statements appear in a number of places throughout and give our current expectations and projections relating to our financial condition, results of operations, plans, strategies, objectives, future performance, business and other matters.

We caution you that forward-looking statements are not guarantees of future performance and that our actual consolidated results of operations, financial condition and liquidity may differ materially from those made in or suggested by the forward-looking statements contained in this report. There can be no assurance that actual developments will be those anticipated by us. In addition, even if our consolidated results of operations, financial condition and liquidity are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results or conditions to differ materially from those contained or implied by the forward-looking statements, including the risks discussed in *Part II-Item 1A. Risk Factors* included in this report and *Part I-Item 1A. Risk Factors* included in our Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Annual Report). Factors that could cause actual results or conditions to differ from those reflected in the forward-looking statements contained in this report include:

- the accuracy of management's assumptions and estimates;
- variability in the amount of statutory capital that our insurance and reinsurance subsidiaries have or are required to hold;
- interest rate fluctuations;
- our potential need for additional capital in the future and the potential unavailability of such capital to us on favorable terms or at all;
- changes in relationships with important parties in our product distribution network;
- the activities of our competitors and our ability to grow our retail business in a highly competitive environment;
- the impact of general economic conditions on our ability to sell our products and the fair value of our investments;
- our ability to successfully acquire new companies or businesses and/or integrate such acquisitions into our existing framework;
- downgrades, potential downgrades or other negative actions by rating agencies;
- our dependence on key executives and inability to attract qualified personnel, or the potential loss of Bermudian personnel as a result of Bermuda employment restrictions;
- market and credit risks that could diminish the value of our investments;
- foreign currency fluctuations;
- the impact of changes to the creditworthiness of our reinsurance and derivative counterparties;
- changes in consumer perception regarding the desirability of annuities as retirement savings products;
- introduction of the proposed European Union financial transaction tax;
- potential litigation (including class action litigation), enforcement investigations or regulatory scrutiny against us and our subsidiaries, which we may be required to defend against or respond to;
- the impact of new accounting rules or changes to existing accounting rules on our business;
- interruption or other operational failures in telecommunication and information technology and other operating systems, as well as our ability to maintain the security of those systems;
- the termination by Athene Asset Management, L.P. (AAM) or Apollo Asset Management Europe, LLP (AAME) of its investment management or advisory agreements with us and limitations on our ability to terminate such arrangements;
- AAM's or AAME's dependence on key executives and inability to attract qualified personnel;
- increased regulation or scrutiny of alternative investment advisers and certain trading methods;
- potential changes to regulations affecting, among other things, transactions with our affiliates, the ability of our subsidiaries to make dividend payments or distributions to us, acquisitions by or of us, minimum capitalization and statutory reserve requirements for insurance companies and fiduciary obligations on parties who distribute our products;
- suspension or revocation of our subsidiaries' insurance and reinsurance licenses;
- Athene Holding Ltd. (AHL) or Athene Life Re Ltd. (ALRe) becoming subject to U.S. federal income taxation;
- adverse changes in U.S. tax law;
- our being subject to U.S. withholding tax under Foreign Account Tax Compliance Act;
- our potential inability to pay dividends or distributions; and
- other risks and factors listed under *Part II-Item 1A. Risk Factors* included in this report, *Part I-Item 1A. Risk Factors* included in our 2016 Annual Report and elsewhere in this report and in our 2016 Annual Report.

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We caution you that the important factors referenced above may not be exhaustive. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect or anticipate. In light of these risks, you should not place undue reliance upon any forward-looking statements contained in this report. The forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation, except as may be required by law, to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

GLOSSARY OF SELECTED TERMS

Unless otherwise indicated in this report, the following terms have the meanings set forth below:

Athene Holding Ltd. and Related Entities

Term or Acronym	Definition
A-A Mortgage	A-A Mortgage Opportunities, LP
AAA	AP Alternative Assets, L.P.
AAA Investor	AAA Guarantor - Athene, L.P.
AADE	Athene Annuity & Life Assurance Company, formerly known as Liberty Life Insurance Company, the parent insurance company of our U.S. insurance subsidiaries
AAIA	Athene Annuity and Life Company, formerly known as Aviva Life and Annuity Company
AAM	Athene Asset Management, L.P.
AAME	Apollo Asset Management Europe, LLP (together with certain of its affiliates)
ADKG	Athene Deutschland Holding GmbH & Co. KG
AGER	AGER Bermuda Holding Ltd.
AHL	Athene Holding Ltd.
ALIC	Athene Life Insurance Company
ALRe	Athene Life Re Ltd.
ALV	Athene Lebensversicherung AG, formerly known as Delta Lloyd Lebensversicherung AG
AmeriHome	AmeriHome Mortgage Company, LLC
APK	Athene Pensionskasse AG, formerly known as Delta Lloyd Pensionskasse AG
Apollo	Apollo Global Management, LLC
Apollo Group	(1) Apollo, (2) the AAA Investor, (3) any investment fund or other collective investment vehicle whose general partner or managing member is owned, directly or indirectly, by Apollo or one or more of Apollo's subsidiaries, (4) BRH Holdings GP, Ltd. and its shareholders and (5) any affiliate of any of the foregoing (except that AHL and its subsidiaries and employees of AHL, its subsidiaries or AAM are not members of the Apollo Group)
Athene USA	Athene USA Corporation, formerly known as Aviva USA Corporation
CoInvest VI	AAA Investments (Co-Invest VI), L.P.
CoInvest VII	AAA Investments (Co-Invest VII), L.P.
CoInvest Other	AAA Investments (Other), L.P.
DLD	Delta Lloyd Deutschland AG, now known as Athene Deutschland GmbH
German Group Companies	Athene Deutschland GmbH, Athene Deutschland Holding GmbH & Co. KG, Athene Deutschland Verwaltungs GmbH, Athene Lebensversicherung AG and Athene Pensionskasse AG
London Prime	London Prime Apartments Guernsey Holdings Limited
MidCap	MidCap FinCo Limited
NCL LLC	NCL Athene, LLC
Sprint	Apollo Asia Sprint Co-Investment Fund, L.P.

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Certain Terms & Acronyms

Term or Acronym	Definition
ABS	Asset-backed securities
ACL	Authorized control level RBC as defined by the model created by the National Association of Insurance Commissioners
ALM	Asset liability management
AUM	Assets under management
Alternative investments	Alternative investments, including investment funds, CLO equity positions and certain other debt instruments considered to be equity-like
Base of earnings	Earnings generated from our results of operations and the underlying profitability drivers of our business
Bermuda capital	The capital of ALRe calculated under U.S. statutory accounting principles, including that for policyholder reserve liabilities which are subjected to U.S. cash flow testing requirements, but excluding certain items that do not exist under our applicable Bermuda requirements, such as interest maintenance reserves
Block reinsurance	A transaction in which the ceding company cedes all or a portion of a block of previously issued annuity contracts through a reinsurance agreement
BMA	Bermuda Monetary Authority
BSCR	Bermuda Solvency Capital Requirement
CAL	Company action level RBC as defined by the model created by the National Association of Insurance Commissioners
CLO	Collateralized loan obligation
CMBS	Commercial mortgage-backed securities
Capital ratio	Ratios calculated (1) with respect to our U.S. insurance subsidiaries, by reference to RBC, (2) with respect to ALRe, by reference to BSCR, and (3) with respect to our German Group Companies, by reference to SCR
Cost of crediting	The interest credited to the policyholders on our fixed annuities, including, with respect to our FIAs, option costs, presented on an annualized basis for interim periods
DAC	Deferred acquisition costs
Deferred annuities	FIAs, annual reset annuities and MYGAs
DSI	Deferred sales inducement
Excess capital	Capital in excess of the level management believes is needed to support our current operating strategy
FIA	Fixed indexed annuity, which is an insurance contract that earns interest at a crediting rate based on a specified index on a tax-deferred basis
Fixed annuities	FIAs together with fixed rate annuities
Fixed rate annuity	Fixed rate annuity is an insurance contract that offers tax-deferred growth and the opportunity to produce a guaranteed stream of retirement income for the lifetime of its policyholder
Flow reinsurance	A transaction in which the ceding company cedes a portion of newly issued policies to the reinsurer
GLWB	Guaranteed living withdrawal benefits
GMDB	Guaranteed minimum death benefits
IMO	Independent marketing organization
Invested assets	The sum of (a) total investments on the consolidated balance sheet with AFS securities at amortized cost, excluding derivatives, (b) cash and cash equivalents and restricted cash, (c) investments in related parties, (d) accrued investment income, (e) consolidated variable interest entities' assets, liabilities and noncontrolling interest and (f) policy loans ceded (which offset the direct policy loans in total investments). Invested assets also excludes assets associated with funds withheld liabilities related to business exited through reinsurance agreements and derivative collateral (offsetting the related cash positions)
Investment margin	Investment margin applies to deferred annuities and is the excess of our net investment earned rate over the cost of crediting to our policyholders, presented on an annualized basis for interim periods
Liability outflows	The aggregate of withdrawals on our deferred annuities, maturities of our funding agreements and payments on payout annuities
LIMRA	Life Insurance and Market Research Association
MCR	Minimum capital requirements
MMS	Minimum margin of solvency
Modco	Modified coinsurance
MVA	Market value adjustment
MYGA	Multi-year guaranteed annuity

Term or Acronym	Definition
NAIC	National Association of Insurance Commissioners
Net investment earned rate	Income from our invested assets divided by the average invested assets for the relevant period, presented on an annualized basis for interim periods
Other liability costs	Other liability costs include DAC, DSI and VOBA amortization and change in GLWB and GMDB reserves for all products, the cost of liabilities on products other than deferred annuities including offsets for premiums, product charges and other revenues
OTTI	Other-than-temporary impairment
Payout annuities	Annuities with a current cash payment component, which consist primarily of SPIAs, supplemental contracts and structured settlements
PRT	Pension risk transfer
Policy loan	A loan to a policyholder under the terms of, and which is secured by, a policyholder's policy
RBC	Risk-based capital
Reserve liabilities	The sum of (a) interest sensitive contract liabilities, (b) future policy benefits, (c) dividends payable to policyholders, and (d) other policy claims and benefits, offset by reinsurance recoverables, excluding policy loans ceded. Reserve liabilities also includes the reserves related to assumed modco agreements in order to appropriately match the costs incurred in the consolidated statements of income with the liabilities. Reserve liabilities is net of the ceded liabilities to third-party reinsurers as the costs of the liabilities are passed to such reinsurers and therefore we have no net economic exposure to such liabilities, assuming our reinsurance counterparties perform under our agreements
Rider reserves	Guaranteed living withdrawal benefits and guaranteed minimum death benefits reserves
RMBS	Residential mortgage-backed securities
RML	Residential mortgage loan
Sales	All money paid into an individual annuity, including money paid into new contracts with initial purchase occurring in the specified period and existing contracts with initial purchase occurring prior to the specified period (excluding internal transfers)
SPIA	Single premium immediate annuity
Surplus assets	Assets in excess of policyholder obligations, determined in accordance with the applicable domiciliary jurisdiction's statutory accounting principles
TAC	Total adjusted capital as defined by the model created by the NAIC
U.S. RBC Ratio	The CAL RBC ratio for AADE, our parent U.S. insurance company
VIE	Variable interest entity
VOBA	Value of business acquired

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Item 1. Financial Statements

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ATHENE HOLDING LTD.
Condensed Consolidated Balance Sheets *(Unaudited)*

(In millions)	September 30, 2017	December 31, 2016
Assets		
Investments		
Available-for-sale securities, at fair value		
Fixed maturity securities (amortized cost: 2017 - $56,217 and 2016 - $51,110)	$ 58,516	$ 52,033
Equity securities (cost: 2017 - $262 and 2016 - $319)	318	353
Trading securities, at fair value	2,709	2,581
Mortgage loans, net of allowances (portion at fair value: 2017 - $42 and 2016 - $44)	6,445	5,470
Investment funds (portion at fair value: 2017 - $127 and 2016 - $99)	747	689
Policy loans	571	602
Funds withheld at interest (portion at fair value: 2017 - $303 and 2016 - $140)	6,964	6,538
Derivative assets	1,982	1,370
Real estate (portion held for sale: 2017 - $32 and 2016 - $23)	621	542
Short-term investments, at fair value (cost: 2017 - $108 and 2016 - $189)	108	189
Other investments	77	81
Total investments	79,058	70,448
Cash and cash equivalents	3,607	2,445
Restricted cash	100	57
Investments in related parties		
Available-for-sale securities, at fair value		
Fixed maturity securities (amortized cost: 2017 - $404 and 2016 - $341)	409	335
Equity securities (cost: 2017 - $0 and 2016 - $20)	-	20
Trading securities, at fair value	140	195
Investment funds (portion at fair value: 2017 - $27 and 2016 - $0)	1,330	1,198
Short-term investments, at fair value (cost: 2017 - $8 and 2016 - $0)	8	-
Other investments	238	237
Accrued investment income (related party: 2017 - $9 and 2016 - $9)	626	554
Reinsurance recoverable (portion at fair value: 2017 - $1,783 and 2016 - $1,692)	5,768	6,001
Deferred acquisition costs, deferred sales inducements and value of business acquired	2,903	2,940
Current income tax recoverable	29	107
Deferred tax assets	12	372
Other assets	868	869
Assets of consolidated variable interest entities		
Investments		
Available-for-sale securities, at fair value		
Equity securities - related party (cost: 2017 - $121 and 2016 - $143)	173	161
Trading securities, at fair value - related party	195	167
Investment funds (related party: 2017 - $583 and 2016 - $562; portion at fair value: 2017 - $562 and 2016 - $562)	593	573
Cash and cash equivalents	1	14
Other assets	3	6
Total assets	$ 96,061	$ 86,699

(Continued)

See accompanying notes to the unaudited condensed consolidated financial statements

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ATHENE HOLDING LTD.
Condensed Consolidated Balance Sheets *(Unaudited)*

(In millions, except share and per share data)	September 30, 2017	December 31, 2016
Liabilities and Equity		
Liabilities		
Interest sensitive contract liabilities (portion at fair value: 2017 - $8,081 and 2016 - $6,574)	$ 67,024	$ 61,532
Future policy benefits (portion at fair value: 2017 - $2,427 and 2016 - $2,400)	15,687	14,592
Other policy claims and benefits	211	217
Dividends payable to policyholders	1,017	974
Derivative liabilities	92	40
Payables for collateral on derivatives	1,896	1,383
Funds withheld liability (portion at fair value: 2017 - $18 and 2016 - $6)	394	380
Other liabilities (related party: 2017 - $67 and 2016 - $56)	1,024	688
Liabilities of consolidated variable interest entities	47	34
Total liabilities	87,392	79,840
Equity		
Common stock		
Class A - par value $0.001 per share; authorized: 2017 and 2016 - 425,000,000 shares; issued and outstanding: 2017 - 120,108,463 and 2016 - 77,319,381 shares	-	-
Class B - par value $0.001 per share; convertible to Class A; authorized: 2017 and 2016 - 325,000,000 shares; issued and outstanding: 2017 - 69,544,914 and 2016 - 111,805,829 shares	-	-
Class M-1 - par value $0.001 per share; contingently convertible to Class A; authorized: 2017 and 2016 - 7,109,560 shares; issued and outstanding: 2017 - 3,388,890 and 2016 - 3,474,205 shares	-	-
Class M-2 - par value $0.001 per share; contingently convertible to Class A; authorized: 2017 and 2016 - 5,000,000 shares; issued and outstanding: 2017 - 867,923 and 2016 - 1,067,747 shares	-	-
Class M-3 - par value $0.001 per share; contingently convertible to Class A; authorized: 2017 and 2016 - 7,500,000 shares; issued and outstanding: 2017 - 1,253,000 and 2016 - 1,346,300 shares	-	-
Class M-4 - par value $0.001 per share; contingently convertible to Class A; authorized: 2017 and 2016 - 7,500,000 shares; issued and outstanding: 2017 - 4,793,212 and 2016 - 5,397,802 shares	-	-
Additional paid-in capital	3,461	3,421
Retained earnings	4,046	3,070
Accumulated other comprehensive income (related party: 2017 - $56 and 2016 - $12)	1,162	367
Total Athene Holding Ltd. shareholders' equity	8,669	6,858
Noncontrolling interest	-	1
Total equity	8,669	6,859
Total liabilities and equity	$ 96,061	$ 86,699

(Concluded)

See accompanying notes to unaudited condensed consolidated financial statements

ATHENE HOLDING LTD.
Condensed Consolidated Statements of Income *(Unaudited)*

(In millions, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues				
Premiums	$ 72	$ 85	$ 503	$ 205
Product charges	86	71	252	206
Net investment income (related party investment income of $50 and $62 for the three months ended and $179 and $164 for the nine months ended September 30, 2017 and 2016, respectively, and related party investment expense of $81 and $73 for the three months ended and $235 and $226 for the nine months ended September 30, 2017 and 2016, respectively)	820	743	2,427	2,137
Investment related gains (losses) (related party of $(2) and $(2) for the three months ended and $(10) and $(32) for the nine months ended September 30, 2017 and 2016, respectively)	473	380	1,615	523
Other-than-temporary impairment investment losses				
Other-than-temporary impairment losses	(11)	(7)	(23)	(31)
Other-than-temporary impairment losses recognized in other comprehensive income	(2)	1	(2)	4
Net other-than-temporary impairment losses	(13)	(6)	(25)	(27)
Other revenues	8	8	24	25
Revenues of consolidated variable interest entities				
Net investment income (related party of $10 and $0 for the three months ended and $30 and $17 for the nine months ended September 30, 2017 and 2016, respectively)	10	7	30	40
Investment related gains (losses) (related party of $17 and $(11) for the three months ended and $29 and $(48) for the nine months ended September 30, 2017 and 2016, respectively)	17	(16)	29	(70)
Total revenues	1,473	1,272	4,855	3,039
Benefits and Expenses				
Interest sensitive contract benefits	621	491	1,866	1,081
Amortization of deferred sales inducements	13	13	42	19
Future policy and other policy benefits	259	391	1,051	873
Amortization of deferred acquisition costs and value of business acquired	80	120	251	210
Dividends to policyholders	48	35	129	65
Policy and other operating expenses (related party of $4 and $10 for the three months ended and $10 and $18 for the nine months ended September 30, 2017 and 2016, respectively)	158	180	479	447
Operating expenses of consolidated variable interest entities	-	4	-	13
Total benefits and expenses	1,179	1,234	3,818	2,708
Income before income taxes	294	38	1,037	331
Income tax expense (benefit)	20	(88)	53	(73)
Net income	274	126	984	404
Less: Net income attributable to noncontrolling interests	-	-	-	-
Net income available to Athene Holding Ltd. shareholders	$ 274	$ 126	$ 984	$ 404
Earnings per share				
Basic - Classes A, B, M-1, M-2, M-3 and M-4[1]	$ 1.40	$ 0.68	$ 5.05	$ 2.18
Diluted - Class A	1.39	0.68	5.00	2.17
Diluted - Class B	1.40	0.68	5.05	2.18
Diluted - Class M-1[1]	1.40	*N/A*	5.05	*N/A*
Diluted - Class M-2[1]	1.39	*N/A*	3.26	*N/A*
Diluted - Class M-3[1]	1.07	*N/A*	2.27	*N/A*
Diluted - Class M-4[1]	0.79	*N/A*	1.91	*N/A*

N/A - Not applicable

[1] *Basic and diluted earnings per share for Class M-1, M-2, M-3 and M-4 were applicable only for the periods ended September 30, 2017. Refer to Note 9 - Earnings Per Share for further discussion.*

See accompanying notes to the unaudited condensed consolidated financial statements

ATHENE HOLDING LTD.
Condensed Consolidated Statements of Comprehensive Income *(Unaudited)*

(In millions)	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Net income	$ 274	$ 126	$ 984	$ 404
Other comprehensive income, before tax				
Unrealized investment gains (losses) on available-for-sale securities	171	499	1,172	1,705
Noncredit component of other-than-temporary impairment losses on available-for-sale securities	2	(1)	2	(4)
Unrealized gains (losses) on hedging instruments	(31)	(6)	(69)	(13)
Pension adjustments	1	-	-	(1)
Foreign currency translation adjustments	4	1	14	1
Other comprehensive income, before tax	147	493	1,119	1,688
Income tax expense related to other comprehensive income	45	142	324	531
Other comprehensive income, after tax	102	351	795	1,157
Comprehensive income	376	477	1,779	1,561
Less: Comprehensive income attributable to noncontrolling interests	-	-	-	-
Comprehensive income available to Athene Holding Ltd. shareholders	$ 376	$ 477	$ 1,779	$ 1,561

See accompanying notes to the unaudited condensed consolidated financial statements

ATHENE HOLDING LTD.
Condensed Consolidated Statements of Equity *(Unaudited)*

(In millions)	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Athene Holding Ltd. shareholders' equity	Noncontrolling interest	Total equity
Balance at December 31, 2015	$ -	$ 3,281	$ 2,308	$ (237)	$ 5,352	$ 1	$ 5,353
Net income	-	-	404	-	404	-	404
Other comprehensive income	-	-	-	1,157	1,157	-	1,157
Issuance of shares, net of expenses	-	1	-	-	1	-	1
Stock-based compensation	-	135	-	-	135	-	135
Retirement or repurchase of shares	-	(14)	(5)	-	(19)	-	(19)
Balance at September 30, 2016	$ -	$ 3,403	$ 2,707	$ 920	$ 7,030	$ 1	$ 7,031
Balance at December 31, 2016	$ -	$ 3,421	$ 3,070	$ 367	$ 6,858	$ 1	$ 6,859
Net income	-	-	984	-	984	-	984
Other comprehensive income	-	-	-	795	795	-	795
Stock-based compensation	-	40	-	-	40	-	40
Retirement or repurchase of shares	-	-	(8)	-	(8)	-	(8)
Other changes in equity of noncontrolling interests	-	-	-	-	-	(1)	(1)
Balance at September 30, 2017	$ -	$ 3,461	$ 4,046	$ 1,162	$ 8,669	$ -	$ 8,669

See accompanying notes to the unaudited condensed consolidated financial statements

ATHENE HOLDING LTD.
Condensed Consolidated Statements of Cash Flows *(Unaudited)*

	Nine months ended September 30,	
(In millions)	2017	2016
Cash flows from operating activities		
Net income	$ 984	$ 404
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred acquisition costs and value of business acquired	251	210
Amortization of deferred sales inducements	42	19
Amortization (accretion) of net investment premiums, discounts, and other	(141)	(136)
Stock-based compensation	40	61
Net investment income (related party: 2017 - $(66) and 2016 - $(30))	(65)	(4)
Net recognized (gains) losses on investments and derivatives (related party: 2017 - $2 and 2016 - $23)	(1,271)	(226)
Policy acquisition costs deferred	(371)	(449)
Deferred income tax expense (benefit)	50	(45)
Changes in operating assets and liabilities:		
Accrued investment income	(67)	(20)
Interest sensitive contract liabilities	1,655	995
Future policy benefits, other policy claims and benefits, dividends payable to policyholders and reinsurance recoverable	460	222
Current income tax recoverable	78	10
Funds withheld assets and liabilities	(327)	(133)
Other assets and liabilities	51	(21)
Consolidated variable interest entities related:		
Amortization (accretion) of net investment premiums, discounts, and other	-	3
Net investment loss	1	4
Net recognized (gains) losses on investments and derivatives (related party: 2017 - $(29) and 2016 - $48)	(28)	70
Net cash provided by operating activities	1,342	964

(Continued)

See accompanying notes to the unaudited condensed consolidated financial statements

ATHENE HOLDING LTD.
Condensed Consolidated Statements of Cash Flows *(Unaudited)*

	Nine months ended September 30,	
(In millions)	2017	2016
Cash flows from investing activities		
Sales, maturities and repayments of:		
Available-for-sale securities		
Fixed maturity securities (related party: 2017 - $126 and 2016 - $12)	$ 9,199	$ 6,401
Equity securities (related party: 2017 - $22 and 2016 - $0)	530	295
Trading securities (related party: 2017 - $52 and 2016 - $16)	333	557
Mortgage loans	950	615
Investment funds (related party: 2017 - $219 and 2016 - $215)	300	277
Derivative instruments and other invested assets (related party: 2017 - $0 and 2016 - $8)	1,083	226
Real estate	-	7
Short-term investments (related party: 2017 - $28 and 2016 - $55)	289	720
Purchases of:		
Available-for-sale securities		
Fixed maturity securities (related party: 2017 - $(186) and 2016 - $0)	(13,668)	(8,306)
Equity securities (related party: 2017 - $0 and 2016 - $(20))	(426)	(244)
Trading securities (related party: 2017 - $0 and 2016 - $(33))	(308)	(698)
Mortgage loans	(1,925)	(633)
Investment funds (related party: 2017 - $(244) and 2016 - $(258))	(366)	(322)
Derivative instruments and other invested assets	(562)	(447)
Real estate	(19)	(32)
Short-term investments (related party: 2017 - $(37) and 2016 - $0)	(222)	(699)
Consolidated variable interest entities related:		
Sales, maturities, and repayments of investments (related party: 2017 - $40 and 2016 - $15)	40	497
Purchases of investments (related party: 2017 - $(22) and 2016 - $(10))	(22)	(10)
Cash settlement of derivatives	(4)	29
Change in restricted cash	(43)	53
Other investing activities, net	339	32
Net cash used in investing activities	(4,502)	(1,682)

(Continued)

See accompanying notes to the unaudited condensed consolidated financial statements

ATHENE HOLDING LTD.
Condensed Consolidated Statements of Cash Flows *(Unaudited)*

(In millions)	Nine months ended September 30, 2017	2016
Cash flows from financing activities		
Capital contributions	$ -	$ 1
Deposits on investment-type policies and contracts	7,521	4,189
Withdrawals on investment-type policies and contracts	(3,701)	(3,516)
Payments for coinsurance agreements on investment-type contracts, net	(17)	(66)
Consolidated variable interest entities related repayment on borrowings	-	(500)
Net change in cash collateral posted for derivative transactions	513	254
Repurchase of common stock	(8)	(2)
Other financing activities, net	(29)	207
Net cash provided by financing activities	4,279	567
Effect of exchange rate changes on cash and cash equivalents	30	(2)
Net increase (decrease) in cash and cash equivalents	1,149	(153)
Cash and cash equivalents at beginning of year[1]	2,459	2,720
Cash and cash equivalents at end of period[1]	$ 3,608	$ 2,567
Supplementary information		
Non-cash transactions		
Deposits on investment-type policies and contracts through reinsurance agreements	$ 511	$ 3,089
Withdrawals on investment-type policies and contracts through reinsurance agreements	390	281
Investments received from settlements on reinsurance agreements	36	47
Purchase interests in investment funds in kind	26	-

[1] *Includes cash and cash equivalents of consolidated variable interest entities*

(Concluded)

See accompanying notes to the unaudited condensed consolidated financial statements

1. Business, Basis of Presentation and Significant Accounting Policies

Athene Holding Ltd. (AHL), a Bermuda exempted company, together with its subsidiaries (collectively, Athene, we, our, us, or the Company), is a leading retirement services company that issues, reinsures and acquires retirement savings products in all U.S. states, the District of Columbia and Germany.

We conduct business primarily through the following consolidated subsidiaries:

- Athene Life Re Ltd. (ALRe), a Bermuda exempted company to which AHL's other insurance subsidiaries and third party ceding companies directly and indirectly reinsure a portion of their liabilities;
- Athene USA Corporation, an Iowa corporation and its subsidiaries (Athene USA); and
- AGER Bermuda Holding Ltd. and its subsidiaries (AGER), which includes Athene Deutschland GmbH & Co. KG, a German partnership and its subsidiaries (ADKG).

In addition, we consolidate certain variable interest entities (VIEs), for which we determined we are the primary beneficiary, as discussed in *Note 4 - Variable Interest Entities*.

Basis of Presentation-We have prepared the accompanying condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the United States Securities and Exchange Commission's rules and regulations for Form 10-Q and Article 10 of Regulation S-X. The accompanying condensed consolidated financial statements are unaudited and reflect all adjustments, consisting only of normal recurring items except as noted below, considered necessary for fair statement of the periods presented. All significant intercompany accounts and transactions have been eliminated. Interim operating results are not necessarily indicative of the results expected for the entire year.

The condensed consolidated balance sheet as of December 31, 2016 has been derived from the audited financial statements, but does not include all of the information and footnotes required by GAAP for complete financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with our revised audited consolidated financial statements included as Exhibit 99.1 to our Current Report on Form 8-K, filed on June 13, 2017. The preparation of financial statements requires the use of management estimates. Actual results may differ from estimates used in preparing the condensed consolidated financial statements.

During the quarter ended September 30, 2017, we recorded out-of-period adjustments that affected the condensed consolidated statements of income. These adjustments, related to DAC and VOBA amortization and actuarial reserves, increased consolidated income before taxes for the three and nine months ended September 30, 2017 by $13 million and $28 million, respectively. We evaluated these out-of-period adjustments and determined they were not material to the condensed consolidated financial statements for either the three or nine months ended September 30, 2017, or any other previously reported period.

Revisions-As part of our continuing initiative to improve controls in our business processes and confirm the accuracy of our data relating to blocks of businesses acquired from Aviva USA as well as deposits since the acquisition, we identified an error in May 2017 relating to the impact of certain inputs used to calculate certain actuarial balances, which had the result of misstating our net investment earned rate used in the amortization calculation of deferred acquisition costs and the change in future policy benefits. We have revised our condensed consolidated financial statements and notes for the three and nine months ended September 30, 2016 as a result of correcting this error and other immaterial errors. We assessed the materiality of these errors and concluded these errors are not material to the condensed consolidated financial statements as a whole. However, we elected to revise the condensed consolidated financial statements to increase their accuracy, as well as provide consistency and comparability with balances and activities to be reported in future periods.

ATHENE HOLDING LTD.
Notes to Condensed Consolidated Financial Statements *(Unaudited)*

The following is a summary of the revisions on the condensed consolidated statements of income:

	Three months ended September 30, 2016		
(In millions, except per share data)	As Previously Reported	Revisions	As Adjusted
Revenue			
Net investment income	$ 747	$ (4)	$ 743
Total revenues	1,276	(4)	1,272
Benefits and Expenses			
Interest sensitive contract benefits	482	9	491
Amortization of deferred sales inducements	14	(1)	13
Future policy and other policy benefits	377	14	391
Amortization of deferred acquisition costs and value of business acquired	113	7	120
Total benefits and expenses	1,205	29	1,234
Income before income taxes	71	(33)	38
Income tax benefit	(87)	(1)	(88)
Net income	158	(32)	126
Less: Net income attributable to noncontrolling interests	-	-	-
Net income available to Athene Holding Ltd. shareholders	$ 158	$ (32)	$ 126
Earnings per share on Class A and B shares			
Basic	$ 0.85	$ (0.17)	$ 0.68
Diluted	0.85	(0.17)	0.68

	Nine months ended September 30, 2016		
(In millions, except per share data)	As Previously Reported	Revisions	As Adjusted
Revenue			
Net investment income	$ 2,143	$ (6)	$ 2,137
Total revenues	3,045	(6)	3,039
Benefits and Expenses			
Interest sensitive contract benefits	1,068	13	1,081
Amortization of deferred sales inducements	20	(1)	19
Future policy and other policy benefits	862	11	873
Amortization of deferred acquisition costs and value of business acquired	203	7	210
Total benefits and expenses	2,678	30	2,708
Income before income taxes	367	(36)	331
Income tax benefit	(70)	(3)	(73)
Net income	437	(33)	404
Less: Net income attributable to noncontrolling interests	-	-	-
Net income available to Athene Holding Ltd. shareholders	$ 437	$ (33)	$ 404
Earnings per share on Class A and B shares			
Basic - Classes A and B	$ 2.35	$ (0.17)	$ 2.18
Diluted - Class A	2.35	(0.18)	2.17
Diluted - Class B	2.35	(0.17)	2.18

We revised the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2016 and the condensed consolidated statement of equity for the nine months ended September 30, 2016 only for the changes to net income presented above.

ATHENE HOLDING LTD.
Notes to Condensed Consolidated Financial Statements *(Unaudited)*

The following is a summary of the revisions to the condensed consolidated statement of cash flows:

	Nine months ended September 30, 2016		
(In millions)	As Previously Reported	Revisions	As Adjusted
Cash flows from operating activities			
Net income	$ 437	$ (33)	$ 404
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred acquisition costs and value of business acquired	203	7	210
Amortization of deferred sales inducements	20	(1)	19
Deferred income tax benefit	(42)	(3)	(45)
Changes in operating assets and liabilities:			
Interest sensitive contract liabilities	982	13	995
Future policy benefits, other policy claims and benefits, dividends payable to policyholders and reinsurance recoverable	211	11	222
Other assets and liabilities	(23)	2	(21)
Net cash provided by operating activities	968	(4)	964
Cash flows from investing activities			
Other investing activities, net	28	4	32
Net cash used in investing activities	(1,686)	4	(1,682)
Cash flows from financing activities			
Other financing activities, net	200	7	207
Net cash provided by financing activities	560	7	567
Effect of exchange rate changes on cash and cash equivalents	(2)	-	(2)
Net decrease in cash and cash equivalents	(160)	7	(153)
Cash and cash equivalents at beginning of year[1]	2,720	-	2,720
Cash and cash equivalents at end of period[1]	$ 2,560	$ 7	$ 2,567

[1] *Includes cash and cash equivalents of consolidated variable interest entities*

Adopted Accounting Pronouncements

Stock Compensation - Scope of Modification Accounting (ASU 2017-09)
The amendments in this update clarify and simplify when to apply modification accounting for a change to the terms or conditions of a share-based payment award. These amendments are required to be adopted prospectively to awards modified after the date of adoption. The amendments are effective January 1, 2018. Early adoption is permitted and we have elected to early adopt effective April 1, 2017. The adoption did not have an impact on our consolidated financial statements.

Receivables - Nonrefundable Fees and Other Costs (ASU 2017-08)
The amendments in this update shorten the amortization period for certain callable debt securities held at a premium to the earliest call date. These amendments are required to be adopted on a modified retrospective basis effective January 1, 2019. Early adoption is permitted and we have elected to early adopt effective January 1, 2017. The adoption did not have a material impact on our consolidated financial statements.

Business Combinations - Clarifying the Definition of a Business (ASU 2017-01)
The amendments in this update clarify the definition of a business with the objective of assisting entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. These amendments are required to be adopted prospectively to any transactions after the date of adoption. The amendments are effective January 1, 2018. Early adoption is permitted and we have elected to early adopt effective April 1, 2017. The adoption did not have an impact on our consolidated financial statements.

Consolidation - Interest Held through Related Parties under Common Control (ASU 2016-17)
This update amends the consolidation guidance to change how indirect interests in VIEs are evaluated by a reporting entity when determining whether or not it is the primary beneficiary of that VIE. The primary beneficiary of a VIE is the reporting entity that has a controlling financial interest in a VIE and, therefore, consolidates the VIE. A reporting entity has an indirect interest in a VIE if it has a direct interest in a related party that, in turn, has a direct interest in the VIE. Previously, if a single decision maker and its related parties were under common control, the single decision maker was required to consider indirect interests held through related parties to be the equivalent of direct interests in their entirety. The amendments change the evaluation of indirect interests to be considered on a proportionate basis. We adopted this standard effective January 1, 2017, and the adoption did not have a material effect on our consolidated financial statements.

Improvements to Employee Share-Based Payment Accounting (ASU 2016-09)
This update simplifies several aspects of the accounting for share-based payment award transactions, including income tax consequences, forfeitures and classification on the statement of cash flows. The standard requires entities to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. We have elected to account for forfeitures when they occur. We adopted this standard effective January 1, 2017, and the adoption did not have a material effect on our consolidated financial statements.

Equity Method and Joint Ventures (ASU 2016-07)
This update eliminates the retroactive adjustments to an investment upon it qualifying for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence by the investor. We adopted this standard effective January 1, 2017, and the adoption did not have a material effect on our consolidated financial statements.

Derivatives and Hedging - Contingent Put and Call Options (ASU 2016-06)
This update is intended to clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to debt hosts. We adopted this standard effective January 1, 2017, and the adoption did not have a material effect on our consolidated financial statements.

Derivatives and Hedging - Effects of Derivative Contract Novation (ASU 2016-05)
This update is intended to clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require a de-designation of that hedging relationship provided all other hedge accounting criteria continue to be met. We adopted this standard effective January 1, 2017, and the adoption did not have a material effect on our consolidated financial statements.

Recently Issued Accounting Pronouncements

Derivatives and Hedging - Targeted Improvements (ASU 2017-12)
The amendments in this update contain improvements to the financial reporting of hedging relationships that more closely reflect the economic results of an entity's risk management activities in its financial statements. Additionally, the amendments in this update make certain targeted improvements to simplify the application of hedge accounting. We will be required to adopt this standard effective January 1, 2019. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Gains and Losses from the Derecognition of Nonfinancial Assets (ASU 2017-05)
The amendments in this update clarify the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets. We will be required to adopt this standard on a retrospective or modified retrospective basis effective January 1, 2018. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Intangibles - Simplifying the Test for Goodwill Impairment (ASU 2017-04)
The amendments in this update simplify the subsequent measurement of goodwill by eliminating the comparison of the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill to determine the goodwill impairment loss. With the adoption of this guidance, a goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of the goodwill allocated to that reporting unit. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. We will be required to adopt this standard prospectively effective January 1, 2020. Early adoption is permitted. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Revenue Recognition (ASU 2016-20, ASU 2016-12, ASU 2016-11, ASU 2016-10, ASU 2016-08, ASU 2015-14 and ASU 2014-09)
ASU 2014-09 indicates an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 provided for a one-year deferral of the effective date, which will require us to adopt this standard effective January 1, 2018. ASU 2016-08 amends the principal-versus-agent implementation guidance and illustrations in ASU 2014-09. ASU 2016-10 clarifies the identification of performance obligations as well as licensing implementation guidance. ASU 2016-11 brings existing Securities and Exchange Commission (SEC) guidance into conformity with revenue recognition accounting guidance of ASU 2014-09 discussed above. ASU 2016-12 provides clarification on assessing collectability, presentation of sales tax, non-cash consideration and transition. ASU 2016-20 addresses necessary technical corrections and improvements to clarify codification amended by ASU 2014-09 within Topic 606. The revenue recognition updates replace all general and most industry-specific revenue recognition guidance, excluding insurance contracts, leases, financial instruments and guarantees, which have been scoped out of the update. Since the guidance does not apply to revenue on contracts accounted for under the financial instruments or insurance contracts standards, only a portion of our revenues are impacted by this guidance. Our remaining implementation efforts are focused on less than 0.3% of our revenues and our transition approach. We do not currently expect the adoption of this update to have a material impact on our consolidated financial statements.

Statement of Cash Flows - Restricted Cash (ASU 2016-18)
This update requires amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the consolidated statements of cash flows. We will be required to adopt this standard retrospectively for each period presented effective January 1, 2018. Early adoption is permitted. The adoption of this update will require us to change the presentation on the consolidated statements of cash flows for restricted cash or restricted cash equivalents; however, we do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Income Taxes - Intra-Entity Transfers (ASU 2016-16)
This update requires the immediate recognition of current and deferred income tax effects of intra-entity transfers of assets, other than inventory. Currently, recognition of the income tax consequence is not recognized until the asset is sold to an outside party. We will be required to adopt this standard on a modified retrospective basis effective January 1, 2018. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Statement of Cash Flows (ASU 2016-15)
This update provides specific guidance to clarify how entities should classify certain cash receipts and cash payments on the statement of cash flows. The update also clarifies the application of the predominance principle when cash receipts and cash payments have aspects of more than one class of cash flows. We will be required to adopt this standard effective January 1, 2018. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Financial Instruments - Credit Losses (ASU 2016-13)
This update is designed to reduce complexity by limiting the number of credit impairment models used for different assets. The model will result in accelerated credit loss recognition on assets held at amortized cost, which includes our commercial and residential mortgage investments. The identification of credit-deteriorated securities will include all assets that have experienced a more-than-insignificant deterioration in credit since origination. Additionally, any changes in the expected cash flows of credit-deteriorated securities will be recognized immediately in the income statement. Available-for-sale (AFS) fixed maturity securities are not in scope of the new credit loss model, but will undergo targeted improvements to the current reporting model including the establishment of a valuation allowance for credit losses versus the current direct write down approach. We will be required to adopt this standard effective January 1, 2020. Early adoption is permitted effective January 1, 2019. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Leases (ASU 2016-02)
This update is intended to increase transparency and comparability for lease transactions. A lessee is required to recognize an asset and a liability for all lease arrangements longer than 12 months. Lessor accounting is largely unchanged. We will be required to adopt this standard on a modified retrospective basis effective January 1, 2019. Early adoption is permitted. Our implementation efforts are primarily focused on the review of existing lease contracts and assessing the impact of this guidance on our consolidated financial statements.

Financial Instruments - Recognition and Measurement (ASU 2016-01)
This update changes the current accounting for certain equity investments, the presentation of changes in the fair value of liabilities measured under the fair value option due to instrument-specific credit risk, and certain disclosures. For liabilities measured under the fair value option, changes in fair value attributable to instrument-specific credit risk will no longer affect net income, but will be recognized separately in OCI. Additionally, this update requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. We currently recognize changes in fair value related to AFS equity securities in accumulated other comprehensive income (AOCI) on the consolidated balance sheets. We will be required to adopt this standard with a cumulative-effect adjustment to beginning retained earnings effective January 1, 2018. Refer to *Note 2 - Investments* for further information on the unrealized gains and losses of our AFS equity securities. We are currently evaluating the impact of this guidance on our consolidated financial statements.

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2. Investments

Available-for-sale Securities-Our AFS investment portfolio includes bonds, collateralized loan obligations (CLO), asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), redeemable preferred stock, and equity securities. Additionally, it includes direct investments in affiliates of Apollo Global Management, LLC (AGM and, together with its subsidiaries, Apollo) where Apollo can exercise significant influence over the affiliates. These investments are presented as investments in related parties on the condensed consolidated balance sheets and separately disclosed below.

The following table represents the cost or amortized cost, gross unrealized gains and losses, fair value and other-than-temporary impairments (OTTI) in AOCI of our AFS investments by asset type:

	September 30, 2017				
(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 59	$ 1	$ (2)	$ 58	$ -
U.S. state, municipal and political subdivisions	993	153	(1)	1,145	-
Foreign governments	2,515	90	(16)	2,589	-
Corporate	33,115	1,520	(177)	34,458	1
CLO	4,963	47	(14)	4,996	-
ABS	3,885	57	(42)	3,900	1
CMBS	1,849	54	(13)	1,890	1
RMBS	8,838	650	(8)	9,480	12
Total fixed maturity securities	56,217	2,572	(273)	58,516	15
Equity securities	262	57	(1)	318	-
Total AFS securities	56,479	2,629	(274)	58,834	15
Fixed maturity securities - related party					
CLO	352	4	-	356	-
ABS	52	1	-	53	-
Total fixed maturity securities - related party	404	5	-	409	-
Total AFS securities including related party	$ 56,883	$ 2,634	$ (274)	$ 59,243	$ 15

	December 31, 2016				
(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 59	$ 1	$ -	$ 60	$ -
U.S. state, municipal and political subdivisions	1,024	117	(1)	1,140	-
Foreign governments	2,098	143	(6)	2,235	-
Corporate	29,433	901	(314)	30,020	2
CLO	4,950	14	(142)	4,822	-
ABS	2,980	25	(69)	2,936	-
CMBS	1,835	38	(26)	1,847	-
RMBS	8,731	313	(71)	8,973	15
Total fixed maturity securities	51,110	1,552	(629)	52,033	17
Equity securities	319	35	(1)	353	-
Total AFS securities	51,429	1,587	(630)	52,386	17
Fixed maturity securities - related party					
CLO	284	1	(6)	279	-
ABS	57	-	(1)	56	-
Total fixed maturity securities - related party	341	1	(7)	335	-
Equity securities - related party	20	-	-	20	-
Total AFS securities - related party	361	1	(7)	355	-
Total AFS securities including related party	$ 51,790	$ 1,588	$ (637)	$ 52,741	$ 17

The amortized cost and fair value of fixed maturity AFS securities, including related party, are shown by contractual maturity below:

	September 30, 2017	
(In millions)	Amortized Cost	Fair Value
Due in one year or less	$ 984	$ 988
Due after one year through five years	8,048	8,246
Due after five years through ten years	11,218	11,605
Due after ten years	16,432	17,411
CLO, ABS, CMBS and RMBS	19,535	20,266
Total AFS fixed maturity securities	56,217	58,516
Fixed maturity securities - related party, CLO and ABS	404	409
Total AFS fixed maturity securities including related party	$ 56,621	$ 58,925

Actual maturities can differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Unrealized Losses on AFS Securities-The following summarizes the fair value and gross unrealized losses for AFS securities, including related party, aggregated by class of security and length of time the fair value has remained below cost or amortized cost:

	September 30, 2017					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. government and agencies	$ 17	$ (1)	$ 6	$ (1)	$ 23	$ (2)
U.S. state, municipal and political subdivisions	81	(1)	3	-	84	(1)
Foreign governments	822	(16)	25	-	847	(16)
Corporate	4,127	(90)	1,465	(87)	5,592	(177)
CLO	303	(1)	671	(13)	974	(14)
ABS	541	(4)	573	(38)	1,114	(42)
CMBS	345	(6)	169	(7)	514	(13)
RMBS	393	(5)	166	(3)	559	(8)
Total fixed maturity securities	6,629	(124)	3,078	(149)	9,707	(273)
Equity securities	72	(1)	-	-	72	(1)
Total AFS securities	6,701	(125)	3,078	(149)	9,779	(274)
Fixed maturity securities, CLO - related party	61	-	-	-	61	-
Total AFS securities including related party	$ 6,762	$ (125)	$ 3,078	$ (149)	$ 9,840	$ (274)

	December 31, 2016					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. government and agencies	$ 1	$ -	$ -	$ -	$ 1	$ -
U.S. state, municipal and political subdivisions	85	(1)	2	-	87	(1)
Foreign governments	137	(5)	9	(1)	146	(6)
Corporate	6,136	(228)	1,113	(86)	7,249	(314)
CLO	388	(2)	3,102	(140)	3,490	(142)
ABS	865	(17)	767	(52)	1,632	(69)
CMBS	576	(18)	183	(8)	759	(26)
RMBS	1,143	(19)	1,727	(52)	2,870	(71)
Total fixed maturity securities	9,331	(290)	6,903	(339)	16,234	(629)
Equity securities	179	(1)	-	-	179	(1)
Total AFS securities	9,510	(291)	6,903	(339)	16,413	(630)
Fixed maturity securities - related party						
CLO	68	-	100	(6)	168	(6)
ABS	-	-	56	(1)	56	(1)
Total fixed maturity securities - related party	68	-	156	(7)	224	(7)
Equity securities - related party	14	-	-	-	14	-
Total AFS securities - related party	82	-	156	(7)	238	(7)
Total AFS securities including related party	$ 9,592	$ (291)	$ 7,059	$ (346)	$ 16,651	$ (637)

As of September 30, 2017, we held 1,413 AFS securities that were in an unrealized loss position. Of this total, 432 were in an unrealized loss position longer than 12 months. As of September 30, 2017, we held one related party AFS security that was in an unrealized loss position less than 12 months. The unrealized losses on AFS securities can primarily be attributed to changes in market interest rates since acquisition. We did not recognize the unrealized losses in income as we intend to hold these securities and it is not more likely than not we will be required to sell a security before the recovery of its amortized cost.

Other-Than-Temporary Impairments-For the nine months ended September 30, 2017, we incurred $25 million of net OTTI, of which $6 million related to intent-to-sell impairments. These securities were impaired to fair value as of the impairment date. The remaining net OTTI of $19 million related to credit impairments, of which $9 million related to credit loss impairments that we impaired to fair value and did not bifurcate a portion of the impairment in AOCI. Any credit loss impairments not bifurcated in AOCI are excluded from the rollforward below.

The following table represents a rollforward of the cumulative amounts recognized on the condensed consolidated statements of income for OTTI related to pre-tax credit loss impairments on AFS fixed maturity securities, for which a portion of the securities' total OTTI was recognized in AOCI:

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	2017	2016	2017	2016
Beginning balance	$ 16	$ 32	$ 16	$ 22
Initial impairments - credit loss OTTI recognized on securities not previously impaired	4	-	10	8
Additional impairments - credit loss OTTI recognized on securities previously impaired	-	1	-	3
Reduction in impairments from securities sold, matured or repaid	(2)	(9)	(8)	(9)
Reduction for credit loss that no longer has a portion of the OTTI loss recognized in AOCI	(6)	-	(6)	-
Ending balance	$ 12	$ 24	$ 12	$ 24

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Net Investment Income-Net investment income by asset class consists of the following:

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	2017	2016	2017	2016
AFS securities				
Fixed maturity securities	$ 646	$ 563	$ 1,901	$ 1,703
Equity securities	3	2	7	6
Trading securities	50	59	154	184
Mortgage loans, net of allowances	98	93	273	264
Investment funds	55	65	175	122
Funds withheld at interest	35	22	105	47
Other	18	14	56	43
Investment revenue	905	818	2,671	2,369
Investment expenses	(85)	(75)	(244)	(232)
Net investment income	$ 820	$ 743	$ 2,427	$ 2,137

Investment Related Gains (Losses)-Investment related gains (losses) by asset class consists of the following:

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	2017	2016	2017	2016
AFS fixed maturity securities				
Gross realized gains on investment activity	$ 31	$ 31	$ 94	$ 102
Gross realized losses on investment activity	(10)	(9)	(31)	(51)
Net realized investment gains on fixed maturity securities	21	22	63	51
Net realized investment gains (losses) on trading securities	(1)	28	45	93
Derivative gains	456	336	1,516	387
Other losses	(3)	(6)	(9)	(8)
Investment related gains (losses)	$ 473	$ 380	$ 1,615	$ 523

Proceeds from sales of AFS securities were $1,863 million and $972 million for the three months ended September 30, 2017 and 2016, respectively, and $4,629 million and $3,202 million for the nine months ended September 30, 2017 and 2016, respectively.

The change in unrealized gains and losses on trading securities we still held as of the respective period end resulted in unrealized gains of $18 million and $37 million during the three months ended September 30, 2017 and 2016, respectively, and unrealized gains of $90 million and $143 million during the nine months ended September 30, 2017 and 2016, respectively, which are included in net realized investment gains (losses) on trading securities in the table above. The change in unrealized gains and losses on related party trading securities we still held as of the respective period end resulted in related party unrealized gains of $2 million and $0 million during the three months ended September 30, 2017 and 2016, respectively, and related party unrealized gains of $2 million and losses of $23 million during the nine months ended September 30, 2017 and 2016, respectively, which are included in net realized investment gains (losses) on trading securities in the table above.

Purchased Credit Impaired (PCI) Investments-The following table summarizes our PCI investments:

	Fixed maturity securities		Mortgage loans	
(In millions)	September 30, 2017	December 31, 2016[3]	September 30, 2017	December 31, 2016
Contractually required payments[1]	$ 11,477	$ 11,202	$ 1,544	$ 424
Less: Cash flows expected to be collected[2]	(8,247)	(7,948)	(1,066)	(286)
Non-accretable difference	$ 3,230	$ 3,254	$ 478	$ 138
Cash flows expected to be collected[2]	$ 8,247	$ 7,948	$ 1,066	$ 286
Less: Amortized cost	(6,175)	(5,868)	(802)	(220)
Accretable difference	$ 2,072	$ 2,080	$ 264	$ 66
Fair value	$ 6,699	$ 6,049	$ 831	$ 221

[1] *Includes principal and accrued interest.*

[2] *Represents the undiscounted principal and interest cash flows expected.*

[3] *Prior period balances have been revised for immaterial misstatements to be comparable to current year balances.*

During the period, we acquired PCI investments with the following amounts at the time of purchase:

	Nine months ended September 30, 2017	
(In millions)	Fixed maturity securities	Mortgage loans
Contractually required principal and interest	$ 2,230	$ 1,194
Expected cash flows	1,502	835
Estimated fair value	1,131	609

The following table summarizes the activity for the accretable yield on PCI investments:

	Three months ended September 30, 2017		Nine months ended September 30, 2017	
(In millions)	Fixed maturity securities[1]	Mortgage loans	Fixed maturity securities[1]	Mortgage loans
Beginning balance	$ 2,098	$ 259	$ 2,080	$ 66
Purchases of PCI investments, net of sales	53	25	289	223
Accretion	(41)	(1)	(138)	(1)
Changes in expected cash flows	(38)	(19)	(159)	(24)
Ending balance	$ 2,072	$ 264	$ 2,072	$ 264

[1] *Prior period beginning balances have been revised for immaterial misstatements to be comparable to current year balances.*

Mortgage Loans-Mortgage loans, net of allowances, consists of the following:

(In millions)	September 30, 2017	December 31, 2016
Commercial mortgage loans	$ 5,503	$ 5,058
Commercial mortgage loans under development	-	74
Total commercial mortgage loans	5,503	5,132
Residential mortgage loans	942	338
Mortgage loans, net of allowances	$ 6,445	$ 5,470

We primarily invest in commercial mortgage loans on income producing properties including hotels, industrial properties and retail and office buildings. We diversify the commercial mortgage loan portfolio by geographic region and property type to reduce concentration risk. We evaluate mortgage loans based on relevant current information to confirm if properties are performing at a consistent and acceptable level to secure the related debt.

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The distribution of commercial mortgage loans, including those under development, net of valuation allowances, by property type and geographic region, is as follows:

	September 30, 2017		December 31, 2016	
(In millions, except for percentages)	Net Carrying Value	Percentage of Total	Net Carrying Value	Percentage of Total
Property type				
Office building	$ 1,340	24.4%	$ 1,217	23.7%
Retail	1,130	20.5%	1,135	22.1%
Hotels	1,108	20.1%	1,025	20.0%
Industrial	940	17.1%	742	14.5%
Apartment	580	10.5%	616	12.0%
Other commercial	405	7.4%	397	7.7%
Total commercial mortgage loans	$ 5,503	100.0%	$ 5,132	100.0%
U.S. Region				
East North Central	$ 553	10.0%	$ 450	8.8%
East South Central	146	2.7%	158	3.1%
Middle Atlantic	915	16.6%	628	12.2%
Mountain	599	10.9%	543	10.6%
New England	163	3.0%	194	3.8%
Pacific	1,075	19.5%	833	16.2%
South Atlantic	1,053	19.1%	1,284	25.0%
West North Central	278	5.1%	306	6.0%
West South Central	635	11.5%	662	12.9%
Total U.S. Region	5,417	98.4%	5,058	98.6%
International Region	86	1.6%	74	1.4%
Total commercial mortgage loans	$ 5,503	100.0%	$ 5,132	100.0%

Our residential mortgage loan portfolio includes first lien residential mortgage loans collateralized by properties located in the U.S. As of September 30, 2017, California, Florida and New York represented 33.3%, 15.6% and 6.2%, respectively, of the portfolio, and the remaining 44.9% represented all other states, with each individual state comprising less than 5% of the portfolio. As of December 31, 2016, California, Florida and New York represented 38.9%, 9.1% and 5.1%, respectively, of the portfolio, and the remaining 46.9% represented all other states, with each individual state comprising less than 5% of the portfolio.

Mortgage Loan Valuation Allowance-The assessment of mortgage loan impairments and valuation allowances is substantially the same for residential and commercial mortgage loans. The valuation allowance was $2 million as of September 30, 2017 and December 31, 2016. We did not record any material activity in the valuation allowance during the three or nine months ended September 30, 2017 or 2016.

Residential mortgage loans - The primary credit quality indicator of residential mortgage loans is loan performance. Nonperforming residential mortgage loans are 90 days or more past due and/or are in non-accrual status. As of September 30, 2017, $16 million of our residential mortgage loans were non-performing. As of December 31, 2016, all of our residential mortgage loans were performing.

Commercial mortgage loans - The following provides the aging of our commercial mortgage loan portfolio, including those under development, net of valuation allowances:

(In millions)	September 30, 2017	December 31, 2016
Current (less than 30 days past due)	$ 5,497	$ 5,111
Over 90 days past due	6	21
Total commercial mortgage loans	$ 5,503	$ 5,132

Loan-to-value and debt service coverage ratios are measures we use to assess the risk and quality of commercial mortgage loans other than those under development. Loans under development are not evaluated using these ratios as the properties underlying these loans are generally not yet income-producing and the value of the underlying property significantly fluctuates based on the progress of construction. Therefore, the risk and quality of loans under development are evaluated based on the aging and geographical distribution of such loans as shown above.

The loan-to-value ratio is expressed as a percentage of the amount of the loan relative to the value of the underlying property. A loan-to-value ratio in excess of 100% indicates the unpaid loan amount exceeds the underlying collateral. The following represents the loan-to-value ratio of the commercial mortgage loan portfolio, excluding those under development, net of valuation allowances:

(In millions)	September 30, 2017	December 31, 2016
Less than 50%	$ 1,836	$ 1,787
50% to 60%	1,353	1,337
61% to 70%	1,902	1,401
71% to 100%	402	492
Greater than 100%	10	41
Commercial mortgage loans	$ 5,503	$ 5,058

The debt service coverage ratio, based upon the most recent financial statements, is expressed as a percentage of a property's net operating income to its debt service payments. A debt service ratio of less than 1.0 indicates a property's operations do not generate enough income to cover debt payments. The following represents the debt service coverage ratio of the commercial mortgage loan portfolio, excluding those under development, net of valuation allowances:

(In millions)	September 30, 2017	December 31, 2016
Greater than 1.20x	$ 4,992	$ 4,378
1.00x - 1.20x	233	353
Less than 1.00x	278	327
Commercial mortgage loans	$ 5,503	$ 5,058

Investment Funds-Our investment fund portfolio consists of funds that employ various strategies and include investments in real estate and other real assets, credit, private equity, natural resources and hedge funds. Investment funds typically meet the definition of variable interest entities and are discussed further in *Note 4 - Variable Interest Entities*.

3. Derivative Instruments

We use a variety of derivative instruments to manage risks, primarily equity, interest rate, credit, foreign currency and market volatility. See *Note 5 - Fair Value* for information about the fair value hierarchy for derivatives.

The following table presents the notional amount and fair value of derivative instruments:

	September 30, 2017			December 31, 2016		
	Notional	Fair Value		Notional	Fair Value	
(In millions)	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Derivatives designated as hedges						
Foreign currency swaps	648	$ 1	$ 63	289	$ 11	$ 4
Interest rate swaps	302	-	-	302	-	14
Total derivatives designated as hedges		1	63		11	18
Derivatives not designated as hedges						
Equity options	30,323	1,957	10	26,822	1,336	-
Futures	19	8	1	-	9	-
Total return swaps	114	2	-	41	2	-
Foreign currency swaps	41	3	3	43	5	-
Interest rate swaps	406	-	2	568	1	5
Credit default swaps	10	-	6	10	-	7
Foreign currency forwards	1,096	11	7	805	6	10
Embedded derivatives						
Funds withheld	-	303	18	-	140	6
Interest sensitive contract liabilities	-	-	6,652	-	-	5,283
Total derivatives not designated as hedges		2,284	6,699		1,499	5,311
Total derivatives		$ 2,285	$ 6,762		$ 1,510	$ 5,329

Derivatives Designated as Hedges

Foreign currency swaps - We use foreign currency swaps to convert foreign currency denominated cash flows of an investment to U.S. dollars to reduce cash flow fluctuations due to changes in currency exchange rates. Certain of these swaps are designated and accounted for as cash flow hedges, which will expire by June 2044. During the three months ended September 30, 2017 and 2016, we had foreign currency swap losses of $31 million and $6 million, respectively, recorded in AOCI. During the nine months ended September 30, 2017 and 2016, we had foreign currency swap losses of $69 million and $13 million, respectively, recorded in AOCI. There were no amounts reclassified to income and no amounts deemed ineffective for the three and nine months ended September 30, 2017 and 2016. As of September 30, 2017, no amounts are expected to be reclassified to income within the next 12 months.

Interest rate swaps - We use interest rate swaps to reduce market risks from interest rate changes and to alter interest rate exposure arising from duration mismatches between assets and liabilities. Certain of these swaps entered into during the fourth quarter of 2016 are designated as fair value hedges. With an interest rate swap, we agree with another party to exchange the difference between fixed-rate and floating-rate interest amounts tied to an agreed-upon notional principal amount at specified intervals.

The following table represents the gains and losses on derivatives and the related hedged items in fair value hedge relationships, recorded in interest sensitive contract benefits on the condensed consolidated statements of income:

(In millions)	Three months ended September 30, 2017	Nine months ended September 30, 2017
Gains recognized on derivative	$ 2	$ 4
Losses recognized on hedged item	(3)	(4)
Ineffectiveness recognized on fair value hedges	$ (1)	$ -

Derivatives Not Designated as Hedges

Equity options - We use equity indexed options to economically hedge fixed indexed annuity products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specified market index, primarily the S&P 500. To hedge against adverse changes in equity indices, we enter into contracts to buy the equity indexed options within a limited time at a contracted price. The contracts are net settled in cash based on differentials in the indices at the time of exercise and the strike price.

Futures - Futures contracts are purchased to hedge the growth in interest credited to the customer as a direct result of increases in the related indices. We enter into exchange-traded futures with regulated futures commission clearing brokers who are members of a trading exchange. Under exchange-traded futures contracts, we agree to purchase a specified number of contracts with other parties and to post variation margin on a daily basis in an amount equal to the difference in the daily fair values of those contracts.

Total return swaps - We purchase total rate of return swaps to gain exposure and benefit from a reference asset or index without ownership. Total rate of return swaps are contracts in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying asset or index, which includes both the income it generates and any capital gains.

Credit default swaps - Credit default swaps provide a measure of protection against the default of an issuer or allow us to gain credit exposure to an issuer or traded index. We use credit default swaps coupled with a bond to synthetically create the characteristics of a reference bond. These transactions have a lower cost and are generally more liquid relative to the cash market. We receive a periodic premium for these transactions as compensation for accepting credit risk.

Hedging credit risk involves buying protection for existing credit risk. The exposure resulting from the agreements, which is usually the notional amount, is equal to the maximum proceeds that must be paid by a counterparty for a defaulted security. If a credit event occurs on a reference entity, then a counterparty who sold protection is required to pay the buyer the trade notional amount less any recovery value of the security.

Variance swaps - We use variance swaps to hedge the growth in interest credited to the customer as a direct result of changes in the volatility of the specified market index, primarily the S&P 500. In a variance swap transaction, we agree to exchange future realized volatility for current implied volatility. This type of contract pays the difference between the realized variance and a predefined strike multiplied by a notional value.

Foreign currency forwards - We use foreign currency forward contracts to hedge certain exposures to foreign currency risk. The price is agreed upon at the time of the contract and payment is made at a specified future date.

Embedded derivatives - We have embedded derivatives which are required to be separated from their host contracts and reported as derivatives. Host contracts include reinsurance agreements structured on a modco or funds withheld basis and indexed annuity products.

The following is a summary of the gains (losses) related to derivatives not designated as hedges:

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	2017	2016	2017	2016
Equity options	$ 367	$ 197	$ 1,154	$ 105
Futures	(5)	(7)	(19)	(14)
Total return swaps	5	2	12	4
Foreign currency swaps	1	(1)	7	10
Interest rate swaps	2	(2)	1	(5)
Credit default swaps	-	1	1	-
Variance swaps	-	4	1	-
Foreign currency forwards	4	8	24	16
Embedded derivatives on funds withheld	82	134	335	271
Amounts recognized in investment related gains (losses)	456	336	1,516	387
Embedded derivatives in indexed annuity products[1]	(344)	(243)	(1,077)	(390)
Total gains (losses) for derivatives not designated as hedges	$ 112	$ 93	$ 439	$ (3)

[1] *Included in interest sensitive contract benefits.*

Credit Risk-We may be exposed to credit-related losses in the event of counterparty nonperformance on derivative financial instruments. Generally, the current credit exposure of our derivative contracts is the fair value at the reporting date less any collateral received from the counterparty.

We manage credit risk related to over-the-counter derivatives by entering into transactions with creditworthy counterparties. Where possible, we maintain collateral arrangements and use master netting agreements that provide for a single net payment from one counterparty to another at each due date and upon termination. We have also established counterparty exposure limits, where possible, in order to evaluate if there is sufficient collateral to support the net exposure.

Collateral arrangements typically require the posting of collateral in connection with its derivative instruments. Collateral agreements often contain posting thresholds, some of which may vary depending on the posting party's financial strength ratings. Additionally, a decrease in our financial strength rating to a specified level can result in settlement of the derivative position. As of September 30, 2017 and December 31, 2016, we had $50 million and $25 million, respectively, of collateral pledged to counterparties.

The estimated fair value of our net derivative and other financial assets and liabilities after the application of master netting agreements and collateral were as follows:

		Gross amounts not offset on the condensed consolidated balance sheets				
(In millions)	Gross amount recognized[1]	Financial instruments[2]	Collateral received/pledged	Net amount	Off-balance sheet securities collateral[3]	Net amount after securities collateral
September 30, 2017						
Derivative assets	$ 1,982	$ (34)	$ (1,896)	$ 52	$ (19)	$ 33
Derivative liabilities	(92)	34	50	(8)	-	(8)
December 31, 2016						
Derivative assets	$ 1,370	$ (8)	$ (1,383)	$ (21)	$ (26)	$ (47)
Derivative liabilities	(40)	8	25	(7)	-	(7)

[1] *The gross amounts of recognized derivative assets and derivative liabilities are reported on the condensed consolidated balance sheets. As of September 30, 2017 and December 31, 2016, amounts not subject to master netting or similar agreements were immaterial.*

[2] *Represents amounts offsetting derivative assets and derivative liabilities that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative assets or gross derivative liabilities for presentation on the condensed consolidated balance sheets.*

[3] *For securities collateral received, we do not have the right to sell or re-pledge the collateral. As such, we do not record the securities on the condensed consolidated balance sheets.*

4. Variable Interest Entities

Our investment funds typically meet the definition of a VIE, and in certain cases these investment funds are consolidated in our financial statements because we meet the criteria of the primary beneficiary.

Consolidated VIEs-We consolidate AAA Investments (Co-Invest VI), L.P. (CoInvest VI), AAA Investments (Co-Invest VII), L.P. (CoInvest VII), AAA Investments (Other), L.P. (CoInvest Other), London Prime Apartments Guernsey Holdings Limited (London Prime), NCL Athene, LLC (NCL LLC) and Apollo Asia Sprint Co-Investment Fund, L.P. (Sprint), which are investment funds. We are the only limited partner or Class A member in these investment funds and receive all of the economic benefits and losses, other than management fees and carried interest, as applicable, paid to the general partner in each entity, or a related entity, which are related parties. We do not have any voting rights as limited partner and, as the limited partner or Class A member, do not solely satisfy the power criteria to direct the activities that significantly impact the economics of the VIE. However, the criteria for the primary beneficiary are satisfied by our related party group and because substantially all of the activities are conducted on our behalf, we consolidate the investment funds.

No arrangement exists requiring us to provide additional funding in excess of our committed capital investment, liquidity, or the funding of losses or an increase to our loss exposure in excess of our investment in the VIEs. We elected the fair value option for certain fixed maturity and equity securities, and investment funds, which are reported in the consolidated variable interest entity sections on the condensed consolidated balance sheets.

CoInvest VI, CoInvest VII and CoInvest Other were formed to make investments, including co-investments alongside private equity funds sponsored by Apollo. We received our interests in CoInvest VI, CoInvest VII and CoInvest Other as part of a contribution agreement in 2012 with AAA Guarantor - Athene, L.P. and its subsidiary, Apollo Life Re Ltd., in order to provide a capital base to support future acquisitions. London Prime was formed for the purpose of investing in Prime London Ventures Limited, a Guernsey limited company, which purchases rental residential assets across prime central London.

CoInvest VII holds a significant investment in MidCap FinCo Limited (MidCap), which is included in investment funds of consolidated VIEs on the condensed consolidated balance sheets. We have purchased pools of loans sourced by MidCap and contemporaneously sold subordinated participation interests in the loans to a subsidiary of MidCap. As of September 30, 2017 and December 31, 2016, we had $14 million due to MidCap under the subordinated participation agreement which is reflected as a secured borrowing in other liabilities on the condensed consolidated balance sheets.

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During the third quarter of 2016, CoInvest VI contributed its largest investment, Norwegian Cruise Line Holdings Ltd. (NCLH) shares, to a newly formed entity, NCL LLC, in exchange for 100% of the membership interests in this entity. Subsequent to this contribution, CoInvest VI distributed its Class A membership interests in NCL LLC to us and the Class B membership interests in NCL LLC to the general partner of CoInvest VI. NCL LLC is subject to the same management fees, selling restrictions with respect to shares of NCLH, and carried interest calculation as CoInvest VI. NCL LLC classifies its NCLH shares as AFS equity securities. We are the primary beneficiary and consolidate NCL LLC, as substantially all of its activities are conducted on our behalf.

During the first quarter of 2017, we acquired a 100% limited partnership interest in Sprint, an entity formed to make a co-investment alongside private equity funds sponsored by Apollo. The underlying investment is a structured credit facility on a nearly completed skyscraper in Southeast Asia. We are the primary beneficiary and consolidate Sprint, as substantially all of its activities are conducted on our behalf.

We previously consolidated 2012 CMBS-I Fund L.P., a Delaware limited partnership, and 2012 CMBS-II Fund L.P., a Delaware limited partnership (collectively, CMBS Funds). The CMBS Funds were originally formed with the objective of generating high risk-adjusted investment returns by investing primarily in a portfolio of eligible CMBS and using leverage through repurchase agreements treated as collateralized financing. During the third quarter of 2016, the CMBS Funds each sold investments to fully settle the borrowings under their respective repurchase agreements of $500 million. The remaining investments of $167 million were distributed directly to us. During the fourth quarter of 2016, the CMBS Funds were fully dissolved.

Trading securities - *related party* - Trading securities represents investments in fixed maturity and equity securities with changes in fair value recognized in investment related gains (losses) within revenues of consolidated variable interest entities on the condensed consolidated statements of income. The change in unrealized gains and losses on trading securities we still held as of the respective period end resulted in unrealized gains of $8 million and $2 million for the three months ended September 30, 2017 and 2016, respectively, and unrealized gains of $14 million and losses of $51 million for the nine months ended September 30, 2017 and 2016, respectively. Trading securities held by CoInvest VI, CoInvest VII and CoInvest Other are related party investments because Apollo affiliates exercise significant influence over the operations of these investees.

Investment funds - *including related party* - Investment funds include non-fixed income, alternative investments in the form of limited partnerships or similar legal structures that meet the definition of VIEs; however, our consolidated VIEs are not considered the primary beneficiary of these investment funds. Changes in fair value for certain of these investment funds are included in investment related gains (losses) within revenues of consolidated variable interest entities on the condensed consolidated statements of income. Investment funds held by CoInvest VII, CoInvest Other and Sprint are related party investments as they are sponsored or managed by Apollo affiliates.

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Fair Value-See *Note 5 - Fair Value* for a description of the levels of our fair value hierarchy and our process for determining the level we assign our assets and liabilities carried at fair value.

The following represents the hierarchy for assets and liabilities of our consolidated VIEs measured at fair value on a recurring basis:

	September 30, 2017				
(In millions)	Total	NAV[1]	Level 1	Level 2	Level 3
Assets of consolidated variable interest entities					
Investments					
AFS securities					
Equity securities	$ 173	$ -	$ 173	$ -	$ -
Trading securities					
Fixed maturity securities	50	-	-	-	50
Equity securities	145	-	116	-	29
Investment funds	562	529	-	-	33
Cash and cash equivalents	1	-	1	-	-
Total assets of consolidated VIEs measured at fair value	$ 931	$ 529	$ 290	$ -	$ 112

[1] *Investments measured at NAV as a practical expedient in determining fair value have not been classified in the fair value hierarchy.*

	December 31, 2016				
(In millions)	Total	NAV[1]	Level 1	Level 2	Level 3
Assets of consolidated variable interest entities					
Investments					
AFS securities					
Equity securities	$ 161	$ -	$ 161	$ -	$ -
Trading securities					
Fixed maturity securities	50	-	-	-	50
Equity securities	117	-	74	-	43
Investment funds[2]	562	524	-	-	38
Cash and cash equivalents	14	-	14	-	-
Total assets of consolidated VIEs measured at fair value	$ 904	$ 524	$ 249	$ -	$ 131

[1] *Investments measured at NAV as a practical expedient in determining fair value have not been classified in the fair value hierarchy.*

[2] *Prior period balances have been revised for immaterial misstatements to be comparable to current year balances.*

Fair Value Valuation Methods - Refer to *Note 5 - Fair Value* for the valuation methods used to determine the fair value of AFS securities, trading securities, investment funds and cash and cash equivalents.

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Level 3 Financial Instruments - The following is a reconciliation for all VIE Level 3 assets and liabilities measured at fair value on a recurring basis:

	Three months ended September 30, 2017						
(In millions)	Beginning Balance	Total realized and unrealized gains (losses) included in income	Purchases	Sales	Transfers in (out)	Ending Balance	Total gains (losses) included in earnings[1]
Assets of consolidated variable interest entities							
Trading securities							
Fixed maturity securities	$ 51	$ -	$ -	$ (1)	$ -	$ 50	$ -
Equity securities	30	(1)	-	-	-	29	(1)
Investment funds[2]	33	-	-	-	-	33	-
Total Level 3 assets of consolidated VIEs	$ 114	$ (1)	$ -	$ (1)	$ -	$ 112	$ (1)

[1] *Related to instruments held at end of period.*

[2] *Beginning balance has been revised for immaterial misstatements to be comparable to current year balances.*

	Three months ended September 30, 2016						
(In millions)	Beginning Balance	Total realized and unrealized gains (losses) included in income	Purchases	Sales	Transfers in (out)	Ending Balance	Total gains (losses) included in earnings[1]
Assets of consolidated variable interest entities							
Trading securities							
Fixed maturity securities	$ 53	$ (1)	$ -	$ (1)	$ -	$ 51	$ -
Equity securities	52	(5)	-	-	-	47	-
Investment funds[2]	38	1	1	(10)	-	30	-
Total Level 3 assets of consolidated VIEs	$ 143	$ (5)	$ 1	$ (11)	$ -	$ 128	$ -

[1] *Related to instruments held at end of period.*

[2] *Prior period balances have been revised for immaterial misstatements to be comparable to current year balances.*

	Nine months ended September 30, 2017						
(In millions)	Beginning Balance	Total realized and unrealized gains (losses) included in income	Purchases	Sales	Transfers in (out)	Ending Balance	Total gains (losses) included in earnings[1]
Assets of consolidated variable interest entities							
Trading securities							
Fixed maturity securities	$ 50	$ 1	$ -	$ (1)	$ -	$ 50	$ 1
Equity securities	43	(15)	1	-	-	29	(15)
Investment funds[2]	38	-	1	(6)	-	33	-
Total Level 3 assets of consolidated VIEs	$ 131	$ (14)	$ 2	$ (7)	$ -	$ 112	$ (14)

[1] *Related to instruments held at end of period.*

[2] *Beginning balance has been revised for immaterial misstatements to be comparable to current year balances.*

	Nine months ended September 30, 2016						
(In millions)	Beginning Balance	Total realized and unrealized gains (losses) included in income	Purchases	Sales	Transfers in (out)	Ending Balance	Total gains (losses) included in earnings[1]
Assets of consolidated variable interest entities							
Trading securities							
Fixed maturity securities	$ 53	$ (1)	$ -	$ (1)	$ -	$ 51	$ (1)
Equity securities	38	8	1	-	-	47	8
Investment funds[2]	34	1	9	(14)	-	30	-
Total Level 3 assets of consolidated VIEs	$ 125	$ 8	$ 10	$ (15)	$ -	$ 128	$ 7

[1] *Related to instruments held at end of period.*

[2] *Prior period balances have been revised for immaterial misstatements to be comparable to current year balances.*

There were no transfers between Level 1 or Level 2 during the three and nine months ended September 30, 2017 and 2016.

Significant Unobservable Inputs - For certain Level 3 trading securities and investment funds, the valuations have significant unobservable inputs for comparable multiples and weighted average cost of capital rates applied in the valuation models. These inputs in isolation can cause significant increases or decreases in fair value. Specifically, the comparable multiples are multiplied by the underlying investment's earnings before interest, tax, depreciation and amortization to establish the total enterprise value of the underlying investments. We use a comparable multiple consistent with the implied trading multiple of public industry peers.

For other Level 3 trading securities, valuations are performed using a discounted cash flow model. For a discounted cash flow model, the significant input is the discount rate applied to present value the projected cash flows. An increase in the discount rate can significantly lower the fair value; a decrease in the discount rate can significantly increase the fair value. The discount rate is determined by considering the weighted average cost of capital calculation of companies in similar industries with comparable debt to equity ratios.

Fair Value Option - The following represents the gains (losses) recorded for instruments within the consolidated VIEs for which we have elected the fair value option:

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	2017	2016	2017	2016
Trading securities				
Fixed maturity securities	$ -	$ (1)	$ 1	$ (1)
Equity securities	7	(33)	12	(77)
Investment funds	-	23	5	31
Total gains (losses)	$ 7	$ (11)	$ 18	$ (47)

Fair Value of Financial Instruments Not Held at Fair Value - Assets of consolidated variable interest entities includes $31 million and $11 million of investment funds accounted for under the equity method and not carried at fair value as of September 30, 2017 and December 31, 2016, respectively; however, the carrying amount approximates fair value.

Commitments and Contingencies - Assets of CoInvest VI included equity investments in publicly traded shares of Caesars Entertainment Corporation (CEC) and Caesars Acquisition Company (CAC). We received the CEC and CAC shares as part of a contribution agreement in 2012 with AAA Guarantor - Athene, L.P. and its subsidiary, Apollo Life Re Ltd., in order to provide a capital base to support future acquisitions. Claims had been pending (which now have been dismissed with prejudice) against CEC, CAC and/or others, related to certain guaranties issued for debt of Caesars Entertainment Operating Company, Inc. (CEOC) and/or certain transactions involving CEOC and certain of its subsidiaries (collectively, Debtors), CEC, CAC and others. CEC and the Debtors announced on or about September 26, 2016 that CEC and CEOC had received confirmations from representatives of CEOC's major creditor groups of those groups' support for a term sheet that describes the key economic terms of a proposed consensual chapter 11 plan for the Debtors. The plan, containing such terms and further including such other terms respecting, among other things, the merger of CAC into CEC, that CoInvest VI and others will not retain their pre-merger CEC shares, that CoInvest VI and others will retain the value of their CAC shares when receiving shares in the merged CEC, and that CoInvest VI and others will receive releases to the fullest extent permitted by law, was confirmed by the Bankruptcy Court by order dated January 17, 2017. Conditions precedent to the effective date of the plan included regulatory approvals from the various gaming regulators, CEC and CAC shareholders' approval of the proposed merger between CEC and CAC with CEC being the surviving entity, and securing required financings. All of the conditions precedent to the effective date of the plan were fulfilled, and the plan became effective on October 6, 2017. As of September 30, 2017, CoInvest VI recorded a liability of $42 million for the entire carrying value of its pre-merger CEC shares. Also as of September 30, 2017, CoInvest VI's investment in CAC was carried at its fair value of $72 million. On or about October 6, 2017, CoInvest VI received 5,465,733 shares in the merged CEC derived from the value of CoInvest VI's investment in CAC.

Non-Consolidated Securities and Investment Funds-We invest in certain other entities meeting the definition of a VIE or voting interest entity (VOE). We do not consolidate VIEs for which we do not meet the criteria of primary beneficiary as described below. We also do not consolidate VOEs for which we do not have control.

Fixed Maturity Securities - We invest in securitization entities as a debt holder or an investor in the residual interest of the securitization vehicle, which are included in fixed maturity securities on the condensed consolidated balance sheets. These entities are deemed VIEs due to insufficient equity within the structure and lack of control by the equity investors over the activities that significantly impact the economics of the entity. In general, we are a debt investor within these entities and, as such, hold a variable interest; however, due to the debt holders' lack of ability to control the decisions within the trust that significantly impact the entity, and the fact the debt holders are protected from losses due to the subordination by the equity tranche, the debt holders are not deemed the primary beneficiary. Securitization vehicles in which we hold the residual tranche are not consolidated because we do not unilaterally have substantive rights to remove the general partner, or when assessing related party interests, we are not under common control, as defined by GAAP, with the related party, nor are substantially all of the activities conducted on our behalf; therefore, we are not deemed the primary beneficiary. Debt investments and investments in the residual tranche of securitization entities are considered debt instruments and are held at fair value on the balance sheet and classified as AFS or trading.

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Investment funds - Investment funds include non-fixed income, alternative investments in the form of limited partnerships or similar legal structures that meet the definition of VIEs or VOEs.

A portion of these investment funds are sponsored and managed by unrelated parties in which we, as limited partner, do not have the power to direct the activities that most significantly impact the economic performance of the fund, nor do we unilaterally have substantive rights to remove the general partner or dissolve the entity without cause. As a result, we do not meet the power criterion to be considered the primary beneficiary and do not consolidate these VIEs in our financial statements. Investment funds managed by unrelated parties and classified as VOEs are not consolidated as we do not own a majority voting interest and have no other substantive rights that would provide control.

We also have equity interests in investment funds where the general partner or investment manager is a related party. We have determined we are not under common control, as defined by GAAP, with the related party, nor are we deemed to be the primary beneficiary. As a result, investments in these VIEs are not consolidated.

We account for non-consolidated investment funds where we are able to exercise significant influence over the entity under the equity method or by electing the fair value option. For non-consolidated investment funds where we are not able to exercise significant influence, we elect the fair value option. Our investments in investment funds are generally passive in nature as we do not take an active role in the investment fund's management.

Our risk of loss associated with our non-consolidated VIEs and VOEs is limited and depends on the investment as follows: (1) investment funds accounted for under the equity method are limited to our initial investment plus unfunded commitments; (2) investment funds under the fair value option are limited to the fair value plus unfunded commitments; (3) AFS securities and other investments are limited to cost or amortized cost; and (4) trading securities are limited to carrying value.

The following summarizes the carrying value and maximum loss exposure of these non-consolidated VIEs and VOEs:

	September 30, 2017		December 31, 2016	
(In millions)	Carrying Value	Maximum Loss Exposure	Carrying Value	Maximum Loss Exposure
Investment funds	$ 747	$ 1,154	$ 689	$ 1,026
Investment in related parties - investment funds	1,330	2,083	1,198	1,485
Assets of consolidated variable interest entities - investment funds	593	622	573	593
Investment in fixed maturity securities	20,862	20,131	19,171	19,090
Investment in related parties - fixed maturity securities	549	544	530	536
Total non-consolidated VIEs and VOEs	$ 24,081	$ 24,534	$ 22,161	$ 22,730

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The following summarizes our investment funds, including related party investment funds and investment funds owned by consolidated VIEs:

	September 30, 2017			December 31, 2016		
(In millions, except for percentages and years)	Carrying value	Percent of total	Remaining life in years	Carrying value	Percent of total	Remaining life in years
Investment funds						
Private equity	$ 279	37.3%	0 - 7	$ 268	38.9%	0 - 7
Real estate and other real assets	166	22.2%	0 - 6	118	17.2%	0 - 4
Natural resources	5	0.7%	0 - 1	5	0.7%	1 - 2
Hedge funds	62	8.3%	0 - 3	72	10.4%	0 - 3
Credit funds	235	31.5%	0 - 5	226	32.8%	0 - 5
Total investment funds	747	100.0%		689	100.0%	
Investment funds - related parties						
Private equity - A-A Mortgage[1]	396	29.8%	3 - 3	343	28.6%	3 - 3
Private equity - other	176	13.2%	0 - 10	131	11.0%	0 - 10
Real estate and other real assets	245	18.4%	0 - 7	247	20.6%	1 - 4
Natural resources	78	5.9%	5 - 8	49	4.1%	5 - 5
Hedge funds	163	12.2%	9 - 10	192	16.0%	9 - 9
Credit funds	272	20.5%	1 - 4	236	19.7%	2 - 3
Total investment funds - related parties	1,330	100.0%		1,198	100.0%	
Investment funds owned by consolidated VIEs						
Private equity - MidCap[2]	529	89.2%	N/A	524	91.4%	N/A
Credit funds	32	5.4%	0 - 3	38	6.7%	0 - 3
Real estate and other real assets	32	5.4%	2 - 3	11	1.9%	2 - 3
Total investment funds owned by consolidated VIEs	593	100.0%		573	100.0%	
Total investment funds including related parties and funds owned by consolidated VIEs	$ 2,670			$ 2,460		

[1] *A-A Mortgage Opportunities, LP (A-A Mortgage) is a platform to originate residential mortgage loans and mortgage servicing rights.*

[2] *Our total investment in MidCap, including amounts advanced under credit facilities, totaled $767 million and $761 million as of September 30, 2017 and December 31, 2016, respectively, which was less than 10% of total AHL shareholder's equity at September 30, 2017, but greater than 10% at December 31, 2016.*

Summarized Ownership of Investment Funds-The following table presents the carrying value by ownership percentage of equity method investment funds, including related party investment funds and investment funds owned by consolidated VIEs:

(In millions)	September 30, 2017	December 31, 2016
Ownership Percentage		
100%	$ 25	$ 27
50% - 99%	605	478
Greater than 3% - 49%	1,324	1,294
Equity method investment funds	$ 1,954	$ 1,799

The following table presents the carrying value by ownership percentage of investment funds where we elected the fair value option, including related party investment funds and investment funds owned by consolidated VIEs:

(In millions)	September 30, 2017	December 31, 2016
Ownership Percentage		
Greater than 3% - 49%	$ 562	$ 562
3% or less	154	99
Fair value option investment funds	$ 716	$ 661

5. Fair Value

Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. We determine fair value based on the following fair value hierarchy:

Level 1 - Unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 - Quoted prices for inactive markets or valuation techniques that require observable direct or indirect inputs for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets,
- Observable inputs other than quoted market prices, and
- Observable inputs derived principally from market data through correlation or other means.

Level 3 - Prices or valuation techniques with unobservable inputs significant to the overall fair value estimate. These valuations use critical assumptions not readily available to market participants. Level 3 valuations are based on market standard valuation methodologies, including discounted cash flows, matrix pricing or other similar techniques.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the instrument's fair value measurement.

We use a number of valuation sources to determine fair values. Valuation sources can include quoted market prices; third-party commercial pricing services; third-party brokers; industry-standard, vendor modeling software that uses market observable inputs; and other internal modeling techniques based on projected cash flows. We periodically review the assumptions and inputs of third-party commercial pricing services through internal valuation price variance reviews, comparisons to internal pricing models, back testing to recent trades, or monitoring trading volumes.

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The following represents the hierarchy for our assets and liabilities measured at fair value on a recurring basis:

	September 30, 2017				
(In millions)	Total	NAV[1]	Level 1	Level 2	Level 3
Assets					
AFS securities					
Fixed maturity securities					
U.S. government and agencies	$ 58	$ -	$ 26	$ 32	$ -
U.S. state, municipal and political subdivisions	1,145	-	-	1,145	-
Foreign governments	2,589	-	-	2,589	-
Corporate	34,458	-	-	33,989	469
CLO	4,996	-	-	4,800	196
ABS	3,900	-	-	2,521	1,379
CMBS	1,890	-	-	1,803	87
RMBS	9,480	-	-	9,158	322
Total AFS fixed maturity securities	58,516	-	26	56,037	2,453
Equity securities	318	-	114	199	5
Total AFS securities	58,834	-	140	56,236	2,458
Trading securities					
Fixed maturity securities					
U.S. government and agencies	3	-	3	-	-
U.S. state, municipal and political subdivisions	137	-	-	120	17
Corporate	1,475	-	-	1,475	-
CLO	29	-	-	8	21
ABS	90	-	-	90	-
CMBS	59	-	-	59	-
RMBS	418	-	-	317	101
Total trading fixed maturity securities	2,211	-	3	2,069	139
Equity securities	498	-	-	498	-
Total trading securities	2,709	-	3	2,567	139
Mortgage loans	42	-	-	-	42
Investment funds	127	127	-	-	-
Funds withheld at interest - embedded derivative	303	-	-	-	303
Derivative assets	1,982	-	8	1,974	-
Short-term investments	108	-	39	69	-
Cash and cash equivalents	3,607	-	3,607	-	-
Restricted cash	100	-	100	-	-
Investments in related parties					
AFS, fixed maturity securities					
CLO	356	-	-	346	10
ABS	53	-	-	53	-
Total AFS securities - related party	409	-	-	399	10
Trading securities, CLO	140	-	-	49	91
Investment funds	27	27	-	-	-
Short-term investments	8	-	-	-	8
Reinsurance recoverable	1,783	-	-	-	1,783
Total assets measured at fair value	$ 70,179	$ 154	$ 3,897	$ 61,294	$ 4,834

(Continued)

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	September 30, 2017				
(In millions)	Total	NAV[1]	Level 1	Level 2	Level 3
Liabilities					
Interest sensitive contract liabilities					
Embedded derivative	$ 6,652	$ -	$ -	$ -	$ 6,652
Universal life benefits	957	-	-	-	957
Unit-linked contracts	472	-	-	472	-
Future policy benefits					
AmerUs Closed Block	1,616	-	-	-	1,616
ILICO Closed Block and life benefits	811	-	-	-	811
Derivative liabilities	92	-	1	85	6
Funds withheld liability - embedded derivative	18	-	-	18	-
Total liabilities measured at fair value	$ 10,618	$ -	$ 1	$ 575	$ 10,042

[1] *Investments measured at NAV as a practical expedient in determining fair value have not been classified in the fair value hierarchy.*

(Concluded)

	December 31, 2016				
(In millions)	Total	NAV[1]	Level 1	Level 2	Level 3
Assets					
AFS securities					
Fixed maturity securities					
U.S. government and agencies	$ 60	$ -	$ 29	$ 31	$ -
U.S. state, municipal and political subdivisions	1,140	-	-	1,135	5
Foreign governments	2,235	-	-	2,221	14
Corporate	30,020	-	-	29,650	370
CLO	4,822	-	-	4,664	158
ABS	2,936	-	-	1,776	1,160
CMBS	1,847	-	-	1,695	152
RMBS	8,973	-	-	8,956	17
Total AFS fixed maturity securities	52,033	-	29	50,128	1,876
Equity securities	353	-	79	269	5
Total AFS securities	52,386	-	108	50,397	1,881
Trading securities					
Fixed maturity securities					
U.S. government and agencies	3	-	3	-	-
U.S. state, municipal and political subdivisions	137	-	-	120	17
Corporate	1,423	-	-	1,423	-
CLO	43	-	-	-	43
ABS	82	-	-	82	-
CMBS	81	-	-	81	-
RMBS	387	-	-	291	96
Total trading fixed maturity securities	2,156	-	3	1,997	156
Equity securities	425	-	-	425	-
Total trading securities	2,581	-	3	2,422	156

(Continued)

ATHENE HOLDING LTD.
Notes to Condensed Consolidated Financial Statements *(Unaudited)*

	December 31, 2016				
(In millions)	Total	NAV[1]	Level 1	Level 2	Level 3
Mortgage loans	44	-	-	-	44
Investment funds	99	99	-	-	-
Funds withheld at interest - embedded derivative	140	-	-	-	140
Derivative assets	1,370	-	9	1,361	-
Short-term investments	189	-	19	170	-
Cash and cash equivalents	2,445	-	2,445	-	-
Restricted cash	57	-	57	-	-
Investments in related parties					
AFS, fixed maturity securities					
CLO	279	-	-	279	-
ABS	56	-	-	-	56
Total AFS fixed maturity securities	335	-	-	279	56
AFS, equity securities	20	-	20	-	-
Total AFS securities - related party	355	-	20	279	56
Trading securities, CLO	195	-	-	-	195
Reinsurance recoverable	1,692	-	-	-	1,692
Total assets measured at fair value	$ 61,553	$ 99	$ 2,661	$ 54,629	$ 4,164
Liabilities					
Interest sensitive contract liabilities					
Embedded derivative	$ 5,283	$ -	$ -	$ -	$ 5,283
Universal life benefits	883	-	-	-	883
Unit-linked contracts	408	-	-	408	-
Future policy benefits					
AmerUs Closed Block	1,606	-	-	-	1,606
ILICO Closed Block and life benefits	794	-	-	-	794
Derivative liabilities	40	-	-	33	7
Funds withheld liability - embedded derivative	6	-	-	6	-
Total liabilities measured at fair value	$ 9,020	$ -	$ -	$ 447	$ 8,573

[1] *Investments measured at NAV as a practical expedient in determining fair value have not been classified in the fair value hierarchy.*

(Concluded)

Refer to *Note 4 - Variable Interest Entities* for fair value disclosures associated with consolidated VIEs.

Fair Value Valuation Methods-We used the following valuation methods and assumptions to estimate fair value:

AFS and trading securities
Fixed maturity - We obtain the fair value for most marketable securities without an active market from several commercial pricing services. These are classified as Level 2 assets. The pricing services incorporate a variety of market observable information in their valuation techniques, including benchmark yields, trading activity, credit quality, issuer spreads, bids, offers and other reference data. This category typically includes U.S. and non-U.S. corporate bonds, U.S. agency and government guaranteed securities, ABS, CMBS and RMBS.

We value privately placed fixed maturity securities based on the credit quality and duration of comparable marketable securities, which may be securities of another issuer with similar characteristics. In some instances, we use a matrix-based pricing model. These models consider the current level of risk-free interest rates, corporate spreads, credit quality of the issuer and cash flow characteristics of the security. We also consider additional factors such as net worth of the borrower, value of collateral, capital structure of the borrower, presence of guarantees and our evaluation of the borrower's ability to compete in its relevant market. Privately placed fixed maturity securities are classified as Level 2 or 3.

Equity securities - Fair values of publicly traded equity securities are based on quoted market prices and classified as Level 1. Other equity securities, typically private equities or equity securities not traded on an exchange, we value based on other sources, such as commercial pricing services or brokers and are classified as Level 2 or 3.

Mortgage loans - Mortgage loans for which we have elected the fair value option or those held for sale are carried at fair value. We estimate fair value on a monthly basis using discounted cash flow analysis and rates being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The discounted cash flow model uses unobservable inputs, including estimates of discount rates and loan prepayments. Mortgage loans are classified as Level 3.

Funds withheld (embedded derivative) - We estimate the fair value of the embedded derivative based on the change in the fair value of the assets supporting the funds withheld payable under the combined coinsurance, modco and coinsurance funds withheld reinsurance agreements. As a result, the fair value of the embedded derivative is classified as Level 2 or 3 based on the valuation methods used for the assets held in trust supporting the reinsurance agreements.

Derivatives - Derivative contracts can be exchange traded or over-the-counter. Exchange-traded derivatives typically fall within Level 1 of the fair value hierarchy depending on trading activity. Over-the-counter derivatives are valued using valuation models or an income approach using third-party broker valuations. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlation of the inputs. We consider and incorporate counterparty credit risk in the valuation process through counterparty credit rating requirements and monitoring of overall exposure. We also evaluate and include our own nonperformance risk in valuing derivatives. The majority of our derivatives trade in liquid markets; therefore, we can verify model inputs and model selection does not involve significant management judgment. These are typically classified within Level 2 of the fair value hierarchy.

Cash and cash equivalents - The carrying amount for cash equals fair value. We estimate the fair value for cash equivalents based on quoted market prices. These assets are classified as Level 1.

Interest sensitive contract liabilities (embedded derivative) - Embedded derivatives related to interest sensitive contract liabilities with fixed indexed annuity products are classified as Level 3. The valuations include significant unobservable inputs associated with economic assumptions and actuarial assumptions for policyholder behavior.

Unit-linked contracts - Unit-linked contracts are valued based on the fair value of the investments supporting the contract. The underlying investments are trading securities comprised primarily of mutual funds. The valuations of these are based on quoted market prices for similar assets and are classified as Level 2, resulting in a corresponding classification for the unit-linked contracts.

AmerUs Closed Block - We elected the fair value option for the future policy benefits liability in the AmerUs Closed Block. Our valuation technique is to set the fair value of policyholder liabilities equal to the fair value of assets. There is an additional component which captures the fair value of the open block's cost to hold capital in excess of existing liabilities on the closed block. This component uses a present value of future cash flows, which includes investment earnings and policyholder liability movements. Unobservable inputs include estimates for these items. The target surplus as a percentage of statutory reserves is 3.85% based on the statutory risk-based capital ratio applicable to this block of business. The AmerUs Closed Block policyholder liabilities and any corresponding reinsurance recoverable are classified as Level 3.

ILICO Closed Block - We elected the fair value option for the ILICO Closed Block. Our valuation technique is to set the fair value of policyholder liabilities equal to the fair value of assets. There is an additional component which captures the fair value of the open block's obligations to the closed block business. This component uses the present value of future cash flows. The cash flows include commissions, administrative expenses, reinsurance premiums and benefits, and an explicit cost of capital. Unobservable inputs include estimates for these items. The explicit cost of capital assumption is 9% of required capital, post tax. A margin of 8.94% is included in the discount rates to reflect the business risk. An additional 0.25% is included to reflect non-performance risk. The ILICO Closed Block policyholder liabilities and corresponding reinsurance recoverable are classified as Level 3.

Universal life liabilities and other life benefits - We elected the fair value option for certain blocks of universal and other life business ceded to Global Atlantic Financial Group Limited (together with its subsidiaries, Global Atlantic). We use a present value of liability cash flows. Unobservable inputs include estimates of mortality, persistency, expenses, premium payments and a risk margin used in the discount rates that reflects the riskiness of the business. The risk margin was 0.09%. These universal life policyholder liabilities and corresponding reinsurance recoverable are classified as Level 3.

Fair Value Option-The following represents the gains (losses) recorded for instruments for which we have elected the fair value option:

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	2017	2016	2017	2016
Trading securities	$ (1)	$ 28	$ 45	$ 93
Mortgage loans	(1)	(1)	(1)	(1)
Investment funds	5	4	19	4
Future policy benefits	5	(28)	(10)	(129)
Total gains (losses)	$ 8	$ 3	$ 53	$ (33)

Gains and losses on trading securities are recorded in investment related gains (losses) on the condensed consolidated statements of income. For fair value option mortgage loans, we record interest income in net investment income and subsequent changes in fair value in investment related gains (losses) on the condensed consolidated statements of income. Gains and losses related to investment funds, including related party investment funds, are recorded in net investment income on the condensed consolidated statements of income. We record the change in fair value of future policy benefits to future policy and other policy benefits on the condensed consolidated statements of income.

The following summarizes information for fair value option mortgage loans:

(In millions)	September 30, 2017	December 31, 2016
Unpaid principal balance	$ 40	$ 42
Mark to fair value	2	2
Fair value	$ 42	$ 44

There were no fair value option mortgage loans 90 days or more past due as of September 30, 2017 and December 31, 2016.

Transfers Between Levels-Transfers into Level 3 generally represent securities that were valued using pricing sources which, due to changing market conditions, were less observable than in prior periods as indicated by the increased volatility, which was reflected in vendor prices obtained for individual securities. Additionally, changes in pricing sources also led to securities transferring into Level 3.

Transfers out of Level 3 generally represent securities that were valued using pricing sources which, due to changing market conditions, were more observable than in prior periods as indicated by decreased volatility, which was reflected in vendor prices obtained for individual securities. Additionally, changes in pricing sources also led to securities transferring into Level 2.

Transfers into or out of any level are assumed to occur at the end of the period. For the three and nine months ended September 30, 2017 and 2016, there were no transfers between Level 1 and Level 2.

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Level 3 Financial Instruments-The following is a reconciliation for all Level 3 assets and liabilities measured at fair value on a recurring basis:

	Three months ended September 30, 2017							
		Total realized and unrealized gains (losses)			Transfers			
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases, issuances, sales and settlements, net	In	(Out)	Ending Balance	Total gains (losses) included in earnings[1]
Assets								
AFS securities								
Fixed maturity								
Foreign governments	$ 14	$ -	$ -	$ -	$ -	$ (14)	$ -	$ -
Corporate	452	5	-	(13)	37	(12)	469	-
CLO	81	-	1	47	86	(19)	196	-
ABS	1,093	3	1	240	83	(41)	1,379	-
CMBS	122	1	(1)	(18)	26	(43)	87	-
RMBS	312	1	13	(11)	14	(7)	322	-
Equity securities	6	(1)	-	-	-	-	5	-
Trading securities								
Fixed maturity								
U.S. state, municipal and political subdivisions	17	-	-	-	-	-	17	-
CLO	22	(4)	-	-	11	(8)	21	(3)
RMBS	100	(2)	-	4	15	(16)	101	3
Mortgage loans	43	(1)	-	-	-	-	42	(1)
Funds withheld at interest - embedded derivative	279	24	-	-	-	-	303	-
Investments in related parties								
AFS securities, fixed maturity, CLO	-	-	-	10	-	-	10	-
Trading securities, CLO	123	3	-	(24)	19	(30)	91	2
Short-term investments	28	-	-	(20)	-	-	8	-
Reinsurance recoverable	1,782	1	-	-	-	-	1,783	-
Total Level 3 assets	$ 4,474	$ 30	$ 14	$ 215	$ 291	$ (190)	$ 4,834	$ 1
Liabilities								
Interest sensitive contract liabilities								
Embedded derivative	$ (6,207)	$ (344)	$ -	$ (101)	$ -	$ -	$ (6,652)	$ -
Universal life benefits	(954)	(3)	-	-	-	-	(957)	-
Future policy benefits								
AmerUs Closed Block	(1,621)	5	-	-	-	-	(1,616)	-
ILICO Closed Block and life benefits	(812)	1	-	-	-	-	(811)	-
Derivative liabilities	(6)	-	-	-	-	-	(6)	-
Total Level 3 liabilities	$ (9,600)	$ (341)	$ -	$ (101)	$ -	$ -	$ (10,042)	$ -

[1] *Related to instruments held at end of period.*

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Notes to Condensed Consolidated Financial Statements *(Unaudited)*

	Three months ended September 30, 2016							
		Total realized and unrealized gains (losses)			Transfers			
(In millions)	Beginning balance	Included in income	Included in OCI	Purchases, issuances, sales and settlements, net	In	Out	Ending balance	Total gains (losses) included in earnings[1]
Assets								
AFS securities								
Fixed maturity								
U.S. state, municipal and political subdivisions	$ -	$ -	$ -	$ -	$ 5	$ -	$ 5	$ -
Foreign governments	16	-	-	(1)	-	-	15	-
Corporate	402	1	1	24	3	(89)	342	-
CLO	285	1	15	4	11	(193)	123	-
ABS	1,238	3	11	30	-	(188)	1,094	-
CMBS	80	-	3	4	-	-	87	-
RMBS	-	-	-	-	-	-	-	-
Equity securities	10	-	(1)	(4)	-	-	5	-
Trading securities								
Fixed maturity								
U.S. state, municipal and political subdivisions	17	-	-	-	-	-	17	-
Corporate	1	-	-	-	-	(1)	-	-
CLO	104	(1)	-	(44)	-	-	59	4
ABS	89	(2)	-	-	-	-	87	-
RMBS	122	(4)	-	16	-	(6)	128	(1)
Mortgage loans	45	-	-	-	-	-	45	-
Funds withheld at interest - embedded derivative	122	83	-	-	-	-	205	-
Investments in related parties								
AFS securities								
Fixed maturity								
CLO	-	-	-	-	-	-	-	-
ABS	58	-	-	(1)	-	-	57	-
Trading securities, CLO	211	-	-	-	-	(22)	189	7
Reinsurance recoverable	1,898	(20)	-	-	-	-	1,878	-
Total Level 3 assets	$ 4,698	$ 61	$ 29	$ 28	$ 19	$ (499)	$ 4,336	$ 10
Liabilities								
Interest sensitive contract liabilities								
Embedded derivative	$ (4,807)	$ (243)	$ -	$ (209)	$ -	$ -	$ (5,259)	$ -
Universal life benefits	(1,059)	9	-	-	-	-	(1,050)	-
Future policy benefits								
AmerUs Closed Block	(1,682)	(28)	-	-	-	-	(1,710)	-
ILICO Closed Block and life benefits	(823)	11	-	-	-	-	(812)	-
Derivative liabilities	(8)	-	-	-	-	-	(8)	-
Total Level 3 liabilities	$ (8,379)	$ (251)	$ -	$ (209)	$ -	$ -	$ (8,839)	$ -

[1] *Related to instruments held at end of period.*

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	Nine months ended September 30, 2017							
		Total realized and unrealized gains (losses)			Transfers			
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases, issuances, sales and settlements, net	In	(Out)	Ending Balance	Total gains (losses) included in earnings[1]
Assets								
AFS securities								
Fixed maturity								
U.S. state, municipal and political subdivisions	$ 5	$ 17	$ (1)	$ (21)	$ -	$ -	$ -	$ -
Foreign governments	14	-	-	-	-	(14)	-	-
Corporate	370	10	10	107	23	(51)	469	-
CLO	158	1	9	40	53	(65)	196	-
ABS	1,160	11	18	237	6	(53)	1,379	-
CMBS	152	1	(4)	28	-	(90)	87	-
RMBS	17	1	1	12	300	(9)	322	-
Equity securities	5	(1)	1	-	-	-	5	-
Trading securities								
Fixed maturity								
U.S. state, municipal and political subdivisions	17	-	-	-	-	-	17	-
CLO	43	(2)	-	(12)	-	(8)	21	1
RMBS	96	(11)	-	26	7	(17)	101	2
Mortgage loans	44	(1)	-	(1)	-	-	42	(1)
Funds withheld at interest - embedded derivative	140	163	-	-	-	-	303	-
Investments in related parties								
AFS securities								
Fixed maturity								
CLO	-	-	-	10	-	-	10	-
ABS	56	-	2	(5)	-	(53)	-	-
Trading securities, CLO	195	(3)	-	(52)	-	(49)	91	(1)
Short-term investments	-	-	-	8	-	-	8	-
Reinsurance recoverable	1,692	91	-	-	-	-	1,783	-
Total Level 3 assets	$ 4,164	$ 277	$ 36	$ 377	$ 389	$ (409)	$ 4,834	$ 1
Liabilities								
Interest sensitive contract liabilities								
Embedded derivative	$ (5,283)	$ (1,077)	$ -	$ (292)	$ -	$ -	$ (6,652)	$ -
Universal life benefits	(883)	(74)	-	-	-	-	(957)	-
Future policy benefits								
AmerUs Closed Block	(1,606)	(10)	-	-	-	-	(1,616)	-
ILICO Closed Block and life benefits	(794)	(17)	-	-	-	-	(811)	-
Derivative liabilities	(7)	1	-	-	-	-	(6)	1
Total Level 3 liabilities	$ (8,573)	$ (1,177)	$ -	$ (292)	$ -	$ -	$ (10,042)	$ 1

[1] *Related to instruments held at end of period.*

ATHENE HOLDING LTD.
Notes to Condensed Consolidated Financial Statements *(Unaudited)*

(In millions)	Nine months ended September 30, 2016							
		Total realized and unrealized gains (losses)			Transfers			
	Beginning balance	Included in income	Included in OCI	Purchases, issuances, sales and settlements, net	In	Out	Ending balance	Total gains (losses) included in earnings[1]
Assets								
AFS securities								
Fixed maturity								
U.S. state, municipal and political subdivisions	$ -	$ -	$ -	$ -	$ 5	$ -	$ 5	$ -
Foreign governments	17	1	(1)	(2)	-	-	15	-
Corporate	636	4	27	(71)	4	(258)	342	-
CLO	517	3	38	7	10	(452)	123	-
ABS	1,813	78	(7)	(755)	103	(138)	1,094	-
CMBS	67	1	3	10	53	(47)	87	-
RMBS	758	3	16	(249)	-	(528)	-	-
Equity securities	9	-	-	(4)	-	-	5	-
Trading securities								
Fixed maturity								
U.S. state, municipal and political subdivisions	17	-	-	-	-	-	17	-
Corporate	16	-	-	(4)	-	(12)	-	5
CLO	108	(4)	-	(45)	-	-	59	8
ABS	98	(11)	-	-	-	-	87	-
RMBS	29	(7)	-	111	-	(5)	128	1
Mortgage loans	48	-	-	(3)	-	-	45	-
Funds withheld at interest - embedded derivative	36	169	-	-	-	-	205	-
Investments in related parties								
AFS securities								
Fixed maturity								
CLO	7	-	-	-	-	(7)	-	-
ABS	60	-	-	(3)	-	-	57	-
Trading securities, CLO	191	(23)	-	17	26	(22)	189	21
Reinsurance recoverable	2,377	(499)	-	-	-	-	1,878	-
Total Level 3 assets	$ 6,804	$ (285)	$ 76	$ (991)	$ 201	$ (1,469)	$ 4,336	$ 35
Liabilities								
Interest sensitive contract liabilities								
Embedded derivative	$ (4,464)	$ (390)	$ -	$ (405)	$ -	$ -	$ (5,259)	$ -
Universal life benefits	(1,464)	414	-	-	-	-	(1,050)	-
Future policy benefits								
AmerUs Closed Block	(1,581)	(129)	-	-	-	-	(1,710)	-
ILICO Closed Block and life benefits	(897)	85	-	-	-	-	(812)	-
Derivative liabilities	(7)	(1)	-	-	-	-	(8)	-
Total Level 3 liabilities	$ (8,413)	$ (21)	$ -	$ (405)	$ -	$ -	$ (8,839)	$ -

[1] *Related to instruments held at end of period.*

The following represents the gross components of purchases, issuances, sales and settlements, net, shown above:

	Three months ended September 30, 2017				
(In millions)	Purchases	Issuances	Sales	Settlements	Purchases, issuances, sales and settlements, net
Assets					
AFS securities					
Fixed maturity					
Corporate	$ 27	$ -	$ (36)	$ (4)	$ (13)
CLO	72	-	-	(25)	47
ABS	275	-	-	(35)	240
CMBS	-	-	(18)	-	(18)
RMBS	-	-	-	(11)	(11)
Trading securities, fixed maturity, RMBS	4	-	-	-	4
Investments in related parties					
AFS securities, fixed maturity, CLO	10	-	-	-	10
Trading securities, CLO	-	-	(24)	-	(24)
Short-term investments	8	-	-	(28)	(20)
Total Level 3 assets	$ 396	$ -	$ (78)	$ (103)	$ 215
Liabilities					
Interest sensitive contract liabilities					
Embedded derivative	$ -	$ (142)	$ -	$ 41	$ (101)
Total Level 3 liabilities	$ -	$ (142)	$ -	$ 41	$ (101)

	Three months ended September 30, 2016				
(In millions)	Purchases	Issuances	Sales	Settlements	Purchases, issuances, sales and settlements, net
Assets					
AFS securities					
Fixed maturity					
Foreign governments	$ -	$ -	$ -	$ (1)	$ (1)
Corporate	25	-	-	(1)	24
CLO	12	-	-	(8)	4
ABS	60	-	-	(30)	30
CMBS	4	-	-	-	4
Equity securities	-	-	(4)	-	(4)
Trading securities					
Fixed maturity					
CLO	-	-	(44)	-	(44)
RMBS	16	-	-	-	16
Investments in related parties					
AFS securities, fixed maturity, ABS	-	-	-	(1)	(1)
Total Level 3 assets	$ 117	$ -	$ (48)	$ (41)	$ 28
Liabilities					
Interest sensitive contract liabilities					
Embedded derivative	$ -	$ (244)	$ -	$ 35	$ (209)
Total Level 3 liabilities	$ -	$ (244)	$ -	$ 35	$ (209)

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	Nine months ended September 30, 2017				
(In millions)	Purchases	Issuances	Sales	Settlements	Purchases, issuances, sales and settlements, net
Assets					
AFS securities					
Fixed maturity					
U.S. state, municipal and political subdivisions	$ -	$ -	$ -	$ (21)	$ (21)
Corporate	152	-	(37)	(8)	107
CLO	83	-	(2)	(41)	40
ABS	495	-	-	(258)	237
CMBS	29	-	-	(1)	28
RMBS	14	-	-	(2)	12
Trading securities					
Fixed maturity					
CLO	4	-	(16)	-	(12)
RMBS	26	-	-	-	26
Mortgage loans	-	-	-	(1)	(1)
Investments in related parties					
AFS securities					
Fixed maturity					
CLO	10	-	-	-	10
ABS	5	-	-	(10)	(5)
Trading securities, CLO	-	-	(52)	-	(52)
Short-term investments	37	-	-	(29)	8
Total Level 3 assets	$ 855	$ -	$ (107)	$ (371)	$ 377
Liabilities					
Interest sensitive contract liabilities					
Embedded derivative	$ -	$ (412)	$ -	$ 120	$ (292)
Total Level 3 liabilities	$ -	$ (412)	$ -	$ 120	$ (292)

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	Nine months ended September 30, 2016				
(In millions)	Purchases	Issuances	Sales	Settlements	Purchases, issuances, sales and settlements, net
Assets					
AFS securities					
Fixed maturity					
Foreign governments	$ -	$ -	$ -	$ (2)	$ (2)
Corporate	47	-	(55)	(63)	(71)
CLO	24	-	(9)	(8)	7
ABS	102	-	-	(857)	(755)
CMBS	10	-	-	-	10
RMBS	-	-	-	(249)	(249)
Equity securities	-	-	(4)	-	(4)
Trading securities					
Fixed maturity					
Corporate	-	-	(4)	-	(4)
CLO	-	-	(45)	-	(45)
RMBS	111	-	-	-	111
Mortgage loans	-	-	-	(3)	(3)
Investments in related parties					
AFS securities, fixed maturity, ABS	-	-	-	(3)	(3)
Trading securities, CLO	33	-	(16)	-	17
Total Level 3 assets	$ 327	$ -	$ (133)	$ (1,185)	$ (991)
Liabilities					
Interest sensitive contract liabilities					
Embedded derivative	$ -	$ (517)	$ -	$ 112	$ (405)
Total Level 3 liabilities	$ -	$ (517)	$ -	$ 112	$ (405)

Significant Unobservable Inputs-Significant unobservable inputs occur when we could not obtain or corroborate the quantitative detail of the inputs. This applies to AFS securities, trading securities, mortgage loans and certain derivatives, as well as embedded derivatives in liabilities. Additional significant unobservable inputs are described below.

Fixed maturity securities - For certain fixed maturity securities, internal models are used to calculate the fair value. We use a discounted cash flow approach. The discount rate is the significant unobservable input due to the determined credit spread being internally developed, illiquid, or as a result of other adjustments made to the base rate. The base rate represents a market comparable rate for securities with similar characteristics. As of September 30, 2017, discounts ranged from 2% to 6%. This excludes assets for which significant unobservable inputs are not developed internally, primarily consisting of broker quotes.

Interest sensitive contract liabilities - embedded derivative - Significant unobservable inputs we use in the fixed indexed annuities embedded derivative of the interest sensitive contract liabilities valuation include:

1. Non-performance risk - For contracts we issue, we use the credit spread from the U.S. treasury curve based on our public credit rating as of the valuation date. This represents our credit risk for use in the estimate of the fair value of embedded derivatives. For contracts reinsured through funds withheld reinsurance, the cedant company holds collateral against its exposure; therefore, immaterial non-performance risk is ascribed to these contracts.
2. Option budget - We assume future hedge costs in the derivative's fair value estimate. The level of option budgets determines the future costs of the options and impacts future policyholder account value growth.
3. Policyholder behavior - We regularly review the lapse and withdrawal assumptions (surrender rate). These are based on our initial pricing assumptions updated for actual experience. Actual experience may be limited for recently issued products.

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The following summarizes the unobservable inputs for the embedded derivatives of fixed indexed annuities:

	September 30, 2017				
(In millions, except for percentages)	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Interest sensitive contract liabilities - fixed indexed annuities embedded derivatives	$ 6,652	Option budget method	Non-performance risk	0.3% - 1.3%	Decrease
			Option budget	0.7% - 3.7%	Increase
			Surrender rate	0.0% - 19.6%	Decrease

	December 31, 2016				
(In millions, except for percentages)	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Interest sensitive contract liabilities - fixed indexed annuities embedded derivatives	$ 5,283	Option budget method	Non-performance risk	0.7% - 1.5%	Decrease
			Option budget	0.8% - 3.8%	Increase
			Surrender rate	0.0% - 16.3%	Decrease

Fair Value of Financial Instruments Not Carried at Fair Value-The following represents our financial instruments not carried at fair value on the condensed consolidated balance sheets:

		September 30, 2017		December 31, 2016	
(In millions)	Fair Value Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets					
Mortgage loans	3	$ 6,403	$ 6,568	$ 5,426	$ 5,560
Investment funds	NAV[1]	620	620	590	590
Policy loans	2	571	571	602	602
Funds withheld at interest	3	6,661	6,661	6,398	6,398
Other investments	3	77	77	81	81
Investments in related parties					
Investment funds	NAV[1]	1,303	1,303	1,198	1,198
Other investments	3	238	260	237	262
Total assets not carried at fair value		$ 15,873	$ 16,060	$ 14,532	$ 14,691
Liabilities					
Interest sensitive contract liabilities	3	$ 31,328	$ 30,932	$ 27,628	$ 26,930
Funds withheld liability	2	376	376	374	374
Total liabilities not carried at fair value		$ 31,704	$ 31,308	$ 28,002	$ 27,304

[1] *Investments measured at NAV as a practical expedient in determining fair value have not been classified in the fair value hierarchy.*

We estimate the fair value for financial instruments not carried at fair value using the same methods and assumptions as those we carry at fair value. The financial instruments presented above are reported at carrying value on the condensed consolidated balance sheets; however, in the case of policy loans, funds withheld at interest and liability, and other investments, the carrying amount approximates fair value.

Investment in related parties - Other investments - The fair value of related party other investments is determined using a discounted cash flow model using discount rates for similar investments.

Interest sensitive contract liabilities - The carrying and fair value of interest sensitive contract liabilities above includes fixed indexed and traditional fixed annuities without mortality or morbidity risks, funding agreements and payout annuities without life contingencies. The embedded derivatives within fixed indexed annuities without mortality or morbidity risks are excluded, as they are carried at fair value. The valuation of these investment contracts is based on discounted cash flow methodologies using significant unobservable inputs. The estimated fair value is determined using current market risk-free interest rates, adding a spread to reflect our nonperformance risk and subtracting a risk margin to reflect uncertainty inherent in the projected cash flows.

6. Reinsurance

During the nine months ended September 30, 2017, we novated certain open blocks of business ceded to Global Atlantic, in accordance with the terms of the coinsurance and assumption agreement. As a result of the novation, interest sensitive contract liabilities decreased $278 million, future policy benefits decreased $26 million, policy loans decreased $7 million, and reinsurance recoverable decreased $297 million.

7. Deferred Acquisition Costs, Deferred Sales Inducements and Value of Business Acquired

The following represents a rollforward of deferred acquisition costs (DAC), deferred sales inducements (DSI) and value of business acquired (VOBA):

(In millions)	DAC	DSI	VOBA	Total
Balance at December 31, 2016	$ 1,142	$ 462	$ 1,336	$ 2,940
Additions	371	121	-	492
Unlocking	13	4	(1)	16
Amortization	(142)	(46)	(121)	(309)
Impact of unrealized investment (gains) losses	(90)	(36)	(110)	(236)
Balance at September 30, 2017	$ 1,294	$ 505	$ 1,104	$ 2,903

(In millions)	DAC	DSI	VOBA	Total
Balance at December 31, 2015	$ 705	$ 320	$ 1,627	$ 2,652
Additions	449	145	-	594
Unlocking	(12)	(3)	(23)	(38)
Amortization	(76)	(16)	(99)	(191)
Impact of unrealized investment (gains) losses	(81)	(39)	(207)	(327)
Balance at September 30, 2016	$ 985	$ 407	$ 1,298	$ 2,690

8. Common Stock

During the nine months ended September 30, 2017, a total of 42,260,915 Class B shares were converted to Class A shares, primarily in connection with two public follow-on offerings that included sales by holders of Class B shares, at which time the shares automatically converted to Class A common shares. In connection with each follow-on offering, AP Alternative Assets, L.P. distributed Class B shares to its unitholders and certain of such unitholders participated in the applicable follow-on offering. To the extent that such shares were distributed to unitholders other than a member of the Apollo Group (as defined by our bye-laws), such shares automatically converted to Class A shares. We did not sell any shares in the offerings.

Stock-based Compensation-Stock-based compensation expense was $11 million and $47 million for the three months ended September 30, 2017 and 2016, respectively, and $40 million and $61 million for the nine months ended September 30, 2017 and 2016, respectively. As of September 30, 2017, the stock-based compensation plans had unrecognized compensation expense of $39 million. The cost is expected to be recognized over a weighted-average period of 1.2 years.

Employee Stock Purchase Plan - Eligible employees may participate in our 2017 Employee Stock Purchase Plan (ESPP), which provides the opportunity to purchase our Class A shares at a discount from the market price through payroll deductions. Pursuant to the ESPP, employees are permitted to purchase shares at a price equal to 85% of the fair value of such shares as determined by reference to the closing price of our Class A shares on the New York Stock Exchange on the last day of the relevant purchase period. Under the ESPP we may make available for sale up to 3,800,000 Class A shares over the term of the ESPP, which may extend for up to 10 years. As of September 30, 2017, we had not sold any shares under the ESPP.

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9. Earnings Per Share

The following represents our basic and diluted earnings per share (EPS) calculations:

	Three months ended September 30, 2017					
(In millions, except share and per share data)	Class A	Class B	Class M-1	Class M-2	Class M-3	Class M-4
Net income available to AHL shareholders - basic and diluted	$ 167	$ 98	$ 5	$ 1	$ 1	$ 2
Basic weighted average shares outstanding	119,519,911	69,862,355	3,388,890	857,831	928,870	1,776,455
Dilutive effect of stock compensation plans	372,358	-	-	7,191	289,284	1,362,388
Diluted weighted average shares outstanding	119,892,269	69,862,355	3,388,890	865,022	1,218,154	3,138,843
Earnings per share[1]						
Basic	$ 1.40	$ 1.40	$ 1.40	$ 1.40	$ 1.40	$ 1.40
Diluted	$ 1.39	$ 1.40	$ 1.40	$ 1.39	$ 1.07	$ 0.79

[1] *Calculated using whole figures.*

	Three months ended September 30, 2016	
(In millions, except share and per share data)	Class A	Class B
Net income available to AHL shareholders - basic and diluted	$ 34	$ 92
Basic weighted average shares outstanding	49,798,963	135,963,975
Dilutive effect of stock compensation plans	107,485	-
Diluted weighted average shares outstanding	49,906,448	135,963,975
Earnings per share[1]		
Basic	$ 0.68	$ 0.68
Diluted	$ 0.68	$ 0.68

[1] *Calculated using whole figures.*

	Nine months ended September 30, 2017					
(In millions, except share and per share data)	Class A	Class B	Class M-1	Class M-2	Class M-3	Class M-4
Net income available to AHL shareholders - basic	$ 513	$ 443	$ 17	$ 3	$ 3	$ 5
Effect of stock compensation plans on allocated net income	11	-	-	-	-	-
Net income available to AHL shareholders - diluted	$ 524	$ 443	$ 17	$ 3	$ 3	$ 5
Basic weighted average shares outstanding	101,506,304	87,703,973	3,416,703	604,722	559,987	1,078,282
Dilutive effect of stock compensation plans	3,297,329	-	-	331,206	686,268	1,768,169
Diluted weighted average shares outstanding	104,803,633	87,703,973	3,416,703	935,928	1,246,255	2,846,451
Earnings per share[1]						
Basic	$ 5.05	$ 5.05	$ 5.05	$ 5.05	$ 5.05	$ 5.05
Diluted	$ 5.00	$ 5.05	$ 5.05	$ 3.26	$ 2.27	$ 1.91

[1] *Calculated using whole figures.*

(In millions, except share and per share data)	Nine months ended September 30, 2016	
	Class A	Class B
Net income available to AHL shareholders - basic and diluted	$ 108	$ 296
Basic weighted average shares outstanding	49,960,549	135,963,975
Dilutive effect of stock compensation plans	92,338	-
Diluted weighted average shares outstanding	50,052,887	135,963,975
Earnings per share[1]		
Basic	$ 2.18	$ 2.18
Diluted	$ 2.17	$ 2.18

[1] *Calculated using whole figures.*

We use the two-class method for allocating net income available to AHL shareholders to each class of our common stock. Our Class M shares do not become eligible to participate in dividends until a return of investment (ROI) condition has been met for each class. Once eligible, each class of our common stock has equal dividend rights. Prior to the fourth quarter of 2016, the ROI condition had not been met for any of our Class M shares and, as a result, no earnings were attributable to those classes. In conjunction with our IPO in the fourth quarter of 2016, the ROI condition for Class M-1 was met. The ROI conditions were subsequently met for Class M-2 on March 28, 2017, and for Class M-3 and Class M-4 on April 20, 2017. For purposes of calculating basic weighted average shares outstanding and the allocation of basic income, shares are deemed to be participating in earnings for only the portion of the period after the condition is met. However, as shares are considered dilutive as of the beginning of the period, the resulting diluted EPS is comparatively lower if the ROI condition is met after the beginning of the period than it would have been had the ROI condition been met at the beginning of the period.

Dilutive shares are calculated using the treasury stock method. For Class A common shares, this method takes into account shares that can be settled into Class A common shares, net of a conversion price. The diluted EPS calculations for Class A shares excluded the following shares, restricted stock units (RSUs) and options:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Antidilutive shares, RSUs and options excluded from diluted EPS calculation	79,931,099	135,963,975	73,016,963	135,963,975
Shares, RSUs and options excluded from diluted EPS calculation as a performance condition had not been met	187,046	-	1,425,926	-
Shares, RSUs and options excluded from diluted EPS calculation as issuance restrictions had not been satisfied as of the end of the period	-	12,720,694	-	12,720,694
Total Shares, RSUs and options excluded from diluted EPS calculation	80,118,145	148,684,669	74,442,889	148,684,669

Note: Shares, RSUs and options are as of period end.

10. Accumulated Other Comprehensive Income

The following is a detail of AOCI:

(In millions)	September 30, 2017	December 31, 2016
AFS securities	$ 2,428	$ 972
DAC, DSI, VOBA, future policy benefits and dividends payable to policyholders adjustments on AFS securities	(692)	(408)
Noncredit component of OTTI losses on AFS securities	(15)	(17)
Hedging instruments	(59)	10
Pension adjustments	(4)	(4)
Foreign currency translation adjustments	2	(12)
Accumulated other comprehensive income, before taxes	1,660	541
Deferred income tax liability	(498)	(174)
Accumulated other comprehensive income	$ 1,162	$ 367

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Changes in AOCI are presented below:

(In millions)	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Unrealized investment gains (losses) on AFS securities				
Unrealized investment gains (losses) on AFS securities	$ 249	$ 800	$ 1,500	$ 2,674
Change in DAC, DSI, VOBA, future policy benefits and dividends payable to policyholders adjustment	(61)	(294)	(284)	(970)
Less: Reclassification adjustment for gains (losses) realized in net income[1]	17	7	44	(1)
Less: Income tax expense	55	144	347	537
Net unrealized investment gains (losses) on AFS securities	116	355	825	1,168
Noncredit component of OTTI losses on AFS securities				
Noncredit component of OTTI losses on AFS securities	(7)	(1)	(5)	(11)
Less: Reclassification adjustment for losses realized in net income[1]	(9)	-	(7)	(7)
Less: Income tax expense (benefit)	1	(1)	1	(2)
Net noncredit component of OTTI losses on AFS securities	1	-	1	(2)
Unrealized gains (losses) on hedging instruments				
Unrealized gains (losses) on hedging instruments	(31)	(6)	(69)	(13)
Less: Income tax benefit	(11)	(1)	(24)	(4)
Net unrealized gains (losses) on hedging instruments	(20)	(5)	(45)	(9)
Pension adjustments	1	-	-	(1)
Foreign currency translation adjustments	4	1	14	1
Change in AOCI	$ 102	$ 351	$ 795	$ 1,157

[1] *Recognized in investment related gains (losses) on the condensed consolidated statements of income.*

11. Income Taxes

Our effective tax rates were 7% and (232)% for the three months ended September 30, 2017 and 2016, respectively, and 5% and (22)% for the nine months ended September 30, 2017, and 2016, respectively. Our effective tax rates may vary period-to-period depending upon the relationship of income and loss subject to tax compared to consolidated income and loss before income taxes. Our prior period effective tax rates reflect the significant effect of releasing $102 million of deferred tax valuation allowance. During the third quarter of 2016, we identified a tax plan that, when implemented, will allow us to use a significant portion of the U.S. non-life insurance companies' net operating losses, which are scheduled to expire beginning in 2022, and other deductible temporary differences. As a result, we released the corresponding deferred tax valuation allowance in the third quarter of 2016, as it is more likely than not that these attributes will be realized.

The Internal Revenue Service is currently auditing the 2013 consolidated tax return filed by Athene USA Corporation, and recently initiated a limited scope audit of the 2015 consolidated tax return filed by Athene Annuity & Life Assurance Company. No material proposed adjustments have been issued with respect to either exam.

Under current Bermuda law, we are not required to pay any taxes in Bermuda on either income or capital gains. We have received an undertaking from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, we will be exempted from taxation until the year 2035.

12. Related Parties

Athene Asset Management

Investment related expenses - Substantially all of our investments, with the exception of the investments of ADKG, are managed by Athene Asset Management, L.P. (AAM), a subsidiary of AGM. AAM provides direct investment management, asset allocation, mergers and acquisition asset diligence and certain operational support services for our investment portfolio, including investment compliance, tax, legal and risk management support. As of September 30, 2017, AAM directly managed $59,315 million of our investment portfolio assets, of which 89% are designated one or two (the two highest designations) by the National Association of Insurance Commissioners (NAIC).

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For the services it renders, AAM earns a fee on all assets managed in accounts owned by or related to us, including sub-advised assets, but excluding assets of ADKG and certain other limited exceptions. Additionally, AAM recharges the sub-advisory fees it incurs with respect to our sub-advised assets to us. Historically, AAM generally earned an annual fee of 0.40% of assets under management. In the second quarter of 2017, following shareholder approval of an amendment to our bye-laws, we entered into the Fifth Amended and Restated Fee Agreement (Revised Fee Agreement), retroactive to January 1, 2017. The Revised Fee Agreement amended certain fee arrangements we previously had in place with AAM to provide for, among other things, an annual fee of 0.30% (reduced from 0.40%) on all assets that Apollo manages in accounts owned by us in the U.S. and Bermuda or in accounts supporting reinsurance ceded to our U.S. and Bermuda subsidiaries by third-party insurers (North American Accounts) in excess of $65,846 million (the level of assets in the North American Accounts as of December 31, 2016). The fee to be paid by us to AAM on the first $65,846 million of assets in the North American Accounts remains 0.40% per year, subject to certain discounts and exceptions.

For certain assets which require specialized sourcing and underwriting capabilities, AAM has chosen to mandate sub-advisors rather than building out in-house capabilities. AAM has entered into Master Sub-Advisory Agreements (MSAAs) with certain Apollo affiliates to sub-advise AAM with respect to a portion of our assets, with the fees recharged to us, in addition to the gross fee paid to AAM as described above. The MSAAs cover services rendered by Apollo-affiliated sub-advisors relating to the following investments:

(In millions, except for percentages)	September 30, 2017	December 31, 2016
Fixed maturity securities		
U.S. state, municipal and political subdivisions	$ -	$ 5
Foreign governments	153	149
Corporate	2,648	2,032
CLO	5,021	4,727
ABS	803	911
CMBS	869	975
Mortgage loans	2,284	1,767
Investment funds	25	23
Trading securities	119	126
Funds withheld at interest	1,762	1,682
Other investments	77	81
Total assets sub-advised by Apollo affiliates	$ 13,761	$ 12,478
Percent of assets sub-advised by Apollo affiliates to total AAM-managed assets	19%	19%

During the second quarter of 2017, AAM and certain other Apollo affiliates entered into addendums to the MSAAs currently in effect, pursuant to which, with limited exceptions, Apollo will earn 0.40% per year on all assets in the North American Accounts explicitly sub-advised by Apollo up to $10,000 million, 0.35% per year on all assets in such accounts explicitly sub-advised by Apollo in excess of $10,000 million up to $12,441 million (the level of fee-paying sub-advised assets in the North American Accounts at December 31, 2016), 0.40% per year on all assets in such accounts explicitly sub-advised by Apollo in excess of $12,441 million up to $16,000 million, and 0.35% per year on all assets in such accounts explicitly sub-advised by Apollo in excess of $16,000 million. The addendums were retroactive to January 1, 2017.

Apollo Asset Management Europe

ADKG has an investment advisory agreement with Apollo Asset Management Europe (together with certain of its affiliates, AAME), also a subsidiary of AGM. AAME provides advisory services for all of ADKG's investment portfolio other than operating cash, mortgage loans secured by residential and commercial properties that are not identified and advised by AAME, and assets related to unit-linked policies. Also excluded are assets held in German special investment funds managed or advised by Apollo, AAM and any of the respective affiliates of Apollo, AAM or AAME, to the extent the entity receives a management or advisory fee in connection with the fund. In providing these services, AAME has access to Apollo's European expertise and capabilities. The ADKG investments sub-advised by AAME consist primarily of corporate and sovereign bonds, as compared to the more diverse range of assets managed by AAM or those held in the German special investment funds. As compensation for the investment advisory services rendered, AAME receives a fee of 0.10% per year on the assets it sub-advises. Affiliates of AAME receive an advisory fee of 0.35% per year on certain German special investment funds and our investment in a sub-fund of Apollo Capital Efficient Fund I (ACE fund), as well as a pro rata share of operating expenses up to 0.30% on the ACE fund. As of September 30, 2017 and December 31, 2016, the German special investment funds totaled $1,050 million and $258 million, respectively, and the ACE fund totaled $96 million and $84 million, respectively. The fees incurred for management of these funds are included in sub-advisory fees in the table below.

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The following represents the assets sub-advised by AAME:

(In millions)	September 30, 2017	December 31, 2016
Fixed maturity securities		
Foreign governments	$ 2,095	$ 2,062
Corporate	1,216	1,567
Equity securities	53	187
Investment funds	38	34
Policy loans	6	6
Real estate	621	541
Other investments	169	153
Cash and cash equivalents	31	25
Total assets sub-advised by AAME	$ 4,229	$ 4,575

The following summarizes the asset management fees and sub-advisory fees we have incurred related to AAM, AAME and other Apollo affiliates:

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	2017	2016	2017	2016
Asset management fees	$ 67	$ 61	$ 193	$ 176
Sub-advisory fees	14	12	42	50

The management and sub-advisory fees are included within net investment income on the condensed consolidated statements of income. As of September 30, 2017 and December 31, 2016, the management fees payable was $34 million and $28 million, respectively, and the sub-advisory fees payable was $17 million and $11 million, respectively. Both the management and sub-advisory fees payables are included in other liabilities on the condensed consolidated balance sheets.

The investment management or advisory agreements with AAM or AAME have no stated term and any party can terminate upon notice. However, our bye-laws provide that we will not exercise our termination rights under the agreements until October 31, 2018 or any annual anniversary thereafter (each such date, an IMA Termination Election Date) and any termination thereon requires the approval of two-thirds of our Independent Directors (as defined in the bye-laws) and prior written notice thereof to Apollo of at least 30 days. If the Independent Directors make such election and such notice is timely delivered, the termination will be effective on the second anniversary of the applicable IMA Termination Election Date (an IMA Termination Effective Date). Notwithstanding the foregoing, (1) the Independent Directors may only elect to terminate an investment management agreement or advisory agreement on an IMA Termination Election Date if two-thirds of the Independent Directors determine in their sole discretion acting in good faith that either (i) there has been unsatisfactory long-term performance materially detrimental to us by Apollo or (ii) the fees being charged by Apollo are unfair and excessive compared to a comparable asset manager (provided, that in either case such Independent Directors must deliver notice of any such determination to Apollo and Apollo shall have until the applicable IMA Termination Effective Date to address such concerns, and provided, further, that in the case of such a determination that the fees being charged by Apollo are unfair and excessive, Apollo has the right to lower its fees to match the fees of such comparable asset manager) and (2) upon the determination by two-thirds of the Independent Directors, we may also terminate an investment management agreement or advisory agreement with Apollo as a result of either (i) a material violation of law relating to Apollo's advisory business, or (ii) Apollo's gross negligence, willful misconduct or reckless disregard of its obligations under the relevant agreement, and in either case the delivery at least 30 days' prior written notice to Apollo of such termination and such termination will be effective at the end of such 30-day period.

We have a management investment committee, which includes members of our senior management and reports to the risk committee of our board of directors. The committee focuses on strategic decisions involving our investment portfolio, such as approving investment limits, new asset classes and our allocation strategy, reviewing large asset transactions, as well as monitoring our credit risk, and the management of our assets and liabilities.

A significant voting interest in the Company is held by shareholders who are members of the Apollo Group, as defined in our bye-laws. Also, James Belardi, our Chief Executive Officer, is also an employee of, and receives substantial remuneration from acting as Chief Executive Officer of, AAM, and owns a 5% profits interest in AAM. Additionally, five of the twelve members of our board of directors are employees of or consultants to Apollo (including Mr. Belardi). In order to protect against potential conflicts of interest resulting from transactions into which we have entered and will continue to enter into with the Apollo Group, our bye-laws created a conflicts committee consisting of three of our directors who are not officers or employees of any member of the Apollo Group. The conflicts committee reviews and a majority of the committee members must approve material transactions between us and the Apollo Group, subject to certain exceptions.

Other related party transactions-We have a loan purchase agreement with AmeriHome Mortgage Company, LLC (AmeriHome), an investee of A-A Mortgage, an equity method investee. The agreement allows us to purchase residential mortgage loans which they have purchased from correspondent sellers and pooled for sale in the secondary market. AmeriHome retains the servicing rights to the sold loans. We purchased $21 million and $19 million of residential mortgage loans under this agreement during the nine months ended September 30, 2017 and 2016, respectively.

13. Commitments and Contingencies

Contingent Commitments-We had commitments to make investments, primarily capital contributions to investment funds, exclusive of AGER commitments as discussed below, of $1,761 million and $962 million as of September 30, 2017 and December 31, 2016, respectively. We expect most of our current commitments will be invested over the next five years; however, these commitments could become due any time upon counterparty request.

On April 14, 2017 (Subscription Date), in connection with a private offering, AGER entered into subscription agreements with AHL, certain affiliates of AGM and a number of other third-party investors pursuant to which AGER secured commitments from such parties to purchase new common shares in AGER (AGER Offering). AHL's capital commitment includes the valuation of the AGER Group (comprised of our European operations which includes ADKG) at approximately €90 million, which approximated our invested capital in the AGER Group on the Subscription Date. Additionally, AHL has committed to purchase an additional €285 million of common shares (which may be reduced to €260 million if certain conditions are met), as well as an additional profits interest in securities which, upon meeting certain vesting triggers, will be convertible into additional common shares.

On August 9, 2017, our Bermuda subsidiaries, AGER and NewRe Life Re Ltd. (NewRe) entered into a stock purchase agreement with Aegon Ireland Holding B.V. and Aegon Europe Holding B.V., pursuant to which NewRe agreed to purchase all of the outstanding stock of Aegon Ireland plc. Prior to the closing of the transaction, which is expected in the first quarter of 2018, subject to regulatory approvals and other customary closing conditions, AGER expects to call capital from its investors, which is expected to result in the issuance by AGER of new common shares to affiliates of Apollo and other third-party investors, such that our interest in the AGER Group will be reduced, causing the AGER Group to thereafter be held by us as an investment rather than as a consolidated subsidiary.

The valuation of the AGER Group was fixed at approximately €90 million as of the Subscription Date, and is unaffected by any profit or loss or other increase or decrease in value of the AGER Group during the period between the Subscription Date and the date on which the AGER Group is deconsolidated. As a result, to the extent that our invested capital and/or the fair value of the AGER Group increases or decreases during such time period, we may incur a gain or loss upon deconsolidation.

Funding Agreements-We are a member of the Federal Home Loan Bank (FHLB) of Indianapolis and Des Moines and, through membership, we have issued funding agreements to the FHLB in exchange for cash advances. As of September 30, 2017 and December 31, 2016, we had $623 million and $691 million, respectively, of funding agreements outstanding with the FHLB. We are required to provide collateral in excess of the funding agreements, considering any discounts to the securities posted and prepayment penalties.

We have a funding agreement backed notes (FABN) program, which allows Athene Global Funding, a special purpose, non-affiliated statutory-trust to offer up to $5 billion of its senior secured medium-term notes. Athene Global Funding uses the net proceeds from each sale to purchase one or more funding agreements from us. Funding agreements outstanding under this program had a carrying value of $2,996 million and $246 million as of September 30, 2017 and December 31, 2016, respectively.

Pledged Assets and Funds in Trust (Restricted Assets)-The total restricted assets included on the condensed consolidated balance sheets are as follows:

(In millions)	September 30, 2017	December 31, 2016
AFS securities		
Fixed maturity	$ 1,479	$ 1,535
Equity	38	40
Investment funds	22	25
Mortgage loans	798	1,003
Short-term investments	13	15
Restricted cash	100	57
Total restricted assets	$ 2,450	$ 2,675

The restricted assets are primarily a result of the FHLB funding agreements described above. Additionally, we have established reinsurance trusts of assets in accordance with coinsurance agreements, which are typically based on corresponding statutory reserves.

Litigation, Claims and Assessments-On June 12, 2015, Don Hudson, on behalf of himself and others similarly situated, filed a putative class action complaint in the United States District Court for the Northern District of California against us. The complaint, which was similar to complaints recently filed against other large insurance companies, primarily alleged that captive reinsurance and other transactions had the effect of misrepresenting the financial condition of Athene Annuity and Life Company (AAIA). The complaint purported to be brought on behalf of a class of purchasers of annuity products issued by AAIA between 2007 and the present and asserts claims against AHL, ALRe, AUSA and AAIA in addition to Apollo and AAM. There were also various allegations related to the purchase of Aviva USA and concerning entry into a modco transaction with ALRe in October 2013. The suit asserted claims of violation of the Racketeer Influenced and Corrupt Organizations Act and sought compensatory damages, trebled, in an amount to be determined, costs and attorneys' fees. On March 25, 2016, the matter was transferred to the United States District Court for the Southern District of Iowa (S.D. IA Court). On May 25, 2016, the court granted plaintiff's motion to file an amended complaint dropping plaintiff Silva and defendant Aviva plc. We moved to dismiss the amended complaint on June 30, 2016. On May 11, 2017, the putative class action complaint filed by Don Hudson, on behalf of himself and others similarly situated, against us was dismissed in a written decision by the S.D. IA Court. Plaintiff did not appeal the district court's decision and this matter is concluded.

On July 27, 2015, John Griffiths, on behalf of himself and others similarly situated, filed a putative class action complaint in the United States District Court for the District of Massachusetts, against us. An amended complaint was filed on December 18, 2015. The complaint asserts claims against AHL, AAIA and Athene London Assignment Corporation (Athene London), in addition to an Aviva defendant. AHL is a named defendant due to its purchase of Aviva USA, and AAIA and Athene London are named as successors to Aviva Life Insurance Company and Aviva London Assignment Corporation, respectively. The complaint alleges a putative class of all persons who are the beneficial owners of assets which were used to purchase structured settlement annuities that Aviva Life Insurance Company, Aviva London Assignment Corporation, and Aviva International Insurance Limited (collectively, the Aviva Entities) or their predecessors, as applicable, delivered to purchasers on or after April 1, 2003 that were backed by a capital maintenance agreement issued by Aviva International Insurance Limited or its predecessor (the CMA). The complaint alleges that the Aviva Entities sold structured settlement annuities to the public on the basis that such products were backed by the CMA, which was alleged to be a source of great financial strength. The complaint further alleges that the Aviva Entities used the CMA to enhance the sales volume and raise the price of the annuities. The complaint claims that, as a result of Aviva USA's sale to AHL, the CMA terminated. According to the complaint, no notice of this termination was provided to the owners of the structured settlement annuities. The complaint alleges that the termination of the CMA gave rise to claims for breach of contract, breach of fiduciary duty, promissory estoppel, and unjust enrichment. AHL and plaintiff recently agreed to a term sheet settlement on a class wide basis. Terms of the settlement, which is subject to court approval, include: (1) AHL entering into a capital maintenance agreement with Athene London requiring AHL to provide capital to Athene London upon a missed structured settlement payment that is not timely cured and (2) AHL paying a monetary amount that is immaterial to us. The case against AHL has been stayed in totality and the case has been stayed against co-defendant Aviva until November 27, 2017 while the parties engage in a magistrate settlement conference.

The Internal Revenue Service (IRS) has completed its examinations of the 2006 through 2010 Aviva USA tax years. Aviva USA agreed to all adjustments that were proposed with respect to those tax years with two exceptions: (1) AAIA's treatment of call options used to hedge fixed indexed annuity (FIA) liabilities for the tax years 2008-2010 and (2) the disallowance of offsetting tax deductions taken by AAIA and taxable income reported by the non-life subgroup with respect to unpaid independent marketing organization commissions. The first adjustment to which Aviva USA did not agree would disallow deductions of $191 million, $154 million and $76 million for 2008, 2009 and 2010, respectively. The second adjustment to which Aviva USA did not agree would increase non-life net operating losses and decrease AAIA net operating losses by $16 million in each of 2009 and 2010. Taxes, penalties and interest with respect to these two issues for the years under audit are subject to indemnification by Aviva plc under the Stock Purchase Agreement (SPA) between Aviva plc and AHL, dated December 21, 2012 assuming the SPA requirements are satisfied. Athene USA has been unable to negotiate a favorable settlement of this issue with the IRS, and is contesting the adjustment in federal court. If the IRS position is upheld in federal court, Athene USA expects that it would owe tax of $120 million, plus interest, for tax years ending on or before October 2, 2013, which are subject to indemnification by Aviva plc as described above.

The IRS also recently completed its examination of the 2011 through 2012 Aviva USA tax years, proposing adjustments that would increase taxable income by approximately $16 million in the aggregate for these two tax years. Athene USA agreed to all adjustments that were proposed with respect to those tax years except for adjustments relating to the same two issues that were not agreed to during the prior examination as discussed above. The first adjustment to which Athene USA did not agree would disallow deductions of $16 million in 2011 and increase deductions by $12 million in 2012. The second adjustment to which Athene USA did not agree would increase non-life net operating losses and decrease AAIA net operating losses by $15 million in 2011 and $12 million in 2012. Taxes, penalties and interest with respect to these two tax years are subject to indemnification by Aviva plc under the SPA, assuming the SPA requirements are satisfied. The treatment of FIA hedges is a recurring issue as to the timing of the related deductions and could affect the current income tax incurred in periods after October 2, 2013, which are not subject to indemnification by Aviva plc. Given that the disallowance of a deduction in one period results in an increased deduction in a future period, we do not expect that there will be any material impact to our financial condition resulting from this issue.

In 2000 and 2001, two insurance companies which were subsequently merged into AAIA purchased from American General Life Insurance Company (American General) broad based variable corporate-owned life insurance (COLI) policies that, as of September 30, 2017, had an asset value of $344 million, and is included in other assets on the condensed consolidated balance sheets. In January 2012, the COLI policy administrator delivered to AAIA a supplement to the existing COLI policies and advised that American General and ZC Resource Investment Trust (ZC Trust) had unilaterally implemented changes set forth in the supplement that if effective, would: (1) potentially negatively impact the crediting rate for the policies and (2) change the exit and surrender protocols set forth in the policies. In March 2013, AAIA filed suit against American General, ZC Trust, and ZC Resource LLC in Chancery Court in Delaware, seeking, among other relief, a declaration that the changes set forth in the supplement were ineffectual and in breach of the parties' agreement. The parties filed cross motions for judgment as a matter of law, and the court granted defendants' motion and dismissed without prejudice on ripeness grounds. The issue that negatively impacts the crediting rate for one of the COLI policies has been triggered and we will pursue further adjudication. If the supplement is ultimately deemed to be effective, the purported changes to the policies could impair AAIA's ability to access the value of guarantees associated with the policies. The value of the guarantees included within the asset value reflected above is $164 million as of September 30, 2017.

14. Segment Information

We operate our core business strategies out of one reportable segment, Retirement Services. In addition to Retirement Services, we report certain other operations in Corporate and Other.

Retirement Services-Retirement Services is comprised of our United States and Bermuda operations, which issue and reinsure retirement savings products and institutional products. Retirement Services has retail operations, which provide annuity retirement solutions to our policyholders. Retirement Services also has reinsurance operations, which reinsure multi-year guaranteed annuities, fixed indexed annuities, traditional one-year guarantee fixed deferred annuities, immediate annuities and institutional products from our reinsurance partners. In addition, our institutional operations, including funding agreements and pension risk transfer (PRT) obligations, are included in our Retirement Services segment.

Corporate and Other-Corporate and Other includes certain other operations related to our corporate activities and our German operations, which is primarily comprised of participating long-duration savings products. In addition to our German operations, included in Corporate and Other are corporate allocated expenses, merger and acquisition costs, debt costs, certain integration and restructuring costs, certain stock-based compensation and intersegment eliminations. In Corporate and Other, we also hold capital in excess of the level of capital we hold in Retirement Services to support our operating strategy.

Financial Measures-Segment operating income, net of tax, is an internal measure used by the chief operating decision maker to evaluate and assess the results of our segments.

Operating revenue is a component of operating income, net of tax, and excludes market volatility and adjustments for other non-operating activity. Our operating revenue equals our total revenue, adjusted to eliminate the impact of the following non-operating adjustments:

- Change in fair values of derivatives and embedded derivatives - index annuities, net of offsets;
- Investment gains (losses), net of offsets;
- VIE expenses and noncontrolling interest; and
- Other adjustments to revenues.

The table below reconciles segment operating revenues to total revenues presented on the condensed consolidated statements of income:

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	2017	2016	2017	2016
Operating revenue by segment				
Retirement Services	$ 936	$ 876	$ 3,078	$ 2,464
Corporate and Other	94	69	265	166
Total segment operating revenues	1,030	945	3,343	2,630
Non-operating adjustments				
Change in fair values of derivatives and embedded derivatives - index annuities, net of offsets	379	200	1,181	100
Investment gains (losses), net of offsets	63	121	326	293
VIE expenses and noncontrolling interest	-	4	-	13
Other adjustments to revenues	1	2	5	3
Total non-operating adjustments	443	327	1,512	409
Total revenues	$ 1,473	$ 1,272	$ 4,855	$ 3,039

ATHENE HOLDING LTD.
Notes to Condensed Consolidated Financial Statements *(Unaudited)*

Operating income, net of tax, is an internal measure used to evaluate our financial performance excluding market volatility and expenses related to integration, restructuring, stock compensation and certain other expenses. Our operating income, net of tax, equals net income available to AHL's shareholders adjusted to eliminate the impact of the following non-operating adjustments:

- Investment gains (losses), net of offsets;
- Change in fair values of derivatives and embedded derivatives - index annuities, net of offsets;
- Integration, restructuring and other non-operating expenses;
- Stock-based compensation, excluding the long-term incentive plan (LTIP); and
- Income tax (expense) benefit - non-operating.

The table below reconciles segment operating income, net of tax, to net income available to Athene Holding Ltd. shareholders presented on the condensed consolidated statements of income:

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	2017	2016	2017	2016
Operating income, net of tax by segment				
Retirement Services	$ 244	$ 142	$ 786	$ 535
Corporate and other	(13)	(25)	(9)	(87)
Total segment operating income, net of tax	231	117	777	448
Non-operating adjustments				
Investment gains (losses), net of offsets	25	58	140	98
Change in fair values of derivatives and embedded derivatives - index annuities, net of offsets	46	(1)	155	(88)
Integration, restructuring and other non-operating expenses	(14)	(2)	(34)	(8)
Stock-based compensation, excluding LTIP	(7)	(46)	(30)	(59)
Income tax (expense) benefit - non-operating	(7)	-	(24)	13
Total non-operating adjustments	43	9	207	(44)
Net income available to Athene Holding Ltd. shareholders	$ 274	$ 126	$ 984	$ 404

The following represents total assets by segment:

(In millions)	September 30, 2017	December 31, 2016
Total assets by segment		
Retirement Services	$ 88,034	$ 79,298
Corporate and Other	8,027	7,401
Total assets	$ 96,061	$ 86,699

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a leading retirement services company that issues, reinsures and acquires retirement savings products designed for the increasing number of individuals and institutions seeking to fund retirement needs. We generate attractive financial results for our policyholders and shareholders by combining our two core competencies of (1) sourcing long-term, generally illiquid liabilities and (2) investing in a high quality investment portfolio, which takes advantage of the illiquid nature of our liabilities. Our steady and significant base of earnings generates capital that we opportunistically invest across our business to source attractively-priced liabilities and capitalize on opportunities. Our differentiated investment strategy benefits from our strategic relationship with Apollo and its indirect subsidiary, AAM. AAM provides a full suite of services for our investment portfolio, including direct investment management, asset allocation, mergers and acquisition asset diligence and certain operational support services, including investment compliance, tax, legal and risk management support. Our relationship with Apollo and AAM also provides us with access to Apollo’s investment professionals across the world as well as Apollo’s global asset management infrastructure that, as of September 30, 2017, supported more than $241 billion of AUM across a broad array of asset classes. We are led by a highly skilled management team with extensive industry experience. We are based in Bermuda with our U.S. subsidiaries' headquarters located in Iowa.

We began operating in 2009 when the burdens of the financial crisis and resulting capital demands caused many companies to exit the retirement market, creating the need for a well-capitalized company with an experienced management team to fill the void. Taking advantage of this market dislocation, we have been able to acquire substantial blocks of long-duration liabilities and reinvest the related investments to produce profitable returns. We have established a significant base of earnings and as of September 30, 2017, have an expected annual investment margin of 2-3% over the 8.2 year weighted-average life of our deferred annuities, which make up a substantial portion of our reserve liabilities. Even as we have grown to $81.2 billion in investments, including related parties, $78.8 billion in invested assets and total assets as of $96.1 billion as of September 30, 2017, we have continued to approach both sides of the balance sheet with an opportunistic mindset because we believe quickly identifying and capitalizing on market dislocations allows us to generate attractive, risk-adjusted returns for our shareholders. Further, our multiple distribution channels support growing origination across market environments and better enable us to achieve continued balance sheet growth while maintaining attractive profitability. We believe that in a typical market environment, we will be able to profitably grow through our organic channels, including retail, flow reinsurance and institutional products. In more challenging market environments, we believe that we will see additional opportunities to grow through our inorganic channels, including acquisitions and block reinsurance, due to market stress during those periods.

We are diligent in setting our return targets based on market conditions and risks inherent to our products offered and acquisitions or block reinsurance transactions. Generally, we target mid-teen returns for sources of organic growth and mid-teen or higher returns for sources of inorganic growth. However, specific return targets are established with due consideration to the facts and circumstances surrounding each growth opportunity and may be higher or lower than those that we target more generally. Factors that we consider in establishing return targets for a given growth opportunity include, but are not limited to, the certainty of the return profile, the strategic nature of the opportunity, the size and scale of the opportunity, the alignment and fit of the opportunity with our existing business, the opportunity for risk diversification and the existence of increased opportunities for higher returns or growth. If market conditions or risks inherent to a product or transaction create return profiles that are not acceptable to us, we generally will not sacrifice our profitability merely to facilitate growth.

We operate our core business strategies out of one reportable segment, Retirement Services. In addition to Retirement Services, we report certain other operations in Corporate and Other. Retirement Services is comprised of our U.S. and Bermuda operations which issue and reinsure retirement savings products and institutional products. Corporate and Other includes certain other operations related to our corporate activities and our German operations, which is primarily comprised of participating long-duration savings products.

Our consolidated annualized ROE for the nine months ended September 30, 2017 and the year ended December 31, 2016 was 16.9% and 12.6%, respectively, and our consolidated annualized operating ROE excluding AOCI was 14.8% and 12.1%, respectively. As a result of our focus on issuing, reinsuring and acquiring attractively-priced liabilities, our differentiated investment strategy and our significant scale, for the nine months ended September 30, 2017 and the year ended the year ended December 31, 2016, in our Retirement Services segment, we generated an annualized investment margin on deferred annuities of 2.86% and 2.76%, respectively and annualized operating ROE excluding AOCI of 21.3% and 18.5%, respectively. We currently maintain what we believe to be high capital ratios for our rating and hold more than $1.5 billion of excess capital, and view this excess as strategic capital available to reinvest into organic and inorganic growth opportunities.

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We have developed organic and inorganic channels to address the retirement services market and grow our assets and liabilities. By focusing on the retirement services market, we believe that we will benefit from several demographic and economic trends, including the increasing number of retirees in the United States, the lack of tax advantaged alternatives for people trying to save for retirement and expectations of a rising interest rate environment. To date, most of our products sold and acquired have been fixed annuities, which offer people saving for retirement a product that is tax advantaged, has a minimum guaranteed rate of return or minimum cash value and provides protection against investment loss. Our policies often include surrender charges (86% of our deferred annuity products, as of September 30, 2017) or MVAs (72% of our deferred annuity products, as of September 30, 2017), both of which increase persistency and protect our ability to meet our obligations to policyholders. Our organic channels, including retail, flow reinsurance and institutional products, provided deposits of $8.0 billion and $6.9 billion for the nine months ended September 30, 2017 and 2016, respectively. Withdrawals on our deferred annuities, maturities of our funding agreements and payments on payout annuities (collectively, liability outflows), in the aggregate, were $4.4 billion and $4.0 billion for the nine months ended September 30, 2017 and 2016, respectively. We believe that our improving credit profile, our product line and product design capabilities and our growing reputation as both a seasoned funding agreement issuer and a reliable PRT counterparty will continue to enable us to further penetrate our existing organic channels and allow us to source additional volumes of profitably underwritten liabilities in various market environments. Our inorganic channels, including acquisitions and block reinsurance, have contributed significantly to our growth. We believe our internal acquisitions team, with support from Apollo, has an industry-leading ability to source, underwrite, and expeditiously close transactions, which makes us a competitive counterparty for acquisition or block reinsurance transactions.

We plan to grow organically by expanding our retail, reinsurance and institutional product distribution channels. We believe that we have the right people, infrastructure and scale to position us for continued growth. Within our retail channel we had fixed annuity sales of $4.1 billion and $3.8 billion for the nine months ended September 30, 2017 and 2016, respectively. We aim to grow our retail channel in the United States by deepening our relationships with our approximately 67 IMOs and approximately 34,000 independent agents. Our strong financial position and capital efficient products allow us to be a dependable partner with IMOs and consistently write new business. We work with our IMOs to develop customized, and at times exclusive, products that help drive sales. We expect our retail channel to continue to benefit from our improving credit profile and recent product launches. We believe this should support growth in sales at our desired cost of crediting through increased volumes via current IMOs and access to new distribution channels, including small to mid-sized banks and regional broker-dealers. We are implementing the necessary technology platform, hiring and training a specialized sales force, and have created products to capture new potential distribution opportunities. In our reinsurance channel, we target reinsurance business consistent with our preferred liability characteristics, and as such, reinsurance provides another opportunistic channel for us to source long-term liabilities with attractive crediting rates. We generated deposits through our flow reinsurance channel of $570 million and $3.1 billion for the nine months ended September 30, 2017 and 2016, respectively. We believe the decrease in flow reinsurance has been impacted by the recent decline in overall MYGA volumes over the last several months, reflective of tighter investment spreads, the recent stock market rally and expectations of higher interest rates. As we continue to source additional reinsurance partners, we expect to further diversify our flow reinsurance channel and expect that our improving credit profile will help us attract additional reinsurance partners. In our institutional channel, we generated deposits of $3.3 billion and $0 million for the nine months ended September 30, 2017 and 2016, respectively. Our ability to issue funding agreements, namely those issued through our FABN program, has benefited from our public company status and improving credit profile, allowing us to generate deposits in the aggregate principal amount of $3.0 billion and $0 million for the nine months ended September 30, 2017 and 2016, respectively. In addition, growth in our institutional channel was attributed to our entry into the PRT market in 2017, during which we closed our inaugural transaction pursuant to which we issued a group annuity contract in the aggregate principal amount of approximately $320 million. Additionally, subsequent to quarter-end, we entered into two PRT agreements totaling approximately $1.0 billion of pension obligations. We expect to grow our institutional channel by continuing to engage in opportunistic issuances of funding agreements and by continuing to engage in PRT transactions.

Industry Trends and Competition

Market Conditions

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. A general economic slowdown could adversely affect us in the form of changes in consumer behavior and decreases in the returns on and value of our investment portfolio. Concerns over the slow economic recovery, the level of U.S. national debt, currency fluctuations and volatility, the stability of the EU, Brexit and the potential exit of certain other EU members, the rate of growth of China and other Asian economies, unemployment, the availability and cost of credit, the U.S. housing market, inflation levels, low or negative interest rates, energy costs and geopolitical issues have contributed to increased volatility and diminished expectations for the economy and the markets. Market conditions have generally improved since the U.S. elections in November of 2016 on hopes of improved economic growth, however the long term outlook remains uncertain. Declining economic growth rates globally and resultant diverging paths of monetary policy could increase volatility in the credit markets, potentially impacting the availability and cost of credit. Factors such as equity prices, equity market volatility, interest rates, counterparty risks, availability of credit, inflation rates, economic uncertainty, changes in laws or regulations (including laws relating to the financial markets generally or the taxation or regulation of the insurance industry), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including governmental instability, wars, terrorist acts or security operations) can have a material impact on the value of our investment portfolio and our ability to sell our products. We adjust the structure of our products depending on the economic environment, the behavior of customers and other factors, including mortality rates, morbidity rates, cap rates, rollup rates, annuitization rates and lapse rates, which can vary in response to changes in market conditions. We believe continued economic growth, stable financial markets and a potentially rising interest rate environment may ultimately enhance the attractiveness of our product portfolio. However, we remain exposed to potential slowdowns in economic activity, which could be characterized by rising unemployment, falling interest rates, widening credit spreads and an increase in corporate credit and real estate-related defaults.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Interest Rate Environment

As a retirement services company focused on issuing and reinsuring fixed annuities, we are affected by the monetary policy of the Federal Reserve in the United States as well as other central banks around the world. In spite of the Federal Reserve increasing federal funds rates in December 2015, December 2016 and March and June of 2017, interest rates in the United States remain lower than historical levels. The lower interest rates in part are due to a number of actions taken in recent years by the Federal Reserve in an effort to stimulate economic activity. Any future increases in federal funds rates are uncertain and will depend on the economic outlook.

Our investment portfolio consists predominantly of fixed maturity investments. See *Consolidated Investment Portfolio*. If prevailing interest rates were to rise, we believe the yield on our new investment purchases may also rise and our investment income from floating rate investments would increase while the value of our existing investments may decline. If prevailing interest rates were to decline, it is likely that the yield on our new investment purchases may decline and our investment income from floating rate investments would decrease while the value of our existing investments may increase. We address interest rate risk through managing the duration of the liabilities we source with assets we acquire and through asset liability management (ALM) modeling. We endeavor to limit reinvestment risk related to cash flows by managing our asset portfolio to ensure it provides adequate cash flows to meet our expected policyholder benefit cash flows to within tolerable risk management limits. Our strategy is to achieve sustainable yields that allow us to maintain an attractive investment margin. As part of our investment strategy, we purchase floating rate investments, which we expect will perform well in a rising interest rate environment. Our investment portfolio includes $22.0 billion of floating rate investments, or approximately 28% of our total invested assets as of September 30, 2017. As part of our reinvestment strategy for the investment portfolios of our acquired companies, we generally seek to reinvest assets at yields higher than the related assets being liquidated for reinvestment. We continuously seek to optimize our investment portfolio to achieve favorable returns over the long term.

If prevailing interest rates were to rise, we believe our products would be more attractive to consumers and our sales would likely increase. In periods of prolonged low interest rates, the investment margin earned on deferred annuities may be negatively impacted by reduced investment income to the extent that we are unable to adequately reduce policyholder crediting rates due to policyholder guarantees in the form of minimum crediting rates or otherwise due to market conditions. As of September 30, 2017, most of our products were fixed annuities with approximately 36% of our FIAs at the minimum guarantees and approximately 49% of our fixed rate annuities at the minimum crediting rates. As of September 30, 2017, minimum guarantees on all of our deferred annuities, including those with crediting rates already at their minimum guarantees, were, on average, 80 to 90 basis points below the crediting rates on such deferred annuities, allowing us room to reduce rates before reaching the minimum guarantees. Our remaining liabilities are associated with immediate annuities, funding agreements or life contracts for which we have little to no discretionary ability to change the rates of interest payable to the respective policyholder. A significant majority of our products have crediting rates that we may reset annually upon renewal following the expiration of the current guaranteed period. While we have the contractual ability to lower these crediting rates to the guaranteed minimum levels, our willingness to do so may be limited by competitive pressures.

See *Item 7A. Quantitative and Qualitative Disclosures About Market Risks* in our 2016 Annual Report, which includes a discussion regarding interest rate and other significant risks and our strategies for managing these risks.

Demographics

Over the next four decades, the retirement-age population is expected to experience unprecedented growth. Technological advances and improvements in healthcare are projected to continue to contribute to increasing average life expectancy, and aging individuals must be prepared to fund retirement periods that will last longer than ever before. Further, many working households in the United States do not have adequate retirement savings. As a tool for addressing the unmet need for retirement planning, we believe that many Americans have begun to look to tax-efficient savings products with low-risk or guaranteed return features and potential equity market upside, particularly as federal, state and local marginal tax rates have increased. Our tax-efficient savings products are well positioned to meet this increasing customer demand.

We believe that our strong presence in the FIA market and strength of our relationships with IMOs position us to effectively serve consumers' demand in the rapidly growing retirement savings market. We expect that our retail channel will continue to benefit from our improving credit profile and recent product launches. We believe this should help us to grow sales at our desired cost of crediting through increased volumes via current IMOs and access to new distribution channels, including small to mid-sized banks and regional broker-dealers. We also believe that our improving credit profile has enabled and will continue to enable us to increase penetration in our existing organic channels, such as flow reinsurance and funding agreements, while also helping us to increase our presence in the PRT market.

Competition

We operate in highly competitive markets. We face a variety of large and small industry participants, including diversified financial institutions and insurance and reinsurance companies. These companies compete in one form or another for the growing pool of retirement assets driven by a number of external factors such as the continued aging of the population and the reduction in safety nets provided by governments and private employers. In the markets in which we operate, scale and the ability to provide value-added services and build long-term relationships are important factors to compete effectively. We believe that our leading presence in the retirement market, diverse range of capabilities and broad distribution network uniquely position us to effectively serve consumers’ increasing demand for retirement solutions, particularly in the FIA market.

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According to LIMRA, total fixed annuity market sales in the United States were $56.7 billion for the six months ended June 30, 2017, a 11.1% decrease from the same time period in 2016. This decrease was driven by a decrease in traditional fixed rate deferred annuities of $3.1 billion, or 13.8% over prior year fixed rate deferred annuities, and a decrease in FIA products of $2.7 billion, or 8.5% over prior year FIAs. In the total fixed annuity market, for the six months ended June 30, 2017 (the most recent period for which specific market share data is available), we were the 5th largest company based on sales with a 4.8% market share and $2.7 billion in sales. For the six months ended June 30, 2016, our market share was 2.8% with sales of $1.8 billion.

FIAs are one of the fastest growing annuity products having grown from $27.3 billion in 2005 to $60.9 billion in sales for the year ended December 31, 2016. According to LIMRA, for the six months ended June 30, 2017 (the most recent period for which specific market share data is available), we were the 2nd largest provider of FIAs in terms of sales, and our market share for the same period was 8.4% with sales of $2.5 billion. For the six months ended June 30, 2016, our market share was 5.0% with sales of $1.6 billion.

Regulatory Developments

Department of Labor

On April 6, 2016, the U.S. Department of Labor (DOL) issued a new regulation (fiduciary rule) more broadly defining the circumstances under which a person is considered to be a fiduciary by reason of giving investment advice or recommendations to an employee benefit plan or a plan's participants or to IRA holders. In addition to releasing the investment advice regulation, the DOL: (1) issued a new prohibited transaction class exemption titled the "Best Interest Contract Exemption," to be used in connection with the sale of FIAs or variable annuities, and (2) updated the previously prohibited transaction class exemption 84-24, to be used in connection with the sale of traditional fixed rate annuities. The April 10, 2017 applicability date for the fiduciary rule was delayed to June 9, 2017 in response to a memorandum issued to the DOL by President Trump. In addition to delaying the applicability date of the fiduciary rule, the DOL revised both exemptions, most notably allowing all annuity products, fixed, FIAs and variable annuities, to rely on an updated version of the prohibited transaction class exemption 84-24 from June 9, 2017 through January 1, 2018, at which time full implementation of the fiduciary rule is required. On August 9, 2017, the DOL submitted to the Office of Management and Budget a proposal to extend the January 1, 2018 full implementation date to July 1, 2019. In order for the extension to become effective, the proposal must be finalized and issued in the Federal Register before January 1, 2018. We cannot predict with any certainty the impact of the new fiduciary rule and exemptions, but the fiduciary rule and exemptions could alter the way our products and services are marketed and sold, particularly to purchasers of IRAs and individual retirement annuities. If implemented in its current form, the fiduciary rule could have an adverse effect on our ability to write new business. In addition, the NAIC has implemented a working group to update the current Suitability in Annuity Transactions Model Regulation to address the fiduciary standard and the SEC has indicated that it may propose rules creating a uniform standard of conduct applicable to broker-dealers and investment advisers. If either or both of these entities create rules or standards applicable to our business, it may affect the distribution of our products. Should the SEC or NAIC rules or standards, if adopted, not align with each other or the finalized fiduciary rule, the distribution of our products could be further complicated.

Tax Reform

We continue to face material uncertainty regarding the substance and timing of tax reform. See *Part II-Other Information-Item1A. Risk Factors-Risks Relating to Taxation-Changes in the U.S. tax law might adversely affect us or our shareholders* for further discussion regarding tax reform.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Key Operating and Non-GAAP Measures

In addition to our results presented in accordance with GAAP, our results of operations include certain non-GAAP measures commonly used in our industry. Management believes the use of these non-GAAP measures, together with the relevant GAAP measures, provides information that may enhance an investor's understanding of our results of operations and the underlying profitability drivers of our business. The majority of these non-GAAP measures are intended to remove from the results of operations the impact of market volatility (other than with respect to alternative investments) as well as integration, restructuring and certain other expenses which are not part of our underlying profitability drivers or likely to re-occur in the foreseeable future, as such items fluctuate from period-to-period in a manner inconsistent with these drivers. These measures should be considered supplementary to our results in accordance with GAAP and should not be viewed as a substitute for the GAAP measures. See *Non-GAAP Measure Reconciliations* for the appropriate reconciliations to the GAAP measures.

Operating Income, Net of Tax

Operating income, net of tax, a commonly used term in the life insurance industry, is a non-GAAP measure used to evaluate our financial performance excluding market volatility and expenses related to integration, restructuring, stock compensation, and other expenses. Our operating income, net of tax, equals net income available to AHL's shareholders adjusted to eliminate the impact of the following (collectively, the "non-operating adjustments"):

- **Investment Gains (Losses), Net of Offsets-**Investment gains (losses), net of offsets, consist of the realized gains and losses on the sale of AFS securities, the change in assumed modco and funds withheld reinsurance embedded derivatives, unrealized gains and losses, impairments, and other investment gains and losses. Unrealized, impairments and other investment gains and losses are comprised of the fair value adjustments of trading securities (other than CLOs) and investments held under the fair value option, derivative gains and losses not hedging FIA index credits, and the net OTTI impacts recognized in operations net of the change in AmerUs Closed Block fair value reserve related to the corresponding change in fair value of investments and the change in unit linked reserves related to the corresponding trading securities. Investment gains and losses are net of offsets related to DAC, DSI, and VOBA amortization and changes to guaranteed living withdrawal benefits (GLWB) and guaranteed minimum death benefits (GMDB) reserves (together, GLWB and GMDB reserves represent rider reserves) as well as the MVAs associated with surrenders or terminations of contracts.

- **Change in Fair Values of Derivatives and Embedded Derivatives - FIAs, Net of Offsets-**Impacts related to the fair value accounting for derivatives hedging the FIA index credits and the related embedded derivative liability fluctuate from period-to-period. The index reserve is measured at fair value for the current period and all periods beyond the current policyholder index term. However, the FIA hedging derivatives are purchased to hedge only the current index period. Upon policyholder renewal at the end of the period, new FIA hedging derivatives are purchased to align with the new term. The difference in duration between the FIA hedging derivatives and the index credit reserves creates a timing difference in earnings. This timing difference of the FIA hedging derivatives and index credit reserves is included as a non-operating adjustment, net of offsets related to DAC, DSI, and VOBA amortization and changes to rider reserves.

We primarily hedge with options that align with the index terms of our FIA products (typically 1-2 years). From an economic basis, we believe this is suitable because policyholder accounts are credited with index performance at the end of each index term. However, because the "value of an embedded derivative" in an FIA contract is longer-dated, there is a duration mismatch which may lead to mismatches for accounting purposes.

- **Integration, Restructuring, and Other Non-operating Expenses-**Integration, restructuring, and other non-operating expenses consist of restructuring and integration expenses related to mergers and acquisitions as well as certain other expenses which are not part of our core operations or likely to re-occur in the foreseeable future.

- **Stock Compensation Expense-**Stock compensation expenses associated with our share incentive plans, excluding our long term incentive plan, are not part of our core operating expenses and fluctuate from time to time due to the structure of our plans.

- **Bargain Purchase Gain-**Bargain purchase gains associated with acquisitions are adjustments to net income as they are not consistent with our core operations.

- **Income Taxes (Expense) Benefit - Non-operating-**The non-operating income tax expense is comprised of the appropriate jurisdiction's tax rate applied to the non-operating adjustments that are subject to income tax.

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We consider these non-operating adjustments to be meaningful adjustments to net income available to AHL's shareholders for the reasons discussed in greater detail above. Operating income, net of tax excluding notable items equals net income available to AHL's shareholders adjusted for non-operating adjustments and certain notable items in the period that facilitate the evaluation of our underlying profitability. Accordingly, we believe using these measures which excludes the impact of these items is effective in analyzing the trends in our results of operations. Together with net income available to AHL's shareholders, we believe operating income, net of tax, and operating income, net of tax excluding notable items provide meaningful financial metrics that help investors understand our underlying results and profitability. Operating income, net of tax, and operating income, net of tax excluding notable items should not be used as a substitute for net income available to AHL's shareholders.

ROE Excluding AOCI and Operating ROE Excluding AOCI

ROE excluding AOCI and operating ROE excluding AOCI are non-GAAP measures used to evaluate our financial performance excluding the impacts of AOCI. AOCI fluctuates period-to-period in a manner inconsistent with our underlying profitability drivers as the majority of such fluctuation is related to the market volatility of the unrealized gains and losses associated with our AFS securities. Once we have reinvested acquired blocks of businesses, we typically buy and hold AFS investments to maturity throughout the duration of market fluctuations, therefore, the period-over-period impacts in unrealized gains and losses are not necessarily indicative of current operating fundamentals or future performance. Accordingly, we believe using measures which exclude AOCI is useful in analyzing the trends of our operations. To enhance the ability to analyze these measures across periods, interim periods are annualized. ROE excluding AOCI and operating ROE excluding AOCI should not be used as a substitute for ROE. However, we believe the adjustments to equity are significant to gaining an understanding of our overall results of operations.

Operating Earnings Per Share - Operating Diluted Class A, Weighted Average Shares Outstanding - Operating Diluted Class A Common Shares and Book Value Per Share Excluding AOCI

Operating earnings per share - operating diluted Class A, weighted average shares outstanding - operating diluted Class A common shares and book value per share excluding AOCI are non-GAAP measures used to evaluate our financial performance and financial condition. The non-GAAP measures adjust the number of shares included in the corresponding GAAP measures to reflect the conversion or settlement of all shares and other stock-based awards outstanding. We believe using these measures represent an economic view of our share counts and provide a simplified and consistent view of our outstanding shares. Operating earnings per share - operating diluted Class A is calculated as the operating income, net of tax over the weighted average shares outstanding - operating diluted Class A common shares. Book value per share excluding AOCI is calculated as the ending AHL shareholders' equity excluding AOCI divided by the operating diluted Class A common shares outstanding. Our Class B common shares are economically equivalent to Class A common shares and can be converted to Class A common shares on a one-for-one basis at any time. Our Class M common shares are in the legal form of shares but economically function as options as they are convertible into Class A shares after vesting and settlement of the conversion price. In calculating Class A diluted earnings per share on a GAAP basis, we are required to apply sequencing rules to determine the dilutive impacts, if any, of our Class B common shares, Class M common shares and any other stock-based awards. To the extent our Class B common shares, Class M common shares and/or any other stock-based awards are not dilutive they are excluded. Weighted average shares outstanding - operating diluted Class A common shares and operating diluted Class A common shares outstanding assume conversion or settlement of all outstanding items that are able to be converted to or settled in Class A common shares, including the impacts of Class B common shares on a one-for-one basis, the impacts of all Class M common shares net of the conversion price and any other stock-based awards, but excluding any awards for which the exercise or conversion price exceeds the market value of our Class A common shares on the applicable measurement date. For certain historical periods, Class M shares were not included due to issuance restrictions which were contingent upon our IPO. Operating earnings per share - operating diluted Class A, weighted average shares outstanding - operating diluted Class A common shares and book value per share excluding AOCI should not be used as a substitute for basic earnings per share - Class A common shares, basic weighted average shares outstanding - Class A or book value per share. However, we believe the adjustments to the shares and equity are significant to gaining an understanding of our overall results of operations and financial condition.

Retirement Services Net Investment Earned Rate, Cost of Crediting and Investment Margin on Deferred Annuities

Investment margin is a key measurement of the financial health of our Retirement Services core deferred annuities. Investment margin on our deferred annuities is generated from the excess of our net investment earned rate over the cost of crediting to our policyholders. Net investment earned rate is a key measure of investment returns and cost of crediting is a key measure of the policyholder benefits on our deferred annuities.

Net investment earned rate is a non-GAAP measure we use to evaluate the performance of our invested assets that does not correspond to GAAP net investment income. Net investment earned rate is computed as the income from our invested assets divided by the average invested assets for the relevant period. To enhance the ability to analyze these measures across periods, interim periods are annualized. The adjustments to arrive at our net investment earned rate add alternative investment gains and losses, gains and losses related to trading securities for CLOs, net VIE impacts (revenues, expenses and noncontrolling interest) and the change in reinsurance embedded derivatives. We include the income and assets supporting our assumed reinsurance by evaluating the underlying investments of the funds withheld at interest receivables and we include the net investment income from those underlying investments which does not correspond to the GAAP presentation of reinsurance embedded derivatives. We exclude the income and assets supporting business that we have exited through ceded reinsurance including funds withheld agreements. We believe the adjustments for reinsurance provide a net investment earned rate on the assets for which we have economic exposure.

Cost of crediting is the interest credited to the policyholders on our fixed strategies as well as the option costs on the index annuity strategies. With respect to FIAs, the cost of providing index credits includes the expenses incurred to fund the annual index credits, and where applicable, minimum guaranteed interest credited. The interest credited on fixed strategies and option costs on index annuity strategies are divided by the average account value of our deferred annuities. Our average account values are averaged over the number of quarters in the relevant period to obtain our cost of crediting for such period. To enhance the ability to analyze these measures across periods, interim periods are annualized.

Net investment earned rate, cost of crediting and investment margin on deferred annuities are non-GAAP measures we use to evaluate the profitability of our core deferred annuities business. Deferred annuities include our fixed rate annuities and FIAs, which account for approximately 78% of our Retirement Services reserve liabilities as of September 30, 2017. We believe measures like net investment earned rate, cost of crediting and investment margin on deferred annuities are effective in analyzing the trends of our core business operations, profitability and pricing discipline. While we believe net investment earned rate, cost of crediting and investment margin on deferred annuities are meaningful financial metrics and enhance our understanding of the underlying profitability drivers of our business, they should not be used as a substitute for net investment income and interest sensitive contract benefits presented under GAAP.

Invested Assets

In managing our business we analyze invested assets, which do not correspond to total investments, including investments in related parties, as disclosed in our consolidated financial statements and notes thereto. Invested assets represent the investments that directly back our policyholder liabilities as well as surplus assets. Invested assets is used in the computation of net investment earned rate, which allows us to analyze the profitability of our investment portfolio. Invested assets includes (a) total investments on the consolidated balance sheets with AFS securities at cost or amortized cost, excluding derivatives, (b) cash and cash equivalents and restricted cash, (c) investments in related parties, (d) accrued investment income, (e) the consolidated VIE assets, liabilities and noncontrolling interest, (f) net investment payables and receivables and (g) policy loans ceded (which offset the direct policy loans in total investments). Invested assets also excludes assets associated with funds withheld liabilities related to business exited through reinsurance agreements and derivative collateral (offsetting the related cash positions). We include the underlying investments supporting our assumed funds withheld and modco agreements in our invested assets calculation in order to match the assets with the income received. We believe the adjustments for reinsurance provide a view of the assets for which we have economic exposure. Our invested assets are averaged over the number of quarters in the relevant period to compute our net investment earned rate for such period.

Reserve Liabilities

In managing our business we also analyze reserve liabilities, which does not correspond to total liabilities as disclosed in our consolidated financial statements and notes thereto. Reserve liabilities represents our policyholder liability obligations net of reinsurance and is used to analyze the costs of our liabilities. Reserve liabilities includes (a) the interest sensitive contract liabilities, (b) future policy benefits, (c) dividends payable to policyholders, and (d) other policy claims and benefits, offset by reinsurance recoverables, excluding policy loans ceded. Reserve liabilities is net of the ceded liabilities to third-party reinsurers as the costs of the liabilities are passed to such reinsurers and therefore we have no net economic exposure to such liabilities, assuming our reinsurance counterparties perform under our agreements. The majority of our ceded reinsurance is a result of reinsuring large blocks of life business following acquisitions. For such transactions, GAAP requires the ceded liabilities and related reinsurance recoverables to continue to be recorded in our consolidated financial statements despite the transfer of economic risk to the counterparty in connection with the reinsurance transaction.

Sales

Sales statistics do not correspond to revenues under GAAP, but are used as relevant measures to understand our business performance as it relates to deposits generated during a specific period of time. Our sales statistics include deposits for fixed rate annuities and FIAs and align with the LIMRA definition of all money paid into an individual annuity, including money paid into new contracts with initial purchase occurring in the specified period and existing contracts with initial purchase occurring prior to the specified period (excluding internal transfers).

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Consolidated Results of Operations

The following summarizes the consolidated results of operations:

	Three months ended September 30,		Nine months ended September 30,	
(In millions, except percentages)	2017	2016	2017	2016
Revenues	$ 1,473	$ 1,272	$ 4,855	$ 3,039
Benefits and expenses	1,179	1,234	3,818	2,708
Income before income taxes	294	38	1,037	331
Income tax expense (benefit)	20	(88)	53	(73)
Net income	274	126	984	404
Less: Net income attributable to noncontrolling interests	-	-	-	-
Net income available to AHL shareholders	$ 274	$ 126	$ 984	$ 404
Operating income, net of tax by segment				
Retirement Services	$ 244	$ 142	$ 786	$ 535
Corporate and Other	(13)	(25)	(9)	(87)
Operating income, net of tax	231	117	777	448
Non-operating adjustments				
Realized gains (losses) on sale of AFS securities	29	18	64	37
Unrealized, impairments, and other investment gains (losses)	(3)	(12)	(15)	(36)
Assumed modco and funds withheld reinsurance embedded derivatives	20	73	153	144
Offsets to investment gains (losses)	(21)	(21)	(62)	(47)
Investment gains (losses), net of offsets	25	58	140	98
Change in fair values of derivatives and embedded derivatives - FIAs, net of offsets	46	(1)	155	(88)
Integration, restructuring and other non-operating expenses	(14)	(2)	(34)	(8)
Stock compensation expense	(7)	(46)	(30)	(59)
Income tax (expense) benefit - non-operating	(7)	-	(24)	13
Total non-operating adjustments	43	9	207	(44)
Net income available to AHL shareholders	$ 274	$ 126	$ 984	$ 404
ROE	13.0%	7.5%	16.9%	8.7%
ROE excluding AOCI	14.9%	8.4%	18.7%	9.2%
Operating ROE excluding AOCI	12.5%	7.9%	14.8%	10.2%

We operate our core business strategies out of one reportable segment, Retirement Services. In addition to Retirement Services, we report certain other operations in Corporate and Other. See *Results of Operations by Segment* for further detail on the results of the segments.

Three Months Ended September 30, 2017 Compared to the Three Months Ended September 30, 2016

In this section, references to 2017 refer to the three months ended September 30, 2017 and references to 2016 refer to the three months ended September 30, 2016.

Net Income Available to AHL Shareholders

Net income available to AHL shareholders increased by $148 million, or 117%, to $274 million for the three months ended September 30, 2017 from $126 million in the prior period. ROE and ROE excluding AOCI increased to 13.0% and 14.9%, respectively, from 7.5% and 8.4% in 2016, respectively. The increase in net income available to AHL shareholders was driven by a $114 million increase in operating income, net of tax, a favorable net change in FIA derivatives and a favorable decrease in stock compensation expense, partially offset by an unfavorable change in investment gains related to the assumed reinsurance embedded derivative. The net change in FIA derivatives was primarily driven by the performance of the equity indices to which our FIA policies are linked and a favorable change in model and assumption impacts compared to the prior year. The decrease in stock compensation expense was primarily due to the expense resulting from the accelerated vesting of shares in 2016. The change in the assumed reinsurance embedded derivative impacts were related to more favorable credit spread tightening in 2016.

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Our annual process of unlocking assumptions resulted in a decrease in pre-tax income of $33 million compared to a decrease of $171 million in 2016.

Operating Income, Net of Tax

Operating income, net of tax increased by $114 million, or 97%, to $231 million for the three months ended September 30, 2017 from $117 million in the prior period. Operating income, net of tax, excluding notable items was $254 million, an increase of $85 million, or 50%, over the prior year. Operating ROE excluding AOCI was 12.5%, up from 7.9% in the prior period. The increase in operating income, net of tax, excluding notable items was driven by higher investment income. Investment income increased due to growth in our Retirement Services invested assets of $6.4 billion and higher short-term interest rates resulting in increased floating rate investment income.

Notable items for the quarter included unlocking, out of period actuarial adjustments of $13 million and a $17 million loss from our German operation compared to a loss of $7 million in the prior year. Our annual unlocking of assumptions resulted in an increase to other liability costs of $20 million compared to an increase of $158 million in prior year. The tax effect of these notable items for the quarter was $1 million compared to $11 million in the prior year. Additionally, in 2016 we recognized a $102 million deferred tax valuation allowance release.

Our consolidated net investment earned rate was 4.45% in three months ended September 30, 2017, an increase from 4.40% in the prior period, primarily attributed to the strong performance from our fixed income and other investment portfolios. Our alternative investment net investment earned rate was 9.07% in three months ended September 30, 2017, a decrease from 9.56% in the prior period as the prior year benefited from higher credit fund income due to more favorable credit spread tightening which was partially offset by decline in the market value of public equity positions in one of our funds in the prior year.

Revenues

Total revenue increased by $201 million to $1.5 billion in the three months ended September 30, 2017 from $1.3 billion in the prior period. The increase was driven by favorable changes in investment related gains and losses, an increase in net investment income and a favorable change in VIE investment related gains and losses.

Investment related gains and losses increased by $93 million to $473 million in the three months ended September 30, 2017 from $380 million in the prior period, primarily due to the change in fair value of FIA hedging derivatives, partially offset by the change in assumed reinsurance embedded derivatives. The change in fair value of FIA hedging derivatives increased by $167 million driven by the performance of the indices upon which our call options are based. The majority of our call options are based on the S&P 500 index which experienced a 4.0% increase in 2017, compared to an 3.3% increase in 2016. The assumed reinsurance embedded derivatives are based on the change in the fair value of the underlying investments held in modco and funds withheld portfolios (see *Note 3 - Derivative Instruments* to the condensed consolidated financial statements) which decreased by $61 million driven by the change in reinsurance embedded derivatives in the three months ended September 30, 2017, primarily due to the prior year benefiting from both credit spreads tightening and a decrease in U.S. treasury rates.

Net investment income increased by $77 million to $820 million in the three months ended September 30, 2017 from $743 million in the prior period, primarily driven by an increase in fixed income and other investment income. The increase in fixed income and other investment income was driven by earnings from growth in our investment portfolio attributed to a strong increase in deposits over the prior twelve months and higher short-term interest rates resulting in higher floating rate investment income.

VIE investment related gains and losses increased by $33 million to $17 million in the three months ended September 30, 2017 from $(16) million in the prior period, primarily driven by losses in the prior year resulting from a decline in market value of public equity positions in one of our funds, partially offset by the prior year benefiting from higher credit fund income due to more favorable credit spread tightening.

Benefits and Expenses

Total benefits and expenses decreased by $55 million to $1.2 billion in the three months ended September 30, 2017 from $1.2 billion in the prior period. The decrease was driven by a decrease in future policy benefits, a decrease in DAC, DSI and VOBA amortization and lower policy and other operating expenses, offset by an increase in interest sensitive contract benefits.

Future policy and other policy benefits decreased by $132 million to $259 million in the three months ended September 30, 2017 from $391 million in the prior period, primarily attributable to a favorable change in the rider reserves and a favorable change in AmerUs Closed Block fair value liability. The favorable change in rider reserves of $126 million was primarily driven by a decrease of $84 million related to our annual unlocking of assumptions and an unfavorable impact from higher than expected persistency in the prior year, partially offset by the growth in the block of business. Unlocking in the third quarter of 2017 was unfavorable $49 million related to impacts of the net investment earned rate and mortality assumptions, while 2016 unlocking impact was unfavorable by $133 million. The favorable change in the AmerUs Closed Block fair value liability of $33 million was primarily driven by higher earnings on the block of business compared to prior year. We have elected the fair value option to value the AmerUs Closed Block whereby the fair value of liabilities is the sum of the fair value of the assets plus our cost of capital in the AmerUs Closed Block.

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DAC, DSI and VOBA amortization decreased by $40 million to $93 million for the three months ended September 30, 2017 from $133 million in the prior period, primarily attributable to the $54 million favorable change in unlocking of assumptions of our DAC, DSI and VOBA assets, partially offset by growth in the FIA block increasing our DAC asset. Unlocking in the third quarter of 2017 was favorable $16 million primarily related to impacts of the net investment earned rate and mortality assumptions, while the 2016 unlocking impact was unfavorable by $38 million.

Policy and other operating expenses decreased by $22 million to $158 million in the three months ended September 30, 2017 from $180 million in the prior period, primarily due to a decrease in stock compensation expense of $39 million driven by the expense resulting from the accelerated vesting of shares in the prior year, partially offset by higher integration, restructuring and other non-operating expenses mainly due to Germany restructuring costs.

Interest sensitive contract benefits increased by $130 million to $621 million in the three months ended September 30, 2017 from $491 million in the prior period, primarily due to the change in FIA fair value embedded derivatives. The change in FIA fair value embedded derivatives increased by $138 million, primarily driven by the performance of the equity indices to which our FIA policies are linked, primarily the S&P 500 index, which experienced a 4.0% increase in 2017, compared to a 3.3% increase in the prior period. Additionally, a favorable change in model and assumption impacts compared to the prior year and growth in the FIA block attributed to the increase.

Taxes

Income tax expense increased by $108 million to $20 million in the three months ended September 30, 2017 from a benefit of $88 million in the prior period. The increase was primarily driven by a release of a deferred tax valuation allowance of $102 million in third quarter of 2016 and the increase in income subject to U.S. income taxes of $20 million, or approximately $7 million of tax based on a 35% U.S. statutory rate. During 2016, we identified a tax plan that, when implemented, will allow us to use a significant portion of the U.S. non-life insurance companies' net operating losses, which are scheduled to expire beginning in 2022.

Our effective tax rates were 7% in three months ended September 30, 2017 and (232)% in the prior period. Our effective tax rates may vary year-to-year depending upon the relationship of income and loss subject to tax compared to consolidated income and loss before income taxes.

Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016

In this section, references to 2017 refer to the nine months ended September 30, 2017 and references to 2016 refer to the nine months ended September 30, 2016.

Net Income Available to AHL Shareholders

Net income available to AHL shareholders increased by $580 million, or 144%, to $984 million for the nine months ended September 30, 2017 from $404 million in the prior period. ROE and ROE excluding AOCI increased to 16.9% and 18.7%, respectively, from 8.7% and 9.2% in 2016, respectively. The increase in net income available to AHL shareholders was driven by a $329 million increase in operating income, net of tax, a favorable net change in FIA derivatives and favorable investment gain and losses. The net change in FIA derivatives was primarily driven by the performance of the equity indices to which our FIA policies are linked, year-over-year change in discount rates and a favorable change in model and assumption impacts compared to the prior year. Investment gains and losses was favorable primarily driven by the higher realized gains on the sale of securities and favorable change in derivative and foreign currency gains and losses.

Operating Income, Net of Tax

Operating income, net of tax increased by $329 million, or 73%, to $777 million for the nine months ended September 30, 2017 from $448 million in the prior period. Operating ROE excluding AOCI was 14.8%, up from 10.2% in the prior period. The increase in operating income, net of tax, was primarily driven by a strong increase in investment income and lower other liability costs. Additionally, in 2016 we recognized a $102 million deferred tax valuation allowance release. The increase in investment income was primarily due to growth in our Retirement Services invested assets of $6.4 billion, higher short-term interest rates resulting in higher floating rate investment income, proceeds from a bond previously written down and higher alternative investment income, partially offset by lower bond call income. The increase in alternative investment income was primarily driven by higher income from our investment in AmeriHome, higher real estate income and a decline in the market value of public equity positions in one of our funds in the prior year, partially offset by lower credit fund income. Cost of crediting was higher by $40 million due to growth in our deferred annuity block of business which was partially offset by recent rate actions and lower option costs. The lower other liability costs were primarily due to lower DAC, DSI, VOBA and rider reserves attributed to unlocking and favorable impacts related to improved equity market performance, partially offset by growth in the block of business and higher gross profits. Our annual unlocking of assumptions resulted in an increase to other liability costs of $20 million compared to an increase of $158 million in prior year.

Our consolidated net investment earned rate was 4.55% in the nine months ended September 30, 2017, an increase from 4.21% in the prior period, primarily attributed to strong performance from our fixed income and other investment portfolios and our alternative investment portfolio. Our alternative investment net investment earned rate was 9.92% in the nine months ended September 30, 2017, an increase from 5.51% in the prior period, primarily attributed to the strong performance of AmeriHome, higher real estate income and lower returns in the prior year due to a decline in the market value of public equity positions in one of our funds, partially offset by lower credit fund income.

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Revenues

Total revenue increased by $1.9 billion to $4.9 billion in the nine months ended September 30, 2017 from $3.0 billion in the prior period. The increase was driven by favorable changes in investment related gains and losses, an increase in premiums, an increase in net investment income and an increase in VIE investment related gains and losses.

Investment related gains and losses increased by $1.1 billion to $1.6 billion in the nine months ended September 30, 2017 from $523 million in the prior period, primarily due to the change in fair value of FIA hedging derivatives, the change in assumed reinsurance embedded derivatives, higher realized gains on AFS securities and other derivative and foreign currency gains and losses. The change in fair value of FIA hedging derivatives increased by $1.0 billion driven by the performance of the indices upon which our call options are based. The majority of our call options are based on the S&P 500 index which experienced a 12.5% increase in 2017, compared to an 6.1% increase in 2016. The assumed reinsurance embedded derivatives increased by $31 million driven by growth in the reinsurance block, partially offset by the prior year benefiting from both credit spreads tightening and a decrease in U.S. treasury rates. The increase in investment gains and losses was partially offset by the change in unrealized gains and losses on trading securities which was comprised of an unfavorable decrease in AmerUs Closed Block assets of $77 million related to higher unrealized gains in the prior year due to the decrease in U.S. treasury rates partially offset by $18 million of gains related to unit-linked investments.

Premiums increased by $298 million to $503 million in the nine months ended September 30, 2017 from $205 million in the prior period, driven by approximately $320 million of premiums from our inaugural PRT transaction.

Net investment income increased by $290 million to $2.4 billion in the nine months ended September 30, 2017 from $2.1 billion in the prior period, primarily driven by a strong increase in fixed income and other investment income and an increase in alternative investment income. The increase in fixed income and other investment income was driven by earnings from growth in our investment portfolio attributed to a strong increase in deposits over the prior twelve months, higher short-term interest rates resulting in higher floating rate investment income and proceeds on the recovery of a bond previously written down, partially offset by lower bond call income. The increase in alternative investment income was primarily due to the strong performance in AmeriHome, driven by increases in its overall balance sheet size, origination volumes and retained mortgage servicing rights, as well as an increase in real estate income.

VIE investment related gains and losses increased by $99 million to $29 million in the nine months ended September 30, 2017 from $(70) million in the prior period, primarily driven by losses in the prior year resulting from a decline in market value of public equity positions in one of our funds, partially offset by the prior year benefiting from a favorable increase in the fair value of certain underlying investments in three of our consolidated VIEs, reflecting the removal of liquidity discounts related to marketability assumptions used in the determination of the fair value of certain of the investments.

Benefits and Expenses

Total benefits and expenses increased by $1.1 billion to $3.8 billion in the nine months ended September 30, 2017 from $2.7 billion in the prior period. The increase was driven by an unfavorable change in interest sensitive contract benefits, an increase in future policy and other policy benefits, an increase in DAC, DSI and VOBA amortization, an increase in dividends payable to policyholders and higher policy and other operating expenses.

Interest sensitive contract benefits increased by $785 million to $1.9 billion in the nine months ended September 30, 2017 from $1.1 billion in the prior period, primarily due to the change in FIA fair value embedded derivatives and higher interest credited to policyholders related to strong growth in deposits. The change in FIA fair value embedded derivatives increased by $728 million primarily driven by the performance of the equity indices to which our FIA policies are linked, primarily the S&P 500 index, which experienced a 12.5% increase in 2017, compared to a 6.1% increase in the prior period. Additionally, the FIA fair value embedded derivatives were impacted by a favorable change in discount rates used in our embedded derivative calculations as the decrease in the prior year were more favorable than the decrease in 2017, as well as a favorable change in model and assumption impacts compared to the prior year.

Future policy and other policy benefits increased by $178 million to $1.1 billion in the nine months ended September 30, 2017 from $873 million in the prior period, primarily attributable to approximately $320 million of policyholder obligations from our inaugural PRT transaction, partially offset by a favorable change in AmerUs Closed Block fair value liability and a favorable change in the rider reserves. The favorable change in the AmerUs Closed Block fair value liability of $120 million was primarily driven by higher unrealized gains in the prior year primarily due to the decrease in U.S. treasury rates and earnings on the block of business. We have elected the fair value option to value the AmerUs Closed Block whereby the fair value of liabilities is the sum of the fair value of the assets plus our cost of capital in the AmerUs Closed Block. The favorable change in rider reserves of $65 million was primarily driven by a decrease related to our annual unlocking of assumptions of $84 million and favorable impacts related to improved equity market performance compared to the prior period resulting in increased index credits to policyholder accounts, which lowered the amount needed to fund the rider reserve. The favorable change in rider reserves was partially offset by growth in the block of business, higher gross profits and an increase related to the net change in FIA derivatives. Unlocking in 2017 was unfavorable $49 million related to impacts of the net investment earned rate and mortality assumptions, while 2016 unlocking impacts were unfavorable by $133 million.

DAC, DSI and VOBA amortization increased by $64 million to $293 million in the nine months ended September 30, 2017 from $229 million in the prior period, primarily due to the favorable net change in FIA derivatives and growth in the DAC asset balance related to block growth, partially offset by $54 million favorable change in unlocking of assumptions as well as favorable impacts related to improved equity market performance. Unlocking in 2017 was favorable $16 million primarily related to impacts of the net investment earned rate and mortality assumptions, while the 2016 unlocking impacts were unfavorable by $38 million.

Dividends to policyholders increased by $64 million to $129 million in the nine months ended September 30, 2017 from $65 million in the prior period, primarily attributed to higher Germany dividends to policyholders due to a timing difference in the recognition of participating income under US GAAP compared to German GAAP.

Policy and other operating expenses increased by $32 million to $479 million in 2017 from $447 million in 2016, primarily attributed to higher integration, restructuring and other non-operating expenses mainly due to Germany restructuring costs, partially offset by lower stock compensation due to the expense resulting from the accelerated vesting of shares in the prior year. The remaining increase was primarily attributed to growing our business and expanding our distribution channels.

Taxes

Income tax expense increased by $126 million to $53 million in nine months ended September 30, 2017 from a benefit of $73 million in the prior period. The increase was primarily driven by a release of a deferred tax valuation allowance of $102 million in third quarter of 2016 and the increase in income subject to U.S. income taxes of $87 million, or approximately $31 million of tax based on a 35% U.S. statutory rate, partially offset by a Germany income tax benefit in 2017.

Our effective tax rates were 5% in nine months ended September 30, 2017 and (22)% in the prior period. Our effective tax rates may vary year-to-year depending upon the relationship of income and loss subject to tax compared to consolidated income and loss before income taxes.

Results of Operations by Segment

The following summarizes our operating income, net of tax by segment:

	Three months ended September 30,		Nine months ended September 30,	
(In millions, except percentages)	2017	2016	2017	2016
Operating income, net of tax by segment				
Retirement Services	$ 244	$ 142	$ 786	$ 535
Corporate and Other	(13)	(25)	(9)	(87)
Operating income, net of tax	$ 231	$ 117	$ 777	$ 448
Retirement Services operating ROE excluding AOCI	18.5%	13.0%	21.3%	16.8%

Retirement Services

Retirement Services is comprised of our United States and Bermuda operations which issue and reinsure retirement savings products and institutional products. Retirement Services has retail operations, which provide annuity retirement solutions to our policyholders. Retirement Services also has reinsurance operations, which reinsure MYGAs, FIAs, traditional one year guarantee fixed deferred annuities, immediate annuities and institutional products from our reinsurance partners. In addition, our institutional operations, including funding agreements and PRT obligations, are included in our Retirement Services segment.

Three Months Ended September 30, 2017 Compared to the Three Months Ended September 30, 2016

Operating Income, Net of Tax

Operating income, net of tax increased by $102 million, or 72%, to $244 million in the three months ended September 30, 2017, from $142 million in the prior period. Operating income, net of tax, excluding notable items was $250 million, an increase of $63 million, or 34%, over the prior year. Operating ROE excluding AOCI was 18.5%, up from 13.0% in the prior period. The increase in operating income, net of tax excluding notable items was primarily driven by higher fixed and other investment income, partially offset by lower alternative investment income.

Net investment income increased $57 million driven by higher fixed income and other investment income, partially offset by lower alternative investment income. Fixed income and other investment income increased primarily attributed to earnings from growth in invested assets of $6.4 billion and higher short-term interest rates resulting in higher floating rate investment income. Alternative investment income decreased primarily due to the prior year benefiting from higher credit fund income due to more favorable credit spread tightening.

Notable items for the quarter included unlocking and out of period actuarial adjustments of $13 million. Our annual unlocking of assumptions resulted in an increase to other liability costs of $20 million compared to an increase of $158 million in prior year. Unlocking in the third quarter of 2017 related to impacts of the net investment earned rate and mortality assumptions, while 2016 related to a decrease in the projected net investment earned rates and lower projected lapse rate assumptions. The tax effect of these notable items for the quarter was $1 million compared to $11 million in the prior year. Additionally, in 2016 we recognized a $102 million deferred tax valuation allowance release.

Investment Margin on Deferred Annuities

	Three months ended September 30,	
	2017	2016
Net investment earned rate	4.64%	4.75%
Cost of crediting	1.88%	1.96%
Investment margin on deferred annuities	2.76%	2.79%

Investment margin on deferred annuities decreased by 3 basis points to 2.76% in the three months ended September 30, 2017, from 2.79% in the prior period. The decrease in the investment margin on deferred annuities was driven by the decrease in net investment earned rate of 11 basis points, partially offset by a favorable decrease in cost of crediting of 8 basis points.

Net investment earned rate decreased due to the decrease in alternative investment net investment earned rate, partially offset by the increase in fixed income and other investment income earned rate. The fixed income and other net investment earned rate increased in the three months ended September 30, 2017, to 4.44% from 4.36% in the prior period primarily attributed to higher short-term interest rates resulting in higher floating rate investment income and higher cash balances during the three months ended September 30, 2016. The alternative investments net investments earned rate decreased to 9.79% in the three months ended September 30, 2017, from 14.26% in the prior period primarily attributed to the prior year benefiting from higher credit fund income due to more favorable credit spread tightening. The net investment earned rates continue to reflect impacts of holding approximately 28% of total invested assets in floating rate investments and 2% of invested assets in cash holdings to opportunistically capitalize on market dislocations.

Cost of crediting on deferred annuities decreased by 8 basis points to 1.88% in the three months ended September 30, 2017, from 1.96% in the prior period. The decrease in cost of crediting was driven by recent rate actions and lower option costs. We continue to focus on pricing discipline, managing interest rates credited to policyholders and managing the cost of options to fund the annual index credits on our FIA products.

Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016

Operating Income, Net of Tax

Operating income, net of tax increased by $251 million, or 47%, to $786 million in the nine months ended September 30, 2017, from $535 million in the prior period. Operating ROE excluding AOCI was 21.3%, up from 16.8% in the prior period. The increase in operating income, net of tax, was primarily driven by an increase in net investment income and lower other liability costs, partially offset by higher cost of crediting.

Net investment income increased $257 million driven primarily by earnings from growth in invested assets of $6.4 billion attributed to a strong increase in deposits over the prior twelve months, higher short-term interest rates resulting in higher floating rate investment income and proceeds on the recovery of a bond previously written down, partially offset by lower bond call income.

Other liability costs decreased $139 million driven by unlocking and favorable impacts related to improved equity market performance, partially offset by growth in the block of business and higher gross profits. Our annual unlocking of assumptions resulted in an increase to other liability costs of $20 million compared to an increase of $158 million in prior year. Unlocking in 2017 related to impacts of the net investment earned rate and mortality assumptions, while 2016 related to a decrease in the projected net investment earned rates and lower projected lapse rate assumptions. Additionally, in 2016 we recognized a $102 million deferred tax valuation allowance release.

Cost of crediting increased $40 million driven by growth in our deferred annuity block of business which was partially offset by recent rate actions and lower option costs.

Investment Margin on Deferred Annuities

	Nine months ended September 30,	
	2017	2016
Net investment earned rate	4.75%	4.64%
Cost of crediting	1.89%	1.97%
Investment margin on deferred annuities	2.86%	2.67%

Investment margin on deferred annuities increased by 19 basis points to 2.86% in nine months ended September 30, 2017, from 2.67% in the prior period. The increase in the investment margin on deferred annuities was driven by the increase in net investment earned rate of 11 basis points, showing strength in our investment portfolio, and a favorable decrease in cost of crediting of 8 basis points.

Net investment earned rate increased due to the increase in fixed income and other investment income earned rate. The fixed income and other net investment earned rate increased in the nine months ended September 30, 2017, to 4.50% from 4.38% in the prior period primarily attributed to higher short-term interest rates resulting in higher floating rate investment income, higher cash balances during the prior year and the proceeds from a bond previously written down, partially offset by lower bond call income. The alternative investments net investments earned rate remained consistent with prior year, 10.86% compared to 10.85% in the prior period, as higher income from our investment in AmeriHome was offset by lower credit fund income. The net investment earned rates continue to reflect impacts of holding approximately 28% of total invested assets in floating rate investments and 2% of invested assets in cash holdings to opportunistically capitalize on market dislocations.

Cost of crediting on deferred annuities decreased by 8 basis points to 1.89% in nine months ended September 30, 2017, from 1.97% in the prior period. The decrease in cost of crediting was driven by recent rate actions and lower option costs. We continue to focus on pricing discipline, managing interest rates credited to policyholders and managing the cost of options to fund the annual index credits on our FIA products.

Corporate and Other

Corporate and Other includes certain other operations related to our corporate activities and our German operations, which is primarily comprised of participating long-duration savings products. In addition to our German operations, included in Corporate and Other are corporate allocated expenses, merger and acquisition costs, debt costs, certain integration and restructuring costs, certain stock-based compensation and intersegment eliminations. In Corporate and Other, we also hold capital in excess of the level of capital we hold in Retirement Services to support our operating strategy.

Operating Income (Loss), Net of Tax

Operating loss, net of tax decreased by $12 million to $13 million in the three months ended September 30, 2017, from $25 million in the prior period. In the third quarter 2017, our German operation had an operating loss of $17 million, primarily driven by policyholder dividends related to a timing difference in recognition of participating income under U.S. GAAP compared to German GAAP. Operating income, net of tax excluding this notable item was $4 million, compared to a loss of $18 million in the prior year, excluding $7 million operating loss from our German operation. The increase in operating income, net of tax excluding this item was driven by alternative investment losses in the prior year resulting from a decline in the market value of public equity positions in one of our funds, partially offset by the prior year benefiting from higher credit fund income due to more favorable credit spread tightening.

Operating loss, net of tax decreased by $78 million to $9 million in the nine months ended September 30, 2017, from $87 million in the prior period. The decrease in operating loss, net of tax, was mainly driven by alternative investment losses in the prior year resulting from a decline in the market value of public equity positions in one of our funds, a decline in energy markets in the prior year, and higher CMBS fund income in the prior year. The higher alternative investment income was partially offset by a $28 million operating loss from our German operations, a decline of $27 million from the prior year, primarily driven by unfavorable policyholder dividends due to timing difference in the recognition of participating income under US GAAP compared to German GAAP.

Consolidated Investment Portfolio

We had consolidated investments, including related parties, of $81.2 billion and $72.4 billion as of September 30, 2017 and December 31, 2016, respectively. Our investment strategy seeks to achieve sustainable risk-adjusted returns through disciplined managing of investment characteristics with our long-duration liabilities and the diversification of risk. The investment strategies utilized by our investment managers focus primarily on a buy and hold asset allocation strategy that may be adjusted periodically in response to changing market conditions and the nature of our liability profile. The majority of our investment portfolio, excluding investments of our German subsidiary, are managed by AAM, an indirect subsidiary of Apollo founded for the express purpose of managing Athene’s portfolio. AAM provides a full suite of services for our investment portfolio, including direct investment management, asset allocation, mergers and acquisition asset diligence, and certain operational support services, including investment compliance, tax, legal and risk management support. Our relationship with AAM and Apollo allows us to take advantage of our generally illiquid liability profile by identifying investment opportunities with an emphasis on earning incremental yield by taking liquidity and complexity risk rather than assuming solely credit risk. The deep experience of the AAM investment team and Apollo’s credit portfolio managers assist us in sourcing and underwriting complex asset classes. AAM has selected a diverse array of corporate bonds and more structured, but highly rated asset classes. We also maintain holdings in floating rate and less rate-sensitive instruments, including CLOs, non-agency RMBS and various types of structured products. In addition to our fixed income portfolio, we opportunistically allocate 5-10% of our portfolio to alternative investments where we primarily focus on fixed income-like, cash flow-based investments.

Our invested assets, which are those which directly back our policyholder liabilities as well as surplus assets (as previously discussed in *Key Operating and Non-GAAP Measures*), were $78.8 billion and $71.8 billion as of September 30, 2017 and December 31, 2016, respectively. AAM manages, directly and indirectly, approximately $73.1 billion and AAME and affiliates sub-advises approximately $5.4 billion, which in the aggregate constitute the vast majority of our investment portfolio as of September 30, 2017, comprising a diversified portfolio of fixed maturity and other securities. Through our relationship with Apollo, AAM has identified unique investment opportunities for us. AAM’s knowledge of our funding structure and regulatory requirements allows it to design customized strategies and investments for our portfolio.

Our asset portfolio is managed within the limits and constraints set forth in our Investment and Credit Risk Policy. Under this policy, we set limits on investments in our portfolio by asset class, such as corporate bonds, emerging markets securities, municipal bonds, non-agency RMBS, CMBS, CLOs, commercial mortgage whole loans and mezzanine loans and investment funds. We also set credit risk limits for exposure to a single issuer that vary based on the issuer's ratings. In addition, our investment portfolio is constrained by its scenario-based capital ratio limit and its stressed liquidity limit.

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The following table presents the carrying values of our total investments and investments in related parties:

	September 30, 2017			December 31, 2016		
(In millions, except percentages)	Carrying Value		Percent of Total	Carrying Value		Percent of Total
AFS securities, at fair value						
Fixed maturity securities	$	58,516	72.2%	$	52,033	71.8%
Equity securities		318	0.4%		353	0.5%
Trading securities, at fair value		2,709	3.3%		2,581	3.6%
Mortgage loans, net of allowances		6,445	7.9%		5,470	7.5%
Investment funds		747	0.9%		689	1.0%
Policy loans		571	0.7%		602	0.8%
Funds withheld at interest		6,964	8.6%		6,538	9.0%
Derivative assets		1,982	2.4%		1,370	1.9%
Real estate		621	0.8%		542	0.7%
Short-term investments		108	0.1%		189	0.3%
Other investments		77	0.1%		81	0.1%
Total investments		79,058	97.4%		70,448	97.2%
Investment in related parties						
AFS securities at fair value						
Fixed maturity securities		409	0.5%		335	0.5%
Equity securities		-	-%		20	-%
Trading securities, at fair value		140	0.2%		195	0.3%
Investment funds		1,330	1.6%		1,198	1.7%
Short-term investments		8	-%		-	-%
Other investments		238	0.3%		237	0.3%
Total related party investments		2,125	2.6%		1,985	2.8%
Total investments, including related party	$	81,183	100.0%	$	72,433	100.0%

The increase in our total investments, including related parties, as of September 30, 2017 of $8.8 billion compared to December 31, 2016 was driven by strong growth in deposits, unrealized gains on AFS securities including related parties, an increase in derivative assets and reinvestment of earnings. The strong growth in deposits was attributed to $8.0 billion of organic growth for the nine months ended September 30, 2017, partially offset by liability outflows. Unrealized gains on AFS securities including related parties were $1.5 billion attributed to credit spreads tightening and U.S. treasury rates declining in the nine months ended September 30, 2017. Derivative assets increased by $612 million primarily attributed to an increase in equity markets during 2017 as the S&P 500 index increased by 12.5%.

Our investment portfolio consists largely of high quality fixed maturity securities, loans and short-term investments, as well as additional opportunistic holdings in investment funds and other instruments, including a small amount of equity holdings. Fixed maturity securities and loans include publicly issued corporate bonds, government and other sovereign bonds, privately placed corporate bonds and loans, mortgage loans, CMBS, RMBS, CLOs, and other asset-backed securities (ABS).

While the substantial majority of our investment portfolio has been allocated to corporate bonds and structured credit products, a key component of our investment strategy is the opportunistic acquisition of investment funds with attractive risk and return profiles. Our investment fund portfolio consists of funds that employ various strategies including real estate and other real assets funds, credit funds, private equity funds and hedge funds. We currently target investments that are fixed-income-like or income producing and that have embedded downside protection. We also prefer investment funds that have a high degree of co-investment, have a stated maturity value or have reduced volatility versus pure equity. A majority of our investments in traditional private equity investments and hedge funds are a result of the acquisition of Aviva USA, which had existing private equity and hedge fund investment portfolios at the time of acquisition. We also acquired certain investment funds from AAA Investor (which are classified as private equity investments and consolidated VIEs) as a one-time capital contribution by our largest shareholder in advance of the Aviva USA acquisition. With respect to investment fund portfolios that we receive in these transactions, we actively reinvest these investments in our preferred credit-oriented strategies over time as we liquidate these holdings.

We hold derivatives for economic hedging purposes to reduce our exposure to the cash flow variability of assets and liabilities, equity market risk, interest rate risk, credit risk, and to a lesser extent, foreign exchange risk. Our primary use of derivative instruments relates to providing the income needed to fund the annual indexed credits on our FIA products. We primarily use fixed indexed options to economically hedge FIA products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specific market index.

With respect to derivative positions, we transact with highly rated counterparties, and do not expect the counterparties to fail to meet their obligations under the contracts. We generally use industry standard agreements and annexes with bilateral collateral provisions to further reduce counterparty credit exposure.

AFS Securities

We invest with the intent to hold investments to maturity. In selecting investments we attempt to source investments that match our future cash flow needs. However, we may sell any of our investments in advance of maturity in order to timely satisfy our liabilities as they become due or in order to respond to a change in the credit profile or other characteristics of the particular investment.

AFS fixed maturity securities are carried at fair value on our condensed consolidated balance sheets. Changes in fair value for our AFS portfolio, net of related DAC, DSI and VOBA amortization and the change in rider reserves, are charged or credited to other comprehensive income, net of tax. Declines in fair value that are other than temporary are recorded as realized losses in the condensed consolidated statements of income, net of any applicable non-credit component of the loss, which is recorded as an adjustment to other comprehensive income.

The distribution of our AFS securities, including related parties, by type is as follows:

	September 30, 2017				
(In millions, except percentages)	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value	Percent of Total
Fixed maturity securities					
U.S. government and agencies	$ 59	$ 1	$ (2)	$ 58	0.1%
U.S. state, municipal and political subdivisions	993	153	(1)	1,145	1.9%
Foreign governments	2,515	90	(16)	2,589	4.4%
Corporate	33,115	1,520	(177)	34,458	58.2%
CLO	4,963	47	(14)	4,996	8.4%
ABS	3,885	57	(42)	3,900	6.6%
CMBS	1,849	54	(13)	1,890	3.2%
RMBS	8,838	650	(8)	9,480	16.0%
Total fixed maturity securities	56,217	2,572	(273)	58,516	98.8%
Equity securities	262	57	(1)	318	0.5%
Total AFS securities	56,479	2,629	(274)	58,834	99.3%
Fixed maturity securities - related parties					
CLO	352	4	-	356	0.6%
ABS	52	1	-	53	0.1%
Total fixed maturity securities - related party	404	5	-	409	0.7%
Equity securities - related party	-	-	-	-	-%
Total AFS securities - related parties	404	5	-	409	0.7%
Total AFS securities, including related parties	$ 56,883	$ 2,634	$ (274)	$ 59,243	100.0%

	December 31, 2016				
(In millions, except percentages)	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value	Percent of Total
Fixed maturity securities					
U.S. government and agencies	$ 59	$ 1	$ -	$ 60	0.1%
U.S. state, municipal and political subdivisions	1,024	117	(1)	1,140	2.2%
Foreign governments	2,098	143	(6)	2,235	4.2%
Corporate	29,433	901	(314)	30,020	57.0%
CLO	4,950	14	(142)	4,822	9.1%
ABS	2,980	25	(69)	2,936	5.6%
CMBS	1,835	38	(26)	1,847	3.5%
RMBS	8,731	313	(71)	8,973	17.0%
Total fixed maturity securities	51,110	1,552	(629)	52,033	98.7%
Equity securities	319	35	(1)	353	0.7%
Total AFS securities	51,429	1,587	(630)	52,386	99.4%
Fixed maturity securities - related parties					
CLO	284	1	(6)	279	0.5%
ABS	57	-	(1)	56	0.1%
Total fixed maturity securities - related party	341	1	(7)	335	0.6%
Equity securities - related party	20	-	-	20	-%
Total AFS securities - related parties	361	1	(7)	355	0.6%
Total AFS securities, including related parties	$ 51,790	$ 1,588	$ (637)	$ 52,741	100.0%

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Fixed Maturity Securities

We maintain a diversified AFS portfolio of corporate fixed maturity securities across industries and issuers, and a diversified portfolio of structured securities. The composition of our AFS fixed maturity securities, including related parties, is as follows:

(In millions, except percentages)	September 30, 2017		December 31, 2016	
	Fair Value	Percent of Total	Fair Value	Percent of Total
Corporate				
Industrial other[1]	$ 11,469	19.5%	$ 10,645	20.3%
Financial	10,955	18.6%	9,156	17.5%
Utilities	7,705	13.1%	6,588	12.6%
Communication	2,556	4.3%	2,235	4.3%
Transportation	1,773	3.0%	1,396	2.7%
Total corporate	34,458	58.5%	30,020	57.4%
Other government-related securities				
U.S. state, municipal and political subdivisions	1,145	1.9%	1,140	2.2%
Foreign governments	2,589	4.4%	2,235	4.3%
U.S. government and agencies	58	0.1%	60	0.1%
Total non-structured securities	38,250	64.9%	33,455	64.0%
Structured securities				
CLO	5,352	9.1%	5,101	9.7%
ABS	3,953	6.7%	2,992	5.7%
CMBS	1,890	3.2%	1,847	3.5%
RMBS				
Agency	93	0.2%	112	0.2%
Non-agency	9,387	15.9%	8,861	16.9%
Total structured securities	20,675	35.1%	18,913	36.0%
Total fixed maturity securities, including related parties	$ 58,925	100.0%	$ 52,368	100.0%

[1] *Includes securities within various industry segments including capital goods, basic industry, consumer cyclical, consumer non-cyclical, industrial, and technology.*

The fair value of our total fixed maturity securities, including related parties, was $58.9 billion and $52.4 billion as of September 30, 2017 and December 31, 2016, respectively. The increase was driven by strong growth in deposits over liability outflows, unrealized gains on AFS securities including related parties due to credit spreads tightening and U.S. treasury rates declining in the nine months ended September 30, 2017 and reinvestment of earnings.

The Securities Valuation Office (SVO) of the NAIC is responsible for the credit quality assessment and valuation of securities owned by state regulated insurance companies. Insurance companies report ownership of securities to the SVO when such securities are eligible for filing on the relevant schedule of the NAIC Financial Statement Blank. The SVO conducts credit analysis on these securities for the purpose of assigning an NAIC designation and/or unit price. With important exceptions discussed below, if a security has been rated by an NRSRO, the SVO utilizes that rating and assigns an NAIC designation based upon the following system:

NAIC designation	NRSRO equivalent rating
1	AAA/AA/A
2	BBB
3	BB
4	B
5	CCC
6	CC and lower

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The NRSRO ratings methodology is focused on the likelihood of recovery of all contractual payments, including principal at par, regardless of an investor's carrying value. In effect, the NRSRO rating assumes that the holder is the original purchaser at par. In contrast, the SVO's loan-backed and structured securities (LBaSS) methodology is focused on determining the risk associated with the recovery of the amortized cost of each security. Because the NAIC's methodology explicitly considers amortized cost and the likelihood of recovery of our investment, we view the NAIC's methodology as the most appropriate way to view our fixed maturity portfolio for purposes of evaluating credit quality since a large portion of our holdings were purchased and are carried at significant discounts to par.

Specific to LBaSS, the SVO has developed a ratings process and provides instruction on both modeled and non-modeled LBaSS. The modeled LBaSS process is specific to the RMBS and CMBS asset classes. In order to establish ratings at the individual security level, the SVO obtains loan-level analysis of each RMBS and CMBS using a selected vendor's proprietary financial model. The SVO ensures that the vendor has extensive internal quality-control processes in place and the SVO conducts its own quality-control checks of the selected vendor's valuation process. The SVO has retained the services of Blackrock to model RMBS and CMBS owned by U.S. insurers for all years presented herein. Blackrock provides five prices (breakpoints), based on each U.S. insurer's statutory book value price, to utilize in determining the NAIC designation for each modeled LBaSS. For non-modeled LBaSS (including ABS and CLOs) with the initial designation of NAIC 1 or NAIC 6, the designation remains the same through the life of the security. For non-modeled LBaSS with the initial designation of NAIC 2 through NAIC 5, the selected vendors are not utilized and the NAIC designations are set using a standardized table of breakpoints provided by the SVO for application to the insurer's statutory book value price. The NAIC designation determines the associated level of RBC that an insurer is required to hold for modeled LBaSS owned by the insurer. In general, under both the modeled and non-modeled LBaSS processes, the larger the discount to par value, the stronger the NAIC designation the LBaSS will have.

A summary of our AFS fixed maturity securities, including related parties, by NAIC designation (with our German operations applying NRSRO ratings to map to NAIC designations as noted above) is as follows:

	September 30, 2017			December 31, 2016		
(In millions, except percentages)	Amortized Cost	Fair Value	Percent of Total	Amortized Cost	Fair Value	Percent of Total
NAIC designation						
1	$ 30,520	$ 31,930	54.2%	$ 29,477	$ 30,211	57.7%
2	22,212	23,063	39.1%	18,348	18,617	35.5%
Total investment grade	52,732	54,993	93.3%	47,825	48,828	93.2%
3	3,014	3,077	5.2%	2,871	2,812	5.4%
4	750	731	1.3%	647	622	1.2%
5	78	75	0.1%	87	82	0.2%
6	47	49	0.1%	21	24	-%
Total below investment grade	3,889	3,932	6.7%	3,626	3,540	6.8%
Total fixed maturity securities, including related parties	$ 56,621	$ 58,925	100.0%	$ 51,451	$ 52,368	100.0%

Substantially all of our AFS fixed maturity portfolio, 93.3% and 93.2% as of September 30, 2017 and December 31, 2016, respectively, was invested in assets considered investment grade with a NAIC designation of 1 or 2.

A summary of our AFS fixed maturity securities, including related parties, by NRSRO ratings is set forth below:

(In millions, except percentages)	September 30, 2017		December 31, 2016	
	Fair Value	Percent of Total	Fair Value	Percent of Total
NRSRO rating agency designation				
AAA/AA/A	$ 20,451	34.7%	$ 18,791	35.9%
BBB	21,897	37.2%	18,002	34.4%
Non-rated[1]	6,671	11.3%	5,650	10.8%
Total investment grade	49,019	83.2%	42,443	81.1%
BB	3,094	5.2%	3,286	6.3%
B	1,278	2.2%	1,372	2.6%
CCC	2,624	4.4%	2,374	4.5%
CC and lower	2,274	3.9%	2,404	4.6%
Non-rated[1]	636	1.1%	489	0.9%
Total below investment grade	9,906	16.8%	9,925	18.9%
Total fixed maturity securities, including related parties	$ 58,925	100.0%	$ 52,368	100.0%

[1] *Securities denoted as non-rated by the NRSRO were classified as investment or non-investment grade according to the security's respective NAIC designation.*

Consistent with the NAIC Process and Procedures Manual, an NRSRO rating was assigned based on the following criteria: (a) the equivalent S&P rating where the security is rated by one NRSRO; (b) the equivalent S&P rating of the lowest NRSRO when the security is rated by two NRSROs; and (c) the equivalent S&P rating of the second lowest NRSRO if the security is rated by three or more NRSROs. If the lowest two NRSRO ratings are equal, then such rating will be the assigned rating. NRSRO ratings available for the periods presented were S&P, Fitch, Moody's Investor Service (Moody's), DBRS, and Kroll Bond Rating Agency, Inc. (KBRA).

The portion of our AFS fixed maturity portfolio that was considered below investment grade based on NRSRO ratings was 16.8% and 18.9% as of September 30, 2017 and December 31, 2016, respectively. The primary driver of the difference in the percentage of securities considered below investment grade by NRSROs as compared to the securities considered below investment grade by the NAIC relates to the difference in methodologies between the NRSRO and NAIC for RMBS due to investments acquired at a discount to par value, as discussed above.

As of September 30, 2017 and December 31, 2016, the non-rated securities shown above were comprised of 41% and 43%, respectively, of corporate private placement securities for which we have not sought individual ratings from the NRSROs and 43% and 44%, respectively, of RMBS, many of which were acquired at a significant discount to par. We rely on internal analysis of credit risk and designations assigned by the NAIC. As of September 30, 2017 and December 31, 2016, 91% and 92%, respectively, of the non-rated securities were designated NAIC 1 or 2.

Asset-backed Securities - We invest in ABS which are securitized by pools of assets such as consumer loans, student loans, insurance-linked securities, and corporate debt. These holdings were $4.0 billion and $3.0 billion as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017 and December 31, 2016, our ABS portfolio included approximately $3.6 billion (92% of the total) and $2.7 billion (91% of the total), respectively, of securities that are considered investment grade based on NAIC designations, while approximately $3.5 billion (87% of the total) and $2.5 billion (85% of the total), respectively, of securities were considered investment grade based on NRSRO ratings.

Collateralized Loan Obligations - We also invest in CLOs which pay principal and interest from cash flows received from underlying corporate loans. These holdings were $5.4 billion and $5.1 billion as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017 and December 31, 2016, our CLO portfolio included approximately $4.5 billion (84% of the total) and $4.2 billion (83% of the total), respectively, of securities that are considered investment grade based on NAIC designations while approximately $4.6 billion (86% of the total) and $4.2 billion (82% of the total), respectively, of securities were considered investment grade based on NRSRO ratings.

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Commercial Mortgage-backed Securities - A portion of our fixed maturity AFS portfolio is invested in CMBS. CMBS are constructed from pools of commercial mortgages. These holdings were $1.9 billion and $1.8 billion as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017 and December 31, 2016, our CMBS portfolio included approximately $1.8 billion (97% of the total) and $1.8 billion (97% of the total), respectively, of securities that are considered investment grade based on NAIC designations while approximately $1.3 billion (68% of the total) and $1.1 billion (60% of the total), respectively, of securities were considered investment grade based on NRSRO ratings.

Residential Mortgage-backed Securities - As part of our core investment strategy, a portion of our fixed maturity AFS portfolio is invested in RMBS. RMBS are securities constructed from pools of residential mortgages and backed by payments from those pools. Excluding limitations on access to lending and other extraordinary economic conditions, prepayments of principal on the underlying loans can be expected to accelerate with decreases in market interest rates and diminish with increases in interest rates. Our investments in RMBS are primarily non-agency RMBS having a significant focus on assets with attractive entry prices, which in general results in investment grade ratings by the NAIC given the likelihood that we ultimately receive principal and interest distributions in an amount at least equal to our cost. These holdings were $9.5 billion and $9.0 billion as of September 30, 2017 and December 31, 2016, respectively.

A summary of our AFS RMBS portfolio by NAIC designations and NRSRO quality ratings is as follows:

	September 30, 2017		December 31, 2016	
(In millions, except percentages)	Fair Value	Percent of Total	Fair Value	Percent of Total
NAIC designation				
1	$ 8,928	94.2%	$ 8,652	96.4%
2	238	2.5%	140	1.6%
Total investment grade	9,166	96.7%	8,792	98.0%
3	187	2.0%	96	1.1%
4	76	0.8%	29	0.3%
5	40	0.4%	54	0.6%
6	11	0.1%	2	-%
Total below investment grade	314	3.3%	181	2.0%
Total RMBS	$ 9,480	100.0%	$ 8,973	100.0%
NRSRO rating agency designation				
AAA/AA/A	$ 273	2.9%	$ 345	3.8%
BBB	347	3.7%	245	2.7%
Non-rated[1]	2,974	31.3%	2,638	29.5%
Total investment grade	3,594	37.9%	3,228	36.0%
BB	450	4.7%	419	4.7%
B	500	5.3%	567	6.3%
CCC	2,520	26.6%	2,280	25.4%
CC and lower	2,268	23.9%	2,395	26.7%
Non-rated[1]	148	1.6%	84	0.9%
Total below investment grade	5,886	62.1%	5,745	64.0%
Total RMBS	$ 9,480	100.0%	$ 8,973	100.0%

[1] *Securities denoted as non-rated by the NRSRO were classified as investment or non-investment grade according to the security's respective NAIC designations.*

A significant majority of our RMBS portfolio, 96.7% and 98.0% as of September 30, 2017 and December 31, 2016, respectively, was invested in assets considered investment grade by the NAIC, with a NAIC designation of 1 or 2. As NRSRO ratings are focused on the likelihood of recovery of all contractual payments including principal at par, instead of the recovery of the amortized cost, the portion considered investment grade by NRSRO rating agencies of 37.9% and 36.0% as of September 30, 2017 and December 31, 2016, respectively, were lower than the NAIC designations. As we focus on acquiring RMBS assets with attractive entry prices, some of these assets have experienced deterioration in credit quality since their issuance and the vast majority of our purchases of such assets occurred after such deterioration at a discount to par value resulting in a statutory book price that yields an investment grade NAIC designation. As a result of deterioration in credit quality since issuance, these securities are generally considered below investment grade based on NRSRO methodologies. As a result, we have a significant difference in the number of securities considered below investment grade when evaluated under the NRSRO methodologies when compared with the designations evaluated under the NAIC methodology.

Unrealized Losses

Our investments in fixed maturity securities, including related parties, are reported at fair value with changes in fair value recorded in other comprehensive income. Certain of our fixed maturity securities, including related parties, have experienced declines in fair value that we consider temporary in nature. As of September 30, 2017, our fixed maturity securities, including related parties, had a fair value of $58.9 billion, which was approximately 4.1% above amortized cost of $56.6 billion. As of December 31, 2016, our fixed maturity securities, including related parties, had a fair value of $52.4 billion, which was approximately 1.8% above amortized cost of $51.5 billion. These investments are held to support our product liabilities and we currently have the intent and ability to hold these securities until sale or maturity, and believe the securities will recover the amortized cost basis prior to sale or maturity.

The following tables reflect the unrealized losses on the AFS fixed maturity portfolio, including related parties, by NAIC designations:

	September 30, 2017					
(In millions, except percentages)	Amortized Cost of Securities with Unrealized Loss	Gross Unrealized Loss	Fair Value of Securities with Unrealized Loss	Fair Value to Amortized Cost Ratio	Fair Value of Total AFS Fixed Maturity Securities	Percent of Loss to Total AFS Fair Value NAIC Designation
NAIC designation						
1	$ 5,026	$ (127)	$ 4,899	97.5%	$ 31,930	(0.4)%
2	3,660	(85)	3,575	97.7%	23,063	(0.4)%
Total investment grade	8,686	(212)	8,474	97.6%	54,993	(0.4)%
3	921	(21)	900	97.7%	3,077	(0.7)%
4	389	(35)	354	91.0%	731	(4.8)%
5	33	(4)	29	87.9%	75	(5.3)%
6	12	(1)	11	91.7%	49	(2.0)%
Total below investment grade	1,355	(61)	1,294	95.5%	3,932	(1.6)%
Total	$ 10,041	$ (273)	$ 9,768	97.3%	$ 58,925	(0.5)%

	December 31, 2016					
(In millions, except percentages)	Amortized Cost of Securities with Unrealized Loss	Gross Unrealized Loss	Fair Value of Securities with Unrealized Loss	Fair Value to Amortized Cost Ratio	Fair Value of Total AFS Fixed Maturity Securities	Percent of Loss to Total AFS Fair Value NAIC Designation
NAIC designation						
1	$ 8,805	$ (272)	$ 8,533	96.9%	$ 30,211	(0.9)%
2	6,156	(220)	5,936	96.4%	18,617	(1.2)%
Total investment grade	14,961	(492)	14,469	96.7%	48,828	(1.0)%
3	1,769	(103)	1,666	94.2%	2,812	(3.7)%
4	329	(35)	294	89.4%	622	(5.6)%
5	34	(6)	28	82.4%	82	(7.3)%
6	1	-	1	100.0%	24	-%
Total below investment grade	2,133	(144)	1,989	93.2%	3,540	(4.1)%
Total	$ 17,094	$ (636)	$ 16,458	96.3%	$ 52,368	(1.2)%

The gross unrealized losses on AFS fixed maturity securities, including related parties, were $273 million and $636 million as of September 30, 2017 and December 31, 2016, respectively. The decrease in unrealized losses was driven by credit spreads tightening and U.S. treasury rates declining during nine months ended September 30, 2017, resulting in an increase in unrealized gains.

As of September 30, 2017 and December 31, 2016, we held $4.1 billion and $3.6 billion, respectively, in energy sector fixed maturity securities, or 7% of the total fixed maturity securities in both periods, including related parties for each period. The gross unrealized capital losses on these securities were $35 million and $73 million, or 13% and 11% of the total unrealized losses, respectively.

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Other-Than-Temporary Impairments

For our OTTI policy and the identification of securities that could potentially have impairments, see *Note 1 - Business, Basis of Presentation and Significant Accounting Policies* and *Note 2 - Investments* to the condensed consolidated financial statements, as well as *Critical Accounting Estimates and Judgments.*

During the nine months ended September 30, 2017, we recorded $25 million of OTTI losses comprised of $13 million related to corporate fixed maturities, $5 million related to mortgage loans, $3 million related to real estate, $1 million related to ABS, $1 million related to CMBS, $1 million related to equity securities and $1 million related to RMBS. Of the OTTI losses recognized during nine months ended September 30, 2017, $1 million related to the energy sector. During the nine months ended September 30, 2016, we recorded $27 million of OTTI losses comprised of $13 million related to state, municipal and political subdivisions, $6 million related to corporate fixed maturities, $5 million related to ABS, $2 million related to RMBS and $1 million related to other assets. Of the OTTI losses recognized during 2016, $4 million related to the energy sector. The annualized OTTI losses we have experienced for the nine months ended September 30, 2017 and 2016, translate into 4 basis points and 5 basis points, respectively, of average invested assets.

International Exposure

A portion of our fixed maturity securities are invested in securities with international exposure. As of each of September 30, 2017 and December 31, 2016, 32% of the carrying value of our fixed maturity securities, including related parties was comprised of securities of issuers based outside of the United States and debt securities of foreign governments. These securities are either denominated in U.S. dollars or do not expose us to significant foreign currency risk as a result of foreign currency swap arrangements.

The following table presents our international exposure in our fixed maturity securities portfolio, including related parties, by country or region:

	September 30, 2017			December 31, 2016		
(In millions, except percentages)	Amortized Cost	Fair Value	Percent of Total	Amortized Cost	Fair Value	Percent of Total
Country of risk						
Ireland	$ 534	$ 546	2.9%	$ 510	$ 516	3.1%
Italy	49	53	0.3%	90	92	0.6%
Spain	224	237	1.2%	175	190	1.1%
Total Portugal, Ireland, Italy, Greece and Spain[1]	807	836	4.4%	775	798	4.8%
Other Europe	7,597	7,847	41.8%	6,336	6,512	39.2%
Total Europe	8,404	8,683	46.2%	7,111	7,310	44.0%
Non-U.S. North America	7,582	7,726	41.1%	7,185	7,105	42.8%
Australia & New Zealand	1,300	1,342	7.1%	1,283	1,304	7.9%
Central & South America	491	521	2.8%	456	467	2.8%
Africa & Middle East	157	163	0.9%	164	167	1.0%
Asia/Pacific	292	300	1.6%	216	218	1.3%
Supranational	53	53	0.3%	26	27	0.2%
Total	$ 18,279	$ 18,788	100.0%	$ 16,441	$ 16,598	100.0%

[1] *As of each of March 31, 2017 and December 31, 2016, we had no holdings in Portugal or Greece.*

Approximately 90.4% and 89.7% of these securities are investment grade by NAIC designation as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017, 8% of our fixed maturity securities, including related parties, were invested in CLOs of Cayman Islands issuers (for which underlying investments are largely loans to U.S. issuers), 6% were invested in securities of non-U.S. issuers by our German Group Companies and 18% were invested in other non-U.S. issuers.

Portugal, Ireland, Italy, Greece and Spain continue to represent credit risk as economic conditions in these countries continue to be volatile, especially within the financial and banking sectors. We had $836 million and $798 million as of September 30, 2017 and December 31, 2016, respectively, of exposure in these countries, of which $185 million and $237 million, respectively, were a result of investments acquired from the DLD acquisition in 2015.

The effects on our investments in non-U.S. securities as a result of Brexit is unknown at this time, but the effects of Brexit are likely to lead to greater volatility in global financial markets in the near term. As of September 30, 2017, we held United Kingdom and Channel Islands fixed maturity securities of $1.6 billion, or 2.8% of the total fixed maturities including related parties. As of September 30, 2017, these securities were in an unrealized gain position of $47 million. Our investment managers analyze each holding for credit risk by economic and other factors of each country and industry.

Trading Securities

Trading securities, including related parties, were $2.8 billion as of each of September 30, 2017 and December 31, 2016. Trading securities are primarily comprised of AmerUs Closed Block securities for which we have elected the fair value option valuation, CLO equity tranche securities, structured securities with embedded derivatives, and investments which support various reinsurance arrangements.

Mortgage Loans

The following is a summary of our mortgage loan portfolio by collateral type:

	September 30, 2017		December 31, 2016	
(In millions, except percentages)	Net Carrying Value	Percent of Total	Net Carrying Value	Percent of Total
Property type				
Office building	$ 1,340	20.8%	$ 1,217	22.2%
Retail	1,130	17.5%	1,135	20.7%
Hotels	1,108	17.2%	1,025	18.7%
Industrial	940	14.6%	742	13.6%
Apartment	580	9.0%	616	11.3%
Other commercial [1]	405	6.3%	397	7.3%
Total net mortgage loans	5,503	85.4%	5,132	93.8%
Residential loans	942	14.6%	338	6.2%
Total mortgage loans, net of allowances	$ 6,445	100.0%	$ 5,470	100.0%

[1] *Other commercial loans include investments in nursing homes, other healthcare institutions, parking garages, storage facilities and other commercial properties.*

We invest a portion of our investment portfolio in mortgage loans, which are generally comprised of high quality commercial first lien and mezzanine real estate loans. Our mortgage loan holdings were $6.4 billion and $5.5 billion as of September 30, 2017 and December 31, 2016, respectively. This included $1.8 billion and $1.5 billion of mezzanine mortgage loans for the respective periods. We have acquired mortgage loans through acquisitions and reinsurance arrangements, as well as through an active program to invest in new mortgage loans. We invest in mortgage loans on income producing properties including hotels, apartments, retail and office buildings, and other commercial and industrial properties. Loan-to-value ratios at the time of loan approval are generally 75% or less.

Our mortgage loans are primarily stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Amortization of premiums and discounts is recorded using the effective interest method. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income.

It is our policy to cease to accrue interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is our general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. As of September 30, 2017, we had $6 million of mortgage loans that were 90 days past due and $1 million in the process of foreclosure. As of December 31, 2016, we had $21 million of mortgage loans that were 90 days past due and $20 million in the process of foreclosure.

See *Note 2 - Investments* to the condensed consolidated financial statements for information regarding valuation allowance for collection loss, impairments, loan-to-value, and debt service coverage.

As of September 30, 2017 and December 31, 2016, we had not recorded any new specific loan valuation allowances and we recorded $5 million and $0 million, respectively, of OTTI through net income. We have established a general and specific loan valuation allowance in the aggregate amount of $2 million as of September 30, 2017 and December 31, 2016, attributable to loans acquired in connection with the acquisition of Aviva USA.

Investment Funds and Variable Interest Entities

Our investment funds investment strategy primarily focuses on funds with core holdings of credit assets, real assets, real estate, preferred equity and income producing assets. Our investment strategy focuses on sourcing assets with the following characteristics: (1) investments that constitute a direct investment or an investment in a fund with a high degree of co-investment; (2) investments with debt-like characteristics, or alternatively, investments with reduced volatility when compared to pure equity; and (3) investments including some element of downside protection as compared to a pure directional investment. A significant amount of our current investment funds and VIE holdings are comprised of certain investment funds contributed by the AAA Investor (AAA Contribution) as further described in *Note 4 - Variable Interest Entities* to the condensed consolidated financial statements, and investment funds we acquired in the Aviva USA acquisition.

At the time of the AAA Contribution, the contributed assets largely consisted of co-investments with Apollo private equity funds. However, the attributes of the contributed assets have changed significantly since the initial transaction primarily due to the initial public offering of two underlying fund investment holdings. As of September 30, 2017, the assets consisted of $288 million of publicly-traded equity securities, a substantial portion of which is in the process of being liquidated. These public equity securities have resulted in volatility in our statement of income in recent periods. At the end of the third quarter of 2016, Norwegian Cruise Line Holdings Ltd. (NCLH) was distributed from CoInvest VI to NCL Athene, LLC (NCL LLC), resulting in the investment being classified as an AFS security with any unrealized gains and losses recognized in AOCI, thereby reducing further volatility in our statement of income from this fund. See *Note 4 - Variable Interest Entities* to the condensed consolidated financial statements for further discussion of NCL LLC.

Our investment funds generally meet the definition of a VIE, and in certain cases these investment funds are consolidated in our financial statements because we meet the criteria of the primary beneficiary. See *Note 4 - Variable Interest Entities* to the condensed consolidated financial statements for further discussion on our investment funds that meet the criteria for consolidation and the accounting treatment for them.

The following table illustrates our consolidated VIE positions:

	September 30, 2017		December 31, 2016	
(In millions, except percentages)	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Assets of consolidated VIEs				
Investments				
Available-for-sale securities				
Equity securities	$ 173	17.9%	$ 161	17.5%
Trading securities	195	20.2%	167	18.1%
Investment funds	593	61.5%	573	62.2%
Cash and cash equivalents	1	0.1%	14	1.5%
Other assets	3	0.3%	6	0.7%
Total assets of consolidated VIEs	$ 965	100.0%	$ 921	100.0%
Liabilities of consolidated VIEs				
Other liabilities	$ 47	100.0%	$ 34	100.0%
Total liabilities of consolidated VIEs	$ 47	100.0%	$ 34	100.0%

The assets of consolidated VIEs were $965 million and $921 million as of September 30, 2017 and December 31, 2016, respectively. The liabilities of consolidated VIEs were $47 million and $34 million as of September 30, 2017 and December 31, 2016, respectively.

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The following table illustrates our investment funds, including related party positions of our non-consolidated VIEs and investment funds owned by consolidated VIEs:

	September 30, 2017		December 31, 2016	
(In millions, except percentages)	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Investment funds				
Private equity	$ 279	10.5%	$ 268	10.9%
Real estate and other real assets	166	6.2%	118	4.8%
Natural resources	5	0.2%	5	0.2%
Hedge funds	62	2.3%	72	2.9%
Credit funds	235	8.8%	226	9.2%
Total investment funds	747	28.0%	689	28.0%
Investment funds - related parties				
Private equity - A-A Mortgage	396	14.8%	343	13.9%
Private equity	176	6.6%	131	5.3%
Real estate and other real assets	245	9.2%	247	10.1%
Natural resources	78	2.9%	49	2.0%
Hedge funds	163	6.1%	192	7.8%
Credit funds	272	10.2%	236	9.6%
Total investment funds - related parties	1,330	49.8%	1,198	48.7%
Investment funds owned by consolidated VIEs				
Private equity - MidCap[1]	529	19.8%	524	21.3%
Credit funds	32	1.2%	38	1.6%
Real estate and other real assets	32	1.2%	11	0.4%
Total investment funds owned by consolidated VIEs	593	22.2%	573	23.3%
Total investment funds, including related parties and VIEs	$ 2,670	100.0%	$ 2,460	100.0%

[1] *MidCap is an underlying investment of one of our consolidated VIE investment funds.*

Overall, the total investment funds, including related parties and consolidated VIEs, were $2.7 billion and $2.5 billion as of September 30, 2017 and December 31, 2016, respectively. See *Note 4 - Variable Interest Entities* to the condensed consolidated financial statements for further discussion regarding how we account for our investment funds. Our investment fund portfolio is subject to a number of market related risks including interest rates and equity market risk. Interest rate risk represents the potential for changes in the investment fund's net asset values resulting from changes in the general level of interest rates. Equity market risk represents potential for changes in the investment fund's net asset values resulting from changes in equity markets or from other external factors which influence equity markets. We actively monitor our exposure to the risks inherent in these investments which could materially and adversely affect our results of operations and financial condition. The interest and equity market risks expose us to potential volatility in our earnings year-over-year related to these investment funds.

Funds Withheld at Interest

Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with modco and funds withheld reinsurance agreements in which we act as the reinsurer. Generally, assets equal to statutory reserves are withheld and legally owned by the ceding company. As of September 30, 2017, the ceding companies holding the assets pursuant to such reinsurance agreements had a financial strength rating of A- or better.

The funds withheld at interest is comprised of the host contract and an embedded derivative. We are subject to the investment performance on the withheld assets with the total return directly impacting the host contract and the embedded derivative. Interest accrues at a risk free rate on the host receivable and is recorded as net investment income in the condensed consolidated statements of income. The change in the embedded derivative in our reinsurance agreements are similar to a total return swap on the income generated by the underlying assets held by the ceding companies and is recorded in investment related gains (losses). Although we do not directly control the underlying investments in the funds withheld at interest, in each instance the ceding company has hired AAM to manage the withheld assets in accordance with our investment guidelines.

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The following summarizes the underlying investment composition of the funds withheld at interest:

	September 30, 2017		December 31, 2016	
(In millions, except percentages)	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Fixed maturity securities				
U.S. state, municipal and political subdivisions	$ 118	1.7%	$ 118	1.8%
Corporate	2,100	30.2%	1,800	27.6%
CLO	665	9.6%	591	9.0%
ABS	797	11.4%	736	11.3%
CMBS	286	4.1%	292	4.5%
RMBS	1,590	22.8%	1,551	23.7%
Equity securities	28	0.4%	29	0.4%
Mortgage loans	818	11.8%	773	11.8%
Investment funds	372	5.3%	329	5.0%
Derivative assets	63	0.9%	53	0.8%
Short-term investments	7	0.1%	80	1.2%
Cash and cash equivalents	100	1.4%	105	1.6%
Other assets and liabilities	20	0.3%	81	1.3%
Total funds withheld at interest	$ 6,964	100.0%	$ 6,538	100.0%

As of September 30, 2017 and December 31, 2016, we held $7.0 billion and $6.5 billion of funds withheld at interest receivables, respectively. Approximately 94.1% and 93.6% of the fixed maturity securities within the funds withheld at interest are investment grade by NAIC designation as of September 30, 2017 and December 31, 2016, respectively.

Derivative Instruments

We hold derivative instruments for economic hedging purposes to reduce our exposure to cash flow variability of assets and liabilities, equity market risk, interest rate risk, credit risk and foreign exchange risk. The types of derivatives we may use include interest rate swaps, foreign currency swaps and forward contracts, total return swaps, credit default swaps, variance swaps, futures and fixed indexed options.

A presentation of our derivative instruments along with a discussion of the business strategy involved with our derivatives is included in *Note 3 - Derivative Instruments* to the condensed consolidated financial statements. This includes:

- a comprehensive description of the derivatives instruments as well as the strategies to manage risk;
- the notional amounts and estimated fair value by derivative instruments; and
- impacts on the condensed consolidated statement of net income.

As part of our risk management strategies, management continually evaluates our derivative instrument holdings and the effectiveness of such holdings in addressing risks identified in our operations.

Invested Assets

The following summarizes our invested assets:

	September 30, 2017				December 31, 2016			
(In millions, except percentages)	U.S. and Bermuda Invested Asset Value	Germany Invested Asset Value	Total Invested Asset Value[1]	Percent of Total	U.S. and Bermuda Invested Asset Value	Germany Invested Asset Value	Total Invested Asset Value[1]	Percent of Total
Corporate	$ 34,759	$ 1,713	$ 36,472	46.3%	$ 31,000	$ 1,682	$ 32,682	45.4%
CLO	5,774	-	5,774	7.3%	5,798	-	5,798	8.1%
Credit	40,533	1,713	42,246	53.6%	36,798	1,682	38,480	53.5%
RMBS	10,696	-	10,696	13.6%	10,619	-	10,619	14.8%
Mortgage loans	7,150	108	7,258	9.2%	6,145	95	6,240	8.7%
CMBS	2,181	-	2,181	2.8%	2,202	-	2,202	3.1%
Real estate held for investment	-	622	622	0.8%	-	542	542	0.8%
Real estate	20,027	730	20,757	26.4%	18,966	637	19,603	27.4%
ABS	4,782	-	4,782	6.1%	3,873	-	3,873	5.4%
Alternative investments	3,441	146	3,587	4.5%	3,297	128	3,425	4.8%
State, municipal, political subdivisions and foreign government	1,335	2,357	3,692	4.7%	1,387	1,936	3,323	4.6%
Equity securities	241	70	311	0.4%	199	185	384	0.5%
Unit linked assets	-	405	405	0.5%	-	363	363	0.5%
Short-term investments	85	-	85	0.1%	250	-	250	0.3%
U.S. government and agencies	29	31	60	0.1%	32	27	59	0.1%
Other investments	9,913	3,009	12,922	16.4%	9,038	2,639	11,677	16.2%
Cash and equivalents	1,680	229	1,909	2.4%	1,111	111	1,222	1.7%
Policy loans and other	738	232	970	1.2%	631	221	852	1.2%
Total invested assets	$ 72,891	$ 5,913	$ 78,804	100.0%	$ 66,544	$ 5,290	$ 71,834	100.0%

[1] Refer to *Key Operating and Non-GAAP Measures* for the definition of invested assets.

Our total invested assets were $78.8 billion and $71.8 billion as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017, our total invested assets were mainly comprised of 46.3% of corporate securities, 29.8% of structured securities, 9.2% of mortgage loans and 4.5% of alternative investments. Corporate securities within our U.S. and Bermuda portfolio included $9.1 billion of private placements, which represented approximately 12% of our total U.S. and Bermuda invested assets. The increase in total invested assets as of September 30, 2017 from December 31, 2016 was primarily driven by strong growth in deposits over liability outflows and reinvestment of earnings.

In managing our business we utilize invested assets as presented in the above table. Invested assets do not correspond to the total investments, including related parties, on our condensed consolidated balance sheets, as discussed previously in *Key Operating and Non-GAAP Measures*. Invested assets represent the investments that directly back our policyholder liabilities and surplus assets. We believe this view of our portfolio provides a view of the assets for which we have economic exposure. We adjust the presentation for funds withheld and modco transactions to include or exclude the underlying investments based upon the contractual transfer of economic exposure to such underlying investments. We also deconsolidate any VIEs in order to show the net investment in the funds, which therefore are included in the alternative investments line above.

The Germany investment portfolio composition differs from the U.S. and Bermuda portfolio primarily due to the geographic location, regulatory environment and participating nature of the German products and therefore the portfolio is managed separately from our U.S. and Bermuda portfolios. The German invested assets are predominantly invested in foreign government securities, corporate fixed income securities, real estate held for investment and assets backing our unit linked policies. The German invested assets are predominantly invested in Euro-denominated securities and investments.

Invested assets is utilized by management to evaluate our investment portfolio. Invested asset figures are used in the computation of net investment earned rate, which allows us to analyze the profitability of our investment portfolio. Invested assets is also used in our risk management processes for asset purchases, product design and underwriting, stress scenarios, liquidity, and ALM.

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The following summarizes our alternative investments:

	September 30, 2017		December 31, 2016	
(In millions, except percentages)	Invested Asset Value	Percent of Total	Invested Asset Value	Percent of Total
Credit funds	$ 797	22.2%	$ 834	24.3%
Private equity - MidCap	529	14.7%	524	15.3%
Private equity - A-A Mortgage	486	13.6%	417	12.2%
Private equity - other	530	14.8%	519	15.2%
Mortgage and real assets	546	15.2%	470	13.7%
Hedge funds	274	7.6%	311	9.1%
Public equities	236	6.6%	215	6.3%
Natural resources and other real assets	189	5.3%	135	3.9%
Total alternative investments	$ 3,587	100.0%	$ 3,425	100.0%

Alternative investments were $3.6 billion and $3.4 billion as of September 30, 2017 and December 31, 2016, respectively, representing 4.5% and 4.8% of our total invested assets portfolio as of September 30, 2017 and December 31, 2016, respectively.

Alternative investments do not correspond to the total investment funds, including related parties and VIEs, on our condensed consolidated balance sheets. As discussed above in the invested assets section, we adjust the GAAP presentation for funds withheld and modco and de-consolidate VIEs. We also include CLO equity tranche securities in alternative investments due to their underlying characteristics and equity-like features.

Two of our largest alternative investments are in asset originators, MidCap and A-A Mortgage, both of which, from time to time, provide us with access to assets for our investment portfolio. As of September 30, 2017, we held equity positions in MidCap of $529 million. MidCap is a leading originator of senior debt capital in the middle-market with expertise in asset-backed loans, leveraged loans, real estate loans, discount loans and venture loans. MidCap represents a unique investment in an origination platform made available to us through our relationship with Apollo. As of September 30, 2017, we held an equity position in A-A Mortgage of $486 million. A-A Mortgage has an indirect investment in AmeriHome, which originates RMLs and mortgage servicing rights.

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Non-GAAP Measure Reconciliations

The reconciliations to the nearest GAAP measure for operating income, net of tax is included in the *Consolidated Results of Operations* section.

The reconciliation of operating earnings, net of tax excluding notable items to net income available to AHL shareholders is as follows:

	Three months ended September 30,	
(In millions)	2017	2016
Operating income, net of tax excluding notable items by segment		
Retirement Services operating income, net of tax excluding notable items	$ 250	$ 187
Unlocking	(20)	(158)
Actuarial out of period adjustments	13	-
Deferred tax valuation allowance release	-	102
Tax effects of notable items	1	11
Retirement Services notable items	(6)	(45)
Retirement Services operating income, net of tax	244	142
Corporate and Other operating income, net of tax excluding notable items	4	(18)
Germany operating loss, net of tax	(17)	(7)
Corporate and Other operating income, net of tax	(13)	(25)
Operating income, net of tax	231	117
Total non-operating adjustments	43	9
Net income available to AHL shareholders	$ 274	$ 126

The reconciliation of AHL shareholders' equity to AHL shareholders' equity excluding AOCI included in the ROE excluding AOCI and operating income ROE excluding AOCI is as follows:

(In millions)	September 30, 2017	September 30, 2016
Total AHL shareholders' equity	$ 8,669	$ 7,031
Less: AOCI	1,162	920
Total AHL shareholders' equity excluding AOCI	$ 7,507	$ 6,111
Retirement Services	$ 5,371	$ 4,542
Corporate and Other	2,136	1,569
Total AHL shareholders' equity excluding AOCI	$ 7,507	$ 6,111

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The reconciliation of net investment income to net investment earnings and earned rate is as follows:

	Three months ended September 30,				Nine months ended September 30,			
	2017		2016		2017		2016	
(In millions, except percentages)					Dollar	Rate	Dollar	Rate
GAAP net investment income	$ 820	4.23%	$ 743	4.20%	$ 2,427	4.31%	$ 2,137	4.12%
Reinsurance embedded derivative impacts	40	0.20%	55	0.31%	137	0.25%	144	0.28%
Net VIE earnings	27	0.14%	(13)	(0.07)%	59	0.10%	(43)	(0.08)%
Alternative income gain (loss)	(4)	(0.02)%	(2)	(0.01)%	(11)	(0.02)%	(34)	(0.07)%
Held for trading amortization	(20)	(0.10)%	(6)	(0.03)%	(50)	(0.09)%	(21)	(0.04)%
Total adjustments to arrive at net investment earnings/earned rate	43	0.22%	34	0.20%	135	0.24%	46	0.09%
Total net investment earnings/earned rate	$ 863	4.45%	$ 777	4.40%	$ 2,562	4.55%	$ 2,183	4.21%
Retirement Services	$ 811	4.64%	$ 754	4.75%	$ 2,412	4.75%	$ 2,155	4.64%
Corporate and Other	52	2.72%	23	1.26%	150	2.71%	28	0.53%
Total net investment earnings/earned rate	$ 863	4.45%	$ 777	4.40%	$ 2,562	4.55%	$ 2,183	4.21%
Retirement Services average invested assets	$ 69,868		$ 63,641		$ 67,722		$ 62,009	
Corporate and Other average invested assets	7,673		7,089		7,398		7,120	
Consolidated average invested assets	$ 77,541		$ 70,730		$ 75,120		$ 69,129	

The reconciliation of interest sensitive contract benefits to Retirement Services' cost of crediting on deferred annuities, and the respective rates, is as follows:

	Three months ended September 30,				Nine months ended September 30,			
	2017		2016		2017		2016	
(In millions, except percentages)	Dollar	Rate	Dollar	Rate	Dollar	Rate	Dollar	Rate
GAAP interest sensitive contract benefits	$ 621	4.35%	$ 491	3.72%	$ 1,866	4.43%	$ 1,081	2.83%
Interest credited other than deferred annuities	(41)	(0.29)%	(34)	(0.26)%	(109)	(0.26)%	(91)	(0.24)%
FIA option costs	154	1.08%	141	1.07%	448	1.08%	416	1.08%
Product charges (strategy fees)	(19)	(0.13)%	(14)	(0.11)%	(53)	(0.13)%	(38)	(0.10)%
Reinsurance embedded derivative impacts	9	0.06%	8	0.06%	27	0.06%	21	0.05%
Change in fair value of embedded derivatives - FIAs	(464)	(3.25)%	(326)	(2.47)%	(1,397)	(3.32)%	(669)	(1.74)%
Negative VOBA amortization	8	0.06%	12	0.09%	30	0.07%	36	0.09%
Unit linked change in reserves	-	-%	(20)	(0.15)%	(17)	(0.04)%	(1)	-%
Other changes in interest sensitive contract liabilities	-	-%	1	0.01%	-	-%	-	-%
Total adjustments to arrive at cost of crediting on deferred annuities	(353)	(2.47)%	(232)	(1.76)%	(1,071)	(2.54)%	(326)	(0.86)%
Retirement Services cost of crediting on deferred annuities	$ 268	1.88%	$ 259	1.96%	$ 795	1.89%	$ 755	1.97%
Average account value	$ 57,050		$ 52,739		$ 56,102		$ 51,183	

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The reconciliation of total investments, including related parties, to invested assets is as follows:

(In millions)	September 30, 2017	December 31, 2016
Total investments, including related parties	$ 81,183	$ 72,433
Derivative assets	(1,982)	(1,370)
Cash and cash equivalents (including restricted cash)	3,707	2,502
Accrued investment income	626	554
Payables for collateral on derivatives	(1,896)	(1,383)
Reinsurance funds withheld and modified coinsurance	(537)	(414)
VIE assets, liabilities and noncontrolling interest	918	886
AFS unrealized (gain) loss	(2,594)	(1,030)
Ceded policy loans	(325)	(344)
Net investment receivables (payables)	(296)	-
Total adjustments to arrive at invested assets	(2,379)	(599)
Total invested assets	$ 78,804	$ 71,834

The reconciliation of total investment funds, including related parties and VIEs, to alternative investments within invested assets is as follows:

(In millions)	September 30, 2017	December 31, 2016
Investment funds, including related parties and VIEs	$ 2,670	$ 2,460
CLO equities included in trading securities	194	260
Investment funds within funds withheld at interest	372	329
Royalties, other assets included in other investments and other assets	77	81
Net assets of the VIE, excluding investment funds	274	295
Total adjustments to arrive at alternative investments	917	965
Alternative investments	$ 3,587	$ 3,425

The reconciliation of total liabilities to reserve liabilities is as follows:

(In millions)	September 30, 2017	December 31, 2016
Total liabilities	$ 87,392	$ 79,840
Derivative liabilities	(92)	(40)
Payables for collateral on derivatives	(1,896)	(1,383)
Funds withheld liability	(394)	(380)
Other liabilities	(1,024)	(688)
Liabilities of consolidated VIEs	(47)	(34)
Reinsurance ceded receivables	(5,768)	(6,001)
Policy loans ceded	(325)	(344)
Other	4	4
Total adjustments to arrive at reserve liabilities	(9,542)	(8,866)
Total reserve liabilities	$ 77,850	$ 70,974

Liquidity and Capital Resources

There are two forms of liquidity relevant to our business, funding liquidity and balance sheet liquidity. Funding liquidity relates to the ability to fund operations. Balance sheet liquidity relates to our ability to liquidate or rebalance our balance sheet without incurring significant costs from fees, bid-offer spreads, or market impact. We manage our liquidity position by matching projected cash demands with adequate sources of cash and other liquid assets. Our principal sources of liquidity are operating cash flows and holdings of cash, cash equivalents and other readily marketable assets.

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Our investment portfolio is structured to ensure a strong liquidity position over time in order to permit timely payment of policy and contract benefits without requiring asset sales at inopportune times or at depressed prices. In general, liquid assets include cash and cash equivalents, highly rated corporate bonds, unaffiliated preferred stock and unaffiliated public common stock, all of which generally have liquid markets with a large number of buyers. The carrying value of these assets as of September 30, 2017 was approximately $48.7 billion. Although our investment portfolio does contain assets that are generally considered illiquid for liquidity monitoring purposes (primarily mortgage loans, policy loans, real estate, investment funds, and affiliated common stock), there is some ability to raise cash from these assets if needed. In periods of economic downturn we may maintain higher cash balances than required to manage our liquidity risk and to take advantage of market dislocations as they arise. We have access to additional liquidity through our $1.0 billion revolving credit facility, which is undrawn as of the date hereof and has a remaining term of approximately three years. In addition, through our membership in the FHLB of Des Moines (FHLBDM) and Indianapolis (FHLBI), we are eligible to borrow under variable rate short-term federal funds arrangements to provide additional liquidity.

We proactively manage our liquidity position to meet cash needs while minimizing adverse impacts on investment returns. We analyze our cash-flow liquidity over the upcoming 12 months by modeling potential demands on liquidity under a variety of scenarios, taking into account the provisions of our policies and contracts in force, our cash flow position, and the volume of cash and readily marketable securities in our portfolio. By policy, we maintain sufficient liquidity not only to meet our cash-flow requirements over the succeeding 12-month period in a moderately severe scenario (for example, a recessionary environment), but also to have excess liquidity available to invest into potential investment opportunities created from market dislocations. We also monitor our liquidity profile under more severe scenarios.

We perform a number of stress tests and analyses to assess our ability to meet our cash flow requirements, as well as the ability of our reinsurance and insurance subsidiaries to meet their collateral obligations. Among these analyses, we manage to the following ALM limits:

- our projected net cumulative cash flows, including both new business and target levels of new investments under a “plan scenario” and a “moderately severe scenario” event, are non-negative over a rolling 12-month horizon;
- we hold at least $250 million in cash and cash equivalents across the group; and at least $150 million in the aggregate in securities with the following characteristics:
    - public corporate bonds rated A- or above;
    - liquid ABS (defined as prime auto, auto floorplan, Tier 1 subprime auto, auto lease, prime credit cards, equipment lease or utility stranded assets) and RMBS with weighted average lives less than three years rated A- or above; or
    - CMBS with weighted average lives less than three years rated AAA- or above;
- we maintain assets that can be liquidated in one quarter under normal market conditions equal to 25% of the policyholder obligations that are deemed to be most liquid, which is defined as policies with a cash surrender value, no income rider, no MVA, with lower than 5% surrender charge protection and lower than 3% minimum floor guarantee, if any; and
- we maintain sufficient capital and surplus at ALRe to meet collateral calls from modco and third-party reinsurance contracts under a substantial stress event, such as the failure of a major financial institution (Lehman event).

Insurance Subsidiaries' Liquidity

The primary cash flow sources for our insurance subsidiaries include retirement services product inflows (premiums), investment income, principal repayments on our investments, and net transfers from separate accounts and financial product deposits. Uses of cash include investment purchases, payments to policyholders for surrenders and withdrawals, policy acquisition costs, and general operating costs.

Our policyholder obligations are generally long-term in nature. However, one liquidity risk is an extraordinary level of early policyholder withdrawals. We include provisions within our annuity policies, such as surrender charges and MVAs, which are intended to protect us from early withdrawals. As of each of September 30, 2017 and December 31, 2016, approximately 86% of our deferred annuity liabilities were subject to penalty upon surrender. In addition, as of September 30, 2017 and December 31, 2016, approximately 72% and 73%, respectively, of policies contained MVAs that also have the effect of limiting early withdrawals if interest rates increase.

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Cash Flows

Our cash flows were as follows:

	Nine months ended September 30,	
(In millions)	2017	2016
Net income	$ 984	$ 404
Non-cash revenues and expenses	358	560
Net cash provided by operating activities	1,342	964
Sales, maturities, and repayment of investments	12,724	9,595
Purchases and acquisitions of investments	(17,518)	(11,391)
Other investing activities	292	114
Net cash used in investing activities	(4,502)	(1,682)
Capital contributions	-	1
Deposits on investment-type policies and contracts	7,521	4,189
Withdrawals on investment-type policies and contracts	(3,701)	(3,516)
Net changes of cash collateral posted for derivative transactions	513	254
Consolidated VIE repayment on borrowings	-	(500)
Other financing activities	(54)	139
Net cash provided by financing activities	4,279	567
Effect of exchange rate changes on cash and cash equivalents	30	(2)
Net increase (decrease) in cash and cash equivalents[1]	$ 1,149	$ (153)

[1] *Includes cash and cash equivalents of consolidated VIEs*

Cash flows from operating activities

The primary cash inflows from operating activities include net investment income, annuity considerations and insurance premiums. The primary cash outflows from operating activities are comprised of benefit payments, interest credited to policyholders, and operating expenses. Our operating activities generated cash flows totaling $1.3 billion and $964 million for the nine months ended September 30, 2017 and 2016, respectively. The increase in cash provided by operating activities for the nine months ended September 30, 2017 compared to 2016 was primarily driven by the increase in net investment income reflecting an increase in our investment portfolio attributed to the strong growth in deposits over the prior twelve months.

Cash flows from investing activities

The primary cash inflows from investing activities are the sales, maturities and repayments of investments. The primary cash outflows from investing activities are the purchases and acquisitions of new investments. Our investing activities used cash flows totaling $4.5 billion and $1.7 billion for the nine months ended September 30, 2017 and 2016, respectively. The change in cash used in investing activities for the nine months ended September 30, 2017 compared to 2016 was primarily attributed to the purchase of investments related to the increase in deposits over liability outflows as well as the reinvestment of earnings.

Cash flows from financing activities

The primary cash inflows from financing activities are deposits on our investment-type policies, changes of cash collateral posted for derivative transactions, capital contributions and proceeds from borrowing activities. The primary cash outflows from financing activities are withdrawals on our investment-type policies, changes of cash collateral posted for derivative transactions and repayments from borrowing activities. Our financing activities provided cash flows totaling $4.3 billion and $567 million for the nine months ended September 30, 2017 and 2016, respectively. The change in cash provided from financing activities for the nine months ended September 30, 2017 was primarily attributed to the increase in deposits over liability outflows, the favorable change in cash collateral posted for derivative transactions and the settling of borrowings of our CMBS VIE funds in the prior year.

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Holding Company Liquidity

AHL is a holding company whose primary liquidity needs include the cash-flow requirements relating to its corporate activities, including its day-to-day operations and strategic transactions, such as acquisitions. The primary source of AHL's cash flow is dividends from its subsidiaries, which are expected to be adequate to fund cash flow requirements based on current estimates of future obligations. As of September 30, 2017, AHL had no financial leverage.

The ability of AHL's insurance subsidiaries to pay dividends is limited by applicable laws and regulations of the jurisdictions where the subsidiaries are domiciled, as well as agreements entered into with regulators. These laws and regulations require, among other things, the insurance subsidiaries to maintain minimum solvency requirements and limit the amount of dividends these subsidiaries can pay.

Subject to these limitations and prior notification to the appropriate regulatory agency, the U.S. insurance subsidiaries are permitted to pay ordinary dividends based on calculations specified under insurance laws of the relevant state of domicile. Any distributions above the amount permitted by statute in any twelve month period are considered to be extraordinary dividends, and the approval of the appropriate regulator is required prior to payment. In addition, dividends from U.S. insurance subsidiaries to AHL would result in a 30% withholding tax. AHL does not currently plan on having the U.S. subsidiaries pay any dividends to AHL. Athene Lebensversicherung AG (ALV) and Athene Pensionskasse AG (APK) (the life insurance entities of our German Group Companies) are regulated by BaFin. ALV and APK are restricted as to the payment of dividends pursuant to calculations, which are based upon the analysis of current euro swap rates against existing policyholder guarantees. As of September 30, 2017, ALV and APK did not exceed this threshold and, therefore, no amounts are available for distribution to AHL. As a result, dividends from ALRe are projected to be the primary source of AHL's liquidity.

Under the Bermuda Insurance Act, ALRe is prohibited from paying a dividend in an amount exceeding 25% of the prior year's statutory capital and surplus, unless at least two members of ALRe's board of directors and its principal representative in Bermuda sign and submit to the BMA an affidavit attesting that a dividend in excess of this amount would not cause ALRe to fail to meet its relevant margins. In certain instances, ALRe would also be required to provide prior notice to the BMA in advance of the payment of dividends. In the event that such an affidavit is submitted to the BMA in accordance with the Bermuda Insurance Act, and further subject to ALRe meeting its relevant margins, ALRe is permitted to distribute up to the sum of 100% of statutory surplus and an amount less than 15% of its total statutory capital. Distributions in excess of this amount require the approval of the BMA.

The maximum distribution permitted by law or contract is not necessarily indicative of our actual ability to pay such distributions, which may be further restricted by business and other considerations, such as the potential imposition of withholding tax and the impact of such distributions on surplus, which could affect our ratings or competitive position and the amount of premiums that can be written. Specifically, the level of capital needed to maintain desired financial strength ratings from rating agencies, including S&P, A.M. Best and Fitch, is of particular concern when determining the amount of capital available for distributions. AHL believes its insurance subsidiaries have sufficient statutory capital and surplus, combined with additional capital available to be provided by AHL, to meet their financial strength ratings objectives. Finally
state insurance laws and regulations require that the statutory surplus of our insurance subsidiaries following any dividend or distribution must be reasonable in relation to their outstanding liabilities and adequate for the insurance subsidiaries' financial needs.

Other Sources of Funding

If needed, we may seek to secure additional funding at the holding company level by means other than dividends from subsidiaries, such as by drawing on our undrawn $1.0 billion credit facility or by pursuing future issuances of debt or equity securities to third-party investors. However, such additional funding may not be available on terms favorable to us or at all, depending on our financial condition or results of operations or prevailing market conditions. In addition, certain covenants in our credit facility prohibit us from incurring any debt not expressly permitted thereby, which may limit our ability to pursue future issuances of debt.

Membership in Federal Home Loan Bank

We are a member of the FHLBDM and the FHLBI. Membership in a FHLB requires the member to purchase FHLB common stock based on a percentage of the dollar amount of advances outstanding, subject to the investment being greater than or equal to a minimum level. We owned a total of $38 million and $40 million of FHLB common stock as of September 30, 2017 and December 31, 2016, respectively.

Through our membership in the FHLBDM and FHLBI, we are eligible to borrow under variable rate short-term federal funds arrangements to provide additional liquidity. The borrowings must be secured by eligible collateral such as mortgage loans, eligible CMBS or RMBS, government or agency securities and guaranteed loans. There were no outstanding borrowings under these arrangements as of September 30, 2017 or December 31, 2016.

On August 11, 2016, we provided notice to the FHLBI that ALIC is withdrawing its membership thereto. The FHLBI confirmed receipt of our request on the following day. Pursuant to the FHLBI's capital plan, ALIC's membership will be withdrawn as of the fifth anniversary of the FHLBI's receipt of our notice. Until such time that ALIC's membership is withdrawn, ALIC continues to have all of the rights and obligations of being a member of the FHLBI, except that with respect to some or all of the FHLBI stock that ALIC owns, we will be entitled to a lower dividend amount, to the extent that the FHLBI declares a dividend. ALIC may continue to borrow from the FHLBI, provided that without the consent of the FHLBI, the transaction must mature or otherwise terminate prior to ALIC's withdrawal of membership.

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We have issued funding agreements to the FHLB in exchange for cash advances. These funding agreements were issued in an investment spread strategy, consistent with other investment spread operations. As of September 30, 2017 and December 31, 2016, we had an aggregate of $623 million and $691 million, respectively, of outstanding FHLB funding agreements. Refer to *Note 13 - Commitments and Contingencies* to the condensed consolidated financial statements for details of issued funding agreements and related collateral.

The maximum FHLB indebtedness by a member is determined by the amount of collateral pledged, and cannot exceed a specified percentage of the member's total statutory assets dependent on the internal credit rating assigned to the member by the FHLB. As of September 30, 2017, the total maximum borrowings under the FHLBDM facility was limited to $15.4 billion. However, our ability to borrow under the facility is constrained by the availability of assets that qualify as eligible collateral under the facility and by the Iowa Code requirement that we maintain funds equivalent to our legal reserve in certain permitted investments, from which we exclude pledged assets. Considering these limitations, we estimate that as of September 30, 2017 we had the ability to draw up to a total of approximately $2 billion, inclusive of borrowings then outstanding. This estimate is based on our internal analysis and assumptions, and may not accurately measure collateral which is ultimately acceptable to the FHLB. Drawing such amounts would have an adverse impact on AAIA's RBC ratio, which may further restrict our ability or willingness to draw up to our estimated capacity.

Capital Resources

As of December 31, 2016 and 2015, our U.S. insurance companies' TAC, as defined by the NAIC, was $1.8 billion and $1.7 billion, respectively, and our ALRe statutory capital as defined by the BMA, was $6.1 billion and $5.7 billion, respectively. As of December 31, 2016 and 2015, our U.S. RBC ratio was 478% and 552%, respectively, and our BSCR ratio was 228% and 323%, respectively, all above our internal targets. The change in our U.S. RBC as of December 31, 2016 compared to December 31, 2015 was primarily driven by our investment of capital to organically grow our retail channel, which increased significantly during 2016. Each U.S. domestic insurance subsidiary's state of domicile imposes minimum RBC requirements that were developed by the NAIC. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of TAC to ACL. Our TAC was significantly in excess of all regulatory standards and above our internal targets as of September 30, 2017, December 31, 2016 and 2015, respectively. ALRe adheres to BMA regulatory capital requirements to maintain statutory capital and surplus to meet the MMS and maintain minimum economic balance sheet (EBS) capital and surplus to meet the Enhanced Capital Requirement (ECR). Effective January 1, 2016, in connection with the implementation of its broader regulatory regime, the BMA integrated the EBS framework into the determination of BSCR. The European Commission has granted the BMA's regulatory regime for reinsurance, group solvency calculation and group supervision full equivalence to Solvency II. Under the EBS framework, ALRe's assets are recorded at market value and its insurance reserves are determined by reference to nine prescribed scenarios, with the scenario resulting in the highest reserve balance being ultimately required to be selected. The ALRe EBS capital and surplus was $4.4 billion resulting in a BSCR ratio of 228%, as of December 31, 2016. Although the calculation of the ECR was unchanged from prior year, the BSCR ratios for December 31, 2016 and 2015 are not comparable as the 2015 calculation applied to ALRe's statutory capital and the 2016 calculation now applies to the EBS capital and surplus. Consistent with the previous regime the MRC ratio to be considered solvent by the BMA is 100%. As of September 30, 2017, December 31, 2016 and 2015, ALRe held the appropriate capital to adhere to these regulatory standards. In evaluating our capital position and the amount of capital needed to support our Retirement Services segment, we review our ALRe capital by applying the NAIC RBC factors. As of December 31, 2016 and 2015, our ALRe RBC ratio was 529% and 468%, respectively, both above our internal targets. Our German Group Companies adhere to the regulatory capital requirements set forth by BaFin. Our German Group Companies held the appropriate capital to adhere to these regulatory standards as of December 31, 2016. We believe that we enjoy a strong capital position in light of our risks and that we are well positioned to meet policyholder and other obligations. We also believe that our strong capital position, as well as our excess capital position, provides us the opportunity to take advantage of market dislocations as they arise.

Balance Sheet and Other Arrangements

Balance Sheet Arrangements

Contractual Obligations

As of September 30, 2017, there have been no significant changes to contractual obligations since December 31, 2016. See *Part II-Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2016 Annual Report.*

Other

In the normal course of business, we invest in various investment funds which are considered VIEs, and we consolidate a VIE when we are considered the primary beneficiary of the entity. For further discussion of our involvement with VIEs, see *Note 4 - Variable Interest Entities* to the condensed consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Estimates and Judgments

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Amounts based on such estimates involve numerous assumptions subject to varying and potentially significant degrees of judgment and uncertainty, particularly related to the future performance of the underlying business, and will likely change in the future as additional information becomes available. Critical estimates and assumptions are evaluated on an ongoing basis based on historical developments, market conditions, industry trends and other information that is reasonable under the circumstances. There can be no assurance that actual results will conform to estimates and assumptions and that reported results of operations will not be materially affected by the need to make future accounting adjustments to reflect periodic changes in these estimates and assumptions. Critical accounting estimates are impacted significantly by our methods, judgments and assumptions used in the preparation of the consolidated financial statements and should be read in conjunction with our significant accounting policies described in *Note 1 - Business, Basis of Presentation and Significant Accounting Policies* to the consolidated financial statements of our 2016 Annual Report. The most critical accounting estimates and judgments include those used in determining:

- fair value of investments;
- impairment of investments and valuation allowances;
- future policy benefit reserves;
- derivatives valuation, including embedded derivatives;
- deferred acquisition costs, deferred sales inducements and value of business acquired;
- stock-based compensation;
- consolidation of VIEs; and
- valuation allowances on deferred tax assets.

The above critical accounting estimates and judgments are discussed in detail in *Part II-Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of our 2016 Annual Report.

See *Note 1 - Business, Basis of Presentation and Significant Accounting Policies* to the condensed consolidated financial statements included in *Part I-Item 1. Financial Statements* for adoption of new and future accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

We regularly analyze our exposure to market risks, which reflect potential losses in value due to credit and counterparty risk, interest rate risk, currency risk, commodity price risk and equity price risk. As a result of that analysis, we have determined that we are primarily exposed to credit risk, interest rate risk and to a lesser extent, equity price risk. A description of our market risk exposures, including strategies used to manage our exposure to market risk, may be found under *Part II-Item 7A. Quantitative and Qualitative Disclosures About Market Risk* of the 2016 Annual Report.

Assuming a 25 basis points increase in interest rates persists for a 12-month period, the estimated impact to operating income, net of tax, would be an increase of approximately $25 - $30 million. This is driven by an increase in investment income from floating rate assets, offset by DAC, DSI and VOBA amortization and rider reserve change, all calculated without regard to future changes to assumptions.

There have been no other material changes to our market risk exposures from the market risk exposures previously disclosed in the 2016 Annual Report.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures as such term is defined under Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We have carried out an evaluation, as of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at attaining the level of reasonable assurance noted above.

There were no changes to the Company’s internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the quarter ended September 30, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II-OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to litigation arising in the ordinary course of our business, including litigation principally relating to our FIA business. We cannot assure you that our insurance coverage will be adequate to cover all liabilities arising out of such claims. We are not engaged in any legal proceeding that we believe will be material to our business, financial condition, results of operations or cash flows. From time to time, in the ordinary course of business and like others in the insurance and financial services industries, we receive requests for information from government agencies in connection with such agencies' regulatory or investigatory authority. Such requests can include financial or market conduct examinations, subpoenas or demand letters for documents to assist the government in audits or investigations. We and each of our U.S. insurance subsidiaries review such requests and notices and take appropriate action. We have been subject to certain requests for information and investigations in the past and could be subject to them in the future.

For a description of certain legal proceedings affecting us, refer to *Note 13 - Commitments and Contingencies* to the condensed consolidated financial statements.

Item 1A. Risk Factors

The following should be read in conjunction with, and supplements and amends, the factors that may affect our business or operations described in *Part I-Item 1A. Risk Factors* of our 2016 Annual Report. Other than as described in this Item 1A, there have been no material changes to our risk factors from the risk factors previously disclosed in our 2016 Annual Report.

Risks Relating to Our Business

Certain of our investments in RMBS securities may experience a decline in value if trustees are permitted to withhold funds to meet expenses and/or claims incurred in connection with litigation against such trustees

In June 2017, Wells Fargo, National Association (Wells Fargo), as trustee of certain pre-crisis residential mortgage-backed securities (Legacy RMBS) transactions, notified certificateholders that it withheld a portion of the funds received during related clean-up calls to meet litigation expenses (both incurred and anticipated) and/or claims in connection with *Blackrock, et al. v. Wells Fargo* (Blackrock Litigation). The Blackrock Litigation is one of a series of cases various parties have brought against trustees of Legacy RMBS transactions for the alleged failure of such trustees to perform their respective duties and obligations under the related transaction documents.

In July 2017, various funds managed by Pacific Investment Management Company, LLC (collectively, PIMCO) brought a declaratory judgment action in the Supreme Court of New York against Wells Fargo seeking to prevent Wells Fargo from paying any portion of the defense costs of the Blackrock Litigation from the trusts at issue in the litigation, and claiming that Wells Fargo, as trustee, breached certain duties to investors. In September 2017, Wells Fargo filed a motion to dismiss the claims brought by PIMCO.

It is not known at this time whether Wells Fargo will seek to withhold funds from other Legacy RMBS transactions or whether other RMBS trustees will attempt to take similar action. We hold a substantial Legacy RMBS portfolio, the ratings, yield and value of which could be adversely affected if Wells Fargo or other RMBS trustees have established, or attempt to establish, similar reserves in other Legacy RMBS transactions.

Uncertainty relating to the LIBOR calculation process and potential phasing out of LIBOR after 2021 may adversely affect the value of our investment portfolio and may further affect our ability to issue funding agreements bearing a floating rate of interest

Regulators and law enforcement agencies in the UK and elsewhere are conducting civil and criminal investigations into whether the banks that contribute to the British Bankers' Association (BBA) in connection with the calculation of daily LIBOR may have been under-reporting or otherwise manipulating or attempting to manipulate LIBOR. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to this alleged manipulation of LIBOR.

Actions by the BBA, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined or the establishment of alternative reference rates. For example, on July 27, 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. At this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the UK or elsewhere. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR-based securities, including those held in our investment portfolio and may further adversely affect our ability to issue funding agreements bearing a floating rate of interest. As of September 30, 2017, 28% of our invested assets were floating rate investments, some of which were referenced to LIBOR.

The following updates and replaces the second, fourth and fifth paragraphs of the similarly named risk factor included in our 2016 Annual Report:

We rely significantly on third parties for investment services and certain other services related to our policies, and we may be held responsible for obligations that arise from the acts or omission of third parties under their respective agreements with us if they are deemed to have acted on our behalf.

Many of our subsidiaries' products and services are sold through third-party intermediaries. In particular, our insurance businesses are reliant on such intermediaries to describe and explain these products and services to potential customers, and although we take precautions to avoid this result, such intermediaries may be deemed to have acted on our behalf. If that occurs, the intentional or unintentional misrepresentation of our subsidiaries' products and services in advertising materials or other external communications, or inappropriate activities by our personnel or an intermediary could result in liability for us and have an adverse effect on our reputation and business prospects, as well as lead to potential regulatory actions or litigation involving or against us. In addition, as a result of our acquisitions, we rely on third-party administrators (TPAs) to administer a portion of our annuity contracts, as well as a small amount of legacy life insurance business. We currently rely on these TPAs to administer a number of our policies. Some of our reinsurers also use TPAs to administer business reinsured to them by us. To the extent any of these TPAs do not administer such business appropriately, we may experience customer complaints, regulatory intervention and other adverse impacts, which could affect our future growth and profitability. If any of these TPAs or their employees are found to have made material misrepresentations to our policyholders, violated applicable insurance, privacy or other laws and regulations or otherwise engaged in misconduct, we could be held liable for their actions, which could adversely affect our reputation and business prospects, as well as lead to potential regulatory actions or litigation against us. Our U.S. insurance subsidiaries have experienced increased service and administration complaints related to the conversion and administration of the Aviva USA life insurance policies reinsured to affiliates of Global Atlantic by the TPA retained by such Global Atlantic affiliates to provide services on such policies, as well as on certain annuity policies that were on Aviva USA's life systems that were also converted to and are being administered by the same TPA. As a result of these increased complaints and service-related issues, our U.S. insurance subsidiaries may be subject to increased regulatory scrutiny, including fines and penalties, and policyholder litigation. To date, the New York State Department of Financial Services is in the process of conducting a market conduct examination and the Texas Department of Insurance has notified us that it intends to undertake an enforcement proceeding, in each case, relating to the treatment of policyholders subject to our reinsurance agreements with affiliates of Global Atlantic and the conversion of such annuity policies, including the administration of such blocks by such TPA. Additionally, if any of our TPAs fails to perform in accordance with our standards, we may incur additional costs in connection with finding and retaining new TPAs, which may divert the time and attention of our senior management from our business.

Further, on April 6, 2016, the DOL issued the fiduciary rule which imposes upon third parties who sell annuities within Employee Retirement Income Security Act of 1974 (as amended, ERISA) plans or to individual retirement account (IRA) holders a fiduciary duty to retirement investors. For the year ended December 31, 2016, of our total deposits of $8.8 billion from our organic channels, 42% was associated with sales of FIAs to employee benefit plans and IRAs and 14% was associated with traditional fixed annuities sold to employee benefit plans and IRAs. The requirements of the fiduciary rule were originally scheduled to begin to be implemented on April 10, 2017, with full implementation on January 1, 2018. The DOL delayed the applicability date of the fiduciary rule for 60-days to June 9, 2017 and, in addition to delaying the applicability date, the DOL adjusted the exemption requirements that apply to sales in the interim period starting June 9, 2017 until the full compliance date of January 1, 2018. On July 6, 2017, the DOL issued a request for information (RFI) regarding the fiduciary rule. The DOL indicated that the information gathered from the responses to the RFI "could form the basis of new exemptions or changes/revisions". Along with the request for comments about the fiduciary rule and its impact, the DOL asked for commentary regarding the potential impact of extending the January 1, 2018 full compliance date. On August 9, 2017, the DOL submitted to the Office of Management and Budget a proposal to extend the January 1, 2018 full implementation date to July 1, 2019. In order for the extension to become effective, the proposal must be finalized and issued in the Federal Register before January 1, 2018. We are assisting our distribution partners with the interim requirements.

The fiduciary rule's obligations for distributors of products to retirement accounts may result in additional compliance costs to us, regulatory scrutiny and litigation, as well as reduced product sales. Since the fiduciary rule is in the process of being implemented, we are not able to assess the actual impact that such regulations may have on us and our associates. If the fiduciary rule is fully implemented in its current form, our results of operations and financial condition may be negatively impacted as we implement the fiduciary rule's numerous requirements.

Risks Relating to Insurance and Other Regulatory Matters

The following updates and replaces the specified paragraphs of the similarly named sections of the risk factor entitled “Changes in the laws and regulations governing the insurance industry or otherwise applicable to our business, including the DOL fiduciary regulation, may have a material adverse effect on our business, financial condition, liquidity, results of operations and prospects” included in our 2016 Annual Report. There have been no material changes to other sections of such risk factor, which include: “Non-Bank SIFIs,” “FIAs,” “U.S. Consumer Protection Laws and Privacy and Data Security Regulation,” and “NAIC.”

U.S. Federal Oversight

The following updates and replaces the third paragraph of the “U.S. Federal Oversight” subsection included within the 2016 Annual Report:

On April 6, 2016, the DOL issued a new regulation more broadly defining the circumstances under which a person is considered to be a fiduciary by reason of giving investment advice or recommendations to an employee benefit plan or a plan’s participants or to IRA holders. In addition to releasing the investment advice regulation, the DOL: (1) issued a new prohibited transaction class exemption, referred to as BICE, to be used in connection with the sale of FIAs or variable annuities, and (2) updated the previously prohibited transaction class exemption 84-24, to be used in connection with the sale of traditional fixed rate annuities. The April 10, 2017 applicability date for the DOL regulation was delayed to June 9, 2017, in response to a memorandum issued to the DOL by President Trump. In addition to delaying the applicability date of the DOL regulation, the DOL revised both exemptions, most notably allowing all annuity products, fixed, FIAs and variable annuities, to rely on an updated version of the prohibited transaction class exemption 84-24 from June 9, 2017 through January 1, 2018, at which time full implementation of the DOL regulation is required. On August 9, 2017, the DOL submitted to the Office of Management and Budget a proposal to extend the January 1, 2018 full implementation date to July 1, 2019. In order for the extension to become effective, the proposal must be finalized and issued in the Federal Register before January 1, 2018. For the year ended December 31, 2016, of our total deposits of approximately $8.8 billion from organic channels, 42% was associated with sales of FIAs to employee benefit plans and IRAs and 14% was associated with traditional fixed annuities sold to employee benefit plans and IRAs. We cannot predict with any certainty the impact of the new regulation and exemptions, but the regulation and exemptions could alter the way our products and services are marketed and sold, particularly to purchasers of IRAs and individual retirement annuities. If implemented in its current form, the DOL regulation could have an adverse effect on our ability to write new business. In addition, the NAIC has implemented a working group to update the current Suitability in Annuity Transactions Model Regulation to address the fiduciary standard and the SEC has indicated that it may propose rules creating a uniform standard of conduct applicable to broker-dealers and investment advisers. The NAIC or SEC rules, if adopted, may affect the distribution of our products. In addition, should the SEC and NAIC rules, if adopted, not align with each other or the finalized DOL regulations, the distribution of our products could be further complicated.

Regulation of Over-The-Counter (OTC) Derivatives

The following updates and replaces the third paragraph of the "Regulation of Over-The-Counter (OTC) Derivatives" subsection included within the 2016 Annual Report:

The Dodd-Frank Act and the CFTC rules thereunder require us, in connection with certain swap transactions, to comply with mandatory clearing and on-facility trade execution requirements, and it is anticipated that the types of swaps subject to these requirements will be expanded over time. In addition, new regulations require us to comply with mandatory minimum margin requirements for uncleared swaps and, in some instances, uncleared security-based swaps. Uncleared swap variation margin regulations issued by U.S. bank prudential regulators, the CFTC and regulators in certain other jurisdictions, such as the European Union and Canada, generally took effect on March 1, 2017. These regulations require market participants to enter into agreements consistent with the requirements thereunder and a failure to do so could result in trading disruptions. Derivative clearing requirements and mandatory margin requirements could increase the cost of our risk mitigation and could have other implications. For example, increased margin requirements, combined with netting restrictions and restrictions on securities that qualify as eligible collateral, could reduce our liquidity and require increased holdings of cash and highly liquid securities with lower yields causing a reduction in income. In addition, the requirement that certain trades be centrally cleared through clearinghouses subjects us to documentation that is significantly more counterparty-favorable and may entitle counterparties to unilaterally change such terms as trading limits and the amount of margin required. The ability of any such counterparty to take such actions could create trading disruptions and liquidity concerns. Finally, the requirement that certain trades be centrally cleared through clearinghouses concentrates counterparty risk in both clearinghouses and clearing members. The failure of a clearinghouse could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on clearinghouse members during a financial crisis, which could lead clearinghouse members to default. Because clearinghouses are still developing and the related bankruptcy process is untested, it is difficult to anticipate or identify all actual risks related to the default of a clearinghouse.

Risks Relating to Taxation

The following updates and replaces the similarly named risk factor included in our 2016 Annual Report:

Changes in U.S. tax law might adversely affect us or our shareholders.

The tax treatment of non-U.S. companies and their U.S. and non-U.S. insurance subsidiaries has been the subject of Congressional discussion and legislative proposals. Legislative proposals relating to the tax treatment of non-U.S. companies have been introduced in the past that could, if enacted, materially affect us. Both the U.S. Congress and President Trump's administration have indicated a desire to reform the U.S. Internal Revenue Code of 1986, as amended. In November, Chairman Brady (R-TX) of the House Committee on Ways and Means released proposed legislation entitled the Tax Cuts and Jobs Act of 2017 (the Proposed Bill). The Proposed Bill would, if enacted, reduce corporate tax rates to 20%, impose a 20% excise tax on payments made by domestic insurers to related foreign insurers under certain circumstances, and significantly accelerate taxable income and therefore cash tax expense by the imposition of other changes which would impact life insurance companies, among others. Although a reduction in the corporate tax rate would generally have a positive impact on the earnings and cash flow of our U.S. companies, the imposition of the proposed 20% excise tax and other components of the Proposed Bill could, if enacted, add significant expense and have a material adverse effect on our results of operations.

The Proposed Bill also includes proposals that could, if enacted, affect whether AHL or any of its non-U.S. subsidiaries are treated as a "passive foreign investment company" (PFIC) or a "controlled foreign corporation" (CFC). Whether or not the Proposed Bill is enacted, interpretations of U.S. federal income tax law, including those regarding whether a company is engaged in a trade or business (or has a permanent establishment) within the United States or is a PFIC, or whether U.S. persons are required to include in their gross income "subpart F income" or related person insurance income (RPII) of a CFC, are subject to change, possibly on a retroactive basis. Regulations regarding the application of the PFIC rules to insurance companies and regarding RPII are only in proposed form. Whether or not the Proposed Bill is enacted, new regulations or pronouncements interpreting or clarifying the existing proposed regulations may be forthcoming.

It is possible that the Proposed Bill will be amended significantly before passage, that other legislative proposals could emerge in the future or that no tax legislation is enacted in the near future. Such amendments or future proposals could also have an adverse impact on us. No prediction can be made as to whether any particular proposed legislation will be enacted or, if enacted, what the specific provisions or the effective date of any such legislation would be, or whether it would have any effect on us. As such, we cannot assure you that future legislative, administrative or judicial developments will not result in an increase in the amount of U.S. tax payable by us or by an investor in our Class A common shares or reduce the attractiveness of our products. If any such developments occur, our business, financial condition and results of operation could be materially and adversely affected and could have a material and adverse effect on your investment in our common shares.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Securities

Purchases of common stock made by or on behalf of us or our affiliates during the three months ended September 30, 2017 are set forth below:

Period	(a) Total number of shares purchased[1]	(b) Average price paid per share[1]	(c) Total number of shares purchased as part of publicly announced programs[2]	(d) Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs[2]
July 1 - July 31, 2017	232	$ 49.61	-	$ -
August 1 - August 31, 2017	-	$ -	-	$ -
September 1 - September 30, 2017	290	$ 52.31	-	$ -

[1] *Purchases relate to shares withheld (under the terms of employee stock compensation plans) to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying restricted stock units or upon the exercise of stock options.*

[2] *As of September 30, 2017, our Board of Directors had not authorized any purchases of common stock in connection with a publicly announced plan or program.*

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ATHENE HOLDING LTD.

Date: November 7, 2017	/s/ Martin P. Klein
	Martin P. Klein
	Chief Financial Officer
	(principal financial officer and duly authorized signatory)

EXHIBIT INDEX

Exhibit No.	Description
31.1	Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.

Consolidated Financial Statements

Years ended 2015, 2014, and 2013

ATHENE LIFE RE LTD.
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October 6, 2016

Independent Auditor's Report

To the Board of Directors and Shareholder of Athene Life Re Ltd.

We have audited the accompanying consolidated financial statements of Athene Life Re Ltd. (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015, 2014 and 2013, and the related consolidated statements of income (loss), comprehensive income (loss), equity and cash flows for the years then ended.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

PricewaterhouseCoopers Ltd., Chartered Professional Accountants, P.O. Box HM 1171, Hamilton HM EX, Bermuda
T: +1 (441) 295 2000, F:+1 (441) 295 1242, www.pwc.com/bermuda

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Athene Life Re Ltd. and its subsidiaries as of December 31, 2015, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

ATHENE LIFE RE LTD.
Consolidated Balance Sheets

	December 31,		
(In millions)	2015	2014	2013
Assets			
Investments			
Available for sale securities, fixed maturity securities, at fair value (amortized cost: 2015 - $3,020, 2014 - $1,063 and 2013 - $368)	$ 2,943	$ 1,080	$ 389
Trading securities, at fair value	238	181	—
Investment funds	624	607	888
Funds withheld at interest	43,879	45,329	44,627
Derivative assets	1	1	—
Short-term investments, at fair value	37	17	—
Total investments	47,722	47,215	45,904
Cash and cash equivalents	253	313	262
Restricted cash	9	24	8
Accrued investment income	22	10	3
Deferred acquisition costs and deferred sales inducements	2,028	1,547	1,708
Other assets	4	6	2
Assets of consolidated variable interest entities	—	—	953
Total Assets	$ 50,038	$ 49,115	$ 48,840
Liabilities and Equity			
Liabilities			
Interest sensitive contract liabilities (portion at fair value: 2015 - $3,540, 2014 - $3,532 and 2013 - $2,587)	$ 42,975	$ 42,817	$ 42,954
Future policy benefits	3,682	3,813	3,390
Other policy claims and benefits	30	20	30
Derivative liabilities	—	—	1
Reinsurance payable	1	2	1
Other liabilities	35	42	59
Liabilities of consolidated variable interest entities	—	—	742
Total Liabilities	46,723	46,694	47,177
Note receivable - mezzanine	—	—	(58)
Noncontrolling interest - mezzanine	—	—	58
Equity			
Common shares	2	2	2
Additional paid-in-capital	2,292	1,152	1,152
Retained earnings	1,098	1,250	479
Accumulated other comprehensive income	(77)	17	23
Noncontrolling interest excluding mezzanine	—	—	7
Total Equity	3,315	2,421	1,663
Total Liabilities and Equity	$ 50,038	$ 49,115	$ 48,840

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Statements of Income (Loss)

(In millions)	Years ended December 31, 2015	2014	2013
Revenue			
Premiums	$ 37	$ 15	$ 2,802
Product charges	191	167	57
Net investment income[1]	452	3,789	1,898
Net investment income from consolidated variable interest entities	—	16	(8)
Total revenues	680	3,987	4,749
Benefits and Expenses			
Interest sensitive contract benefits	519	1,424	809
Future policy and other policy benefits	116	657	2,952
Amortization of deferred sales inducements	(8)	15	13
Amortization of deferred acquisition costs	(98)	469	73
Policy and other operating expenses	303	305	155
Operating expenses of consolidated variable interest entities	—	3	13
Total benefits and expenses	832	2,873	4,015
Net Income (Loss)	$ (152)	$ 1,114	$ 734

[1] *Includes the change in unrealized gain (loss) mark-to-market impacts of $(1,415) million, $1,013 million and $(204) million for the years ended December 31, 2015, 2014 and 2013, respectively. See Note 3 - Investments for more information.*

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income (Loss)

(In millions)	Years ended December 31, 2015	2014	2013
Net income (loss)	$ (152)	$ 1,114	$ 734
Other comprehensive (loss)			
Change in unrealized investment gains (losses) on available-for-sale securities	(94)	(6)	(13)
Other comprehensive (loss)	(94)	(6)	(13)
Comprehensive income (loss)	$ (246)	$ 1,108	$ 721

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Statements of Equity

(In millions)	Common shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Athene Life Re Ltd. shareholders' equity	Non controlling interest	Total equity
Balance at December 31, 2012	$ 2	$ 1,046	$ 400	$ 36	$ 1,484	$ —	$ 1,484
Net income	—	—	734	—	734	—	734
Other comprehensive loss	—	—	—	(13)	(13)	—	(13)
Dividends paid	—	—	(655)	—	(655)	—	(655)
Capital contributions received	—	106	—	—	106	—	106
Change in equity of noncontrolling interests	—	—	—	—	—	7	7
Balance at December 31, 2013	2	1,152	479	23	1,656	7	1,663
Net income	—	—	1,114	—	1,114	—	1,114
Other comprehensive loss	—	—		(6)	(6)	—	(6)
Dividends paid	—	—	(350)	—	(350)	—	(350)
Change in equity of non-controlling interest	—	—	7	—	7	(7)	—
Balance at December 31, 2014	2	1,152	1,250	17	2,421	—	2,421
Net loss	—	—	(152)	—	(152)	—	(152)
Other comprehensive loss	—	—	—	(94)	(94)	—	(94)
Capital contributions received	—	1,140	—	—	1,140	—	1,140
Balance at December 31, 2015	$ 2	$ 2,292	$ 1,098	$ (77)	$ 3,315	$ —	$ 3,315

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Statements of Cash Flows

	Years ended December 31,		
(In millions)	2015	2014	2013
Cash flows from operating activities			
Net income (loss)	$ (152)	$ 1,114	$ 734
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred acquisition costs	(98)	469	73
Amortization of deferred sales inducements	(8)	15	13
Amortization (accretion) of net investment premiums, discounts, and other	(18)	(9)	2
Product charges[1]	(191)	(167)	(57)
Interest sensitive contract benefits[1, 2]	519	1,424	807
Net investment (income) loss[3]	69	42	(302)
Other non-cash income adjustments only related to funds withheld and modified coinsurance agreements			
Premiums	(37)	(15)	(2,802)
Net investment (income) on funds withheld at interest	(423)	(3,777)	(1,596)
Policy and other operating expenses	286	270	106
Future policy benefits and other policy claims and benefits	116	657	2,952
Other changes in operating assets and liabilities:			
Accrued investment income	(12)	(8)	—
Cash profit settlements on funds withheld and modified coinsurance agreements	130	619	409
Other assets and liabilities	(10)	(17)	18
Other assets and liabilities of consolidated variable interest entities	—	(20)	—
Net cash provided by operating activities	171	597	357
Cash flows from investing activities			
Sales, maturities, and repayments of:			
Available-for-sale securities	443	220	374
Trading securities	96	53	7
Investment funds	161	291	255
Short-term investments	56	—	—
Purchases of:			
Available-for-sale securities	(1,050)	(681)	—
Trading securities	(62)	(114)	—
Investment funds	(232)	(64)	(44)
Short-term investments	(78)	—	—
Sales, maturities, and repayments of investments of consolidated variable interest entities	—	845	—
Cash settlement of derivatives	2	—	(69)
Change in restricted cash	14	(16)	4
Net cash (used in) provided by investing activities	(650)	534	527

(Continued)

[1] Comprised of impacts related to funds withheld, modified coinsurance, and coinsurance agreements.
[2] Comprised of interest credited to policyholder account balances, changes in fair value of embedded derivatives associated with fixed indexed annuities, and amortization of unearned revenue reserves.
[3] Comprised of realized (gains) losses on investments, (income) losses on equity method investments net of dividend distributions, and changes in fair value of trading securities.

See accompanying notes to consolidated financial statements

(In millions)	Years ended December 31, 2015	2014	2013
Cash flows from financing activities			
Capital contributions	$ 432	$ —	$ 72
Dividends paid	—	(350)	(655)
Repayment of note payables	—	—	(40)
Withdrawals on investment-type policies and contracts	(13)	(15)	(16)
Repayment on borrowings of consolidated variable interest entities	—	(719)	(6)
Net cash provided by (used in) financing activities	419	(1,084)	(645)
Effect of exchange rate changes on cash and cash equivalents			
Net increase (decrease) in cash and cash equivalents	(60)	47	239
Cash and cash equivalents at beginning of year[1]	313	266	27
Cash and cash equivalents at end of year[1]	$ 253	$ 313	$ 266
Supplementary information			
Cash paid for interest	6	3	11
Non-cash transactions			
Premiums and deposits on policies reinsured through funds withheld and modified coinsurance agreements, excluding block reinsurance transactions	3,731	2,525	1,264
Day one premiums and deposits reinsured through block reinsurance transactions	—	—	33,135
Claims and surrenders on policies reinsured through funds withheld and modified coinsurance agreements	4,155	4,372	2,172
Non-cash capital contributions in the form of securities	708	—	34
Non-cash net profit settlements on funds withheld and modified coinsurance agreements in the form of securities	727	255	447

[1] *Includes cash and cash equivalents of consolidated variable interest entities of $4 million at December 31, 2013, which is reported in the assets of consolidated variable entities on the consolidated balance sheets.*

Profit withdrawals from our funds withheld and modco reinsurance accounts are based on the statutory earnings of the associated assets and liabilities. The profit (loss) under these agreements are settled on a quarterly basis and can be settled in either cash or securities. The portion settled in both cash and securities is included in the table below, with the cash basis portion being reflected within cash from operations, and the securities portion disclosed as a non-cash transaction.

	Years ended December 31, 2015	2014	2013
Net cash provided by operating activities	171	597	357
Non-cash net settlements on funds withheld and modified coinsurance agreements in the form of securities	727	255	447
Total	898	852	804

See accompanying notes to consolidated financial statements

1. Organization and Corporate Structure

Athene Life Re Ltd. (ALRe, the Company, we, us, or our) a Bermuda exempted company, is a leading retirement services company that reinsures retirement savings products that originate in all 50 U.S. states and the District of Columbia. ALRe is wholly owned by Athene Holding Ltd. (AHL, or the Parent), a Bermuda exempted company. ALRe reinsures business from both third party cedants and affiliates. See *Note 8 - Reinsurance* for more information.

The Company was registered as a Long-Term Insurer on June 26, 2009 under the Insurance Act, 1978 of Bermuda and is classified as a Class E insurer. The Company is engaged in the business of annuity reinsurance, focusing on contracts reinsuring a quota share of future sales (flow transactions) of various fixed annuity product lines. The Company also reinsures closed blocks of existing business (block transactions). Liabilities for reinsurance include immediate annuities, fixed deferred annuities (including fixed indexed products) and funding agreements.

As of December 31, 2015, Fitch, S&P and A.M. Best had issued credit ratings, financial strength ratings and/or outlook statements regarding us, as listed below. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurer or reinsurer to meet its obligations under an insurance policy or reinsurance arrangement and generally involve quantitative and qualitative evaluations by rating agencies of a company's financial condition and operating performance. Generally, rating agencies base their financial strength ratings upon information furnished to them by the company and upon their own investigations, studies and assumptions. Financial strength ratings are based upon factors of concern to policyholders, agents, intermediaries and ceding companies and are not directed toward the protection of investors. Credit and financial strength ratings are not recommendations to buy, sell or hold securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

	December 31, 2015		
	A.M. Best	**S&P**	**Fitch**
Financial Strength Rating	A-	A-	A-
Outlook	Stable	Stable	Stable

On May 18, 2016, A. M. Best revised the outlook of the Company from "Stable" to "Positive".

2. Summary of Significant Accounting Policies

Consolidation and Basis of Presentation - The consolidated financial statements of the Company include any variable interest entities for which we are the primary beneficiary. Investments in entities that we do not control, but have the ability to exercise significant influence over operating and financing decisions, other than investments for which we have elected the fair value option, are accounted for under the equity method.

For entities that are consolidated, but not 100% owned, we allocate a portion of the income or loss and corresponding equity to the owners other than the Company. We include the aggregate of the income or loss and corresponding equity that is not owned by the Company in noncontrolling interests in the consolidated financial statements.

We have prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual experience could materially differ from these estimates and assumptions. The Company's principal estimates impact:

- fair value of investments;
- impairment of investments and valuation allowances;
- derivatives valuation, including embedded derivatives;
- deferred acquisition costs (DAC), deferred sales inducements (DSI), and reinsurance intangibles; and
- future policy benefit reserves.

Additional details regarding these principal estimates and assumptions are discussed in the significant accounting policies that follow and the related footnote disclosures.

Investments

Fixed Maturity and Equity Securities – Fixed maturity securities includes corporate bonds, collateralized loan obligations (CLO's), asset-backed securities (ABS), residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and redeemable preferred stock. Equity securities in the funds withheld at interest portfolio include common stock, mutual funds, and non-redeemable preferred stock. We classify fixed maturity securities as available-for-sale (AFS) or trading at the time of purchase and subsequently carry them at fair value. Fair value hierarchy and valuation methodologies are discussed in *Note 6 - Fair Value*. Classification is dependent on a variety of factors including our expected holding period, election of the fair value option, and asset and liability matching.

AFS Securities – Unrealized gains and losses on AFS securities are reflected in accumulated other comprehensive income (AOCI) on the consolidated balance sheets.

Trading Securities – We elected the fair value option for certain fixed maturity securities. These fixed maturity securities are classified as trading, with changes to fair value included in net investment income on the consolidated statements of income and (loss). Although the securities are classified as trading, the trading activity related to these investments is primarily focused on asset and liability matching activities and is not intended to be an income strategy based on active trading. As such, the activity related to these investments on the consolidated statements of cash flows is classified as investing activities.

We generally record security transactions on a trade date basis, with any unsettled trades recorded in other assets or other liabilities on the consolidated balance sheets. Private placement and investment fund purchases are recorded on a settlement date basis.

Purchased Credit Impaired (PCI) Securities – We purchase certain structured securities, primarily RMBS, having deterioration in credit quality since their issuance, which meet the definition of PCI securities. We determined, based on our expectations as to the timing and amount of cash flows expected to be received, that it was probable at acquisition that we would not collect all contractually required payments, including both principal and interest and considering the effects of prepayments for these PCI securities. Based on these assumptions, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is accreted into investment income, net of related expenses, over their remaining lives on a level-yield basis. The difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. Over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, the accretable yield and the non-accretable difference can change.

Quarterly, we evaluate the undiscounted expected future cash flows associated with PCI securities based on updates to key assumptions. Changes to undiscounted expected future cash flows due solely to the changes in the contractual benchmark interest rates on variable rate PCI securities will change the accretable yield prospectively. Declines in undiscounted expected future cash flows due to further credit deterioration, as well as changes in the expected timing of the cash flows, can result in the recognition of an other-than-temporary impairment (OTTI) charge, as PCI securities are subject to our policy for evaluating investments for OTTI. Significant increases in undiscounted expected future cash flows are recognized prospectively as an adjustment to the accretable yield.

Mortgage Loans – We hold mortgage loans through our funds withheld and modified coinsurance arrangements, accordingly these mortgages are valued at fair value, which is comprised of the amortized cost plus mark-to-market unrealized gains or losses. We calculate amortized cost to be unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on its contractual interest rate. We record amortization of premiums and discounts using the effective yield method, and contractual cash flows on the underlying loan. We accrue interest on loans until it is probable we will not receive interest or the loan is 90 days past due. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income on the consolidated statements of income and (loss).

Investment Funds – We invest in certain non-fixed income, alternative investments in the form of limited partnerships or similar legal structures (investment funds). For investment funds in which we have determined we are not the primary beneficiary, and therefore not required to consolidate, we typically record these investments using the equity method of accounting, where the cost is recorded as an investment in the fund. Adjustments to the carrying amount reflect our pro rata ownership percentage of the operating results as indicated by net asset value (NAV) in the investment fund financial statements, which can be on a lag of up to three months when investee information is not received in a timely manner.

We record our proportionate share of investment fund income within net investment income on the consolidated statements of income and (loss). Contributions paid or distributions received by the Company are recorded directly to the investment fund balance as an increase to carrying value or as a return of capital, thus reducing our carrying value.

Policy Loans – We hold policy loans through our funds withheld and modified coinsurance arrangements accordingly, these policy loans are held at fair value which approximates the unpaid principal balance. Policy loans are funds provided to policyholders in return for a claim on the policy's account value. The funds provided are limited to a specified percentage of the account balance. The majority of policy loans do not have a stated maturity and the balances and accrued interest are repaid with proceeds from the policy account balance.

Funds Withheld at Interest – Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which we act as reinsurer or a modified coinsurer. While the assets in funds withheld and modified coinsurance trusts are legally owned by the ceding company, the assets are legally segregated from the general accounts of our cedants and all economic rights and obligations on the assets accrue to us. We periodically settle interest accruing to those assets at rates defined by the terms of the agreement. The underlying agreements contain embedded derivatives as discussed below, and as a result the carrying value of Funds Withheld at Interest is equal to the fair value of the underlying assets. The resulting impact on the consolidated statement of cash flows from funds withheld and modco agreements after non-cash activity is backed out is that the net cash interest settlements are included in operating activities. Any securities transfers as part of interest settlements, as well as deposits and withdrawals on the underlying agreements, are disclosed as non-cash items. See additional information in Note 7 - Funds Withheld at Interest.

Short-term Investments – Short-term investments consists of financial instruments with maturities of greater than three months but less than twelve months when purchased. Short-term securities are held at fair value which approximates amortized cost. Short-term loans are carried at amortized cost.

Net Investment Income – We recognize investment income as it accrues or is legally due, net of investment management and custody fees. Investment income on fixed maturity securities includes coupon interest, as well as the amortization of any premiums and the accretion of any discount. Investment income on equity securities represents dividend income and preferred coupons. Realized gains and losses on sales of investments are included on the consolidated statements of income and (loss) in net investment income. Other-than-temporary impairments are included on the consolidated statements of income and (loss) in Net investment income (NII). Realized gains and losses on investments sold are determined based on a first-in first-out method.

Other-Than-Temporary Impairment – We identify fixed maturity and equity securities that could potentially have impairments that are other-than-temporary by monitoring market events for changes in market interest rates, credit issues, changes in business climate, management changes, litigation, government actions, and other similar factors. Indicators of impairment may include changes in the issuers' credit ratings, late payments, pricing levels, rating agency actions, key financial ratios, financial statements, revenue forecasts, and cash flow projections.

We review all securities on a case-by-case basis to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other-than-temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in fair value; (3) the issuer's financial position and access to capital; and (4) for fixed maturity securities, our ability and intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value. To the extent we determine that a security is other-than-temporarily impaired, an impairment loss is recognized.

The recognition of impairment losses on fixed maturity securities on the consolidated financial statements is dependent on the facts and circumstances related to the specific security. If we intend to sell a security or it is more likely than not that we would be required to sell a security before the recovery of its amortized cost less any recorded credit loss, we recognize an OTTI in net investment income on the consolidated statements of income and (loss) for the difference between amortized cost and fair value. If neither of these two conditions exists, then the recognition of the OTTI is bifurcated and we recognize the credit loss portion in net investment income on the consolidated statements of income and (loss) and the non-credit loss portion in AOCI on the consolidated balance sheets.

We estimate the amount of the credit loss component of a fixed maturity security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The techniques and assumptions for establishing the best estimate cash flows vary depending on the type of security. The structured security's cash flow estimates are based on security-specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity, prepayments, and structural support, including subordination and guarantees. The non-structured security's cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using security-specific facts and circumstances including timing, security interests, and loss severity.

In periods after an OTTI loss is recognized on a fixed maturity security, we report the impaired security as if it had been purchased on the date it was impaired and continue to estimate the present value of the estimated cash flows of the security. Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into net investment income over the remaining term of the fixed maturity security in a prospective manner based on the amount and timing of estimated future cash flows.

We impair a mortgage loan when it is probable we will not collect all amounts due under the agreement. We establish a valuation allowance on individual loans based on expected losses from future dispositions or settlement, including foreclosures. We calculate the allowance based on how much the carrying value exceeds one of these values:

- the present value of expected future cash flows discounted at the loan's original effective interest rate;
- the value of the loan's collateral if it is in the process of foreclosure or otherwise collateral dependent; or
- the loan's fair value if the loan is being sold.

We first apply any interest accrued or received on the net carrying amount of the impaired loan to the principal of the loan, and once the principal is repaid, we include amounts received in net investment income. We limit accrued interest income on impaired loans to 90 days of interest. Once accrued interest on the impaired loan is received, we recognize interest income on a cash basis. Loans deemed uncollectible or in foreclosure are charged off against the valuation allowances, and subsequent recoveries, if any, are credited to the valuation allowances. Changes in valuation allowances are reported in net investment income on the consolidated statements of income and (loss).

The cost of other invested assets is adjusted for impairments in value deemed to be other-than-temporary in the period in which the determination is made. These impairments are included within net investment income, and the cost basis of the investment securities is reduced accordingly. We do not change the revised cost basis for subsequent recoveries in value.

Derivative Instruments—We invest in derivatives in both our general account and funds withheld at interest for managing risks experienced in our ongoing operations, such as equity risk, interest rate risk, cash flow risks, which primarily involve managing liability risks associated with our indexed annuity products and reinsurance agreements. Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or other underlying notional amount. Derivatives are carried at fair value on the consolidated balance sheets in derivative assets and derivative liabilities. We elect to present any derivatives subject to master netting provisions as a gross asset or liability and gross of collateral. Disclosures regarding balance sheet presentation of derivatives subject to master netting agreements are discussed in *Note 4 - Derivative Instruments*.

Embedded Derivatives – We reinsure products, primarily fixed indexed annuity products, or purchase investments that contain embedded derivatives. If we determine the embedded derivative has economic characteristics not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately. Embedded derivatives are carried on the consolidated balance sheets at fair value in the same line item as the host contract. Changes in the fair value of embedded derivatives associated with fixed indexed annuities are reflected in interest sensitive contract benefits on the consolidated statements of income and (loss). Embedded derivatives that are not clearly and closely related to the host contract within a financial asset are required to be bifurcated and recorded at fair value unless the fair value option is elected on the host contract. Under the fair value option, bifurcation of the embedded derivative is not necessary as all related gains and losses on the host contract and derivative will be reflected within net investment income on the consolidated statements of income and (loss).

Fixed indexed annuity contracts allow the policyholder to elect a fixed interest rate return or an equity market component where interest credited is based on the performance of common stock market indices. The equity market option is an embedded derivative, similar to a call option. The benefit reserve is equal to the sum of the fair value of the embedded derivative and the host (or guaranteed) component of the contracts. The fair value of the embedded derivative is computed as the present value of benefits attributable to the excess of the projected policy contract values over the projected minimum guaranteed contract values. The projections of policy contract values are based on assumptions for future policy growth, which include assumptions for expected index credits on the next policy anniversary date, future equity option costs, volatility, interest rates, and policyholder behavior. The projections of minimum guaranteed contract values include the same assumptions for policyholder behavior as were used to project policy contract values. For certain funds withheld and modified coinsurance reinsurance contracts the embedded derivative cash flows are discounted using the Company's own credit rating. The host contract is established at contract inception as the initial account value less the initial fair value of the embedded derivative and accreted over the policy's life. The host contract accretion rate is updated each quarter so that the present value of actual and expected guaranteed cash flows is equal to the initial host value.

Additionally, reinsurance agreements written on a funds withheld or modified coinsurance (modco) basis contain embedded derivatives. The fair value of the embedded derivatives on funds withheld and modco agreements is included in the funds withheld at interest line item on the consolidated balance sheets and is equal to the unrealized gain or loss on the underlying assets in the funds withheld or modco trust. The change in the fair value of the embedded derivatives is recorded in net investment income on the consolidated statements of income and (loss).

Variable Interest Entities—An entity that does not have sufficient equity to finance its activities without additional financial support, or in which the equity investors, as a group, do not have the characteristics of a controlling financial interest is a variable interest entity (VIE). The determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and may require significant judgment. Our investment funds generally qualify as VIEs and are evaluated for consolidation under the VIE model.

We are required to consolidate a VIE if we are the primary beneficiary, defined as the variable interest holder with both the power to direct the activities that most significantly impact the VIE's economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE. We determine whether we are the primary beneficiary of an entity based on a qualitative assessment of the VIE's capital structure, contractual terms, nature of the VIE's operations and purpose, and our relative exposure to the related risks of the VIE. Since affiliates of Apollo Global Management, LLC (AGM and, together with its subsidiaries, Apollo), a related party, are the decision makers in certain of the investment funds, we and a member of our related party group may together have the characteristics of the primary beneficiary of an investment fund. In this situation, we have generally concluded we are not under common control, as defined by ASU 2015-02, with the related party, and therefore consolidate in the circumstances when substantially all of the activities of the VIE are conducted on our behalf. We reassess the VIE and primary beneficiary determinations on an ongoing basis.

If we are not the primary beneficiary, but are able to exert significant influence over the VIE's operations, we record the VIE as an equity method investment. If we are not able to exercise significant influence, generally on investment funds in which we own a less than a 3% interest, we elect the fair value option.

See *Note 5 - Variable Interest Entities* for discussion of our interest in entities that meet the definition of a VIE.

Reinsurance—We assume insurance and investment contracts under coinsurance, funds withheld coinsurance (funds withheld), and modified coinsurance (modco). We follow reinsurance accounting for transactions that provide indemnification against loss or liability relating to insurance risk (risk transfer). To meet risk transfer requirements, a reinsurance agreement must include insurance risk consisting of underwriting, investment, timing risk, and any other significant risks. Assumed premiums are included in the premiums line of the consolidated statements of income and (loss).

Assets and liabilities assumed under modco or funds withheld are presented gross on the consolidated balance sheets. The total return on funds withheld at interest is presented in net investment income on the consolidated statements of income and (loss).

Accounting for reinsurance requires the use of assumptions upon agreement inception, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. We attempt to minimize our counterparty credit risk through the structuring of the terms of our reinsurance agreements, including the use of trusts and segregated accounts, and we monitor credit ratings of counterparties for signs of declining credit quality. When a ceding company does not report information on a timely basis, we record accruals based on the best available information at the time, which includes the reinsurance agreement terms and historical experience. We periodically compare actual and anticipated experience to the assumptions used to establish reinsurance assets and liabilities. Refer to *Note 9 - Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles* for more information.

Cash and Cash Equivalents—Cash and cash equivalents include deposits and short-term highly liquid investments with a maturity of less than 90 days from the date of acquisition. Amounts included are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Restricted Cash—Restricted cash consists of cash and cash equivalents held in funds in trust as part of certain coinsurance agreements to secure all statutory reserves and liabilities of the coinsured parties. Changes in the restricted cash balance are reported in investing activities on the consolidated statements of cash flows.

Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles

Deferred Acquisition Costs and Deferred Sales Inducements - Costs related to direct and successful efforts of acquiring new business are deferred to the extent they are recoverable from future premiums or gross profits. These costs consist of commissions and policy issuance costs, as well as sales inducements credited to policyholder account balances. We include the effects of net unrealized investment gains and losses in the calculation of DAC, DSI and reinsurance intangible balances due to the funds withheld at interest assets being marked-to-market through income. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we record a cumulative charge to the current period. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process for the interest sensitive policies. We also periodically revise the key assumptions used in the calculation of the amortization of DAC which results in revisions to the estimated future gross profits. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

Deferred costs related to interest sensitive investment-type policies, with significant revenue streams from sources other than investment of the policyholder funds, are amortized over the lives of the policies, in relation to the present value of gross profits including investment spread margins, surrender charge income, policy administration, changes in the guaranteed lifetime withdrawal benefit (GLWB) and guaranteed minimum death benefit (GMDB) reserves, and realized gains and losses on investments. Current period gross profits for fixed indexed annuities also include the impacts of the change in fair value of the embedded derivatives and the change in fair value of the derivative instruments purchased to economically hedge the indexed liabilities. Estimates of the future gross profits are based on assumptions using accepted actuarial methods. The balances associated with the preceding amortization methodology are recorded in deferred acquisition costs and deferred sales inducements on the consolidated balance sheets.

Deferred costs related to contracts with only investment related sources of revenues are amortized using the interest method. The interest method amortizes the deferred costs by discounting the future liability cash flows at a break-even rate. The break-even rate is solved such that the present value of future liability cash flows is equal to the net liability at the inception of the contract. The balances associated with this amortization methodology are recorded in deferred acquisition costs and deferred sales inducements on the consolidated balance sheets.

Reinsurance Intangibles - For block reinsurance transactions, the difference between the fair value of assets and the sum of the reserves reinsured, other liabilities reinsured, and ceding commission payable or receivable is deferred and recognized on a product-by-product basis either as an unearned revenue reserve ("URR") or deferred acquisition cost ("DAC"). In this context, the URR may also be referred to as the day one gain on reinsurance and DAC as the day one loss on reinsurance. Day one losses are included in deferred acquisition costs and deferred sales inducements and day one gains are included in interest sensitive contract liabilities on the consolidated balance sheets. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we record a cumulative charge to the current period. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process for the interest sensitive

policies. We also periodically revise the key assumptions used in the calculation of the amortization of DAC which results in revisions to the estimated future gross profits. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

Day one gains and losses related to interest sensitive investment-type policies, with significant revenue streams from sources other than investment of the policyholder funds, are amortized over the lives of the policies, in relation to the present value of gross profits including investment spread margins, surrender charge income, policy administration, changes in the guaranteed lifetime withdrawal benefit (GLWB) and guaranteed minimum death benefit (GMDB) reserves, and realized gains and losses on investments. Current period gross profits for fixed indexed annuities also include the impacts of the change in fair value of the embedded derivatives and the change in fair value of the derivative instruments purchased to economically hedge the indexed liabilities. Estimates of the future gross profits are based on assumptions using accepted actuarial methods. If we project a negative future gross profit, the day one gain or loss is amortized proportional to the change in the present value of account value over the lives of the policies.

See *Note 9 - Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles* for further discussion.

Interest Sensitive Contract Liabilities—Interest sensitive investment-type contracts include fixed indexed and traditional fixed annuities in the accumulation phase, funding agreements, and immediate annuities without significant mortality risk. We carry liabilities for fixed annuities, and funding agreements at the account balances without reduction for potential surrender or withdrawal charges. Liabilities for immediate annuities without significant mortality risk are calculated as a present value of future liability cash flows at contractual interest rates.

Changes in the interest sensitive contract liabilities are recorded in interest sensitive contract benefits or product charges on the consolidated statements of income and (loss).

Future Policy Benefits—We reinsure contracts classified as long-duration, which includes endowments, and deferred and immediate annuities with life contingencies. Liabilities for long-duration contracts are established using accepted actuarial valuation methods which require the use of assumptions related to expenses, investment yields, mortality, morbidity, and persistency, with a provision for adverse deviation, at the date of issue or acquisition. The reserve investment yield assumptions are specific to our expected earned rate on the asset portfolio supporting the reserves. We base other key assumptions, such as mortality and morbidity, on industry standard data adjusted to align with actual company experience, if necessary.

For long-duration contracts, the assumptions are locked in at contract inception and only modified if we deem the reserves to be inadequate. We periodically review actual and anticipated experience compared to the assumptions used to establish policy benefits. If the net GAAP liability (gross reserves less DAC and DSI) is less than the gross premium liability, then the impairment is deemed to have occurred. Accordingly, the DAC and DSI asset balances are reduced until the net GAAP liability is equal to the gross premium liability. For deferred annuity policies classified as insurance contracts, if the DAC and DSI asset balances are completely written off and the net GAAP liability is still less than the gross premium liability, then an additional liability is posted to arrive at the gross premium liability.

We reinsure deferred annuity contracts which contain GLWB and GMDB riders. We establish future policy benefits for GLWB and GMDB by estimating the expected value of withdrawal and death benefits in excess of the projected account balance. We recognize the excess proportionally over the accumulation period based on total expected assessments. The methods we use to estimate the liabilities have assumptions about policyholder behavior, mortality, and market conditions affecting the account balance growth.

Changes in future policy benefits are recorded in future policy and other policy benefits on the consolidated statements of income and (loss).

Other Policy Claims and Benefits—Other policy claims and benefits include amounts payable relating to in course of settlements (ICOS) liabilities associated with interest sensitive contract liabilities and future policy benefits. For immediate annuities and supplemental contracts, ICOS claim liabilities are established to accrue suspended benefit payments between the date of notification of death and the date of verification of death.

Recognition of Revenues and Related Expenses—Revenues for annuities, including surrender and market value adjustments, costs of insurance, policy administration, GMDB, and GLWB, are earned when assessed against policyholder account balances during the period. Interest sensitive contract benefits related to annuity products include interest credited to policyholder account balances. In addition, the change in fair value of embedded derivatives within fixed indexed annuity contracts is included in interest sensitive contract benefits on the consolidated statements of income and (loss).

For certain assumed reinsurance transactions involving in force blocks of business, the ceding company may pay a premium equal to the initial required reserve (future policy benefit). In such transactions, we net the expense associated with the establishment of the reserve against the premiums from the transaction in interest sensitive contract benefits on the consolidated statements of income and (loss).

Premiums for traditional life insurance products, including products with fixed and guaranteed premiums and benefits, are recognized as revenues when due from policyholders.

Recently Adopted Accounting Pronouncements

Debt Issuance Costs (ASU 2015-15 and 2015-03)
These updates require debt issuance costs related to a recognized debt liability or line of credit arrangement to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability and bring existing SEC guidance into conformity with this debt issuance cost guidance. We elected to early adopt this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Consolidation Analysis (ASU 2015-02)
This update changes the analysis a reporting entity performs to determine whether it should consolidate certain types of legal entities and is adopted in these financial statements. We adopted this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Transfers and Servicing (ASU 2014-11)
This update requires repurchase-to-maturity transactions and repurchase financing arrangements be accounted for as secured borrowings and provides for enhanced disclosures, including the nature of collateral pledged and the time to maturity. We fully adopted this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Discontinued Operations (ASU 2014-08)
This update changes the criteria related to reporting discontinued operations and introduces new disclosures. We adopted this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Troubled Debt Restructuring (ASU 2014-04)
This update clarifies when an in substance repossession or foreclosure occurs, and when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. We adopted this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Recently Issued Accounting Pronouncements

Improvements to Employee Share-Based Payment Accounting (ASU 2016-09)
This update simplifies several aspects of the accounting for share-based payment award transactions, including income tax consequences and classification on the statement of cash flows. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Revenue Recognition (ASU 2016-11, ASU 2016-10, ASU 2016-08, ASU 2015-14, and ASU 2014-09)
ASU 2014-09 indicates an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 provided for a one-year deferral of the effective date, which will require us to adopt this standard effective January 1, 2018. ASU 2016-08 amends the principal-versus-agent implementation guidance and illustrations in ASU 2014-09. ASU 2016-10 clarifies the identification of performance obligations as well as licensing implementation guidance. ASU 2016-11 brings existing SEC guidance into conformity with revenue recognition accounting guidance of ASU 2014-09 discussed above. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Equity Method and Joint Ventures (ASU 2016-07)
This update eliminates the retroactive adjustments to an investment upon it qualifying for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence by the investor. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Derivatives and Hedging – Contingent Put and Call Options (ASU 2016-06)
This update is intended to clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to debt hosts. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Derivatives and Hedging – Effects of Derivative Contract Novation (ASU 2016-05)
This update is intended to clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require a de-designation of that hedging relationship provided all other hedge accounting criteria continue to be met. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Leases (ASU 2016-02)
This update is intended to increase transparency and comparability for lease transactions. A lessee is required to recognize an asset and a liability for all lease arrangements longer than 12 months. Lessor accounting is largely unchanged. We will be required to adopt this standard effective January 1, 2019. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Financial Instruments – Recognition and Measurement (ASU 2016-01)
This update retains the current accounting for classifying and measuring investments in debt securities and loans, but requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. We will be required to adopt this standard effective January 1, 2018. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Fair Value Measurement – Net Asset Value (ASU 2015-07)
This update has a disclosure-only impact for entities that measure investments using net asset value per share under the practical expedient in the fair value measurement guidance. We will be required to adopt this standard effective January 1, 2016. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Cloud Computing Arrangements (ASU 2015-05)
This update clarifies whether a cloud computing arrangement is an intangible asset or a service contract. We will be required to adopt this standard effective January 1, 2016. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Stock-Based Compensation (ASU 2014-12)
This update requires a performance target in a share based payment arrangement that affects vesting and that could be achieved after the requisite service period to be treated as a performance condition. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. We will be required to adopt this standard effective January 1, 2016. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

3. Investments

Available-for-sale securities - The following table represents our AFS investments by asset type. Our AFS investment portfolio includes direct investments in affiliates of Apollo where Apollo can exercise significant influence over the affiliates.

	December 31, 2015				
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 4	$ 1	$ —	$ 5	$ —
U.S. State, municipals, and political subdivisions	44	8	—	52	—
Corporate	955	15	(17)	953	—
CLO	521	—	(46)	475	—
ABS	256	1	(7)	250	—
CMBS	39	—	(1)	38	—
RMBS	1,052	9	(27)	1,034	3
Total - other than related party AFS securities	2,871	34	(98)	2,807	3
Fixed maturity securities - related party					
CLO	149	—	(13)	136	—
Total AFS securities	$ 3,020	$ 34	$ (111)	$ 2,943	$ 3

	December 31, 2014				
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 6	$ 1	$ —	$ 7	$ —
U.S. State, municipals, and political subdivisions	54	10	—	64	—
Corporate	259	9	(1)	267	—
CLO	306	2	(11)	297	—
ABS	58	—	—	58	—
RMBS	319	11	(3)	327	—
Total - other than related party AFS securities	1,002	33	(15)	1,020	—
Fixed maturity securities - related party					
CLO	61	—	(1)	60	—
Total AFS securities	$ 1,063	$ 33	$ (16)	$ 1,080	$ —

	December 31, 2013				
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 6	$ —	$ —	$ 6	$ —
U.S. State, municipals, and political subdivisions	34	4	(1)	37	—
Corporate	131	4	(3)	132	—
CLO	21	1	—	22	—
ABS	18	1	—	19	—
RMBS	158	17	(2)	173	—
Total AFS securities	$ 368	$ 27	$ (6)	$ 389	$ —

The amortized cost and fair value of fixed maturity AFS securities, including related party fixed maturity AFS securities, are shown by contractual maturity below. Actual maturities can differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2015	
(In millions)	Amortized Cost	Fair Value
Fixed maturity securities		
Due in one year or less	$ 81	$ 82
Due after one year through five years	219	218
Due after five year through ten years	450	451
Due after ten years	253	258
ABS, CLO, CMBS and RMBS	1,868	1,798
Total - other than related party fixed maturity securities	2,871	2,807
Fixed maturity securities – related party		
CLO	149	136
Total fixed maturity securities	$ 3,020	$ 2,943

	December 31, 2014	
(In millions)	Amortized Cost	Fair Value
Fixed maturity securities		
Due in one year or less	$ 7	$ 7
Due after one year through five years	112	114
Due after five year through ten years	101	104
Due after ten years	99	113
ABS, CLO, CMBS and RMBS	683	683
Total - other than related party fixed maturity securities	1,002	1,021
Fixed maturity securities – related party		
CLO	61	59
Total fixed maturity securities	$ 1,063	$ 1,080

	December 31, 2013	
(In millions)	Amortized Cost	Fair Value
Fixed maturity securities		
Due in one year or less	$ 1	$ 1
Due after one year through five years	31	32
Due after five year through ten years	58	58
Due after ten years	81	83
ABS, CLO, CMBS and RMBS	197	215
Total fixed maturity securities	368	389

Unrealized Losses on AFS Securities-The following summarizes the fair value and gross unrealized losses for AFS securities, including related party AFS securities, aggregated by class of security and length of time the fair value has remained below amortized cost:

	December 31, 2015					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. State, municipals, and political subdivisions	$ 3	$ —	$ —	$ —	$ 3	$ —
Corporate	379	(15)	14	(2)	393	(17)
CLO	400	(36)	52	(10)	452	(46)
ABS	198	(7)	—	—	198	(7)
CMBS	11	(1)	—	—	11	(1)
RMBS	723	(21)	103	(6)	826	(27)
Total AFS securities - other than related party	1,714	(80)	169	(18)	1,883	(98)
Fixed maturity securities - related party						
CLO	128	(13)	—	—	128	(13)
Total AFS securities	$ 1,842	$ (93)	$ 169	$ (18)	$ 2,011	$ (111)

	December 31, 2014					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. State, municipals, and political subdivisions	$ 10	$ —	$ 1	$ —	$ 11	$ —
Corporate	33	—	21	(1)	54	(1)
CLO	233	(10)	17	(1)	250	(11)
ABS	32	—	—	—	32	—
RMBS	100	(1)	18	(2)	118	(3)
Total AFS securities - other than related party	408	(11)	57	(4)	465	(15)
Fixed maturity securities - related party						
CLO	59	(2)	—	—	59	(2)
Total AFS securities	$ 467	$ (13)	$ 57	$ (4)	$ 524	$ (17)

	December 31, 2013					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. government and agencies	$ 3	$ —	$ —	$ —	$ 3	$ —
U.S. State, municipals, and political subdivisions	10	(1)	1	—	11	(1)
Corporate	56	(3)	—	—	56	(3)
ABS	5	—	—	—	5	—
RMBS	9	(1)	11	(1)	20	(2)
Total available for sale securities	$ 83	$ (5)	$ 12	$ (1)	$ 95	$ (6)

At December 31, 2015, we held 323 AFS securities that were in an unrealized loss position. Of this total, 42 were in an unrealized loss position longer than 12 months.

Other-Than-Temporary Impairments on AFS Securities-For the year ended December 31, 2015, on total AFS securities including related party of $2,943 million, we incurred $1 million of net OTTI losses, of which none related to intent-to-sell impairments. These securities were impaired to fair value as of the impairment date. The remainder of net OTTI losses of $1 million related to credit impairments, of which none related to credit loss impairments that we impaired to fair value and did not bifurcate a portion of the impairment in AOCI, and is also excluded from the rollforward below.

The following table represents a rollforward of the cumulative amounts recognized on the consolidated statements of income for OTTI related to pre-tax credit loss impairments on AFS fixed maturity securities, for which a portion of the securities' total OTTI was recognized in AOCI:

	December 31,		
(In millions)	2015	2014	2013
Beginning balance	$ —	$ —	$ —
Initial impairments – credit loss OTTI recognized on securities not previously impaired	1	—	—
Ending balance	$ 1	$ —	$ —

Net Investment Income - Net investment income by asset type consist of the following:

	December 31,		
(In millions)	2015	2014	2013
Fixed maturity securities	$ 107	$ 40	$ 25
Trading securities	7	—	(1)
Investment funds	21	46	387
Cash and cash equivalents	—	4	—
Funds withheld at interest[1]			
Investment income	2,043	2,014	1,127
Investment related gains (losses)	(1,620)	1,763	471
Investment expenses	(98)	(85)	(45)
Gross realized gain on AFS securities	7	6	13
Gross realized loss on AFS securities	(17)	(3)	(10)
Derivative gains (losses)	2	—	(70)
Other losses	—	4	1
Net investment income	$ 452	$ 3,789	$ 1,898

[1] The total income related to funds withheld at interest is comprised of the total return, including (1) investment income which is comprised of book income on the underlying securities, and (2) investment related gains (losses) which is comprised of realized gains (losses), mark-to-market impacts (change in unrealized gains or losses), and total return on derivatives. The portion related to mark-to-market was a gain (loss) of $(1,415) million, $1,013 million and $(204) million for years ended December 31, 2015, 2014 and 2013, respectively.

Included in net investment income on trading securities are losses of $1 million, losses of $3 million, and losses of $0 million resulting from the change in unrealized gains or losses for the underlying bonds we still held as of December 31, 2015, 2014, and 2013, respectively. Also included in net investment income on trading securities are related party losses of $8 million, losses of $2 million, and losses of $0 million resulting from the change in unrealized gains or losses for the underlying bonds we still held as of December 31, 2015, 2014, and 2013, respectively.

Credit Quality

The Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC) is responsible for the credit quality assessment and valuation of securities owned by state regulated insurance companies. Insurance companies report ownership of securities to the SVO when such securities are eligible for filing on the relevant schedule of the NAIC Financial Statement Blank. The SVO conducts credit analysis on these securities for the purpose of assigning an NAIC designation and/or unit price. Typically, if a security has been rated by a Nationally Recognized Statistical Rating Organization (NRSRO), the SVO utilizes that rating and assigns an NAIC designation based upon the following system:

NAIC designation	NRSRO equivalent rating
1	AAA/AA/A
2	BBB
3	BB
4	B
5	CCC
6	CC and lower

The SVO's loan-backed and structured securities ("LBaSS") methodology is focused on determining the risk associated with the recovery of the amortized cost of each security. In contrast, the NRSRO ratings methodology is focused on the likelihood of recovery of all contractual payments, including principal at par regardless of entry price. The NRSRO rating assumes that the holder is the original purchaser at par whereas the modeled and non-modeled LBaSS ratings are focused on the recovery of current amortized cost. As the NAIC ratings methodology considers our investment and amortized cost, and the likelihood of recovery of that book value as opposed to the likelihood of default of the security, we view the NAIC ratings methodology as the most appropriate way to view our fixed maturity portfolio from a ratings perspective since a large portion of our holdings were purchased at a significant discount to par.

Specific to LBaSS, the SVO has developed a ratings process and provides instruction on both modeled and non-modeled LBaSS. The modeled LBaSS process is specific to the RMBS and CMBS asset classes. In order to establish ratings at the individual security level, the SVO obtains loan-level analysis of each RMBS and CMBS using a selected vendor's proprietary financial model. The SVO ensures that the vendor has extensive internal quality-control processes in place and the SVO conducts its own quality-control checks of the selected vendor's valuation process. The NAIC retained the services of Pacific Investment Management Co.'s advisory services ("PIMCO Advisory") to model non-agency RMBS owned by U.S. insurers in 2014. The SVO switched from PIMCO Advisory to Blackrock, Inc. ("Blackrock") for non-agency RMBS in 2015. For CMBS, the SVO has retained the services of Blackrock for all years presented. PIMCO Advisory and Blackrock, specific to the periods referred to above (the "selected vendors"), provide five prices ("breakpoints" based on each U.S. insurer's statutory book value price) to utilize in determining the NAIC designation for each modeled LBaSS. For non-modeled LBaSS (ABS and CLOs) with the initial rating of NAIC 1 or NAIC 6, the rating remains the same through the life of the security. For non-modeled LBaSS with the initial rating of NAIC 2 through NAIC 5, the selected vendors are not utilized and the NAIC designations are set using a standardized table of breakpoints provided by the SVO for application to the insurer's statutory book value price. The NAIC designation determines the associated level of RBC that an insurer is required to hold for modeled LBaSS owned

A summary of our AFS fixed maturity securities by NAIC designation is as follows (dollars in millions):

(In millions)	Dec 31, 2015		
	Amortized Cost	Fair Value	Percent of Total
NAIC Designation			
1	$ 1,937	$ 1,912	65%
2	818	778	26%
Total investment grade	2,755	2,690	91%
3	256	245	9%
4	8	8	—%
5	—	—	—%
6	1	—	—%
Total below investment grade	265	253	9%
Total	$ 3,020	$ 2,943	100%

(In millions)	Dec 31, 2014		
	Amortized Cost	Fair Value	Percent of Total
NAIC Designation			
1	$ 811	$ 827	77%
2	200	202	19%
Total investment grade	1,011	1,029	96%
3	47	46	4%
4	2	2	—%
5	3	3	—%
6	—	—	—%
Total below investment grade	52	51	4%
Total	$ 1,063	$ 1,080	100%

	Dec 31, 2013		
(In millions)	Amortized Cost	Fair Value	Percent of Total
NAIC Designation			
1	$ 320	$ 340	87%
2	37	37	10%
Total investment grade	357	377	97%
3	8	8	2%
4	3	4	1%
5	—	—	—%
6	—	—	—%
Total below investment grade	11	12	3%
Total	$ 368	$ 389	100%

Substantially all of the fixed maturity portfolio, 91%, 96% and 97% as of December 31, 2015 2014 and 2013 respectively was invested in investment grade assets with a NAIC rating of 1 or 2.

A summary of our AFS fixed maturity securities by NRSRO ratings is set forth below (dollars in millions):

	Dec 31, 2015		Dec 31, 2014		Dec 31, 2013	
(In millions)	Fair Value	Percent of Total	Fair Value	Percent of Total	Fair Value	Percent of Total
AAA/AA/A	$ 758	26%	$ 359	33%	$ 180	47%
BBB	940	32%	299	28%	80	20%
Non-Rated[1]	287	10%	5	—%	1	—%
Total Investment grade	1,985	68%	663	61%	261	67%
BB	225	8%	153	14%	16	4%
B	38	1%	33	3%	16	4%
CCC	210	7%	103	10%	71	19%
CC and lower	417	14%	128	12%	25	6%
Non-Rated[1]	68	2%	—	—%	—	—%
Total below investment grade	958	32%	417	39%	128	33%
Total fixed maturity securities	$ 2,943	100%	$ 1,080	100%	$ 389	100%

[1]*Securities denoted as non-rated by the NRSRO were classified as investment or non-investment grade according to the security's respective NAIC rating. The percentage of investment grade securities under NRSRO ratings is lower than under NAIC ratings due to NRSRO ratings not factoring in the Company specific price point of carrying value on structured securities, whereas NAIC ratings factor this in as previously described.*

Consistent with the NAIC Process and Procedures Manual, an NRSRO rating was assigned based on the following criteria: (a) the equivalent S&P rating where the security is rated by one NRSRO; (b) the equivalent S&P rating of the lowest NRSRO when the security is rated by two NRSROs; and (c) the equivalent S&P rating of the second lowest NRSRO if the security is rated by three or more NRSROs. If the lowest two NRSRO ratings are equal, then such rating will be the assigned rating. NRSRO ratings available for the periods presented were S&P, Fitch, Moody's Investor Service ("Moody's"), DBRS, and Kroll Bond Rating Agency, Inc. ("KBRA").

The portion of our AFS fixed maturity portfolio that was considered below investment grade based on NRSRO ratings decreased to 32% from 39% and 33% as of December 31, 2015, 2014 and 2013, respectively. The primary driver of the difference in the ratio of securities considered below investment grade by NRSROs as compared to the securities considered below investment grade by the NAIC relates to the difference in ratings methodologies between the NRSRO and NAIC for RMBS due to investments acquired at a discount to par value, as discussed above. The primary driver of the increase in the percentage of NRSRO below investment grade securities and the corresponding increase in NAIC below investment grade securities is driven by the reinvestment activity and volatile economic environment in 2015.

Purchased Credit Impaired (PCI) Securities - The following table summarizes our PCI securities, which are included in AFS fixed maturity securities:

	December 31,	
(In millions)	2015	2014
Contractually required principal and interest[1]	$ 1,092	$ 325
Less: Cash flows expected to be collected[2]	(704)	(237)
Non-accretable difference	$ 388	$ 88
Cash flows expected to be collected	$ 704	$ 237
Less: Amortized cost	(533)	(180)
Accretable difference	$ 171	$ 57
Fair value	$ 523	$ 183

[1] *Includes principal and accrued interest.*
[2] *Represents the acquisition date undiscounted principal and interest cash flows expected.*

We acquired PCI investments with the following amounts at the time of purchase:

	Years ended December 31,	
(In millions)	2015	2014
Contractually required principal and interest	$ 622	$ 219
Expected cash flows	385	154
Estimated fair value	279	120

The following table summarize the activity for the accretable yield on PCI securities:

	Years ended December 31,	
(In millions)	2015	2014
Balance at beginning of year	$ 57	$ 42
Purchases of PCI securities, net	99	38
Accretion	(7)	5
Changes in expected cash flows	22	(28)
Balance at end of year	$ 171	$ 57

4. Derivative Instruments

We use a variety of derivative instruments to manage equity risk, interest rate risk, credit risk, foreign currency risk, and market volatility. See *Note 2 - Summary of Significant Accounting Policies* for a description of our accounting policies for derivatives and *Note 6 - Fair Value* for information about the fair value hierarchy for derivatives.

The following table presents the notional amount and fair value of derivative instruments:

	December 31, 2015		
	Notional Amount	Fair Value	
(In millions)		Assets	Liabilities
Foreign currency forwards	$ 41	$ 1	$ —
Embedded derivatives			
Funds withheld	—	469	—
Interest sensitive contract liabilities	—	—	3,540
Total derivatives	$ 41	$ 470	$ 3,540

	December 31, 2014		
	Notional Amount	Fair Value	
(In millions)		Assets	Liabilities
Foreign currency forwards	$ 37	$ 1	$ —
Embedded derivatives			
Funds withheld	—	2,478	—
Interest sensitive contract liabilities	—	—	3,532
Total derivatives	$ 37	$ 2,479	$ 3,532

	December 31, 2013		
	Notional Amount	Fair Value	
(In millions)		Assets	Liabilities
Foreign currency forwards	$ 61	$ —	$ 1
Embedded derivatives			
Funds withheld	—	1,612	—
Interest sensitive contract liabilities	—	—	2,587
Total derivatives	$ 61	$ 1,612	$ 2,588

Derivatives are included in derivative assets or liabilities on the consolidated balance sheets, with the exception of embedded derivatives. Funds withheld and modco embedded derivatives are included in funds withheld at interest on the consolidated balance sheets. Indexed annuity products embedded derivatives are included in interest sensitive contract liabilities on the consolidated balance sheets. None of our derivatives are designated as hedges.

Foreign currency forwards - We use foreign currency forward contracts to hedge certain invested assets against movement in foreign currency. The price is agreed upon at the time of the contract and payment is made at a specified future date.

Embedded derivatives - We have embedded derivatives which are required to be separated from their host contracts and reported as derivatives. Host contracts include reinsurance agreements structured on a modco or funds withheld basis and indexed annuity products. Included in net investment income is the total return of the funds withheld embedded derivatives.

Credit Risk-We may be exposed to credit-related losses in the event of counterparty nonperformance on derivative financial instruments. Generally, the current credit exposure of our derivative contracts is the fair value at the reporting date less any collateral received from the counterparty.

As of December 31, 2015, 2014, and 2013 we had no collateral pledged to counterparties in connection with derivative instruments.

5. Variable Interest Entities

Our investment funds generally meet the definition of a VIE, and in certain cases these investment funds are consolidated in our financial statements because we meet the criteria of the primary beneficiary.

Consolidated VIEs

On September 29, 2011, ALRe formed Highland Re Ltd (HRL). HRL was a Bermuda special purpose insurer and a direct subsidiary of ALRe. HRL issued voting Common Shares, 100% owned by ALRe, and one non-voting preferred share, 100% owned by a third party, in order to capitalize HRL. On December 16, 2011 ALRe entered into two non-proportional reinsurance agreements with HRL to cede claims risk associated with an affiliate reinsurance deal. ALRe's interest in HRL represents an interest in a VIE under current authoritative guidance. The Company has determined that it is the primary beneficiary as it satisfies both the power and benefits criteria in that guidance. Accordingly, HRL is consolidated in the financial statements of the Company at December 31, 2013. The preferred share buyer was entitled to request redemption of all or fractional portions of the preferred share under certain conditions during the term of the note. The note was repaid during 2014 and HRL was dissolved in the fourth quarter of 2014.

On November 10, 2010, 2011 A4 Fund, L.P. was formed to purchase commercial mortgage-backed securities in a leveraged structure for the benefit of the limited partners and met the definition of a VIE. The 2011 A4 Fund, L.P. ("A4 Fund") entered into a repurchase agreement with Wells Fargo Bank, N.A. Under this agreement, the A4 Fund could borrow up to $800 million to finance the acquisition of CMBS originally AAA rated. The facility had a three-year term, with two one-year extensions available at the A4 Fund's option with the payment of a 25 basis point extension fee on the outstanding balance of the facility. The A4 Fund was fully liquidated during 2014.

The following table summarizes the assets of consolidated variable interest entities presented:

(in millions)	December 31, 2013
Investments, at fair value	$ 944
Cash and cash equivalents	4
Other assets	5
Assets of consolidated variable interest entities	$ 953

The following table summarizes the liabilities of consolidated variable interest entities presented:

(in millions)	December 31, 2013
Borrowings	$ 719
Other liabilities	23
Liabilities of consolidated variable interest entities	$ 742

Net investment income (loss) of consolidated variable interest entities was $16 million and $(8) million for the years ended December 31, 2014 and 2013 respectively. The operating expenses of consolidated variable interest entities was $3 million and $13 million for the years ended December 31, 2014, and 2013 respectively.

Non-consolidated VIEs - We invest in other entities meeting the definition of a VIE. We do not consolidate these investments because we do not meet the criteria of primary beneficiary as described below.

Fixed Maturity Securities - We invest in securitization entities as a debt holder or an investor in the residual interest of the securitization vehicle, which are included in fixed maturity securities on the consolidated balance sheets. These entities are deemed VIEs due to insufficient equity within the structure and lack of control by the equity investors over the activities that significantly impact the economics of the entity. In general, we are a debt investor within these entities and, as such, hold a variable interest; however, due to the debt holders' lack of ability to control the decisions within the trust that significantly impact the entity, and the fact the debt holders are protected from losses due to the subordination by the equity tranche, the debt holders are not deemed the primary beneficiary. Securitization vehicles in which we hold the residual tranche are not consolidated because we do not unilaterally have substantive rights to remove the general partner, or when assessing related party interests, we are not under common control, as defined by ASU 2015-02, with the related party, nor are substantially all of the activities conducted on our behalf; therefore, we are not deemed the primary beneficiary. Debt investments and investments in the residual tranche of securitization entities are considered debt instruments under US GAAP and are held at fair value on the balance sheet and classified as AFS or trading.

Investment funds - Investment funds include non-fixed income, alternative investments in the form of limited partnerships or similar legal structures that meet the definition of VIEs.

A portion of these investment funds are sponsored and managed by unrelated parties in which we, as limited partner, do not have the power to direct the activities that most significantly impact the economic performance of the fund, nor do we unilaterally have substantive rights to remove the general partner or dissolve the entity without cause. As a result, we do not meet the power criterion to be considered the primary beneficiary and do not consolidate these VIEs in our financial statements.

We also have equity interests in investment funds where the general partner or investment manager is a related party. We have determined we are not under common control, as defined by ASU 2015-02, with the related party, nor are we deemed to be the primary beneficiary. As a result, investments in these VIEs are not consolidated.

We account for non-consolidated investment funds where we are able to exercise significant influence over the entity under the equity method or by electing the fair value option, in which NAV is used as a practical expedient for fair value.

Income from investment funds is recorded in net investment income on the consolidated statements of income and (loss) and represents the change in fair value of investment fund, net of expenses.

The Company's investments in investment funds are generally passive in nature as we do not take an active role in the investment fund's management. Our risk of loss is limited and depends on the investment as follows: (1) investment funds accounted for under the equity method are limited to the Company’s initial investment plus unfunded commitments; (2) investment funds under the fair value option are limited to the fair value plus unfunded commitments; (3) available-for-sale securities and other investments are limited to amortized cost; and (4) trading securities are limited to carrying value.

The following summarizes the carrying value and maximum loss exposure of these non-consolidated VIEs:

(in millions)	December 31, 2015	
	Carrying Amount	Maximum Loss Exposure
Investment funds	$ 220	$ 211
Investment in related parties – investment funds	404	436
Investment in fixed maturity securities	1,919	1,991
Investment in related parties – fixed maturity securities	208	231
Total assets	$ 2,751	$ 2,869

(in millions)	December 31, 2014	
	Carrying Amount	Maximum Loss Exposure
Investment funds	$ 106	$ 105
Investment in related parties – investment funds	501	523
Investment in fixed maturity securities	740	742
Investment in related parties – fixed maturity securities	137	138
Total assets	$ 1,484	$ 1,508

(in millions)	December 31, 2013	
	Carrying Amount	Maximum Loss Exposure
Investment funds	$ 50	$ 52
Investment in related parties – investment funds	838	883
Investment in fixed maturity securities	215	197
Total assets	$ 1,103	$ 1,132

The following summarizes the Company's investment funds, including related party investment funds and investment funds owned by consolidated VIEs:

(in millions)	December 31, 2015		
	Carrying Value	Percent of Total	Weighted Avg Life (WAL)
Investment funds			
Private equity	$ 49	22%	4-5
Mortgage and real assets	23	10%	3-4
Credit funds	148	68%	1-2
Total investment funds non-related party	$ 220	100%	
Investment funds – related party, comprised of underlying investments in:			
Private equity Apollo Alternative Assets (AAA)	$ 315	78%	1-4
Private equity	35	9%	6-7
Credit funds	54	13%	6-7
Total investment funds – related party	$ 404	100%	
Total investment funds	$ 624		

(in millions)	December 31, 2014		
	Carrying Value	Percent of Total	Weighted Avg Life (WAL)
Investment funds			
Private equity	$ 48	45%	5-6
Credit funds	58	55%	2-3
Total investment funds non-related party	$ 106	100%	
Investment funds – related party, comprised of underlying investments in:			
Private equity Apollo Alternative Assets (AAA)	$ 472	94%	2-5
Private equity	29	6%	7-8
Total investment funds – related party	$ 501	100%	
Total investment funds	$ 607		

(in millions)	December 31, 2013		
	Carrying Value	Percent of Total	Weighted Avg Life (WAL)
Investment funds			
Private equity	$ 50	100%	6-7
Total investment funds non-related party	$ 50	100%	
Investment funds – related party, comprised of underlying investments in:			
Private equity Apollo Alternative Assets (AAA)	$ 815	97%	3-6
Private equity	23	3%	8-9
Total investment funds – related party	$ 838	100%	
Total investment funds	$ 888		

Summarized Financial Information of Investment Funds-The following is the aggregated summarized financial information of equity method investees and may be presented on a lag due to the availability of financial information from the investee:

(in millions)	December 31,		
	2015	2014	2013
Consolidated Balance Sheets			
Assets	$ 1,969	$ 4,214	$ 1,556
Liabilities	3	940	6
Equity	1,966	3,274	1,550

(in millions)	December 31,		
Consolidated Statements of Income	2015	2014	2013
Net income	$ 27	$ 239	$ 464

The following table presents the carrying value by ownership percentage of equity method investment funds, including related party investment funds and consolidated VIE investment funds:

(in millions)	December 31,		
	2015	2014	2013
Ownership Percentage			
100%	$ 49	$ 48	$ 50
50% – 99%	315	471	815
3% – 49%	260	88	23
Equity method investment funds	$ 624	$ 607	$ 888

6. Fair Value

Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. We determine fair value based on the following fair value hierarchy:

Level 1 - Unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 - Quoted prices for inactive markets or valuation techniques that require observable direct or indirect inputs for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets,
- Observable inputs other than quoted market prices, and
- Observable inputs derived principally from market data through correlation or other means.

Level 3 - Prices or valuation techniques with unobservable inputs significant to the overall fair value estimate. These valuations use critical assumptions not readily available to market participants. Level 3 valuations are based on market standard valuation methodologies, including discounted cash flows, matrix pricing, or other similar techniques.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the instrument's fair value measurement.

We use a number of valuation sources to determine fair values. Valuation sources can include quoted market prices; third-party commercial pricing services; third-party brokers; industry-standard, vendor modeling software that uses market observable inputs; and other internal modeling techniques based on projected cash flows. We periodically review the assumptions and inputs of third-party commercial pricing services through internal valuation price variance reviews, comparisons to internal pricing models, back testing to recent trades, or monitoring trading volumes.

The following represents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
AFS fixed maturity securities				
U.S. government and agencies	$ 5	$ —	$ —	$ 5
U.S. State, municipals, and political subdivisions	—	52	—	52
Corporate	—	917	36	953
CLO	—	566	45	611
ABS	—	142	108	250
CMBS	—	38	—	38
RMBS	—	1,034	—	1,034
Total AFS fixed maturity securities	5	2,749	189	2,943
Trading fixed maturity securities				
U.S. State, municipals, and political subdivisions	—	45	—	45
CLO	—	—	72	72
RMBS	—	97	24	121
Total trading fixed maturity securities	—	142	96	238
Short-term investments	—	37	—	37
Funds withheld at interest[1]	—	—	43,879	43,879
Derivative assets	—	1	—	1
Cash and cash equivalents	253	—	—	253
Restricted cash	9	—	—	9
Total assets measured at fair value	$ 267	$ 2,929	$ 44,164	$ 47,360
Liabilities				
Interest sensitive contract liabilities - embedded derivatives	$ —	$ —	$ 3,540	$ 3,540
Total liabilities measured at fair value	$ —	$ —	$ 3,540	$ 3,540

[1]*Comprised of host contract and embedded derivative of $469 million. The carrying value is equal to the fair value for both the host and embedded derivative. See Note 7 - Funds Withheld at Interest for more detail.*

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
AFS fixed maturity securities				
U.S. government and agencies	$ 7	$ —	$ —	$ 7
U.S. State, municipals, and political subdivisions	—	64	—	64
Corporate	—	267	—	267
CLO	—	346	11	357
ABS	—	54	4	58
RMBS	—	327	—	327
Total AFS fixed maturity securities	7	1,058	15	1,080
Trading fixed maturity securities				
U.S. State, municipals, and political subdivisions	—	47	—	47
CLO	—	—	112	112
RMBS	—	22	—	22
Total trading fixed maturity securities	—	69	112	181
Short-term investments	—	17	—	17
Funds withheld at interest[1]	—	—	45,329	45,329
Derivative assets	—	1	—	1
Cash and cash equivalents	313	—	—	313
Restricted cash	24	—	—	24
Total assets measured at fair value	$ 344	$ 1,145	$ 45,456	$ 46,945
Liabilities				
Interest sensitive contract liabilities - embedded derivatives	$ —	$ —	$ 3,532	$ 3,532
Total liabilities measured at fair value	$ —	$ —	$ 3,532	$ 3,532

[1]*Comprised of host contract and embedded derivative of $2,478 million. The carrying value is equal to the fair value for both the host and embedded derivative. See Note 7 - Funds Withheld at Interest for more detail.*

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
AFS fixed maturity securities				
U.S. government and agencies	$ —	$ 6	$ —	$ 6
U.S. State, municipals, and political subdivisions	—	37	—	37
Corporate	—	132	—	132
CLO	—	22	—	22
ABS	—	14	5	19
RMBS	—	173	—	173
Total AFS fixed maturity securities	—	384	5	389
Funds withheld at interest[1]	—	—	44,627	44,627
Cash and cash equivalents	262	—	—	262
Restricted cash	8	—	—	8
Total assets measured at fair value	$ 270	$ 384	$ 44,632	$ 45,286
Liabilities				
Interest sensitive contract liabilities - embedded derivatives	$ —	$ —	$ 2,587	$ 2,587
Derivative liabilities		1	—	1
Total liabilities measured at fair value	$ —	$ 1	$ 2,587	$ 2,588

[1] *Comprised of host contract and embedded derivative of $1,612 million. The carrying value is equal to the fair value for both the host and embedded derivative. See Note 7 - Funds Withheld at Interest for more detail.*

Fair Value Valuation Methods-We used the following valuation methods and assumptions to estimate fair value:

AFS and trading securities
Fixed maturity - We obtain the fair value for most marketable bonds without an active market from several commercial pricing services. These are classified as Level 2 assets. The pricing services incorporate a variety of market observable information in their valuation techniques, including benchmark yields, broker-dealer quotes, credit quality, issuer spreads, bids, offers, and other reference data. This category typically includes U.S. and non-U.S. corporate bonds, U.S. agency and government guaranteed securities, ABS, CMBS, and RMBS.

We value privately placed fixed maturity securities based on the credit quality and duration of comparable marketable securities, which may be securities of another issuer with similar characteristics. In some instances, we use a matrix-based pricing model. These models consider the current level of risk-free interest rates, corporate spreads, credit quality of the issuer, and cash flow characteristics of the security. We also consider additional factors such as net worth of the borrower, value of collateral, capital structure of the borrower, presence of guarantees, and our evaluation of the borrower's ability to compete in its relevant market. Privately placed fixed maturity securities are classified as Level 2 or 3.

Equity securities - Fair values of publicly traded equity securities are based on quoted market prices and classified as Level 1. Other equity securities, typically private equities or equity securities not traded on an exchange, we value based on other sources, such as analytics or brokers and are classified as Level 2 or 3.

Funds withheld (embedded derivative) - The fair value of funds withheld at interest is classified as Level 3 as a more than insignificant amount of the underlying assets are Level 3. See *Note 7 - Funds Withheld at Interest* for more information.

Derivatives - Derivative contracts can be exchange traded or over-the-counter. Exchange-traded derivatives typically fall within Level 1 of the fair value hierarchy depending on trading activity. Over-the-counter derivatives are valued using valuation models or an income approach using third-party broker valuations. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, and correlation of the inputs. We consider and incorporate counterparty credit risk in the valuation process through counterparty credit rating requirements and monitoring of overall exposure. We also evaluate and include our own nonperformance risk in valuing derivatives. The majority of our derivatives trade in liquid markets; therefore, we can verify model inputs and model selection does not involve significant management judgment. These are typically classified within Level 2 of the fair value hierarchy.

Cash and cash equivalents - The carrying amount for cash equals fair value. We estimate the fair value for cash equivalents based on quoted market prices. These assets are classified as Level 1.

Interest sensitive contract liabilities (embedded derivative) - Embedded derivatives related to interest sensitive contract liabilities with fixed indexed annuity products are classified as Level 3. The valuations include significant unobservable inputs associated with actuarial assumptions for policyholder behavior.

Fair Value Option-The following represents the gains or losses recorded for instruments we have elected the fair value option:

	Twelve months ended December 31,		
(In millions)	2015	2014	2013
Losses recorded for instruments we have elected the fair value option			
Trading securities	$ (88)	$ (1)	$ —
Total (loss) on fair value option	$ (88)	$ (1)	$ —

Transfers Between Levels-Transfers into Level 3 represent securities that were valued using pricing sources which, due to changing market conditions, were less observable than in prior periods as indicated by the lack of commercially available vendor prices with observable inputs. Additionally, changes in pricing sources also led to securities transferring into Level 3.

Transfers out of Level 3 represent securities that were valued using pricing sources which, due to changing market conditions, were more observable than in prior periods as indicated by commercially available vendor prices with observable inputs. Additionally, changes in pricing sources also led to securities transferring into Level 2.

For the years ended December 31, 2015, 2014, and 2013, there were no transfers between Level 1 and Level 2.

Level 3 Financial Instruments-The following is a reconciliation for all Level 3 assets and liabilities measured at fair value on a recurring basis:

	Twelve months ended December 31, 2015									
		Total realized and unrealized gains (losses)								
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases	Sales, maturities, redemptions	Transfers In	Transfers (Out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Assets										
AFS Securities										
Corporate	$ —	$ —	$ —	$ 37	$ (1)	$ —	$ —	$ —	$ 36	$ —
CLO	11	—	(1)	—	—	45	(10)	—	45	—
ABS	4	—	—	54	(6)	56	—	—	108	—
Trading securities										
CLO	35	2	1	4	(42)	—	—	—	—	—
RMBS	—	(1)	—	25	—	—	—	—	24	—
Investments in related parties										
Trading securities, CLO	77	(4)	—	51	(52)	—	—	—	72	(9)
Funds withheld at interest	45,329	(1,620)	—	—	—	—	—	170	43,879	—
Total Level 3 assets	$ 45,456	$ (1,623)	$ —	$ 171	$ (101)	$ 101	$ (10)	$ 170	$ 44,164	$ (9)
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	$ (3,532)	$ 226	$ —	$ —	$ —	$ —	$ —	$ (234)	$ (3,540)	$ —
Total Level 3 liabilities	$ (3,532)	$ 226	$ —	$ —	$ —	$ —	$ —	$ (234)	$ (3,540)	$ —

[1] *Related to instruments held at end of year.*

	Twelve months ended December 31, 2014									
		Total realized and unrealized gains (losses)								
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases	Sales, maturities, redemptions	Transfers In	Transfers (Out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Assets										
AFS securities										
CLO	$ —	$ —	$ —	$ —	$ —	$ 11		$ —	$ 11	$ —
ABS	5	—	—	3	(4)		—	—	4	—
Trading securities	—	—	—	—	—	—	—	—	—	—
CLO	—	—	—	35	—	—	—	—	35	—
Investments in related parties										
Trading securities, CLO	—	(2)	—	79	—	—	—	—	77	(2)
Funds withheld at interest	44,627	1,763	—	—	—	—	—	(1,061)	45,329	—
Total Level 3 assets	$ 44,632	$ 1,761	$ —	$ 117	$ (4)	$ 11	$ —	$ (1,061)	$ 45,456	$ (2)
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	$ (2,587)	$ (699)	$ —	$ —	$ —	$ —	$ —	$ (246)	$ (3,532)	$ —
Total Level 3 liabilities	$ (2,587)	$ (699)	$ —	$ —	$ —	$ —	$ —	$ (246)	$ (3,532)	$ —

[1] *Related to instruments held at end of year.*

	Twelve months ended December 31, 2013									
		Total realized and unrealized gains (losses)								
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases	Sales, maturities, redemptions	Transfers In	Transfers (Out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Assets										
AFS securities										
ABS	$ 3	$ —	$ —	$ 5	$ (3)	$ —	$ —	$ —	$ 5	$ —
Funds withheld at interest	11,209	471	—	—	—	—	—	32,947	44,627	—
Total Level 3 assets	$ 11,212	$ 471	$ —	$ 5	$ (3)	$ —	$ —	$ 32,947	$ 44,632	$ —
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	$ (507)	$ (340)	$ —	$ (1,660)	$ —	$ —	$ —	$ (80)	$ (2,587)	$ —
Total Level 3 liabilities	$ (507)	$ (340)	$ —	$ (1,660)	$ —	$ —	$ —	$ (80)	$ (2,587)	$ —

[1] *Related to instruments held at end of year.*

Significant Unobservable Inputs-Significant unobservable inputs occur when we could not obtain or corroborate the quantitative detail of the inputs. This applies to AFS fixed maturity securities. Additional significant unobservable inputs are described below.

Fixed maturity securities – For certain fixed maturity securities that support the funds withheld at interest, internal models are used to calculate the fair value. A discounted cash flow approach is utilized. The discount rate is the significant unobservable input due to the determined credit spread being internally developed, illiquid, or other adjustments made to the base rate. The base rate represents a market comparable rate for securities with similar characteristics. Discounts ranged from 4% to 10%. This excludes assets for which significant unobservable inputs are not developed internally, primarily consisting of broker quotes.

Investment funds – The underlying investment funds that support the funds withheld at interest may have significant unobservable inputs for comparable multiples and weighted average cost of capital rates applied in the valuation models. These inputs in isolation can cause significant increases or decreases in fair value. Specifically, the comparable multiples are multiplied by the underlying investment's earnings before interest, tax, depreciation, and amortization to establish the total enterprise value of the underlying investments. We use a comparable multiple consistent with the implied trading multiple of public industry peers.

Similarly, for certain underlying investments that support the funds withheld at interest we may use a discounted cash flow model. When we use a discounted cash flow model, the significant input is the discount rate applied to present value the projected cash flows. An increase in the discount rate can significantly lower the fair value; a decrease in the discount rate can significantly increase the fair value. We determine the discount rate considering the weighted average cost of capital calculation of companies in similar industries with comparable debt to equity ratios.

Interest sensitive contract liabilities - embedded derivative - Significant unobservable inputs we use in the fixed indexed annuities embedded derivative of the interest sensitive contract liabilities valuation include:

1. Non-performance risk - For funds withheld and modco contracts we reinsure with affiliated parties, we use the credit spread from the U.S. treasury curve based on our public credit rating as of the valuation date. This represents our credit risk for use in the estimate of the fair value of embedded derivatives. For non-affiliated contracts reinsured through funds withheld and modco reinsurance, the cedant company holds collateral against its exposure; therefore, immaterial non-performance risk is ascribed to these contracts.
2. Option budget - The Company assumes future hedge costs in the derivative's fair value estimate. The level of option budgets determines the future costs of the options and impacts future policyholder account value growth.
3. Policyholder behavior - We regularly review the lapse and withdrawal assumptions. These are based on the Company's initial pricing assumptions updated for actual experience. Actual Company experience may be limited for recently issued products.

	December 31, 2015				
(In millions)	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Fixed indexed annuities embedded derivatives	$ 3,540	Option budget method	Non-performance risk	0.00% - 1.81%	Decrease
			Option budget	0.8% - 3.8%	Increase
			Surrender rate	0% - 10.7%	Decrease

	December 31, 2014				
(In millions)	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Fixed indexed annuities embedded derivatives	$ 3,532	Option budget method	Non-performance risk	0.00% - 2.09%	Decrease
			Option budget	0.91% - 3.93%	Increase
			Surrender rate	0% - 10.2%	Decrease

	December 31, 2013				
(In millions)	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Fixed indexed annuities embedded derivatives	$ 2,587	Option budget method	Non-performance risk	0.00% - 2.12%	Decrease
			Option budget	1.56% - 2.5%	Increase
			Surrender rate	0% - 22%	Decrease

Fair Value of Financial Instruments Not Carried at Fair Value-The following represents the Company's financial instruments not carried at fair value on the consolidated balance sheets:

		December 31, 2015		December 31, 2014		December 31, 2013	
(In millions)	Fair Value Level	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets							
Investment funds	3	$ 220	$ 220	$ 106	$ 106	$ 50	$ 50
Investment funds in related parties	3	404	404	501	501	838	838
Total assets not carried at fair value		$ 624	$ 624	$ 607	$ 607	$ 888	$ 888
Liabilities							
Interest sensitive contract liabilities	3	$ 39,435	$ 39,281	$ 39,285	$ 39,768	$ 40,367	$ 40,084
Total liabilities not carried at fair value		$ 39,435	$ 39,281	$ 39,285	$ 39,768	$ 40,367	$ 40,084

We estimate the fair value for financial instruments not carried at fair value using the same methods and assumptions as those we do carry at fair value. The financial instruments presented above are reported at carrying value on the consolidated balance sheets; however, in the case of investment funds, investment funds in related parties and interest sensitive contract liabilities, the carrying amount approximates or equals fair value.

Investment in related parties - Other investments - The fair value of investment in related party - other investments is determined using a discounted cash flow model using discount rates for similar investments.

Interest sensitive contract liabilities - The carrying and fair value of interest sensitive contract liabilities above includes fixed indexed and traditional fixed annuities without mortality or morbidity risks, funding agreements, and payout annuities without life contingencies. The embedded derivatives within fixed indexed annuities without mortality or morbidity risks are excluded, as they are carried at fair value. The valuation of these investment contracts is based on discounted cash flow methodologies using significant unobservable inputs. The estimated fair value is determined using current market risk-free interest rates, adding a spread to reflect our nonperformance risk and subtracting a risk margin to reflect uncertainty inherent in the projected cash flows.

7. Funds Withheld at Interest

Funds withheld at interest represents the receivable for assets supporting funds withheld and modified coinsurance reinsurance. These assets are held in trusts or custodial accounts that are legally segregated from our third party ceding companies' general accounts and are managed by Athene Asset Management, a related party to ALRe. In the event of a ceding company's insolvency, we would need to assert a claim on the assets supporting our reserve liabilities. However, we have the ability to offset amounts we owe to the ceding company, which reduces our risk of loss. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Company is subject to the investment performance and has all economic rights and obligations on the funds withheld assets in a fashion similar to invested assets held directly by the Company.

Information on the underlying assets within the funds withheld at interest is presented below.

	Assets Supporting Funds withheld at Interest	
(In millions)	December 31, 2015	December 31, 2014
Fixed maturity securities		
U.S. government and agencies	$ 8	$ 15
U.S. state, municipal, and political subdivisions	894	1,219
Foreign governments	101	—
Corporate	17,178	19,848
CLOs	4,803	4,265
ABS	2,389	2,042
CMBS	1,674	2,867
RMBS	6,923	5,833
Equity securities	179	192
Mortgage loans	5,007	5,003
Investment funds	2,551	2,503
Policy loans	39	36
Derivatives	688	1,284
Short-term investments	114	—
Other investments	255	254
Cash and cash equivalents	1,068	525
Other assets and liabilities[1]	8	(557)
Funds Withheld at Interest	$ 43,879	$ 45,329

[1] Other assets and liabilities includes the net of accrued investment income, open payable and receivable for security trades, excise tax payable, deposits and premiums receivable, claims and surrenders payable, and other assets and liabilities associated with the funds withheld and modco reinsurance treaties.

Approximately 94.2%, and 93.5% of the fixed maturity securities within the funds withheld at interest are investment grade by NAIC designation as of December 31, 2015 and 2014, respectively.

8. Reinsurance

Third-party reinsurance

In July 2009, the Company reinsured a block and flow of fixed annuities of American Equity Investment Life Insurance Company ("AEL") on a funds withheld basis. Effective January 1, 2014, the Company reinsures flow business from AEL on a modified coinsurance basis.

In October 2009, the Company entered into a funds withheld arrangement for a block of deferred annuities with Western United Life Assurance Company.

In the fourth quarter of 2010, the Company entered into a coinsurance reinsurance arrangements for a block of deferred annuities with certain subsidiaries of Universal American Corporation.

In December 2010, the Company entered into a funds withheld reinsurance arrangement for a block of deferred annuities with Jefferson National Life Insurance Company.

In October 2011, the Company entered into a funds withheld reinsurance arrangement for a flow of deferred annuities with Sentinel Security Life Insurance Company.

In January 2014, the Company reinsured a flow of multi-year guaranteed annuities of Midland National Life Insurance Company (Midland), on a modified coinsurance basis.

Affiliated reinsurance

In March 2010, concurrent with AHL's incorporation of Athene Life Insurance Company (ALIC), ALIC ceded all of its funding agreement business to ALRe on a modified coinsurance basis.

In April 2011, concurrent with AHL's acquisition of Liberty Life Insurance Company (LLIC), LLIC ceded a portion of its annuity business to ALRe. LLIC was later renamed Athene Annuity & Life Assurance Company (AADE).

In July 2011, concurrent with AHL's acquisition of Investors Insurance Corp. ("IIC"), IIC ceded a portion of its annuity business to ALRe on a modified coinsurance basis. Effective September 2011, AHL restructured the acquired business such that IIC ceded a portion of the annuity business to Athene Annuity on a coinsurance basis and Athene Annuity ceded a portion of the business to ALRe on a modified coinsurance basis.

Effective July 2012, concurrent with AHL's purchase of Presidential Life Insurance Company (PLIC), PLIC ceded a portion of its annuity business to Athene Annuity and Athene Annuity ceded a portion of such annuity business to ALRe. PLIC was later named Athene Annuity & Life Assurance Company of New York (AANY). Subsequently the reinsurance arrangement was modified and AANY ceded this business to AADE, which is then retroceded to ALRe.

Effective November 2012, AADE entered into a coinsurance agreement with Liberty Bankers Life Insurance Company for a block of deferred annuities, a portion of which was ceded to ALRe on a modified coinsurance basis.

In December 2011, Athene Annuity & Life Assurance Company (AADE) entered into two coinsurance agreements with Transamerica Life Insurance Company for a block of fixed deferred annuities and funding agreement business. AADE ceded a portion of the fixed annuities and all of its funding agreement business to ALRe on a modified coinsurance basis.

Effective October 2013, concurrent with AHL's acquisition of annuity and life operations of Aviva plc's US (later renamed Athene Annuity and Life Company (IA) or AAIA), AAIA ceded a portion of the annuity business to ALRe on a modified coinsurance basis.

The Company continues to reinsure new business related to annuities and funding agreements from AAIA and AADE.

9. Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles

Included within *Deferred Acquisition Costs and Deferred Sales Inducements* on the consolidated balance sheets are day one losses. The day one losses are summarized separately within the reinsurance intangibles section below.

The following summarizes a rollforward of deferred acquisition costs ("DAC") and deferred sales inducements ("DSI"):

(In millions)	DAC	DSI	Total
Balance at December 31, 2012	$ 127	$ 67	$ 194
Additions	105	28	133
Amortization	(31)	(13)	(44)
Balance at December 31, 2013	201	82	283
Additions	232	91	323
Amortization	(46)	(15)	(61)
Balance at December 31, 2014	387	158	545
Additions	264	111	375
Amortization	15	8	23
Balance at December 31, 2015	$ 666	$ 277	$ 943

We did not make any adjustments to DAC recoverability during the years ended December 31, 2015, 2014, or 2013.

Reinsurance Intangibles

For each block reinsurance transaction, the Company defers the net of the fair value of assets acquired and the sum of reserves acquired, other liabilities acquired, and ceding commission payable or receivable as deferred acquisition cost ("DAC") or unearned revenue reserve ("URR") and referred as day one loss and day one gains, respectively.

The following summarizes the day one losses and day one gains included within *Deferred acquisition costs and deferred sales inducements and Interest sensitive contract liabilities* respectively on the consolidated balance sheets.

(In millions)	Day one gain	Day one loss	Total
Balance at December 31, 2012	$ 243	$ (52)	$ 191
Additions	796	(1,415)	(619)
Amortization	(76)	42	(34)
Balance at December 31, 2013	963	(1,425)	(462)
Additions	—	—	—
Amortization	(102)	423	321
Balance at December 31, 2014	861	(1,002)	(141)
Additions	—	—	—
Amortization	(96)	(83)	(179)
Balance at December 31, 2015	$ 765	$ (1,085)	$ (320)

10. Reserves

Included in *Interest sensitive contract liabilities* are day one gains as of December 31, 2015, December 31, 2014 and December 31, 2013. See *Note 9 - Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles* for a summary of day one gains and losses.

The following table summarizes the interest sensitive contract liability reserves by product:

	December 31,		
(in millions)	2015	2014	2013
Deferred annuities	$ 8,857	$ 8,989	$ 9,599
Fixed indexed annuities	30,891	30,685	29,574
Funding agreements	1,539	1,318	1,821
Single premium immediate annuities and supplemental contracts - non-life contingent	923	964	997
Total	$ 42,210	$ 41,956	$ 41,991

The following table summarizes the future policy benefit reserves by product:

	December 31,		
(in millions)	2015	2014	2013
Deferred annuities	$ 23	$ 27	$ 1
Fixed indexed annuities	603	624	126
Single premium immediate annuities and supplemental contracts - life contingent	3,056	3,162	3,263
Total	$ 3,682	$ 3,813	$ 3,390

11. Debt

Refer to *Note 5 - Variable Interest Entities* for disclosures regarding borrowings of the Company's consolidated VIEs.

Revolving Credit Facility—On September 20, 2013, AHL and ALRe entered into a three-year revolving credit agreement (Credit Facility) with Citibank, N.A., as administrative agent. Beginning in 2014, Athene USA was added as a borrower. The amount available under the Credit Facility was $500 million. In connection with the Credit Facility, AHL guaranteed all of the obligations of ALRe and Athene USA, ALRe guaranteed certain of the obligations of AHL and Athene USA, and Athene USA guaranteed the obligations of AHL and ALRe. The agreement contained various standard covenants with which we had to comply. As of December 31, 2015, we had no amounts outstanding under the Credit Facility and were in compliance with all covenants.

On January 22, 2016, AHL, Athene USA and ALRe terminated the Credit Facility and entered into a five-year revolving credit agreement with Citibank, N.A., as administrative agent. The amount available under the new Credit Facility is $1 billion, with AHL, ALRe, and Athene USA as joint and several borrowers and guarantors. Interest will accrue on outstanding borrowings at LIBOR plus a margin or a base rate plus a margin, based on the credit rating of AHL. The new Credit Facility has a commitment fee on the unused commitment, based on the credit rating of AHL.

12. Common Shares

The Company has one class of common shares, which represents 100% of the total voting power of the Company, and is beneficially owned by AHL. The Company is authorized to and has issued 1,500,000 shares at a par value of $1.00 each to AHL.

13. Stock-Based Compensation

AHL has adopted share incentive plans to issue non-qualified share options, rights to purchase shares, restricted shares, restricted stock units, and other awards which may be settled in, or based upon, AHL's common shares. AHL currently issues restricted Class M common shares and restricted share units to the Company's employees with certain service and performance conditions. As a result, a portion of stock-based compensation expense incurred during the year is allocated to the Company by AHL.

During 2014, AHL adopted amendments to the terms of existing stock-based compensation agreements to conform certain vesting and repurchase terms. Prior to 2014, AHL had the right to repurchase vested shares at the lower of purchase cost or fair value if an employee resigned without good reason, either before an IPO or under other conditions as defined in the original plans. As a result of this repurchase option, the expense associated with vested incentive shares would not be recognized on the income statement until the date on which such shares would have been converted to Class A shares. Therefore, no expense was recorded prior to 2014.

Total stock-based compensation expense incurred by the Company was $3 million and $14 million for the years ended December 31, 2015 and December 31, 2014 respectively. As described above, there was no stock-based compensation expense recognized in connection with the stock-based compensation plans in 2013. These amounts are reflected within the policy and other operating expenses on the consolidated statements of income and (loss).

14. Accumulated Other Comprehensive Income

The following is a detail of AOCI:

	December 31,		
(In millions)	2015	2014	2013
AFS securities	$ (77)	$ 17	$ 23
Accumulated other comprehensive income (loss)	$ (77)	$ 17	$ 23

Changes in AOCI are presented below.

	Years ended December 31,		
(In millions)	2015	2014	2013
Unrealized gains (losses) on AFS securities			
Unrealized holding gain (losses) arising during the year	$ (84)	$ (12)	$ (16)
Less: Reclassification adjustment for gains (losses) realized in net income[1]	(10)	6	3
Change in AOCI	$ (94)	$ (6)	$ (13)

[1] *Recognized in net investment income on the consolidated statements of income and (loss).*

15. Income Taxes

Under current Bermuda law, we are not required to pay any taxes in Bermuda on either income or capital gains. We have received an undertaking from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2035.

16. Statutory Requirements

ALRe is licensed by the Bermuda Monetary Authority (BMA) as a Class E long term insurer and is subject to the Insurance Act 1978, as amended and regulations promulgated thereunder (Bermuda Insurance Act). The statutory financial statements of ALRe are prepared in accordance with the Bermuda Insurance Act, as well as directions issued by the BMA. Under the Bermuda Insurance Act, ALRe is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin (MSM) and the Enhanced Capital Requirement (ECR). The MSM is equal to the greater of $8 million or 2% of the first $500 million of assets plus 1.5% of assets above $500 million and the ECR is calculated based on either an internally developed risk-based capital model or a standard risk-based capital model developed by the BMA. At December 31, 2015, the MSM and ECR were $723 million and $1,751 million, respectively.

Under the Bermuda Insurance Act, ALRe is prohibited from paying a dividend in an amount exceeding 25% of the prior year's statutory capital and surplus, unless at least two members of ALRe's board of directors sign and submit to the BMA, an affidavit attesting that a dividend in excess of this amount would not cause ALRe to fail to meet its relevant margins. In certain instances ALRe would also be required to provide prior notice to the BMA in advance of the payment of dividends. In the event that such an affidavit is submitted to the BMA in accordance with the Bermuda Insurance Act, and further subject to ALRe meeting its MSM and ECR, ALRe is permitted to distribute up to the sum of 100% of statutory surplus and an amount less than 15% of statutory capital. Distributions in excess of this amount require the approval of the BMA. As of December 31, 2015, 2014, and 2013 the maximum distribution ALRe was permitted to pay AHL without the need for prior approval was $3,529 million, $3,068 million and $2,776 million respectively.

The BMA has granted ALRe permission to use amortized cost instead of fair value as the basis for non-equity securities, including investments underlying funds withheld and modco reinsurance agreements. Excluded from ALRe's statutory returns were $162 million of unrealized losses, $1,255 million of unrealized gains and $163 million as of December 31, 2015, 2014, and 2013 respectively.

Bermuda Regulatory Solvency II Equivalence - As of January 1, 2016, the BMA has embedded an Economic Balance Sheet ("EBS") framework as part of the Capital and Solvency Return. The framework, of which the EBS is a part of, was granted equivalency to Solvency II in March 2016. The first EBS filing is due in 2017, for the year ended December 31, 2016.

Statutory capital and surplus and net income (loss) - The following table presents the statutory capital and surplus and the statutory net income (loss), based on the most recently filed statutory financial statements filed with insurance regulators:

	Statutory Capital & Surplus			Statutory Net Income (Loss)		
	December 31,			Years ended December 31,		
(In millions)	2015	2014	2013	2015	2014	2013
ALRe	$ 5,650	$ 4,048	$ 3,767	$ 461	$ 632	$ 2,704

17. Related Party Transactions

The following summarizes related party balances included on the consolidated balance sheets and the consolidated statements of income and (loss). The table below includes related party balances not previously disclosed.

	December 31,		
(in millions)	2015	2014	2013
Assets			
Funds withheld at interest[1]	$ 40,396	$ 42,556	$ 42,127
Deferred acquisition costs and deferred sales inducements[1]	1,841	1,388	1,562
Other assets[2]	3	—	—
Liabilities			
Interest sensitive contract liabilities[1]	$ 39,178	$ 39,891	$ 40,235
Future policy benefits[1]	3,623	3,736	3,343
Other policy claims and benefits[1]	30	32	40
Other liabilities[3]	34	40	26

	Years ended December 31,		
(in millions)	2015	2014	2013
Revenue			
Premiums[1]	$ 37	$ 15	$ 2,802
Product charges[1]	186	163	52
Net investment income[4]	264	3,535	1,738
Benefits and Expenses			
Interest sensitive contract benefits[1]	$ 436	$ 1,312	$ 717
Amortization of deferred sales inducements[1]	(9)	18	3
Future policy and other policy benefits[1]	107	644	2,940
Amortization of deferred acquisition costs[1]	(106)	464	51
Policy and other operating expenses[5]	271	259	107

[1] We have intercompany modco reinsurance agreements with our affiliates. See Note 8 - Reinsurance for more information. Accordingly, these balances result from our intercompany reinsurance transactions with our affiliates.
[2] Included in Other assets are amounts due from affiliate(s).
[3] Included in Other liabilities are amounts due to affiliate(s).
[4] Included in Net investment income is the net income earned from the assets supporting the funds withheld at interest of our intercompany modco reinsurance agreements of $345 million, $3,586 million and $1,388 million for the years ended December 31, 2015, 2014 and 2013 respectively. Also included in Net investment income is the income earned on the assets directly managed by Apollo, net of Apollo's management fee and sub-advise fee, of $(81) million, $(51) million and $350 million for the years ended December 31, 2015, 2014 and 2013 respectively.
[5] Included in Policy and other operating expenses are policy benefit expenses to our affiliates in relation to the intercompany modco reinsurance agreements for $273 million, $259 million and $97 million for the years ended December 31, 2015, 2014 and 2013, respectively. Also included in Policy and other operating expenses are cost sharing expenses (recovery) with Apollo for $(1) million, $0 million and $10 million for the years ended December 31, 2015, 2014 and 2013 respectively.

Significant cash flows from related party modco reinsurance are included in cash from operations and are disclosed below, along with non-cash profit settlements in the form of security transfers.

	Years ended December 31,		
	2015	2014	2013
Cash profit settlements on modified coinsurance agreements - related party	102	586	338
Non-cash profit settlements on modified coinsurance agreements in the form of securities - related party	653	249	434
Total	755	835	772

A summary of significant related party investing cash flows is as follows:

	Years ended December 31,		
	2015	2014	2013
Cash flow from investing activities			
Sales, maturities, and repayments of:			
Trading securities	53	—	—
Investment funds	154	291	261
Purchases of:			
Available for sale securities, fixed maturity securities	(47)	(61)	—
Trading securities	(52)	(79)	—
Investment funds	(121)	(5)	—

Investment related expenses - Substantially all of our investments are managed by AAM, a subsidiary of AGM. AAM provides direct investment management, asset allocation, mergers and acquisition asset diligence, and certain operational support services for our investment portfolio, including investment compliance, tax, legal, and risk management support. As of December 31, 2015, AAM directly manages $3,507 million of our investment portfolio assets, of which 76% are rated one or two by the NAIC. For certain assets which require specialized sourcing and underwriting capabilities, AAM has chosen to mandate sub-advisors rather than building out in-house capabilities. For the services related to these investments, AAM earns a fee of 0.40% per annum on all assets managed in accounts owned by or related to the Company, including sub-advised assets but excluding certain other limited exceptions. Additionally, AAM recharges the sub-advisory fees to the Company.

Assets supporting funds withheld at interest: The majority of the assets supporting the funds withheld at interest are managed by AAM. See *Note 7 - Funds Withheld at Interest* for more information.

AAM has entered into a Master Sub-Advisory Agreement (MSAA) with certain Apollo affiliates to sub-advise AAM with respect to a portion of our assets, with the fees recharged to us, in addition to the gross fee of 0.40% per annum paid to AAM as described above. The MSAA covers services rendered by Apollo-affiliated sub-advisors relating to investments in certain asset classes, primarily CLO, CMBS, and ABS.

The following represents the assets sub-advised by Apollo affiliates:

	December 31,		
(In millions, except for percentages)	2015	2014	2013
Fixed maturity securities			
U.S. state, municipals, and political subdivisions	$ —	$ 6	$ —
Corporate	57	29	—
CLO	475	273	22
ABS	48	28	10
CMBS	38	—	—
Trading securities	—	35	—
Total assets	$ 618	$ 371	$ 32
Percent of total AAM managed Company assets	15%	17%	2%

The management and sub-advisory fees are included within the net investment income line on the consolidated statements of income and (loss). The management fees payable as of December 31, 2015, 2014, and 2013 were $14 million, $10 million and $12 million respectively. The sub-advisory fees payable as of December 31, 2015, 2014, and 2013 were $19 million, $12 million, and $0 million respectively.

Because the Apollo Group has a significant voting interest in us, in order to protect against potential conflicts of interest resulting from transactions that we and AHL have entered, and will continue to enter into with the Apollo Group, the AHL board of directors has formed a conflicts committee, consisting of five of its directors who are not officers or employees of any member of the Apollo Group, other than AHL and ALRe. The conflicts committee reviews and a majority of the committee members must approve certain material transactions between AHL and/or its subsidiaries and the Apollo Group, subject to certain exceptions.

Service fees - AHL has entered into shared services agreements with AAM. Under these agreements, we and AAM make available to each other certain personnel and services. Expenses for the services are based on the amount of time spent on the affairs of the other party, in addition to actual expenses incurred and certain cost reimbursements. For the years ended December 31, 2015, 2014, and 2013, net expenses allocated from (to) AAM under these agreements were $(1) million, $0 million, and $10 million, respectively. The Company had no net expenses payable to AAM as of December 31, 2015 and 2014 and $7 million of net expense payable to AAM as of December 31, 2013.

18. Commitments and Contingencies

Contingent Commitments-The Company had commitments to make additional capital contributions to certain investment funds of $57 million, $48 million and $41 million as of December 31, 2015, 2014 and 2013 respectively. The Company expects most of its current commitments will be invested over the next five years; however, these commitments could become due any time upon counterparty request.

Funds in Trust (Restricted Assets) - The total restricted assets included on the balance sheets are as follows:

	December 31,		
(In millions)	2015	2014	2013
Fixed maturity securities - AFS	$ 124	$ 143	$ 144
Restricted cash	9	24	8
Total restricted assets	$ 133	$ 167	$ 152

ALRe has established reinsurance trusts of assets equal to statutory reserves, plus an additional amount of assets, as a result of coinsurance agreements with UA described in *Note 8 - Reinsurance.*

Litigation, Claims, and Assessments - On June 12, 2015, a putative class action complaint was filed in the United States District Court, Northern District of California against ALRe, AHL and certain other affiliates. The complaint, which is similar to complaints previously filed against other large insurance companies, primarily alleges that captive reinsurance and other transactions had the effect of misrepresenting the financial condition of AAIA. The complaint purports to be brought on behalf of a class of purchasers of annuity products issued by AAIA between 2007 and the present. There are also various allegations related to the purchase of Aviva USA Corporation concerning entry into a modified coinsurance transaction with ALRe in October 2013. The suit asserts claims of violation of the Racketeer Influenced and Corrupt Organizations Act and seeks compensatory damages, trebled, in an amount to be determined, costs, and attorneys' fees. On March 25, 2016, our motion to transfer to the United States District Court, Southern District of Iowa was granted. We believe that we have meritorious defenses to the claims set forth in the complaint, intend to vigorously defend the litigation, and are seeking dismissal of the complaint through a motion to dismiss that is currently being briefed. In light of the inherent uncertainties involved in this matter, reasonable possible losses, if any, cannot be estimated at this time.

19. Subsequent Events

On May 18, 2016, A. M. Best revised the outlook of the Company from "Stable" to "Positive".

The Company has evaluated the impact of subsequent events through October 6, 2016, the date at which the financial statements were available to be issued.

Financial Statements

Years ended 2016, 2015, and 2014

ATHENE LIFE RE LTD.
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April 14, 2017

Report of Independent Auditors

To the Board of Directors and Shareholder of Athene Life Re Ltd.

We have audited the accompanying financial statements of Athene Life Re Ltd., which comprise the balance sheets as of December 31, 2016, 2015, and 2014, and the related statements of income (loss), comprehensive income (loss), equity and cash flows for the years then ended.

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Athene Life Re Ltd. as of December 31, 2016, 2015, and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

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ATHENE LIFE RE LTD.
Balance Sheets

	December 31,		
(In millions)	2016	2015	2014
Assets			
Investments			
Available-for-sale securities, fixed maturity securities, at fair value (amortized cost: 2016 - $3,801, 2015 - $3,020 and 2014 - $1,063)	$ 3,800	$ 2,943	$ 1,080
Trading securities, at fair value	323	238	181
Investment funds	531	624	607
Funds withheld at interest	49,455	43,879	45,329
Derivative assets	1	1	1
Short-term investments, at fair value	26	37	17
Total investments	54,136	47,722	47,215
Cash and cash equivalents	130	253	313
Restricted cash	11	9	24
Accrued investment income	31	22	10
Deferred acquisition costs and deferred sales inducements	2,392	2,028	1,547
Other assets	54	4	6
Total Assets	$ 56,754	$ 50,038	$ 49,115
Liabilities and Equity			
Liabilities			
Interest sensitive contract liabilities (portion at fair value: 2016 - $4,285, 2015 - $3,540 and 2014 - $3,532)	$ 47,707	$ 42,975	$ 42,817
Future policy benefits	4,134	3,682	3,813
Other policy claims and benefits	14	30	20
Reinsurance payable	—	1	2
Other liabilities	26	35	42
Due to affiliates	3	—	—
Total Liabilities	51,884	46,723	46,694
Equity			
Common shares	2	2	2
Additional paid-in-capital	2,292	2,292	1,152
Retained earnings	2,563	1,098	1,250
Accumulated other comprehensive income (loss)	13	(77)	17
Total Equity	4,870	3,315	2,421
Total Liabilities and Equity	$ 56,754	$ 50,038	$ 49,115

See accompanying notes to financial statements

ATHENE LIFE RE LTD.
Statements of Income (Loss)

(In millions)	Years ended December 31, 2016	2015	2014
Revenue			
Premiums	$ 15	$ 37	$ 15
Product charges	220	191	167
Net investment income[1]	3,492	452	3,789
Net investment income from consolidated variable interest entities	—	—	16
Other revenues	2	—	—
Total revenues	3,729	680	3,987
Benefits and Expenses			
Interest sensitive contract benefits	948	519	1,424
Future policy and other policy benefits	670	116	657
Amortization of deferred sales inducements	53	(8)	15
Amortization of deferred acquisition costs	264	(98)	469
Policy and other operating expenses	329	303	305
Operating expenses of consolidated variable interest entities	—	—	3
Total benefits and expenses	2,264	832	2,873
Net Income (Loss)	$ 1,465	$ (152)	$ 1,114

[1] *Includes the change in unrealized gain (loss) mark-to-market impacts of $882 million, $(1,415) million and $1,013 million for the years ended December 31, 2016, 2015 and 2014, respectively. See Note 2 - Investments for more information.*

See accompanying notes to financial statements

Statements of Comprehensive Income (Loss)

(In millions)	Years ended December 31, 2016	2015	2014
Net income (loss)	$ 1,465	$ (152)	$ 1,114
Other comprehensive income (loss)			
Change in unrealized investment gains (losses) on available-for-sale securities	76	(94)	(6)
Other comprehensive income on equity method investment funds	14	—	—
Other comprehensive income (loss)	90	(94)	(6)
Comprehensive income (loss)	$ 1,555	$ (246)	$ 1,108

See accompanying notes to financial statements

ATHENE LIFE RE LTD.
Statements of Equity

(In millions)	Common shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Athene Life Re Ltd. shareholder's equity	Non controlling interest	Total equity
Balance at December 31, 2013	$ 2	$ 1,152	$ 479	$ 23	$ 1,656	$ 7	$ 1,663
Net income	—	—	1,114	—	1,114	—	1,114
Other comprehensive loss	—	—	—	(6)	(6)	—	(6)
Dividends paid	—	—	(350)	—	(350)	—	(350)
Change in equity of noncontrolling interests	—	—	7	—	7	(7)	—
Balance at December 31, 2014	$ 2	$ 1,152	$ 1,250	$ 17	$ 2,421	$ —	$ 2,421
Net loss	—	—	(152)	—	(152)	—	(152)
Other comprehensive loss	—	—	—	(94)	(94)	—	(94)
Capital contributions received	—	1,140	—	—	1,140	—	1,140
Balance at December 31, 2015	$ 2	$ 2,292	$ 1,098	$ (77)	$ 3,315	$ —	$ 3,315
Net income	—	—	1,465	—	1,465	—	1,465
Other comprehensive income	—	—	—	90	90	—	90
Balance at December 31, 2016	$ 2	$ 2,292	$ 2,563	$ 13	$ 4,870	$ —	$ 4,870

See accompanying notes to financial statements

ATHENE LIFE RE LTD.
Statements of Cash Flows

(In millions)	Years ended December 31, 2016	2015	2014
Cash flows from operating activities			
Net income (loss)	$ 1,465	$ (152)	$ 1,114
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred acquisition costs	264	(98)	469
Amortization of deferred sales inducements	53	(8)	15
Amortization (accretion) of net investment premiums, discounts, and other	(53)	(18)	(9)
Product charges[1]	(220)	(191)	(167)
Interest sensitive contract benefits[1, 2]	948	519	1,424
Net investment (income) loss[3]	63	69	42
Other non-cash income adjustments related to funds withheld and modified coinsurance agreements			
Premiums	(15)	(37)	(15)
Net investment (income) on funds withheld at interest	(3,386)	(423)	(3,777)
Policy and other operating expenses	311	286	270
Future policy benefits and other policy claims and benefits	670	116	657
Other changes in operating assets and liabilities:			
Accrued investment income	(9)	(12)	(8)
Cash profit settlements on funds withheld and modified coinsurance agreements	182	130	619
Other assets and liabilities	(6)	(10)	(17)
Other assets and liabilities of consolidated variable interest entities	—	—	(20)
Net cash provided by operating activities	267	171	597
Cash flows from investing activities			
Sales, maturities, and repayments of:			
Available-for-sale securities	979	443	220
Trading securities	21	96	53
Investment funds	82	161	291
Short-term investments	223	56	—
Purchases of:			
Available-for-sale securities	(1,315)	(1,050)	(681)
Trading securities	(113)	(62)	(114)
Investment funds	(73)	(232)	(64)
Short-term investments	(210)	(78)	—
Sales, maturities, and repayments of investments of consolidated variable interest entities	—	—	845
Net changes of cash collateral posted for derivative transactions	(2)	—	—
Cash settlement of derivatives	—	2	—
Change in restricted cash	(1)	14	(16)
Net cash (used in) provided by investing activities	(409)	(650)	534

(Continued)

[1] *Comprised of impacts related to funds withheld, modified coinsurance, and coinsurance agreements.*
[2] *Comprised of interest credited to policyholder account balances, changes in fair value of embedded derivatives associated with fixed indexed annuities, and amortization of unearned revenue reserves.*
[3] *Comprised of realized (gains) losses on investments, (income) losses on equity method investments net of dividend distributions, and changes in fair value of trading securities.*

See accompanying notes to financial statements

ATHENE LIFE RE LTD.
Statements of Cash Flows

(In millions)	Years ended December 31, 2016	2015	2014
Cash flows from financing activities			
Capital contributions	$ —	$ 432	$ —
Dividends paid	—	—	(350)
Deposits on investment-type policies and contracts	33	—	—
Withdrawals on investment-type policies and contracts	(14)	(13)	(15)
Repayment on borrowings of consolidated variable interest entities	—	—	(719)
Net cash provided by (used in) financing activities	19	419	(1,084)
Net increase (decrease) in cash and cash equivalents	(123)	(60)	47
Cash and cash equivalents at beginning of year	253	313	266
Cash and cash equivalents at end of year	$ 130	$ 253	$ 313
Supplementary information			
Cash paid for interest	$ —	$ 6	$ 3
Non-cash transactions			
Premiums and deposits on policies reinsured through funds withheld and modified coinsurance agreements, excluding block reinsurance transactions	7,073	3,731	2,525
Day one premiums and deposits reinsured through block reinsurance transactions	790	—	—
Claims and surrenders on policies reinsured through funds withheld and modified coinsurance agreements	4,233	4,155	4,372
Non-cash capital contributions in the form of securities	—	708	—
Non-cash net profit settlements on funds withheld and modified coinsurance agreements in the form of securities	404	727	255

Profit withdrawals from our funds withheld and modco reinsurance accounts are based on the statutory earnings of the associated assets and liabilities. The profit (loss) under these agreements is typically settled on a quarterly basis and can be settled in either cash or securities. The portion settled in both cash and securities is included in the table below, with the cash basis portion being reflected within cash from operations, and the securities portion disclosed as a non-cash transaction.

	Years ended December 31, 2016	2015	2014
Net cash provided by operating activities	$ 267	$ 171	$ 597
Non-cash net settlements on funds withheld and modified coinsurance agreements in the form of securities	404	727	255
Total	$ 671	$ 898	$ 852

(Concluded)

See accompanying notes to financial statements

1. Business, Basis of Presentation, and Significant Accounting Policies

Athene Life Re Ltd. (ALRe, the Company, we, us, or our) a Bermuda exempted company, is a leading retirement services company that reinsures retirement savings products that originate in all 50 U.S. states and the District of Columbia. ALRe is wholly owned by Athene Holding Ltd. (AHL, or the Parent), a Bermuda exempted company. ALRe reinsures business from both third party cedants and affiliates. See *Note 7 - Reinsurance* for more information.

The Company was registered as a Long-Term Insurer on June 26, 2009 under the Insurance Act, 1978 of Bermuda and is classified as a Class E insurer. The Company is engaged in the business of annuity reinsurance, focusing on contracts reinsuring a quota share of future sales (flow transactions) of various fixed annuity product lines. The Company also reinsures closed blocks of existing business (block transactions). Liabilities for reinsurance include immediate annuities, fixed deferred annuities (including fixed indexed products) and funding agreements.

As of December 31, 2016, Fitch, S&P and A.M. Best had issued credit ratings, financial strength ratings and/or outlook statements regarding us, as listed below. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurer or reinsurer to meet its obligations under an insurance policy or reinsurance arrangement and generally involve quantitative and qualitative evaluations by rating agencies of a company's financial condition and operating performance. Generally, rating agencies base their financial strength ratings upon information furnished to them by the company and upon their own investigations, studies and assumptions. Financial strength ratings are based upon factors of concern to policyholders, agents, intermediaries and ceding companies and are not directed toward the protection of investors. Credit and financial strength ratings are not recommendations to buy, sell or hold securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

	December 31, 2016		
	A.M. Best	**S&P**	**Fitch**
Financial Strength Rating	A-	A-	A-
Outlook	Positive	Stable	Stable

Consolidation and Basis of Presentation - The financial statements of the Company include any variable interest entities for which we are the primary beneficiary. Investments in entities that we do not control, but have the ability to exercise significant influence over operating and financing decisions, other than investments for which we have elected the fair value option, are accounted for under the equity method.

For entities that are consolidated, but not 100% owned, we allocate a portion of the income or loss and corresponding equity to the owners other than the Company. We include the aggregate of the income or loss and corresponding equity that is not owned by the Company in noncontrolling interests in the financial statements.

The financial statements reflect consolidated variable interest entities that were fully liquidated in 2014. As a result, there was income statement activity related to consolidated variable interest entities for the year ended December 31, 2014. We did not consolidate any entities for the years ended December 31, 2015 and 2016. See *Note 4 - Variable Interest Entities* for more information.

We have prepared the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual experience could materially differ from these estimates and assumptions. The Company's principal estimates impact:

- fair value of investments;
- impairment of investments and valuation allowances;
- derivatives valuation, including embedded derivatives;
- deferred acquisition costs (DAC), deferred sales inducements (DSI), and reinsurance intangibles; and
- future policy benefit reserves.

Additional details regarding these principal estimates and assumptions are discussed in the significant accounting policies that follow and the related footnote disclosures.

Investments

Fixed Maturity and Equity Securities – Fixed maturity securities includes corporate bonds, collateralized loan obligations (CLO's), asset-backed securities (ABS), residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and redeemable preferred stock. Equity securities in the funds withheld at interest portfolio include common stock, mutual funds, and non-redeemable preferred stock. We classify fixed maturity securities as available-for-sale (AFS) or trading at the time of purchase and subsequently carry them at fair value. Fair value hierarchy and valuation methodologies are discussed in *Note 5 - Fair Value*. Classification is dependent on a variety of factors including our expected holding period, election of the fair value option, and asset and liability matching.

AFS Securities – Unrealized gains and losses on AFS securities are reflected in accumulated other comprehensive income (AOCI) on the balance sheets.

Trading Securities – We elected the fair value option for certain fixed maturity securities. These fixed maturity securities are classified as trading, with changes to fair value included in net investment income on the statements of income and (loss). Although the securities are classified as trading, the trading activity related to these investments is primarily focused on asset and liability matching activities and is not intended to be an income strategy based on active trading. As such, the activity related to these investments on the statements of cash flows is classified as investing activities.

We generally record security transactions on a trade date basis, with any unsettled trades recorded in other assets or other liabilities on the balance sheets. Private placement and investment fund purchases are recorded on a settlement date basis.

Purchased Credit Impaired (PCI) Securities – We purchase certain structured securities, primarily RMBS, having deterioration in credit quality since their issuance, which meet the definition of PCI securities. We determined, based on our expectations as to the timing and amount of cash flows expected to be received, that it was probable at acquisition that we would not collect all contractually required payments, including both principal and interest and considering the effects of prepayments for these PCI securities. Based on these assumptions, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is accreted into investment income, net of related expenses, over their remaining lives on a level-yield basis. The difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. Over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, the accretable yield and the non-accretable difference can change.

Quarterly, we evaluate the undiscounted expected future cash flows associated with PCI securities based on updates to key assumptions. Changes to undiscounted expected future cash flows due solely to the changes in the contractual benchmark interest rates on variable rate PCI securities will change the accretable yield prospectively. Declines in undiscounted expected future cash flows due to further credit deterioration, as well as changes in the expected timing of the cash flows, can result in the recognition of an other-than-temporary impairment (OTTI) charge, as PCI securities are subject to our policy for evaluating investments for OTTI. Significant increases in undiscounted expected future cash flows are recognized prospectively as an adjustment to the accretable yield.

Mortgage Loans – We hold mortgage loans through our funds withheld and modified coinsurance (modco) arrangements. Accordingly, these mortgages are valued at fair value, which is comprised of the amortized cost plus mark-to-market unrealized gains or losses. We calculate amortized cost to be unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on its contractual interest rate. We record amortization of premiums and discounts using the effective yield method, and contractual cash flows on the underlying loan. We accrue interest on loans until it is probable we will not receive interest or the loan is 90 days past due. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income on the statements of income and (loss).

Investment Funds – We invest in certain non-fixed income, alternative investments in the form of limited partnerships or similar legal structures (investment funds). For investment funds in which we have determined we are not the primary beneficiary, and therefore not required to consolidate, we typically record these investments using the equity method of accounting, where the cost is recorded as an investment in the fund. Adjustments to the carrying amount reflect our pro rata ownership percentage of the operating results as indicated by net asset value (NAV) in the investment fund financial statements, which can be on a lag of up to three months when investee information is not received in a timely manner.

We record our proportionate share of investment fund income within net investment income on the statements of income and (loss). Contributions paid or distributions received by the Company are recorded directly to the investment fund balance as an increase to carrying value or as a return of capital, thus reducing our carrying value.

Policy Loans – We hold policy loans through our funds withheld and modco arrangements accordingly, these policy loans are held at fair value which approximates the unpaid principal balance. Policy loans are funds provided to policyholders in return for a claim on the policy's account value. The funds provided are limited to a specified percentage of the account balance. The majority of policy loans do not have a stated maturity and the balances and accrued interest are repaid with proceeds from the policy account balance.

Funds Withheld at Interest – Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which we act as reinsurer or a modified coinsurer. While the assets in funds withheld and modco trusts are legally owned by the ceding company, the assets are legally segregated from the general accounts of our cedants and all economic rights and obligations on the assets accrue to us. We periodically settle interest accruing to those assets at rates defined by the terms of the agreement. The underlying agreements contain embedded derivatives as discussed below, and as a result the carrying value of Funds Withheld at Interest is equal to the fair value of the underlying assets. The resulting impact on the statement of cash flows from funds withheld and modco agreements after non-cash activity is backed out is that the net cash interest settlements are included in operating activities. Any securities transfers as part of interest settlements, as well as deposits and withdrawals on the underlying agreements, are disclosed as non-cash items. See additional information in *Note 6 - Funds Withheld at Interest*.

Short-term Investments – Short-term investments consists of financial instruments with maturities of greater than three months but less than twelve months when purchased. Short-term securities are held at fair value which approximates amortized cost.

Net Investment Income – We recognize investment income as it accrues or is legally due, net of investment management and custody fees. Investment income on fixed maturity securities includes coupon interest, as well as the amortization of any premiums and the accretion of any discount. Investment income on equity securities represents dividend income and preferred coupons. Realized gains and losses on sales of investments are included on the statements of income and (loss) in net investment income. Other-than-temporary impairments are included on the statements of income and (loss) in net investment income. Realized gains and losses on investments sold are determined based on a first-in first-out method. Included in net investment income is the investment income from funds withheld and modco reinsurance, which is the total return from the assets supporting funds withheld and modco reinsurance.

Other-Than-Temporary Impairment – We identify fixed maturity and equity securities that could potentially have impairments that are other-than-temporary by monitoring market events for changes in market interest rates, credit issues, changes in business climate, management changes, litigation, government actions, and other similar factors. Indicators of impairment may include changes in the issuers' credit ratings, late payments, pricing levels, rating agency actions, key financial ratios, financial statements, revenue forecasts, and cash flow projections.

We review all securities on a case-by-case basis to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other-than-temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in fair value; (3) the issuer's financial position and access to capital; and (4) for fixed maturity securities, our ability and intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value. To the extent we determine that a security is other-than-temporarily impaired, an impairment loss is recognized.

The recognition of impairment losses on fixed maturity securities on the financial statements is dependent on the facts and circumstances related to the specific security. If we intend to sell a security or it is more likely than not that we would be required to sell a security before the recovery of its amortized cost less any recorded credit loss, we recognize an OTTI in net investment income on the statements of income and (loss) for the difference between amortized cost and fair value. If neither of these two conditions exists, then the recognition of the OTTI is bifurcated and we recognize the credit loss portion in net investment income on the statements of income and (loss) and the non-credit loss portion in AOCI on the balance sheets.

We estimate the amount of the credit loss component of a fixed maturity security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The techniques and assumptions for establishing the best estimate cash flows vary depending on the type of security. The structured security's cash flow estimates are based on security-specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity, prepayments, and structural support, including subordination and guarantees. The non-structured security's cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using security-specific facts and circumstances including timing, security interests, and loss severity.

In periods after an OTTI loss is recognized on a fixed maturity security, we report the impaired security as if it had been purchased on the date it was impaired and continue to estimate the present value of the estimated cash flows of the security. Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into net investment income over the remaining term of the fixed maturity security in a prospective manner based on the amount and timing of estimated future cash flows.

We impair a mortgage loan when it is probable we will not collect all amounts due under the agreement. We establish a valuation allowance on individual loans based on expected losses from future dispositions or settlement, including foreclosures. We calculate the allowance based on how much the carrying value exceeds one of these values:

- the present value of expected future cash flows discounted at the loan's original effective interest rate;
- the value of the loan's collateral if it is in the process of foreclosure or otherwise collateral dependent; or
- the loan's fair value if the loan is being sold.

We first apply any interest accrued or received on the net carrying amount of the impaired loan to the principal of the loan, and once the principal is repaid, we include amounts received in net investment income. We limit accrued interest income on impaired loans to 90 days of interest. Once accrued interest on the impaired loan is received, we recognize interest income on a cash basis. Loans deemed uncollectible or in foreclosure are charged off against the valuation allowances, and subsequent recoveries, if any, are credited to the valuation allowances. Changes in valuation allowances are reported in net investment income on the statements of income and (loss).

The cost of other invested assets is adjusted for impairments in value deemed to be other-than-temporary in the period in which the determination is made. These impairments are included within net investment income, and the cost basis of the investment securities is reduced accordingly. We do not change the revised cost basis for subsequent recoveries in value.

Derivative Instruments—We invest in derivatives in both our general account and funds withheld at interest for managing risks experienced in our ongoing operations, such as equity risk, interest rate risk, cash flow risks, which primarily involve managing liability risks associated with our indexed annuity products and reinsurance agreements. Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or other underlying notional amount. Derivatives are carried at fair value on the balance sheets in derivative assets and derivative liabilities. We elect to present any derivatives subject to master netting provisions as a gross asset or liability and gross of collateral. Disclosures regarding balance sheet presentation of derivatives subject to master netting agreements are discussed in *Note 3 - Derivative Instruments*.

Embedded Derivatives – We reinsure products, primarily fixed indexed annuity products, or purchase investments that contain embedded derivatives. If we determine the embedded derivative has economic characteristics not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately. Embedded derivatives are carried on the balance sheets at fair value in the same line item as the host contract. Changes in the fair value of embedded derivatives associated with fixed indexed annuities are reflected in interest sensitive contract benefits on the statements of income and (loss). Embedded derivatives that are not clearly and closely related to the host contract within a financial asset are required to be bifurcated and recorded at fair value unless the fair value option is elected on the host contract. Under the fair value option, bifurcation of the embedded derivative is not necessary as all related gains and losses on the host contract and derivative will be reflected within net investment income on the statements of income and (loss).

Fixed indexed annuity contracts allow the policyholder to elect a fixed interest rate return or an equity market component where interest credited is based on the performance of common stock market indices. The equity market option is an embedded derivative, similar to a call option. The benefit reserve is equal to the sum of the fair value of the embedded derivative and the host (or guaranteed) component of the contracts. The fair value of the embedded derivative is computed as the present value of benefits attributable to the excess of the projected policy contract values over the projected minimum guaranteed contract values. The projections of policy contract values are based on assumptions for future policy growth, which include assumptions for expected index credits on the next policy anniversary date, future equity option costs, volatility, interest rates, and policyholder behavior. The projections of minimum guaranteed contract values include the same assumptions for policyholder behavior as were used to project policy contract values. For certain funds withheld and modco reinsurance contracts the embedded derivative cash flows are discounted using the Company's own credit rating. The host contract is established at contract inception as the initial account value less the initial fair value of the embedded derivative and accreted over the policy's life. The host contract accretion rate is updated each quarter so that the present value of actual and expected guaranteed cash flows is equal to the initial host value.

Additionally, reinsurance agreements written on a funds withheld coinsurance or modco basis contain embedded derivatives. The fair value of the embedded derivatives on funds withheld and modco agreements is included in the funds withheld at interest line item on the balance sheets. The fair value of the embedded derivative is equal to the unrealized gain or loss on the underlying assets in the funds withheld or modco trust and the fair value of stand-alone derivatives in the portfolios. The change in the fair value of the embedded derivatives related to the change in unrealized gain or loss is recorded in net investment income on the statements of income and (loss).

Variable Interest Entities—An entity that does not have sufficient equity to finance its activities without additional financial support, or in which the equity investors, as a group, do not have the characteristics of a controlling financial interest is a variable interest entity (VIE). The determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and may require significant judgment. Our investment funds generally qualify as VIEs and are evaluated for consolidation under the VIE model.

We are required to consolidate a VIE if we are the primary beneficiary, defined as the variable interest holder with both the power to direct the activities that most significantly impact the VIE's economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE. We determine whether we are the primary beneficiary of an entity based on a qualitative assessment of the VIE's capital structure, contractual terms, nature of the VIE's operations and purpose, and our relative exposure to the related risks of the VIE. Since affiliates of Apollo Global Management, LLC (AGM and, together with its subsidiaries, Apollo), a related party, are the decision makers in certain of the investment funds, we and a member of our related party group may together have the characteristics of the primary beneficiary of an investment fund. In this situation, we have generally concluded we are not under common control, as defined by ASU 2015-02, with the related party, and therefore consolidate in the circumstances when substantially all of the activities of the VIE are conducted on our behalf. We reassess the VIE and primary beneficiary determinations on an ongoing basis.

If we are not the primary beneficiary, but are able to exert significant influence over the VIE's operations, we record the VIE as an equity method investment. If we are not able to exercise significant influence, generally on investment funds in which we own a less than a 3% interest, we elect the fair value option.

See *Note 4 - Variable Interest Entities* for discussion of our interest in entities that meet the definition of a VIE.

Reinsurance—We assume insurance and investment contracts under coinsurance, funds withheld, and modco. We follow reinsurance accounting for transactions that provide indemnification against loss or liability relating to insurance risk (risk transfer). To meet risk transfer requirements, a reinsurance agreement must include insurance risk consisting of underwriting, investment, timing risk, and any other significant risks. Assumed premiums are included in the premiums line of the statements of income and (loss).

For investment contracts, assets and liabilities assumed under coinsurance, funds withheld, or modco are presented gross on the balance sheets. The change in assumed reserves, deposits and withdrawals are presented net in the interest sensitive contract benefits line on the statements of income. For insurance contracts, assets and liabilities assumed or ceded are presented gross on the balance sheets. The change in assumed reserves and benefits are presented net in the future policy and other policy benefits line on the statements of income. Assumed premiums are included in the premiums line of the statements of income.

Assets and liabilities assumed under modco or funds withheld are presented gross on the balance sheets. The total return on funds withheld at interest is presented in net investment income on the statements of income and (loss).

Accounting for reinsurance requires the use of assumptions upon agreement inception, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. We attempt to minimize our counterparty credit risk through the structuring of the terms of our reinsurance agreements, including the use of trusts and segregated accounts, and we monitor credit ratings of counterparties for signs of declining credit quality. When a ceding company does not report information on a timely basis, we record accruals based on the best available information at the time, which includes the reinsurance agreement terms and historical experience. We periodically compare actual and anticipated experience to the assumptions used to establish reinsurance assets and liabilities. Refer to *Note 8 - Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles* for more information.

Cash and Cash Equivalents—Cash and cash equivalents include deposits and short-term highly liquid investments with a maturity of less than 90 days from the date of acquisition. Amounts included are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Restricted Cash—Restricted cash consists of cash and cash equivalents held in funds in trust as part of certain coinsurance agreements to secure all statutory reserves and liabilities of the coinsured parties. Changes in the restricted cash balance are reported in investing activities on the statements of cash flows.

Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles

Deferred Acquisition Costs (DAC) and Deferred Sales Inducements (DSI) - Costs related to direct and successful efforts of acquiring new business are deferred to the extent they are recoverable from future premiums or gross profits. These costs consist of commissions and policy issuance costs, as well as sales inducements credited to policyholder account balances. We include the effects of net unrealized investment gains and losses in the calculation of DAC, DSI and reinsurance intangible balances due to the funds withheld at interest assets being marked-to-market through income. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we record a cumulative charge to the current period. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process for the interest sensitive policies. We also periodically revise the key assumptions used in the calculation of the amortization of DAC and DSI which results in revisions to the estimated future gross profits. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

Deferred costs related to interest sensitive investment-type policies, with significant revenue streams from sources other than investment of the policyholder funds, are amortized over the lives of the policies, in relation to the present value of gross profits including investment spread margins, surrender charge income, policy administration, changes in the guaranteed lifetime withdrawal benefit (GLWB) and guaranteed minimum death benefit (GMDB) reserves, and realized gains and losses on investments. Current period gross profits for fixed indexed annuities also include the impacts of the change in fair value of the embedded derivatives and the change in fair value of the derivative instruments purchased to economically hedge the indexed liabilities. Estimates of the future gross profits are based on assumptions using accepted actuarial methods. The balances associated with the preceding amortization methodology are recorded in deferred acquisition costs and deferred sales inducements on the balance sheets.

Deferred costs related to contracts with only investment related sources of revenues are amortized using the interest method. The interest method amortizes the deferred costs by discounting the future liability cash flows at a break-even rate. The break-even rate is solved such that the present value of future liability cash flows is equal to the net liability at the inception of the contract. The balances associated with this amortization methodology are recorded in deferred acquisition costs and deferred sales inducements on the balance sheets.

Reinsurance Intangibles - For block reinsurance transactions, the difference between the fair value of assets and the sum of the reserves reinsured, other liabilities reinsured, and ceding commission payable or receivable is deferred and recognized on a product-by-product basis

either as an unearned revenue reserve (URR) or DAC. In this context, the URR may also be referred to as the day one gain on reinsurance and DAC as the day one loss on reinsurance. Day one losses are included in deferred acquisition costs and deferred sales inducements and day one gains are included in interest sensitive contract liabilities on the balance sheets. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we record a cumulative charge to the current period. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process for the interest sensitive policies. We also periodically revise the key assumptions used in the calculation of the amortization of reinsurance intangibles which results in revisions to the estimated future gross profits. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

Day one gains and losses related to interest sensitive investment-type policies, with significant revenue streams from sources other than investment of the policyholder funds, are amortized over the lives of the policies, in relation to the present value of gross profits including investment spread margins, surrender charge income, policy administration, changes in the guaranteed lifetime withdrawal benefit (GLWB) and guaranteed minimum death benefit (GMDB) reserves, and realized gains and losses on investments. Current period gross profits for fixed indexed annuities also include the impacts of the change in fair value of the embedded derivatives and the change in fair value of the derivative instruments purchased to economically hedge the indexed liabilities. Estimates of the future gross profits are based on assumptions using accepted actuarial methods. If we project a negative future gross profit, the day one gain or loss is amortized proportional to the change in the present value of account value over the lives of the policies.

See *Note 8 - Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles* for further discussion.

Interest Sensitive Contract Liabilities—Interest sensitive investment-type contracts include fixed indexed and traditional fixed annuities in the accumulation phase, funding agreements, and immediate annuities without significant mortality risk. We carry liabilities for fixed annuities, and funding agreements at the account balances without reduction for potential surrender or withdrawal charges. Liabilities for immediate annuities without significant mortality risk are calculated as a present value of future liability cash flows at contractual interest rates.

Changes in the interest sensitive contract liabilities are recorded in interest sensitive contract benefits or product charges on the statements of income and (loss).

Future Policy Benefits—We reinsure contracts classified as long-duration, and deferred and immediate annuities with life contingencies. Liabilities for long-duration contracts are established using accepted actuarial valuation methods which require the use of assumptions related to expenses, investment yields, mortality, morbidity, and persistency, with a provision for adverse deviation, at the date of issue or acquisition. The reserve investment yield assumptions are specific to our expected earned rate on the asset portfolio supporting the reserves. We base other key assumptions, such as mortality and morbidity, on industry standard data adjusted to align with actual company experience, if necessary.

For long-duration contracts, the assumptions are locked in at contract inception and only modified if we deem the reserves to be inadequate. We periodically review actual and anticipated experience compared to the assumptions used to establish policy benefits. If the net GAAP liability (gross reserves less DAC and DSI) is less than the gross premium liability, then the impairment is deemed to have occurred. Accordingly, the DAC and DSI asset balances are reduced until the net GAAP liability is equal to the gross premium liability. For deferred annuity policies classified as insurance contracts, if the DAC and DSI asset balances are completely written off and the net GAAP liability is still less than the gross premium liability, then an additional liability is posted to arrive at the gross premium liability.

We reinsure deferred annuity contracts which contain GLWB and GMDB riders. We establish future policy benefits for GLWB and GMDB by estimating the expected value of withdrawal and death benefits in excess of the projected account balance. We recognize the excess proportionally over the accumulation period based on total expected assessments. The methods we use to estimate the liabilities have assumptions about policyholder behavior, mortality, and market conditions affecting the account balance growth.

Changes in future policy benefits are recorded in future policy and other policy benefits on the statements of income and (loss).

Other Policy Claims and Benefits—Other policy claims and benefits include amounts payable relating to in course of settlements (ICOS) liabilities associated with interest sensitive contract liabilities and future policy benefits. For immediate annuities and supplemental contracts, ICOS claim liabilities are established to accrue suspended benefit payments between the date of notification of death and the date of verification of death.

Recognition of Revenues and Related Expenses—Revenues for annuities, including surrender and market value adjustments, costs of insurance, policy administration, GMDB, and GLWB, are earned when assessed against policyholder account balances during the period. Interest sensitive contract benefits related to annuity products include interest credited to policyholder account balances. In addition, the change in fair value of embedded derivatives within fixed indexed annuity contracts is included in interest sensitive contract benefits on the statements of income and (loss).

For certain assumed reinsurance transactions involving in force blocks of business, the ceding company may pay a premium equal to the initial required reserve (future policy benefit). In such transactions, we net the expense associated with the establishment of the reserve against the premiums from the transaction in interest sensitive contract benefits on the statements of income and (loss).

Premiums for traditional life insurance products, including products with fixed and guaranteed premiums and benefits, are recognized as revenues when due from policyholders.

Recently Adopted Accounting Pronouncements

Fair Value Measurement – Net Asset Value (ASU 2015-07)
This update has a disclosure-only impact for entities that measure investments using net asset value per share (NAV) under the practical expedient in the fair value measurement guidance. We adopted this standard effective January 1, 2016, and have removed investments that are measured at NAV as a practical expedient from the fair value hierarchy in all periods presented in the notes to the financial statements.

Cloud Computing Arrangements (ASU 2015-05)
This update clarifies whether a cloud computing arrangement is an intangible asset or a service contract. We adopted this standard effective January 1, 2016, and the adoption of this update did not have a material effect on our financial statements.

Recently Issued Accounting Pronouncements

Gains and Losses from the Derecognition of Nonfinancial Assets (ASU 2017-05)
The amendments in this update clarify the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets. We will be required to adopt this standard on a retrospective or modified retrospective basis effective January 1, 2018. Early adoption is permitted. We are currently evaluating the impact of this guidance on our financial statements.

Business Combinations - Clarifying the Definition of a Business (ASU 2017-01)
The amendments in this update clarify the definition of a business with the objective of assisting entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. We will be required to adopt this standard effective January 1, 2018. We are currently evaluating the impact of this guidance on our financial statements.

Statement of Cash Flows - Restricted Cash (ASU 2016-18)
This update requires amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statements of cash flows. We will be required to adopt this standard retrospectively for each period presented effective January 1, 2018. Early adoption is permitted. The adoption of this update will require us to change the presentation on the statements of cash flows for restricted cash or restricted cash equivalents; however, we do not expect the adoption of this update to have a material effect on our financial statements.

Consolidation – Interest Held through Related Parties under Common Control (ASU 2016-17)
This update amends the consolidation guidance to change how indirect interests in VIEs are evaluated by a reporting entity when determining whether or not it is the primary beneficiary of that VIE. The primary beneficiary of a VIE is the reporting entity that has a controlling financial interest in a VIE and, therefore, consolidates the VIE. A reporting entity has an indirect interest in a VIE if it has a direct interest in a related party that, in turn, has a direct interest in the VIE. Currently, if a single decision maker and its related parties are under common control, the single decision maker is required to consider indirect interests held through related parties to be the equivalent of direct interests in their entirety. The amendments change the evaluation of indirect interests to be considered on a proportionate basis. We will be required to adopt this standard retrospectively for each period presented effective January 1, 2017. We do not expect the adoption of this update to have a material effect on our financial statements.

Statement of Cash Flows (ASU 2016-15)
This update provides specific guidance to clarify how entities should classify certain cash receipts and cash payments on the statement of cash flows. The update also clarifies the application of the predominance principle when cash receipts and cash payments have aspects of more than one class of cash flows. We will be required to adopt this standard effective January 1, 2018. We do not expect the adoption of this update to have a material effect on our financial statements.

Financial Instruments – Credit Losses (ASU 2016-13)
This update is designed to reduce complexity by limiting the number of credit impairment models used for different assets. The model will result in accelerated credit loss recognition on assets held at amortized cost, which includes our commercial and residential mortgage investments held through our funds withheld and modco reinsurance agreements. The identification of credit-deteriorated securities will include all assets that have experienced a more-than-insignificant deterioration in credit since origination. Additionally, any changes in the expected cash flows of credit-deteriorated securities will be recognized immediately in the income statement. Available-for-sale fixed maturity securities are not in scope of the new credit loss model, but will undergo targeted improvements to the current reporting model including the establishment of a valuation allowance for credit losses versus the current direct write down approach. We will be required to adopt this standard effective January 1, 2020. Early adoption is permitted effective January 1, 2019. We are currently evaluating the impact of this guidance on our financial statements.

Revenue Recognition (ASU 2016-12, ASU 2016-11, ASU 2016-10, ASU 2016-08, ASU 2015-14, and ASU 2014-09)
ASU 2014-09 indicates an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 provided for a one-year deferral of the effective date, which will require us to adopt this standard effective January 1, 2018. ASU 2016-08 amends the principal-

versus-agent implementation guidance and illustrations in ASU 2014-09. ASU 2016-10 clarifies the identification of performance obligations as well as licensing implementation guida nce. ASU 2016-11 brings existing SEC guidance into conformity with revenue recognition accounting guidance of ASU 2014-09 discussed above. ASU 2016-12 provides clarification on assessing collectability, presentation of sales tax, non-cash consideration, and transition. ASU 2016-20 addresses necessary technical corrections and improvements to clarify codification amended by ASU 2014-09 within Topic 606. The revenue recognition updates replace all general and most industry-specific revenue recognition guidance, excluding insurance contracts, leases, financial instruments and guarantees, which have been scoped out of the update. Since the guidance does not apply to revenue on contracts accounted for under the financial instruments or insurance contracts standards, only a portion of our revenues are impacted by this guidance. Our evaluation process includes, but is not limited to, identifying contracts within the scope of the guidance, reviewing and documenting our accounting for these contracts, and identifying and determining the accounting for any related contract costs.

Equity Method and Joint Ventures (ASU 2016-07)
This update eliminates the retroactive adjustments to an investment upon it qualifying for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence by the investor. We will be required to adopt this standard effective January 1, 2017. We do not expect the adoption of this update to have a material effect on our financial statements.

Derivatives and Hedging – Contingent Put and Call Options (ASU 2016-06)
This update is intended to clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to debt hosts. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We do not expect the adoption of this update to have a material effect on our financial statements.

Derivatives and Hedging – Effects of Derivative Contract Novation (ASU 2016-05)
This update is intended to clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require a de-designation of that hedging relationship provided all other hedge accounting criteria continue to be met. We will be required to adopt this standard effective January 1, 2017. We do not expect the adoption of this update to have a material effect on our financial statements.

Leases (ASU 2016-02)
This update is intended to increase transparency and comparability for lease transactions. A lessee is required to recognize an asset and a liability for all lease arrangements longer than 12 months. Lessor accounting is largely unchanged. We will be required to adopt this standard effective January 1, 2019. Early adoption is permitted. We are currently evaluating the impact of this guidance on our financial statements.

Financial Instruments – Recognition and Measurement (ASU 2016-01)
This update retains the current accounting for classifying and measuring investments in debt securities and loans, but requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. We will be required to adopt this standard effective January 1, 2018. We are currently evaluating the impact of this guidance on our financial statements.

2. Investments

Available-for-sale securities - The following table represents our AFS investments by asset type. Our AFS investment portfolio includes direct investments in affiliates of Apollo where Apollo can exercise significant influence over the affiliates.

	December 31, 2016				
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 3	$ —	$ —	$ 3	$ —
U.S. State, municipals, and political subdivisions	46	6	—	52	—
Corporate	1,448	20	(18)	1,450	—
CLO	736	1	(16)	721	—
ABS	321	2	(9)	314	—
CMBS	46	—	(2)	44	—
RMBS	1,201	28	(13)	1,216	3
Total AFS securities	$ 3,801	$ 57	$ (58)	$ 3,800	$ 3

	December 31, 2015				
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 4	$ 1	$ —	$ 5	$ —
U.S. State, municipals, and political subdivisions	44	8	—	52	—
Corporate	955	15	(17)	953	—
CLO	670	—	(59)	611	—
ABS	256	1	(7)	250	—
CMBS	39	—	(1)	38	—
RMBS	1,052	9	(27)	1,034	3
Total AFS securities	$ 3,020	$ 34	$ (111)	$ 2,943	$ 3

	December 31, 2014				
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	$ 6	$ 1	$ —	$ 7	$ —
U.S. State, municipals, and political subdivisions	54	10	—	64	—
Corporate	259	9	(1)	267	—
CLO	367	2	(12)	357	—
ABS	58	—	—	58	—
RMBS	319	11	(3)	327	—
Total AFS securities	$ 1,063	$ 33	$ (16)	$ 1,080	$ —

The amortized cost and fair value of fixed maturity AFS securities, including related party fixed maturity AFS securities, are shown by contractual maturity below. Actual maturities can differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In millions)	December 31, 2016 Amortized Cost	December 31, 2016 Fair Value
Fixed maturity securities		
Due in one year or less	$ 62	$ 62
Due after one year through five years	281	283
Due after five year through ten years	748	751
Due after ten years	405	408
ABS, CLO, CMBS and RMBS	2,305	2,296
Total fixed maturity securities	$ 3,801	$ 3,800

(In millions)	December 31, 2015 Amortized Cost	December 31, 2015 Fair Value
Fixed maturity securities		
Due in one year or less	$ 81	$ 82
Due after one year through five years	219	218
Due after five year through ten years	450	451
Due after ten years	253	258
ABS, CLO, CMBS and RMBS	2,017	1,934
Total fixed maturity securities	$ 3,020	$ 2,943

(In millions)	December 31, 2014 Amortized Cost	December 31, 2014 Fair Value
Fixed maturity securities		
Due in one year or less	$ 7	$ 7
Due after one year through five years	112	114
Due after five year through ten years	101	104
Due after ten years	99	113
ABS, CLO, CMBS and RMBS	744	742
Total fixed maturity securities	$ 1,063	$ 1,080

Unrealized Losses on AFS Securities-The following summarizes the fair value and gross unrealized losses for AFS securities, including related party AFS securities, aggregated by class of security and length of time the fair value has remained below amortized cost:

	December 31, 2016					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. State, municipals, and political subdivisions	$ 2	$ —	$ —	$ —	$ 2	$ —
Corporate	575	(17)	23	(1)	598	(18)
CLO	93	(1)	457	(15)	550	(16)
ABS	108	(2)	87	(7)	195	(9)
CMBS	37	(2)	—	—	37	(2)
RMBS	240	(3)	253	(10)	493	(13)
Total AFS securities	$ 1,055	$ (25)	$ 820	$ (33)	$ 1,875	$ (58)

	December 31, 2015					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. State, municipals, and political subdivisions	$ 3	$ —	$ —	$ —	$ 3	$ —
Corporate	379	(15)	14	(2)	393	(17)
CLO	528	(49)	52	(10)	580	(59)
ABS	198	(7)	—	—	198	(7)
CMBS	11	(1)	—	—	11	(1)
RMBS	723	(21)	103	(6)	826	(27)
Total AFS securities	$ 1,842	$ (93)	$ 169	$ (18)	$ 2,011	$ (111)

	December 31, 2014					
	Less than 12 months		12 months or greater		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. State, municipals, and political subdivisions	$ 10	$ —	$ 1	$ —	$ 11	$ —
Corporate	33	—	21	(1)	54	(1)
CLO	292	(12)	17	(1)	309	(13)
ABS	32	—	—	—	32	—
RMBS	100	(1)	18	(2)	118	(3)
Total AFS securities	$ 467	$ (13)	$ 57	$ (4)	$ 524	$ (17)

At December 31, 2016, we held 331 AFS securities that were in an unrealized loss position. Of this total, 124 were in an unrealized loss position longer than 12 months. We did not recognize the unrealized losses in income as we intend to hold these securities and it not more likely than not we will be required to sell a security before the recovery of its amortized cost.

Other-Than-Temporary Impairments on AFS Securities-For the year ended December 31, 2016, on total AFS securities, including related party investments, of $3,800 million, we incurred less than $1 million of net OTTI losses. These securities were impaired to fair value as of the impairment date.

The following table represents a rollforward of the cumulative amounts recognized on the statements of income for OTTI related to pre-tax credit loss impairments on AFS fixed maturity securities, for which a portion of the securities' total OTTI was recognized in AOCI:

	December 31,		
(In millions)	2016	2015	2014
Beginning balance	$ 1	$ —	$ —
Initial impairments – credit loss OTTI recognized on securities not previously impaired	—	1	—
Ending balance	$ 1	$ 1	$ —

Net Investment Income - Net investment income by asset type consists of the following:

	December 31,		
(In millions)	2016	2015	2014
Fixed maturity securities	$ 192	$ 107	$ 40
Trading securities	27	7	—
Investment funds	(3)	21	46
Cash and cash equivalents	—	—	4
Funds withheld at interest[1]			
Investment income	2,201	2,043	2,014
Investment related gains (losses)	1,184	(1,620)	1,763
Investment expenses	(112)	(98)	(85)
Gross realized gain on AFS securities	13	7	6
Gross realized loss on AFS securities	(11)	(17)	(3)
Derivative gains (losses)	—	2	—
Other losses	1	—	4
Net investment income	$ 3,492	$ 452	$ 3,789

[1] *The total income related to funds withheld at interest is comprised of the total return, including (1) investment income which is comprised of book income on the underlying securities, and (2) investment related gains (losses) which is comprised of realized gains (losses), mark-to-market impacts (change in unrealized gains or losses), and total return on derivatives. The portion related to mark-to-market was a gain (loss) of $882 million, $(1,415) million and $1,013 million for years ended December 31, 2016, 2015 and 2014, respectively.*

Included in net investment income on trading securities are losses of $5 million, losses of $1 million, and losses of $3 million resulting from the change in unrealized gains or losses for the underlying bonds we still held as of December 31, 2016, 2015, and 2014, respectively. Also included in net investment income on trading securities are related party losses of $0 million, losses of $8 million, and losses of $2 million resulting from the change in unrealized gains or losses for the underlying bonds we still held as of December 31, 2016, 2015, and 2014, respectively.

Credit Quality

The Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC) is responsible for the credit quality assessment and valuation of securities owned by state regulated insurance companies. Insurance companies report ownership of securities to the SVO when such securities are eligible for filing on the relevant schedule of the NAIC Financial Statement Blank. The SVO conducts credit analysis on these securities for the purpose of assigning an NAIC designation and/or unit price. Typically, if a security has been rated by a Nationally Recognized Statistical Rating Organization (NRSRO), the SVO utilizes that rating and assigns an NAIC designation based upon the following system:

NAIC designation	NRSRO equivalent rating
1	AAA/AA/A
2	BBB
3	BB
4	B
5	CCC
6	CC and lower

The SVO's loan-backed and structured securities ("LBaSS") methodology is focused on determining the risk associated with the recovery of the amortized cost of each security. In contrast, the NRSRO ratings methodology is focused on the likelihood of recovery of all contractual payments, including principal at par regardless of entry price. The NRSRO rating assumes that the holder is the original purchaser at par whereas the modeled and non-modeled LBaSS ratings are focused on the recovery of current amortized cost. As the NAIC ratings methodology considers our investment and amortized cost, and the likelihood of recovery of that book value as opposed to the likelihood of default of the security, we view the NAIC ratings methodology as the most appropriate way to view our fixed maturity portfolio from a ratings perspective since a large portion of our holdings were purchased at a significant discount to par.

Specific to LBaSS, the SVO has developed a ratings process and provides instruction on both modeled and non-modeled LBaSS. The modeled LBaSS process is specific to the RMBS and CMBS asset classes. In order to establish ratings at the individual security level, the SVO obtains loan-level analysis of each RMBS and CMBS using a selected vendor's proprietary financial model. The SVO ensures that the vendor has extensive internal quality-control processes in place and the SVO conducts its own quality-control checks of the selected vendor's valuation process. The NAIC retained the services of Pacific Investment Management Co.'s advisory services ("PIMCO Advisory") to model non-agency RMBS owned by U.S. insurers in 2014. The SVO switched from PIMCO Advisory to Blackrock, Inc. ("Blackrock") for non-agency RMBS in 2015. For CMBS, the SVO has retained the services of Blackrock for all years presented. PIMCO Advisory and Blackrock, specific to the periods referred to above (the "selected vendors"), provide five prices ("breakpoints" based on each U.S. insurer's statutory book value price) to utilize in determining the NAIC designation for each modeled LBaSS. For non-modeled LBaSS (ABS and CLOs) with the initial rating of NAIC 1 or NAIC 6, the rating remains the same through the life of the security. For non-modeled LBaSS with the initial rating of NAIC 2 through NAIC 5, the selected vendors are not utilized and the NAIC designations are set using a standardized table of breakpoints provided by the SVO for application to the insurer's statutory book value price. The NAIC designation determines the associated level of RBC that an insurer is required to hold for modeled LBaSS owned

A summary of our AFS fixed maturity securities by NAIC designation is as follows (dollars in millions):

(In millions)	December 31, 2016		
	Amortized Cost	Fair Value	Percent of Total
NAIC Designation			
1	$ 2,196	$ 2,209	58%
2	1,205	1,191	31%
Total investment grade	3,401	3,400	89%
3	342	344	10%
4	57	56	1%
5	—	—	—%
6	1	—	—%
Total below investment grade	400	400	11%
Total	$ 3,801	$ 3,800	100%

(In millions)	December 31, 2015		
	Amortized Cost	Fair Value	Percent of Total
NAIC Designation			
1	$ 1,937	$ 1,912	65%
2	818	778	26%
Total investment grade	2,755	2,690	91%
3	256	245	9%
4	8	8	—%
5	—	—	—%
6	1	—	—%
Total below investment grade	265	253	9%
Total	$ 3,020	$ 2,943	100%

	December 31, 2014		
(In millions)	Amortized Cost	Fair Value	Percent of Total
NAIC Designation			
1	$ 811	$ 827	77%
2	200	202	19%
Total investment grade	1,011	1,029	96%
3	47	46	4%
4	2	2	—%
5	3	3	—%
6	—	—	—%
Total below investment grade	52	51	4%
Total	$ 1,063	$ 1,080	100%

Substantially all of the fixed maturity portfolio, 89%, 91% and 96% as of December 31, 2016, 2015 and 2014 respectively was invested in investment grade assets with a NAIC rating of 1 or 2.

A summary of our AFS fixed maturity securities by NRSRO ratings is set forth below (dollars in millions):

	December 31, 2016		December 31, 2015		December 31, 2014	
(In millions)	Fair Value	Percent of Total	Fair Value	Percent of Total	Fair Value	Percent of Total
AAA/AA/A	$ 950	25%	$ 758	26%	$ 359	33%
BBB	1,203	32%	940	32%	299	28%
Non-Rated[1]	510	13%	287	10%	5	—%
Total Investment grade	2,663	70%	1,985	68%	663	61%
BB	331	9%	225	8%	153	14%
B	82	2%	38	1%	33	3%
CCC	221	6%	210	7%	103	10%
CC and lower	486	13%	417	14%	128	12%
Non-Rated[1]	17	—%	68	2%	—	—%
Total below investment grade	1,137	30%	958	32%	417	39%
Total fixed maturity securities	$ 3,800	100%	$ 2,943	100%	$ 1,080	100%

[1]Securities denoted as non-rated by the NRSRO were classified as investment or non-investment grade according to the security's respective NAIC rating. The percentage of investment grade securities under NRSRO ratings is lower than under NAIC ratings due to NRSRO ratings not factoring in the Company specific price point of carrying value on structured securities, whereas NAIC ratings factor this in as previously described.

Consistent with the NAIC Process and Procedures Manual, an NRSRO rating was assigned based on the following criteria: (a) the equivalent S&P rating where the security is rated by one NRSRO; (b) the equivalent S&P rating of the lowest NRSRO when the security is rated by two NRSROs; and (c) the equivalent S&P rating of the second lowest NRSRO if the security is rated by three or more NRSROs. If the lowest two NRSRO ratings are equal, then such rating will be the assigned rating. NRSRO ratings available for the periods presented were S&P, Fitch, Moody's Investor Service ("Moody's"), DBRS, and Kroll Bond Rating Agency, Inc. ("KBRA").

The portion of our AFS fixed maturity portfolio that was considered below investment grade based on NRSRO ratings decreased to 30% from 32% and 39% as of December 31, 2016, 2015 and 2014, respectively. The primary driver of the difference in the ratio of securities considered below investment grade by NRSROs as compared to the securities considered below investment grade by the NAIC relates to the difference in ratings methodologies between the NRSRO and NAIC for RMBS due to investments acquired at a discount to par value, as discussed above. The primary driver of the change in the percentage of NRSRO below investment grade securities and the change in NAIC below investment grade securities is driven by the reinvestment activity and volatile economic environment in 2016.

Purchased Credit Impaired (PCI) Securities - The following table summarizes our PCI securities, which are included in AFS fixed maturity securities:

	December 31,		
(In millions)	2016	2015	2014
Contractually required principal and interest[1]	$ 1,312	$ 1,092	$ 325
Less: Cash flows expected to be collected[2]	(866)	(704)	(237)
Non-accretable difference	$ 446	$ 388	$ 88
Cash flows expected to be collected	$ 866	$ 704	$ 237
Less: Amortized cost	(664)	(533)	(180)
Accretable difference	$ 202	$ 171	$ 57
Fair value	$ 677	$ 523	183

[1] *Includes principal and accrued interest.*
[2] *Represents the acquisition date undiscounted principal and interest cash flows expected.*

We acquired PCI investments with the following amounts at the time of purchase:

	Years ended December 31,		
(In millions)	2016	2015	2014
Contractually required principal and interest	$ 419	$ 622	$ 219
Expected cash flows	266	385	154
Estimated fair value	193	279	120

The following table summarize the activity for the accretable yield on PCI securities:

	Years ended December 31,		
(In millions)	2016	2015	2014
Balance at beginning of year	$ 171	$ 57	$ 42
Purchases of PCI securities, net	56	99	38
Accretion	(11)	(7)	5
Changes in expected cash flows	(14)	22	(28)
Balance at end of year	$ 202	$ 171	$ 57

3. Derivative Instruments

We use a variety of derivative instruments to manage equity risk, interest rate risk, credit risk, foreign currency risk, and market volatility. See *Note 1 - Business, Basis of Presentation, and Significant Accounting Policies* for a description of our accounting policies for derivatives and *Note 5 - Fair Value* for information about the fair value hierarchy for derivatives.

The following table presents the notional amount and fair value of derivative instruments:

	December 31, 2016		
		Fair Value	
(In millions)	Notional Amount	Assets	Liabilities
Foreign currency forwards	$ 61	$ 1	$ —
Embedded derivatives			
Funds withheld	—	1,806	—
Interest sensitive contract liabilities	—	—	4,285
Total derivatives	$ 61	$ 1,807	$ 4,285

	December 31, 2015		
		Fair Value	
(In millions)	Notional Amount	Assets	Liabilities
Foreign currency forwards	$ 41	$ 1	$ —
Embedded derivatives			
Funds withheld	—	469	—
Interest sensitive contract liabilities	—	—	3,540
Total derivatives	$ 41	$ 470	$ 3,540

	December 31, 2014		
		Fair Value	
(In millions)	Notional Amount	Assets	Liabilities
Foreign currency forwards	$ 37	$ 1	$ —
Embedded derivatives			
Funds withheld	—	2,478	—
Interest sensitive contract liabilities	—	—	3,532
Total derivatives	$ 37	$ 2,479	$ 3,532

Derivatives are included in derivative assets or liabilities on the balance sheets, with the exception of embedded derivatives. Funds withheld and modco embedded derivatives are included in funds withheld at interest on the balance sheets. Indexed annuity products embedded derivatives are included in interest sensitive contract liabilities on the balance sheets. None of our derivatives are designated as hedges.

Foreign currency forwards - We use foreign currency forward contracts to hedge certain invested assets against movement in foreign currency. The price is agreed upon at the time of the contract and payment is made at a specified future date.

Embedded derivatives - We have embedded derivatives which are required to be separated from their host contracts and reported as derivatives. Host contracts include reinsurance agreements structured on a modco or funds withheld basis and indexed annuity products. Included in net investment income is the total return of the funds withheld embedded derivatives.

Credit Risk - We may be exposed to credit-related losses in the event of counterparty nonperformance on derivative financial instruments. Generally, the current credit exposure of our derivative contracts is the fair value at the reporting date less any collateral received from the counterparty.

As of December 31, 2016, 2015, and 2014 we had no collateral pledged to counterparties in connection with derivative instruments.

4. Variable Interest Entities

Our investment funds generally meet the definition of a VIE, and in certain cases these investment funds are consolidated in our financial statements because we meet the criteria of the primary beneficiary.

Consolidated VIEs - Our consolidated VIEs were fully liquidated as at December 31, 2014 and we did not consolidate any VIEs for the years ended December 31, 2015 and 2016.

On September 29, 2011, ALRe formed Highland Re Ltd (HRL). HRL was a Bermuda special purpose insurer and a direct subsidiary of ALRe. HRL issued voting Common Shares, 100% owned by ALRe, and one non-voting preferred share, 100% owned by a third party, in order to capitalize HRL. On December 16, 2011 ALRe entered into two non-proportional reinsurance agreements with HRL to cede claims risk associated with an affiliate reinsurance deal. ALRe’s interest in HRL represents an interest in a VIE under current authoritative guidance. The Company has determined that it is the primary beneficiary as it satisfies both the power and benefits criteria in that guidance. Accordingly, HRL is consolidated in the financial statements of the Company at December 31, 2013. The preferred share buyer was entitled to request redemption of all or fractional portions of the preferred share under certain conditions during the term of the note. The note was repaid during 2014 and HRL was dissolved in the fourth quarter of 2014.

On November 10, 2010, 2011 A4 Fund, L.P. was formed to purchase commercial mortgage-backed securities in a leveraged structure for the benefit of the limited partners and met the definition of a VIE. The 2011 A4 Fund, L.P. ("A4 Fund") entered into a repurchase agreement with Wells Fargo Bank, N.A. Under this agreement, the A4 Fund could borrow up to $800 million to finance the acquisition of CMBS originally AAA rated. The facility had a three-year term, with two one-year extensions available at the A4 Fund's option with the payment of a 25 basis point extension fee on the outstanding balance of the facility. The A4 Fund was fully liquidated during 2014. As a result, there was income statement activity related to consolidated variable interest entities for the year ended December 31, 2014.

Non-consolidated VIEs - We invest in other entities meeting the definition of a VIE. We do not consolidate these investments because we do not meet the criteria of primary beneficiary as described below.

Fixed Maturity Securities - We invest in securitization entities as a debt holder or an investor in the residual interest of the securitization vehicle, which are included in fixed maturity securities on the balance sheets. These entities are deemed VIEs due to insufficient equity within the structure and lack of control by the equity investors over the activities that significantly impact the economics of the entity. In general, we are a debt investor within these entities and, as such, hold a variable interest; however, due to the debt holders' lack of ability to control the decisions within the trust that significantly impact the entity, and the fact the debt holders are protected from losses due to the subordination by the equity tranche, the debt holders are not deemed the primary beneficiary. Securitization vehicles in which we hold the residual tranche are not consolidated because we do not unilaterally have substantive rights to remove the general partner, or when assessing related party interests, we are not under common control, as defined by GAAP, with the related party, nor are substantially all of the activities conducted on our behalf; therefore, we are not deemed to be the primary beneficiary. Debt investments and investments in the residual tranche of securitization entities are considered debt instruments and are held at fair value on the balance sheet and classified as AFS or trading.

Investment funds - Investment funds include non-fixed income, alternative investments in the form of limited partnerships or similar legal structures that meet the definition of VIEs.

A portion of these investment funds are sponsored and managed by unrelated parties in which we, as limited partner, do not have the power to direct the activities that most significantly impact the economic performance of the fund, nor do we unilaterally have substantive rights to remove the general partner or dissolve the entity without cause. As a result, we do not meet the power criterion to be considered the primary beneficiary and do not consolidate these VIEs in our financial statements.

We also have equity interests in investment funds where the general partner or investment manager is a related party. We have determined in accordance with GAAP we are not under common control with the related party, nor are we deemed to be the primary beneficiary. As a result, investments in these VIEs are not consolidated.

We account for non-consolidated investment funds where we are able to exercise significant influence over the entity under the equity method or by electing the fair value option, in which NAV is used as a practical expedient for fair value.

Income from investment funds is recorded in net investment income on the statements of income and (loss) and represents the change in fair value of investment fund, net of expenses.

The Company's investments in investment funds are generally passive in nature as we do not take an active role in the investment fund's management. Our risk of loss is limited and depends on the investment as follows: (1) investment funds accounted for under the equity method are limited to the Company’s initial investment plus unfunded commitments; (2) investment funds under the fair value option are limited to the fair value plus unfunded commitments; (3) available-for-sale securities and other investments are limited to amortized cost; and (4) trading securities are limited to carrying value.

The following summarizes the carrying value and maximum loss exposure of these non-consolidated VIEs:

	December 31, 2016	
(in millions)	Carrying Amount	Maximum Loss Exposure
Investment funds	$ 531	$ 578
Investment in fixed maturity securities	2,573	2,582
Total assets	$ 3,104	$ 3,160

	December 31, 2015	
(in millions)	Carrying Amount	Maximum Loss Exposure
Investment funds	$ 624	$ 647
Investment in fixed maturity securities	2,127	2,222
Total assets	$ 2,751	$ 2,869

	December 31, 2014	
(in millions)	Carrying Amount	Maximum Loss Exposure
Investment funds	$ 607	$ 628
Investment in fixed maturity securities	877	880
Total assets	$ 1,484	$ 1,508

The following summarizes the Company's investment funds, including related party investment funds and investment funds owned by consolidated VIEs:

	December 31, 2016		
(in millions)	Carrying Value	Percent of Total	Weighted Avg Life (WAL)
Investment funds			
Public equities	$ 133	25%	N/A
Private equity	73	14%	1-8
Private equity Apollo Alternative Assets (AAA)	136	26%	2-3
Hedge funds	20	4%	3-3
Credit funds	169	31%	1-2
Total investment funds	$ 531	100%	

	December 31, 2015		
(in millions)	Carrying Value	Percent of Total	Weighted Avg Life (WAL)
Investment funds			
Private equity	$ 84	13%	4-7
Mortgage and real assets	23	4%	3-4
Private equity Apollo Alternative Assets (AAA)	315	51%	1-4
Credit funds	202	32%	1-7
Total investment funds	$ 624	100%	

	December 31, 2014		
(in millions)	Carrying Value	Percent of Total	Weighted Avg Life (WAL)
Investment funds			
Private equity	$ 77	13%	5-8
Private equity Apollo Alternative Assets (AAA)	472	77%	2-5
Credit funds	58	10%	2-3
Total investment funds	$ 607	100%	

Summarized Financial Information of Investment Funds-The following is the aggregated summarized financial information of equity method investees and may be presented on a lag due to the availability of financial information from the investee:

	December 31,		
(in millions)	2016	2015	2014
Balance Sheets			
Assets	$ 2,130	$ 1,969	$ 4,214
Liabilities	4	3	940
Equity	2,126	1,966	3,274

(in millions)	December 31,		
Statements of Income	2016	2015	2014
Net income	$ 26	$ 27	$ 239

The following table presents the carrying value by ownership percentage of equity method investment funds, including related party investment funds and consolidated VIE investment funds:

	December 31,		
(in millions)	2016	2015	2014
Ownership Percentage			
100%	$ 26	$ 49	$ 48
50% – 99%	268	315	471
3% – 49%	237	260	88
Equity method investment funds	$ 531	$ 624	$ 607

5. Fair Value

Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. We determine fair value based on the following fair value hierarchy:

Level 1 - Unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 - Quoted prices for inactive markets or valuation techniques that require observable direct or indirect inputs for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets,
- Observable inputs other than quoted market prices, and
- Observable inputs derived principally from market data through correlation or other means.

Level 3 - Prices or valuation techniques with unobservable inputs significant to the overall fair value estimate. These valuations use critical assumptions not readily available to market participants. Level 3 valuations are based on market standard valuation methodologies, including discounted cash flows, matrix pricing, or other similar techniques.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the instrument's fair value measurement.

We use a number of valuation sources to determine fair values. Valuation sources can include quoted market prices; third-party commercial pricing services; third-party brokers; industry-standard, vendor modeling software that uses market observable inputs; and other internal modeling techniques based on projected cash flows. We periodically review the assumptions and inputs of third-party commercial pricing services through internal valuation price variance reviews, comparisons to internal pricing models, back testing to recent trades, or monitoring trading volumes.

The following represents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis:

	December 31, 2016			
(in millions)	Total	Level 1	Level 2	Level 3
Assets				
AFS fixed maturity securities				
U.S. government and agencies	$ 3	$ 3	$ —	$ —
U.S. State, municipals, and political subdivisions	51	—	51	—
Corporate	1,450	—	1,416	34
CLO	722	—	719	3
ABS	313	—	283	30
CMBS	45	—	45	—
RMBS	1,216	—	1,216	—
Total fixed maturity securities	3,800	3	3,730	67
Trading fixed maturity securities				
U.S. State, municipals, and political subdivisions	46	—	46	—
CLO	83	—	—	83
RMBS	194	—	156	38
Total trading fixed maturity securities	323	—	202	121
Short-term investments	26	—	26	—
Funds withheld at interest[1]	49,455	—	—	49,455
Derivative assets	1	—	1	—
Cash and cash equivalents	130	130	—	—
Restricted cash	11	11	—	—
Total assets measured at fair value	$ 53,746	$ 144	$ 3,959	$ 49,643
Liabilities				
Interest sensitive contract liabilities - embedded derivatives	$ 4,285	$ —	$ —	$ 4,285
Total liabilities measured at fair value	$ 4,285	$ —	$ —	$ 4,285

[1] Comprised of host contract and embedded derivative of $1,806 million. The carrying value is equal to the fair value for both the host and embedded derivative. See Note 6 - Funds Withheld at Interest for more detail.

	December 31, 2015			
(in millions)	Total	Level 1	Level 2	Level 3
Assets				
AFS fixed maturity securities				
U.S. government and agencies	$ 5	$ 5	$ —	$ —
U.S. State, municipals, and political subdivisions	52	—	52	—
Corporate	953	—	917	36
CLO	611	—	566	45
ABS	250	—	142	108
CMBS	38	—	38	—
RMBS	1,034	—	1,034	—
Total AFS fixed maturity securities	2,943	5	2,749	189
Trading fixed maturity securities				
U.S. State, municipals, and political subdivisions	45	—	45	—
CLO	72	—	—	72
RMBS	121	—	97	24
Total trading fixed maturity securities	238	—	142	96
Short-term investments	37	—	37	—
Funds withheld at interest[1]	43,879	—	—	43,879
Derivative assets	1	—	1	—
Cash and cash equivalents	253	253	—	—
Restricted cash	9	9	—	—
Total assets measured at fair value	$ 47,360	$ 267	$ 2,929	$ 44,164
Liabilities				
Interest sensitive contract liabilities - embedded derivatives	$ 3,540	$ —	$ —	$ 3,540
Total liabilities measured at fair value	$ 3,540	$ —	$ —	$ 3,540

[1] *Comprised of host contract and embedded derivative of $469 million. The carrying value is equal to the fair value for both the host and embedded derivative. See Note 6 - Funds Withheld at Interest for more detail.*

(in millions)	December 31, 2014 Total	Level 1	Level 2	Level 3
Assets				
AFS fixed maturity securities				
U.S. government and agencies	$ 7	$ 7	$ —	$ —
U.S. State, municipals, and political subdivisions	64	—	64	—
Corporate	267	—	267	—
CLO	357	—	346	11
ABS	58	—	54	4
RMBS	327	—	327	—
Total fixed maturity securities	1,080	7	1,058	15
Trading fixed maturity securities				
U.S. government and agencies	—	—		
U.S. State, municipals, and political subdivisions	47	—	47	—
CLO	112	—	—	112
RMBS	22	—	22	—
Total trading fixed maturity securities	181	—	69	112
Short-term investments	17	—	17	—
Funds withheld at interest[1]	45,329	—	—	45,329
Derivative assets	1	—	1	—
Cash and cash equivalents	313	313	—	—
Restricted cash	24	24	—	—
Total assets measured at fair value	$ 46,945	$ 344	$ 1,145	$ 45,456
Liabilities				
Interest sensitive contract liabilities - embedded derivatives	$ 3,532	$ —	$ —	$ 3,532
Total liabilities measured at fair value	$ 3,532	$ —	$ —	$ 3,532

[1] *Comprised of host contract and embedded derivative of $2,478 million. The carrying value is equal to the fair value for both the host and embedded derivative. See Note 6 - Funds Withheld at Interest for more detail.*

Fair Value Valuation Methods-We used the following valuation methods and assumptions to estimate fair value:

AFS and trading securities
Fixed maturity - We obtain the fair value for most marketable bonds without an active market from several commercial pricing services. These are classified as Level 2 assets. The pricing services incorporate a variety of market observable information in their valuation techniques, including benchmark yields, broker-dealer quotes, credit quality, issuer spreads, bids, offers, and other reference data. This category typically includes U.S. and non-U.S. corporate bonds, U.S. agency and government guaranteed securities, ABS, CMBS, and RMBS.

We value privately placed fixed maturity securities based on the credit quality and duration of comparable marketable securities, which may be securities of another issuer with similar characteristics. In some instances, we use a matrix-based pricing model. These models consider the current level of risk-free interest rates, corporate spreads, credit quality of the issuer, and cash flow characteristics of the security. We also consider additional factors such as net worth of the borrower, value of collateral, capital structure of the borrower, presence of guarantees, and our evaluation of the borrower's ability to compete in its relevant market. Privately placed fixed maturity securities are classified as Level 2 or 3.

Equity securities - Fair values of publicly traded equity securities are based on quoted market prices and classified as Level 1. Other equity securities, typically private equities or equity securities not traded on an exchange, we value based on other sources, such as analytics or brokers and are classified as Level 2 or 3.

Funds withheld (embedded derivative) - The fair value of funds withheld at interest is classified as Level 3 as a more than insignificant amount of the underlying assets are Level 3. See *Note 6 - Funds Withheld at Interest* for more information.

Derivatives - Derivative contracts can be exchange traded or over-the-counter. Exchange-traded derivatives typically fall within Level 1 of the fair value hierarchy depending on trading activity. Over-the-counter derivatives are valued using valuation models or an income approach using third-party broker valuations. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, and correlation of the inputs. We consider and incorporate counterparty credit risk in the

valuation process through counterparty credit rating requirements and monitoring of overall exposure. We also evaluate and include our own nonperformance risk in valuing derivatives. The majority of our derivatives trade in liquid markets; therefore, we can verify model inputs and model selection does not involve significant management judgment. These are typically classified within Level 2 of the fair value hierarchy.

Cash and cash equivalents - The carrying amount for cash equals fair value. We estimate the fair value for cash equivalents based on quoted market prices. These assets are classified as Level 1.

Interest sensitive contract liabilities (embedded derivative) - Embedded derivatives related to interest sensitive contract liabilities with fixed indexed annuity products are classified as Level 3. The valuations include significant unobservable inputs associated with actuarial assumptions for policyholder behavior.

Fair Value Option-The following represents the gains or losses recorded for instruments we have elected the fair value option:

	Twelve months ended December 31,		
(In millions)	2016	2015	2014
Trading securities	$ 19	$ (88)	$ (1)
Total (loss) on fair value option	$ 19	$ (88)	$ (1)

Transfers Between Levels-Transfers into Level 3 represent securities that were valued using pricing sources which, due to changing market conditions, were less observable than in prior periods as indicated by the lack of commercially available vendor prices with observable inputs. Additionally, changes in pricing sources also led to securities transferring into Level 3.

Transfers out of Level 3 represent securities that were valued using pricing sources which, due to changing market conditions, were more observable than in prior periods as indicated by commercially available vendor prices with observable inputs. Additionally, changes in pricing sources also led to securities transferring into Level 2.

For the years ended December 31, 2016, 2015, and 2014, there were no transfers between Level 1 and Level 2.

Level 3 Financial Instruments-The following is a reconciliation for all Level 3 assets and liabilities measured at fair value on a recurring basis:

	Year ended December 31, 2016									
		Total realized and unrealized gains (losses)								
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases	Sales, maturities, redemptions	Transfers In	Transfers (Out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Assets										
AFS Securities										
Corporate	$ 36	$ —	$ (1)	$ 1	$ (2)	$ —	$ —	$ —	$ 34	$ —
CLO	45	1	9	—	(6)	3	(49)	—	3	—
ABS	108	5	(1)	13	(52)	10	(53)	—	30	—
Trading securities										
CLO	72	(1)	—	33	(21)	—	—	—	83	9
RMBS	24	(10)	—	45	(6)	—	(15)	—	38	(5)
Funds withheld at interest	43,879	1,184	—	—	—	—	—	4,392	49,455	—
Total Level 3 assets	$ 44,164	$ 1,179	$ 7	$ 92	$ (87)	$ 13	$ (117)	$ 4,392	$ 49,643	$ 4
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	$ (3,540)	$ (244)	$ —	$ —	$ —	$ —	$ —	$ (501)	$ (4,285)	$ —
Total Level 3 liabilities	$ (3,540)	$ (244)	$ —	$ —	$ —	$ —	$ —	$ (501)	$ (4,285)	$ —

[1] *Related to instruments held at end of year.*

	Year ended December 31, 2015									
		Total realized and unrealized gains (losses)								
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases	Sales, maturities, redemptions	Transfers In	Transfers (Out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Assets										
AFS securities										
Corporate	$ —	$ —	$ —	$ 37	$ (1)	$ —	$ —	$ —	$ 36	$ —
CLO	11	—	(1)	—	—	45	(10)	—	45	—
ABS	4	—	—	54	(6)	56	—	—	108	—
Trading securities										
CLO	112	(2)	1	55	(94)	—	—	—	72	(9)
RMBS	—	(1)	—	25	—	—	—	—	24	—
Funds withheld at interest	45,329	(1,620)	—	—	—	—	—	170	43,879	—
Total Level 3 assets	$ 45,456	$ (1,623)	$ —	$ 171	$ (101)	$ 101	$ (10)	$ 170	$ 44,164	$ (9)
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	$ (3,532)	$ 226	$ —	$ —	$ —	$ —	$ —	$ (234)	$ (3,540)	$ —
Total Level 3 liabilities	$ (3,532)	$ 226	$ —	$ —	$ —	$ —	$ —	$ (234)	$ (3,540)	$ —

[1] *Related to instruments held at end of year.*

	Year ended December 31, 2014									
		Total realized and unrealized gains (losses)								
(In millions)	Beginning Balance	Included in income	Included in OCI	Purchases	Sales, maturities, redemptions	Transfers In	Transfers (Out)	Other	Ending Balance	Total gains (losses) included in earnings[1]
Assets										
AFS securities										
CLO	$ —	$ —	$ —	$ —	$ —	$ 11	$ —	$ —	$ 11	$ —
ABS	5	—	—	3	(4)	—	—	—	4	—
Trading securities										
CLO	—	(2)	—	114	—	—	—	—	112	(2)
Funds withheld at interest	44,627	1,763	—	—	—	—	—	(1,061)	45,329	—
Total Level 3 assets	$ 44,632	$ 1,761	$ —	$ 117	$ (4)	$ 11	$ —	$ (1,061)	$ 45,456	$ (2)
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	$ (2,587)	$ (699)	$ —	$ —	$ —	$ —	$ —	$ (246)	$ (3,532)	$ —
Total Level 3 liabilities	$ (2,587)	$ (699)	$ —	$ —	$ —	$ —	$ —	$ (246)	$ (3,532)	$ —

[1] *Related to instruments held at end of year.*

Significant Unobservable Inputs-Significant unobservable inputs occur when we could not obtain or corroborate the quantitative detail of the inputs. This applies to AFS fixed maturity securities. Additional significant unobservable inputs are described below.

Funds withheld at interest – For certain fixed maturity securities that support the funds withheld at interest, internal models are used to calculate the fair value. A discounted cash flow approach is utilized. The discount rate is the significant unobservable input due to the determined credit spread being internally developed, illiquid, or other adjustments made to the base rate. The base rate represents a market comparable rate for securities with similar characteristics. Discounts ranged from 4% to 8%. This excludes assets for which significant unobservable inputs are not developed internally, primarily consisting of broker quotes.

Interest sensitive contract liabilities - embedded derivative - Significant unobservable inputs we use in the fixed indexed annuities embedded derivative of the interest sensitive contract liabilities valuation include:

1. Non-performance risk - For funds withheld and modco contracts we reinsure with affiliated parties, we use the credit spread from the U.S. treasury curve based on our public credit rating as of the valuation date. This represents our credit risk for use in the estimate of the fair value of embedded derivatives. For non-affiliated contracts reinsured through funds withheld and modco reinsurance, the cedant company holds collateral against its exposure; therefore, immaterial non-performance risk is ascribed to these contracts.
2. Option budget - The Company assumes future hedge costs in the derivative's fair value estimate. The level of option budgets determines the future costs of the options and impacts future policyholder account value growth.
3. Policyholder behavior - We regularly review the lapse and withdrawal assumptions. These are based on the Company's initial pricing assumptions updated for actual experience. Actual Company experience may be limited for recently issued products.

	December 31, 2016				
(In millions)	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Fixed indexed annuities embedded derivatives	$ 4,285	Option budget method	Non-performance risk	0% - 1.5%	Decrease
			Option budget	0.8% - 3.8%	Increase
			Surrender rate	0% - 16.3%	Decrease

	December 31, 2015				
(In millions)	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Fixed indexed annuities embedded derivatives	$ 3,540	Option budget method	Non-performance risk	0% - 1.8%	Decrease
			Option budget	0.8% - 3.8%	Increase
			Surrender rate	0% - 10.7%	Decrease

	December 31, 2014				
(In millions)	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Fixed indexed annuities embedded derivatives	$ 3,532	Option budget method	Non-performance risk	0% - 2.1%	Decrease
			Option budget	0.9% - 3.9%	Increase
			Surrender rate	0% - 10.2%	Decrease

Fair Value of Financial Instruments Not Carried at Fair Value-The following represents the Company's financial instruments not carried at fair value on the balance sheets:

		December 31, 2016		December 31, 2015		December 31, 2014	
(In millions)	Fair Value Level	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets							
Investment funds	NAV[1]	$ 153	$ 153	$ 220	$ 220	$ 106	$ 106
Investment funds in related parties	NAV[1]	378	378	404	404	501	501
Total assets not carried at fair value		$ 531	$ 531	$ 624	$ 624	$ 607	$ 607
Liabilities							
Interest sensitive contract liabilities[2]	3	$ 23,134	$ 22,332	$ 19,737	$ 19,225	$ 19,662	$ 19,464
Total liabilities not carried at fair value		$ 23,134	$ 22,332	$ 19,737	$ 19,225	$ 19,662	$ 19,464

[1] Investments measured at NAV as a practical expedient in determining fair value have not been classified in the fair value hierarchy.
[2] During 2016, we changed the disclosure of interest sensitive contract liabilities to exclude insurance contracts, which are not required to be included. We determined contract types that meet the definition of insurance contracts include universal life and traditional fixed and fixed indexed annuities with significant mortality or morbidity risks. In previous periods, all contracts within interest sensitive contract liabilities not held at fair value were included. As such, the carrying and fair values reported for December 31, 2015, and 2014, were adjusted to be comparable.

We estimate the fair value for financial instruments not carried at fair value using the same methods and assumptions as those we do carry at fair value. The financial instruments presented above are reported at carrying value on the balance sheets; however, in the case of investment funds, investment funds in related parties and interest sensitive contract liabilities, the carrying amount approximates or equals fair value.

Investment funds in related parties - Other investments - The fair value of investment funds in related party - other investments is determined using a discounted cash flow model using discount rates for similar investments.

Interest sensitive contract liabilities - The carrying and fair value of interest sensitive contract liabilities above includes fixed indexed and traditional fixed annuities without mortality or morbidity risks, funding agreements, and payout annuities without life contingencies. The embedded derivatives within fixed indexed annuities without mortality or morbidity risks are excluded, as they are carried at fair value. The valuation of these investment contracts is based on discounted cash flow methodologies using significant unobservable inputs. The estimated fair value is determined using current market risk-free interest rates, adding a spread to reflect our nonperformance risk and subtracting a risk margin to reflect uncertainty inherent in the projected cash flows.

6. Funds Withheld at Interest

Funds withheld at interest represents the receivable for assets supporting funds withheld and modco reinsurance. These assets are held in trusts or custodial accounts that are legally segregated from our third party ceding companies' general accounts and are managed by Athene Asset Management (AAM), a related party to ALRe. In the event of a ceding company's insolvency, we would need to assert a claim on the assets supporting our reserve liabilities. However, we have the ability to offset amounts we owe to the ceding company, which reduces our risk of loss. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Company is subject to the investment performance and has all economic rights and obligations on the funds withheld assets in a fashion similar to invested assets held directly by the Company.

Information on the underlying assets within the funds withheld at interest is presented below.

	Assets Supporting Funds withheld at Interest		
(In millions)	December 31, 2016	December 31, 2015	December 31, 2014
Fixed maturity securities			
U.S. government and agencies	$ 8	$ 8	$ 15
U.S. state, municipal, and political subdivisions	1,067	894	1,219
Foreign governments	140	101	—
Corporate	19,909	17,178	19,848
CLOs	5,039	4,803	4,265
ABS	2,498	2,389	2,042
CMBS	1,861	1,674	2,867
RMBS	8,244	6,923	5,833
Equity securities	168	179	192
Mortgage loans	5,472	5,007	5,003
Investment funds	2,443	2,551	2,503
Policy loans	43	39	36
Derivatives	1,146	688	1,284
Short-term investments	196	114	—
Other investments	344	255	254
Cash and cash equivalents	587	1,068	525
Other assets and liabilities[1]	290	8	(557)
Funds Withheld at Interest	$ 49,455	$ 43,879	$ 45,329

[1] Other assets and liabilities includes the net of accrued investment income, open payable and receivable for security trades, excise tax payable, deposits and premiums receivable, claims and surrenders payable, and other assets and liabilities associated with the funds withheld and modco reinsurance treaties.

Approximately 92.3%, 94.2% and 93.5% of the fixed maturity securities within the funds withheld at interest are investment grade by NAIC designation as of December 31, 2016, 2015 and 2014, respectively.

7. Reinsurance

Third-party reinsurance

In January 2014, the Company reinsured a flow of multi-year guaranteed annuities of Midland National Life Insurance Company (Midland) and American Equity Investment Life Insurance ("AEL"), on a modified coinsurance basis.

Affiliated reinsurance

The Company continues to reinsure new business related to annuities and funding agreements from Athene Annuity and Life Company (IA) (AAIA) and Athene Annuity & Life Assurance Company (AADE).

8. Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles

Included within *Deferred Acquisition Costs and Deferred Sales Inducements* on the balance sheets of $2,392 million sheets are deferred acquisition costs (DAC) of $990 million, deferred sales inducements (DSI) of $382 million, and day one losses of $1,020 million. The day one losses are summarized separately within the reinsurance intangibles section below.

Deferred Acquisitions Costs and Deferred Sales Inducements

The following summarizes a rollforward of DAC and DSI:

(In millions)	DAC	DSI	Total
Balance at December 31, 2013	$ 201	$ 82	$ 283
Additions	232	91	323
Amortization	(46)	(15)	(61)
Balance at December 31, 2014	387	158	545
Additions	264	111	375
Amortization	15	8	23
Balance at December 31, 2015	666	277	943
Additions	472	158	630
Amortization	(148)	(53)	(201)
Balance at December 31, 2016	$ 990	$ 382	$ 1,372

We did not make any adjustments to DAC or DSI recoverability during the years ended December 31, 2016, 2015, or 2014.

Reinsurance Intangibles

For each block reinsurance transaction, the Company defers the net of the fair value of assets acquired and the sum of reserves acquired, other liabilities acquired, and ceding commission payable or receivable as DAC or unearned revenue reserve (URR) and referred as day one loss and day one gain, respectively.

The following summarizes the day one losses and day one gains included within *Deferred acquisition costs and deferred sales inducements* and *Interest sensitive contract liabilities* respectively on the balance sheets.

(In millions)	Day one gain	Day one loss	Total
Balance at December 31, 2013	$ 963	$ (1,425)	$ (462)
Amortization	(102)	423	321
Balance at December 31, 2014	861	(1,002)	(141)
Amortization	(96)	(83)	(179)
Balance at December 31, 2015	765	(1,085)	(320)
Additions	—	(51)	(51)
Amortization[1]	(102)	116	14
Balance at December 31, 2016	$ 663	$ (1,020)	$ (357)

[1] *2016 day one loss amortization includes $(103) million credit for an out of period adjustment that relates to 2015.*

9. Reserves

Included in *Interest sensitive contract liabilities* are day one gains as of December 31, 2016, December 31, 2015 and December 31, 2014. See *Note 8 - Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles* for a summary of day one gains and losses.

The following table summarizes the interest sensitive contract liability reserves by product:

	December 31,		
(in millions)	2016	2015	2014
Deferred annuities	$ 11,328	$ 8,857	$ 8,989
Fixed indexed annuities	33,672	30,891	30,685
Funding agreements	1,091	1,539	1,318
Single premium immediate annuities and supplemental contracts - non-life contingent	953	923	964
Total	$ 47,044	$ 42,210	$ 41,956

The following table summarizes the future policy benefit reserves by product:

	December 31,		
(in millions)	2016	2015	2014
Deferred annuities	$ 43	$ 23	$ 27
Fixed indexed annuities	1,134	603	624
Single premium immediate annuities and supplemental contracts - life contingent	2,957	3,056	3,162
Total	$ 4,134	$ 3,682	$ 3,813

10. Debt

Refer to *Note 4 - Variable Interest Entities* for disclosures regarding borrowings of the Company's consolidated VIEs.

Revolving Credit Facility—On September 20, 2013, AHL and ALRe entered into a three-year revolving credit agreement (Credit Facility) with Citibank, N.A., as administrative agent. Beginning in 2014, Athene USA was added as a borrower. The amount available under the Credit Facility was $500 million. In connection with the Credit Facility, AHL guaranteed all of the obligations of ALRe and Athene USA, ALRe guaranteed certain of the obligations of AHL and Athene USA, and Athene USA guaranteed the obligations of AHL and ALRe. The agreement contained various standard covenants with which we had to comply.

On January 22, 2016, AHL, Athene USA and ALRe terminated the Credit Facility and entered into a five-year revolving credit agreement with Citibank, N.A., as administrative agent. The amount available under the new Credit Facility is $1 billion, with AHL, ALRe, and Athene USA as joint and several borrowers and guarantors. Interest will accrue on outstanding borrowings at LIBOR plus a margin or a base rate plus a margin, based on the credit rating of AHL. The new Credit Facility has a commitment fee on the unused commitment, based on the credit rating of AHL. As of December 31, 2016, we had no amounts outstanding under the Credit Facility and were in compliance with all covenants.

11. Common Shares

The Company has one class of common stock, which represents 100% of the total voting power of the Company, and is beneficially owned by Athene Holding Ltd. (“AHL”). The Company is authorized to and has issued 1,500,000 shares at a par value of $1.00 each to AHL.

12. Stock-Based Compensation

AHL has adopted share incentive plans to issue non-qualified share options, rights to purchase shares, restricted shares, restricted stock units, and other awards which may be settled in, or based upon, AHL’s common shares. Through its incentive plans, AHL has issued the following three categories of stock-based compensation to the Company’s employees: long-term incentive plan (LTIP) awards, Class M awards and Class A awards. These awards have certain service and performance conditions. As a result, a portion of stock-based compensation expense incurred during the year is allocated to the Company by AHL.

During 2014, AHL adopted amendments to the terms of existing stock-based compensation agreements to conform certain vesting and repurchase terms. Prior to 2014, AHL had the right to repurchase vested shares at the lower of purchase cost or fair value if an employee resigned without good reason, either before an IPO or under other conditions as defined in the original plans. As a result of this repurchase option, the expense associated with vested incentive shares would not be recognized on the income statement until the date on which such shares would have been converted to Class A shares.

Total stock-based compensation expense incurred by the Company was $4 million, $3 million and $14 million for the years ended December 31, 2016, 2015 and 2014 respectively. These amounts are reflected within the policy and other operating expenses on the statements of income and (loss).

13. Accumulated Other Comprehensive Income

The following is a detail of AOCI:

	December 31,		
(In millions)	2016	2015	2014
AFS securities	$ (1)	$ (77)	$ 17
Investment funds	14	—	—
Accumulated other comprehensive income (loss)	$ 13	$ (77)	$ 17

Changes in AOCI are presented below.

	Years ended December 31,		
(In millions)	2016	2015	2014
Unrealized gains (losses) on AFS securities			
Unrealized holding gain (losses) arising during the year	$ 74	$ (84)	$ (12)
Less: Reclassification adjustment for gains (losses) realized in net income[1]	2	(10)	6
Change in unrealized gains (losses) on AFS securities	76	(94)	(6)
Unrealized gains (losses) on investment funds			
Other comprehensive income on equity method investment funds	14	—	—
Change in AOCI	$ 90	$ (94)	$ (6)

[1] *Recognized in net investment income on the statements of income and (loss).*

14. Income Taxes

Under current Bermuda law, we are not required to pay any taxes in Bermuda on either income or capital gains. We have received an undertaking from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2035.

15. Statutory Requirements

ALRe is licensed by the Bermuda Monetary Authority (BMA) as a Class E long term insurer and is subject to the Insurance Act 1978, as amended (Bermuda Insurance Act) and regulations promulgated thereunder. Effective January 1, 2016, in connection with the implementation of its broader regulatory regime, the BMA integrated the Economic Balance Sheet (EBS) framework into the determination of Bermuda Solvency and Capital Requirement (BSCR). The European Commission has granted the BMA's regulatory regime for reinsurance, group solvency calculation and group supervision full equivalence to the European Union's Directive (2009/138/EC, or "Solvency II"). Under this framework a Class E insurer must produce three sets of financial statements:

1. ***GAAP Financial Statements -*** Financial statements prepared in accordance with an internationally recognized comprehensive base of accounting, and for which ALRe has elected to prepare US GAAP financial statements. These financial statements form the basis for the preparation of both the Statutory Financial Statements and the Economic Balance Sheet.

2. ***Statutory Financial Statements (SFS)*** - Equal to the GAAP financial statements adjusted for:
    a. Prudential filters that include a) adjustments to eliminate non-admitted assets including goodwill and other similar intangible assets, not considered admissible for solvency purposes, and b) adjustments to include certain assets and liabilities that are generally off-balance sheet under general purpose reporting. These include items such as guarantees and other instruments that do not relate to the insurer's own insurance contracts.
    b. Directions (aka permitted practices) issued by the BMA.

3. ***Economic Balance Sheet (EBS)*** - A balance sheet where assets are recorded based on GAAP fair values and insurance reserves are based on technical provisions comprised of the sum of a best estimate liability plus a risk margin. The best estimate liability may be calculated by applying the standard approach or the scenario approach. Under the standard approach the discount rate for insurance reserves is a rate prescribed by the BMA. Under the scenario approach the discount rate for insurance reserves is based on the yield on eligible assets owned by the insurer as determined under the worst result of nine prescribed stressed scenarios.

Under the Bermuda Insurance Act, ALRe is required to maintain SFS capital and surplus to meet the Minimum Margin of Solvency (MMS) which is equal to the greater of $8 million or 2% of the first $500 million of SFS assets plus 1.5% of SFS assets above $500 million. As of January 1, 2017 the MMS will also be subject to a floor of 25% of the Enhanced Capital Ratio (ECR).

Under the Bermuda Insurance Act, ALRe is also required to maintain minimum EBS capital and surplus to meet the ECR which is equal to a risk based capital model where risk factor charges are applied to the EBS balance sheet in order to determine the ECR.

The following table presents the ALRE actual and required GAAP, SFS, and EBS capital and surplus and net income amounts as of and for the year ended December 31, 2016.

	Year ended December 31, 2016		
(In millions)	GAAP	SFS	EBS
Actual Capital and Surplus	$ 4,870	$ 6,124	$ 4,411
Required Capital and Surplus [1]	N/A	798	1,932
BSCR Ratio [2]	N/A	N/A	228%
Net Income (Loss) [3]	1,465	460	N/A

(1) Represents the MMS for the SFS and the ECR for EBS. There is not a required capital and surplus amount for the GAAP financial statements.
(2) BSCR ratio for the current binding regulatory solvency constraint of EBS is shown. The BSCR ratio under EBS for December 31, 2016 is not comparable to the BSCR ratio applied to the SFS for years ended December 31, 2015 and prior due to the change in the calculations and addition of the EBS basis to the BMA regime in 2016.
(3) EBS comprises of only a balance sheet.

The BMA has granted ALRe direction in the SFS to utilize amortized cost for the valuation of certain investments instead of fair value as well direction to use U.S. statutory reserving principles for the calculation of insurance reserves instead of US GAAP, subject to the reserves being proven to be adequate based on cash flow testing. The impact on the SFS of these directions is approximately equal to the difference between GAAP and SFS capital and surplus and net income.

To enable the BMA to better assess the quality of the insurer's capital resources, a Class E insurer is required to disclose the makeup of its capital in accordance with the '3-tiered capital system.' Highest quality capital is classified as Tier 1 Capital, lesser quality capital is classified as either Tier 2 Capital or Tier 3 Capital. The Bermuda Insurance Act requires that Class E insurers have Tier 1 Capital equal to or greater than 50% of the value of its ECR and Tier 3 Capital of not more than 17.65% of the aggregate of its Tier 1 Capital and Tier 2 Capital. As of December 31, 2016 all of the eligible capital used by ALRe to meet the MSM and ECR was Tier 1 Capital. ALRe monitors its capital tiers and any

encumbrances on capital when determining capital tiers, including assessing any capital restricted in trusts and funds withheld or modco arrangements.

Under the Bermuda Insurance Act, ALRe is prohibited from paying a dividend in an amount exceeding 25% of the prior year's SFS capital and surplus, unless at least two members of ALRe's board of directors sign and submit to the BMA, an affidavit attesting that a dividend in excess of this amount would not cause ALRe to fail to meet its relevant margins. In certain instances, ALRe would also be required to provide prior notice to the BMA in advance of the payment of dividends. In the event that such an affidavit is submitted to the BMA in accordance with the Bermuda Insurance Act, and further subject to ALRe meeting its MMS and ECR, ALRe is permitted to distribute up to the sum of 100% of SFS surplus and an amount less than 15% of SFS capital. Distributions in excess of this amount require the approval of the BMA. As of December 31, 2016 the binding constraint on the maximum distribution ALRe was permitted to pay AHL without the need for prior approval was the EBS capital and surplus in excess of the ECR and was $2,479.

16. Related Party Transactions

The following summarizes related party balances included on the balance sheets and the statements of income and (loss). The tables below include related party balances not previously disclosed.

	December 31,		
(in millions)	2016	2015	2014
Assets			
Investments			
Available for sale securities, CLOs, at fair value	$ 158	$ 136	$ 60
Trading securities, CLOs, at fair value	83	72	77
Investment funds	378	404	501
Funds withheld at interest[1]	42,920	40,396	42,556
Total investments	43,539	41,008	43,194
Deferred acquisition costs and deferred sales inducements[1]	2,104	1,841	1,388
Other assets[2]	1	3	—
Total related party assets	$ 45,644	$ 42,852	$ 44,582
Liabilities			
Interest sensitive contract liabilities[1]	$ 40,785	$ 39,178	$ 39,891
Future policy benefits[1]	4,022	3,623	3,736
Other policy claims and benefits[1]	14	30	32
Other liabilities[3]	20	34	40
Due to affiliates	3	—	—
Total related party liabilities	$ 44,844	$ 42,865	$ 43,699

(in millions)	Years ended December 31, 2016	2015	2014
Revenue			
Premiums[1]	$ 15	$ 37	$ 15
Product charges[1]	214	186	163
Net investment income[4]	2,907	264	3,535
Benefits and Expenses			
Interest sensitive contract benefits[1]	$ 799	$ 436	$ 1,312
Amortization of deferred sales inducements[1]	47	(9)	18
Future policy and other policy benefits[1]	617	107	644
Amortization of deferred acquisition costs[1]	214	(106)	464
Policy and other operating expenses[5]	283	271	259

[1] *We have intercompany modco reinsurance agreements with our affiliates. See Note 7 - Reinsurance for more information. Accordingly, these balances result from our intercompany reinsurance transactions with our affiliates.*
[2] *Included in other assets are amounts due from affiliate(s).*
[3] *Included in other liabilities are amounts due to affiliate(s).*
[4] *Included in net investment income is the net income earned from the assets supporting the funds withheld at interest of our intercompany modco reinsurance agreements of $3,019 million, $345 million and $3,586 million for the years ended* December 31, 2016, 2015, and 2014 *respectively. Also included in net investment income is the income earned on the assets directly managed by Apollo, net of Apollo's management fee and sub-advise fee, of $(112) million, $(81) million and $(51) million for the years ended* December 31, 2016, 2015, and 2014 *respectively.*
[5] *Included in policy and other operating expenses are policy benefit expenses to our affiliates in relation to the intercompany modco reinsurance agreements for $283 million, $273 million and $259 million for the years ended* December 31, 2016, 2015, and 2014*, respectively. Also included in policy and other operating expenses are cost sharing expenses (recovery) with Apollo for $0 million, $(1) million and $0 million for the years ended* December 31, 2016, 2015, and 2014 *respectively.*

Significant cash flows from related party modco reinsurance are included in cash from operations and are disclosed below, along with non-cash profit settlements in the form of security transfers.

	Years ended December 31, 2016	2015	2014
Cash profit settlements on modified coinsurance agreements - related party	$ 89	$ 102	$ 586
Non-cash profit settlements on modified coinsurance agreements in the form of securities - related party	361	653	249
Total	$ 450	$ 755	$ 835

A summary of significant related party investing cash flows is as follows:

	Years ended December 31, 2016	2015	2014
Cash flow from investing activities			
Sales, maturities, and repayments of:			
Available for sale securities, fixed maturity securities	$ 8	$ —	$ —
Trading securities	20	53	—
Investment funds	59	154	291
Purchases of:			
Available for sale securities, fixed maturity securities	(18)	(47)	(61)
Trading securities	(33)	(52)	(79)
Investment funds	(73)	(121)	(5)

Investment related expenses - Substantially all of our investments are managed by AAM, a subsidiary of AGM. AAM provides direct investment management, asset allocation, mergers and acquisition asset diligence, and certain operational support services for our investment portfolio, including investment compliance, tax, legal, and risk management support. As of December 31, 2016, AAM directly manages $4,042 million of our investment portfolio assets, of which 75% are rated one or two by the NAIC. For certain assets which require specialized sourcing and underwriting capabilities, AAM has chosen to mandate sub-advisors rather than building out in-house capabilities. For the services related to these investments, AAM earns a fee of 0.40% per annum on all assets managed in accounts owned by or related to the Company, including sub-advised assets but excluding certain other limited exceptions. Additionally, A AM recharges the sub-advisory fees to the Company.

Assets supporting funds withheld at interest: The majority of the assets supporting the funds withheld at interest are managed by AAM. See *Note 6 - Funds Withheld at Interest* for more information.

AAM has entered into a Master Sub-Advisory Agreement (MSAA) with certain Apollo affiliates to sub-advise AAM with respect to a portion of our assets, with the fees recharged to us, in addition to the gross fee of 0.40% per annum paid to AAM as described above. The MSAA covers services rendered by Apollo-affiliated sub-advisors relating to investments in certain asset classes, primarily CLO, CMBS, and ABS.

The following represents the assets sub-advised by Apollo affiliates:

	December 31,		
(In millions, except for percentages)	2016	2015	2014
Fixed maturity securities			
U.S. state, municipals, and political subdivisions	$ —	$ —	$ 6
Corporate	131	57	29
CLO	574	475	273
ABS	8	48	28
CMBS	37	38	—
Trading securities	—	—	35
Total assets	$ 750	$ 618	$ 371
Percent of total AAM managed Company assets	16%	15%	17%

The management and sub-advisory fees are included within the net investment income line on the statements of income and (loss). The management fees payable as of December 31, 2016, 2015, and 2014 were $2 million, $14 million and $10 million respectively. The sub-advisory fees payable as of December 31, 2016, 2015, and 2014 were $19 million, $19 million, and $12 million respectively.

Because the Apollo Group has a significant voting interest in AHL, in order to protect against potential conflicts of interest resulting from transactions that we and AHL have entered, and will continue to enter into with the Apollo Group, the AHL board of directors has formed a conflicts committee, consisting of three of its directors (two of whom are also ALRe directors) who are not officers or employees of any member of the Apollo Group. The conflicts committee reviews and a majority of the committee members must approve certain material transactions between AHL and/or its subsidiaries and the Apollo Group, subject to certain exceptions.

Service fees - AHL has entered into shared services agreements with AAM. Under these agreements, we and AAM make available to each other certain personnel and services. Expenses for the services are based on the amount of time spent on the affairs of the other party, in addition to actual expenses incurred and certain cost reimbursements. For the years ended December 31, 2016, 2015, and 2014, net expenses allocated from (to) AAM under these agreements were $0 million, $(1) million, and $0 million, respectively. The Company had no net expenses payable to AAM as of December 31, 2016, 2015, and 2014.

17. Commitments and Contingencies

Contingent Commitments-The Company had commitments to make additional capital contributions to certain investment funds of $116 million, $57 million and $48 million as of December 31, 2016, 2015, and 2014 respectively. The Company expects most of its current commitments will be invested over the next five years; however, these commitments could become due any time upon counterparty request.

Restricted Assets - The total restricted assets included on the balance sheets are as follows:

	December 31,		
(In millions)	2016	2015	2014
Fixed maturity securities - AFS	$ 260	$ 124	$ 143
Short term - AFS	16	—	—
Restricted cash	11	9	24
Total restricted assets	$ 287	$ 133	$ 167

ALRe has established reinsurance trusts of assets equal to statutory reserves, plus an additional amount of assets, as a result of a coinsurance agreement with United American Corporation.

ALRe has established escrow account of assets equal to a portion of statutory reserves, as a result of the modified coinsurance agreement with Midland described in *Note 7 - Reinsurance*.

Litigation, Claims, and Assessments - On June 12, 2015, a putative class action complaint was filed in the United States District Court, Northern District of California against ALRe, AHL, AUSA, AAIA, AAM, and AGM. The complaint, which is similar to complaints previously filed against other large insurance companies, primarily alleges that captive reinsurance and other transactions had the effect of misrepresenting the financial condition of AAIA. The complaint purports to be brought on behalf of a class of purchasers of annuity products issued by AAIA between 2007 and the present. There are also various allegations related to the purchase of Aviva USA and concerning entry into a modco transaction with ALRe in October 2013. The suit asserts claims of violation of the Racketeer Influenced and Corrupt Organizations Act and seeks compensatory damages, trebled, in an amount to be determined, costs, and attorneys' fees. On March 25, 2016, our motion to transfer to the United States District Court, Southern District of Iowa was granted. On May 24, 2016, plaintiff filed an Amended Complaint that removed plaintiff Silva and defendant Aviva plc from the action. Defendants re-filed their motion to dismiss, which is fully briefed. The court, however, stayed consideration of the motion and all discovery pending a ruling from the Eighth Circuit in *Ludwick*. (For background, *Ludwick* is a putative class action against Fidelity & Guaranty Life that involves similar issues and arguments. F&G obtained a dismissal in federal district court, and plaintiffs in the case appealed to the Eighth Circuit. The Eighth Circuit heard oral arguments on the appeal on November 16, 2016, but no decision has been issued). We believe that we have meritorious defenses to the claims set forth in the complaint and intend to vigorously defend the litigation. In light of the inherent uncertainties involved in this matter, reasonably possible losses, if any, cannot be estimated at this time.

18. Subsequent Events

On April 13, 2017, A.M. Best upgraded the Financial Strength Rating of the Company to "A" (Excellent) from "A-" (Excellent) and the Long-Term Issuer Credit Rating (Long-Term ICR) to "a" from "a-". The outlook of these credit ratings has been revised to stable from positive.

The Company has evaluated the impact of subsequent events through April 14, 2017, the date at which the financial statements were available to be issued.

Athene Life Re Ltd.
Statutory Financial Statements (Unaudited)
September 30, 2017

Assets and liabilities related to modified coinsurance (“modco”) arrangements are presented on a gross basis. For affiliated reinsurance, the assets and liabilities are also shown on a gross basis on the NAIC financial statements of our sister company, Athene USA Corporation ("Athene USA"). As such, the modco assets and liabilities in the Athene USA NAIC financial statements would need to be eliminated in order to see the economic combined statutory position of the Athene Bermuda and U.S. legal entities.

The Bermuda Monetary Authority (the "BMA") has updated the format of the statutory financial statements and as such we are utilizing the new format beginning with Q1 2017 results. There have been no changes to the accounting principles and all prior year amounts remain the same.

STATUTORY BALANCE SHEET

Athene Life Re Ltd.
As at September 30, 2017 and December 31, 2016
Expressed in ['000s] United States Dollars

FORM 1SFS

STMT. LINE No.		General Business Unconsolidated 2017 ('000s)	General Business Unconsolidated 2016 ('000s)	Long-Term Business Unconsolidated 2017 ('000s)	Long-Term Business Unconsolidated 2016 ('000s)	General & Long-Term Business Consolidated 2017 ('000s)	General & Long-Term Business Consolidated 2016 ('000s)
1.	CASH AND CASH EQUIVALENTS			201,366	141,056		
2.	QUOTED INVESTMENTS:						
(a)	Bonds and debentures						
	i. Held to maturity			4,827,163	4,156,001		
	ii. Other						
(b)	Total Bonds and Debentures			4,827,163	4,156,001		
(c)	Equities						
	i. Common Stocks						
	ii. Preferred Stocks						
	iii. Mutual Funds						
(d)	Total Equity Investments			-	-		
(e)	Other Quoted Investments						
(f)	Total Quoted Investments			4,827,163	4,156,001		
3.	UNQUOTED INVESTMENTS:						
(a)	Bonds and debentures						
	i. Held to maturity						
	ii. Other						
(b)	Bonds and Debentures			-	-		
(c)	Equities						
	i. Common Stocks						
	ii. Preferred Stocks						
	iii. Mutual Funds						
(d)	Total Equity Investments			-	-		
(e)	Other Unquoted Investments			630,361	531,009		
(f)	Total Unquoted Investments			630,361	531,009		
4.	INVESTMENTS IN AND ADVANCES TO AFFILIATES (EQUITY METHOD):						
(a)	Unregulated entities that conduct ancillary services						
(b)	Unregulated non-financial operating entities						
(c)	Unregulated financial operating entities						
(d)	Regulated non-insurance financial operating entities						
(e)	Regulated insurance financial operating entities						
(f)	Total investments in affiliates (equity method)			-	-		
(g)	Advances to affiliates						
(h)	Total investments in and advances to affiliates (equity method)			-	-		
5.	INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE:						
(a)	First Liens						
(b)	Other than First Liens						
(c)	Total Investments in Mortgage Loans on Real Estate			-	-		
6.	POLICY LOANS			22	34		
7.	REAL ESTATE:						
(a)	Occupied by the company (less encumbrances)						
(b)	Other properties (less encumbrances)						
(c)	Total real estate			-	-		
8.	COLLATERAL LOANS						
9.	INVESTMENT INCOME DUE AND ACCRUED			37,447	30,707		
10.	ACCOUNTS AND PREMIUMS RECEIVABLE						
(a)	In course of collection				21		
(b)	Deferred - not yet due						
(c)	Receivables from retrocessional contracts						
(d)	Total accounts and premiums receivable			-	21		
11.	REINSURANCE BALANCES RECEIVABLE						
(a)	Foreign affiliates						
(b)	Domestic affiliates						
(c)	Pools & associations						
(d)	All other insurers						
(e)	Total reinsurance balances receivable			-	-		

STATUTORY BALANCE SHEET

Athene Life Re Ltd.
As at September 30, 2017 and December 31, 2016
Expressed in ['000s] United States Dollars

FORM 1SFS

STMT. LINE No.		General Business Unconsolidated 2017 ('000s)	General Business Unconsolidated 2016 ('000s)	Long-Term Business Unconsolidated 2017 ('000s)	Long-Term Business Unconsolidated 2016 ('000s)	General & Long-Term Business Consolidated 2017 ('000s)	General & Long-Term Business Consolidated 2016 ('000s)
12.	FUNDS HELD BY CEDING COMPANIES			53,160,309	48,086,975		
13.	SUNDRY ASSETS:						
(a)	Derivative instruments			1,161	812		
(b)	Segregated accounts companies - long-term business - variable annuities						
(c)	Segregated accounts companies - long-term business - others						
(d)	Segregated accounts companies - general business						
(e)	Deposit assets						
(f)	Deferred acquisition costs						
(g)	Net receivables for investments sold			24,688	53,386		
(h)	Fixed assets			24	24		
(i)	Other Sundry Assets (Specify)						
(j)	Other Sundry Assets (Specify)						
(k)	Total sundry assets			25,873	54,222		
14.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS						
(a)	Letters of credit						
(b)	Guarantees						
(c)	Other instruments						
(d)	Total letters of credit, guarantees and other instruments			-	-		
15.	TOTAL			58,882,541	53,000,025		
	INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS						
	INSURANCE RESERVES						
16.	UNEARNED PREMIUM RESERVE						
(a)	Gross unearned premium reserves						
(b)	Less: Ceded unearned premium reserve						
	i. Foreign affiliates						
	ii. Domestic affiliates						
	iii. Pools & associations						
	iv. All other insurers						
(c)	Total ceded unearned premium reserve						
(d)	Net unearned premium reserves						
17.	LOSS AND LOSS EXPENSE PROVISIONS:						
(a)	Gross loss and loss expense provisions						
(b)	Less : Reinsurance recoverable balance						
	i. Foreign affiliates						
	ii. Domestic affiliates						
	iii. Pools & associations						
	iv. All other insurers						
(c)	Total reinsurance recoverable balance						
(d)	Net loss and loss expense provisions						
18.	OTHER INSURANCE RESERVES						
19.	TOTAL GENERAL BUSINESS - INSURANCE RESERVES						
	LONG-TERM BUSINESS INSURANCE RESERVES						
20.	RESERVES FOR REPORTED CLAIMS						
21.	RESERVES FOR UNREPORTED CLAIMS			211,269	207,282		
22.	POLICY RESERVES - LIFE			51,808,854	46,640,297		
23.	POLICY RESERVES - ACCIDENT AND HEALTH						
24.	POLICYHOLDER'S FUNDS ON DEPOSIT						
25.	LIABILITY FOR FUTURE POLICYHOLDER DIVIDENDS						
26.	OTHER LONG-TERM BUSINESS INSURANCE RESERVES						

STATUTORY BALANCE SHEET

Athene Life Re Ltd.
As at September 30, 2017 and December 31, 2016
Expressed in ['000s] United States Dollars

FORM 1SFS

STMT. LINE No.		General Business Unconsolidated 2017 ('000s)	General Business Unconsolidated 2016 ('000s)	Long-Term Business Unconsolidated 2017 ('000s)	Long-Term Business Unconsolidated 2016 ('000s)	General & Long-Term Business Consolidated 2017 ('000s)	General & Long-Term Business Consolidated 2016 ('000s)
27.	TOTAL LONG-TERM BUSINESS - INSURANCE RESERVES						
(a)	Total Gross Long-Term Business Insurance Reserves			52,020,123	46,847,579		
(b)	Less: Reinsurance Recoverable Balance:						
	(i) Foreign Affiliates						
	(ii) Domestic Affiliates						
	(iii) Pools and Associations						
	(iv) All Other Insurers						
(c)	Total Reinsurance Recoverable Balance			-	-		
(d)	Net Long-Term Business Insurance Reserves			52,020,123	46,847,579		
	OTHER LIABILITIES						
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE			708	1,033		
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE						
30.	LOANS AND NOTES PAYABLE						
31.	(a) INCOME TAXES PAYABLE						
	(b) DEFERRED INCOME TAXES						
32.	AMOUNTS DUE TO AFFILIATES			1,009	2,824		
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES			29,624	24,670		
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS						
35.	DIVIDENDS PAYABLE						
36.	SUNDRY LIABILITIES:						
(a)	Derivative instruments			2,142	281		
(b)	Segregated accounts						
(c)	Deposit liabilities						
(d)	Net payable for investments purchased			26,511			
(e)	Other sundry liabilities (specify)						
(f)	Other sundry liabilities (specify)						
(g)	Other sundry liabilities (specify)						
(h)	Total sundry liabilities			28,653	281		
37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS						
(a)	Letters of credit						
(b)	Guarantees						
(c)	Other instruments						
(d)	Total letters of credit, guarantees and other instruments			-	-		
38.	TOTAL OTHER LIABILITIES			59,994	28,808		
39.	TOTAL INSURANCE PROVISIONS AND OTHER LIABILITIES			52,080,117	46,876,387		
	STATUTORY CAPITAL AND SURPLUS						
40.	TOTAL STATUTORY CAPITAL AND SURPLUS			6,802,424	6,123,638		
41.	TOTAL			58,882,541	53,000,025		

STATUTORY STATEMENT OF INCOME

Athene Life Re Ltd.
For the periods ending September 30, 2017 and September 30, 2016
Expressed in ['000s] United States Dollars

FORM 2SFS

STMT. LINE No.		General Business Unconsolidated 2017 ('000)	General Business Unconsolidated 2016 ('000)	Long-Term Business Unconsolidated 2017 ('000)	Long-Term Business Unconsolidated 2016 ('000)	General and Long-Term Business Consolidated 2017 ('000)	General and Long-Term Business Consolidated 2016 ('000)
	GENERAL BUSINESS UNDERWRITING INCOME						
1.	GROSS PREMIUMS WRITTEN:						
	(a) Direct gross premiums written						
	(b) Assumed gross premiums written						
	(c) Total gross premiums written						
2.	REINSURANCE PREMIUMS CEDED						
3.	NET PREMIUMS WRITTEN						
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS						
5.	NET PREMIUMS EARNED						
6.	OTHER INSURANCE INCOME						
7.							
	GENERAL BUSINESS UNDERWRITING EXPENSES						
8.	NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED						
9.	COMMISSIONS AND BROKERAGE						
10.							
11.	**NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS**						
	LONG-TERM BUSINESS UNDERWRITING INCOME						
12.	GROSS PREMIUMS AND OTHER CONSIDERATIONS:						
	(a) Direct gross premiums and other considerations			7,290,209	5,484,345		
	(b) Assumed gross premiums and other considerations						
	(c) Total gross premiums and other considerations			7,290,209	5,484,345		
13.	PREMIUMS CEDED						
14.	NET PREMIUMS AND OTHER CONSIDERATIONS:						
	(a) Life						
	(b) Annuities			7,290,209	5,484,345		
	(c) Accident and health						
	(d) Total net premiums and other considerations			7,290,209	5,484,345		
15.	OTHER INSURANCE INCOME						
16.				7,290,209	5,484,345		
	DEDUCTIONS						
17.	CLAIMS - LIFE			733,327	732,769		
18.	POLICYHOLDERS' DIVIDENDS						
19.	SURRENDERS			2,191,155	1,913,372		
20.	MATURITIES						
21.	ANNUITIES			591,666	283,344		
22.	ACCIDENT AND HEALTH BENEFITS				-		
23.	COMMISSIONS			345,905	345,787		
24.	OTHER			233,246	670,823		
25.				4,095,299	3,946,095		

STATUTORY STATEMENT OF INCOME

Athene Life Re Ltd.
For the periods ending September 30, 2017 and September 30, 2016 FORM 2SFS
Expressed in ['000s] United States Dollars

STMT. LINE No.		General Business Unconsolidated		Long-Term Business Unconsolidated		General and Long-Term Business Consolidated	
		2017	2016	2017	2016	2017	2016
		('000)	('000)	('000)	('000)	('000)	('000)
26.	INCREASE (DECREASE) IN POLICY RESERVES:						
	(a) Life			-	-		
	(b) Annuities			5,169,800	2,747,539		
	(c) Accident and health			-	-		
	(d) Total increase (decrease) in policy reserves			5,169,800	2,747,539		
27.				9,265,099	6,693,634		
28.	**NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS**			(1,974,890)	(1,209,289)		
29.	**COMBINED NET UNDERWRITING PROFIT (LOSS) BEFORE THE UNDERNOTED ITEMS**	-	-	(1,974,890)	(1,209,289)		
	UNDERNOTED ITEMS						
30.	COMBINED OPERATING EXPENSES:						
	(a) General and administrative			3,139	10,961		
	(b) Personnel Costs			8,029	-		
	(c) Other			-	-		
	(d) Total combined operating expenses			11,168	10,961		
31.	COMBINED INVESTMENT INCOME - NET			2,612,433	1,497,005		
32.	COMBINED OTHER INCOME (DEDUCTIONS)			-	(17,518)		
33.	COMBINED INCOME BEFORE TAXES			626,375	259,237		
34.	COMBINED INCOME TAXES (IF APPLICABLE):						
	(a) Current			-	-		
	(b) Deferred			-	-		
	(c) Total			-	-		
35.	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)			626,375	259,237		
36.	COMBINED REALIZED GAINS (LOSSES)			23,608	3,235		
37.	COMBINED INTEREST CHARGES			-	-		
38.	NET INCOME			649,983	262,472		

STATUTORY STATEMENT OF CAPITAL AND SURPLUS

Athene Life Re Ltd.

For the periods ending September 30, 2017 and September 30, 2016

Expressed in ['000s] United States Dollars

FORM 8SFS

Assets and liabilities related to modified coinsurance ("modco") arrangements are presented on a gross basis. For affiliated rei

STMT. LINE No.		General Business Unconsolidated 2017 ('000s)	General Business Unconsolidated 2016 ('000s)	Long-Term Business Unconsolidated 2017 ('000s)	Long-Term Business Unconsolidated 2016 ('000s)	General and Long-Term Business Consolidated 2017 ('000s)	General and Long-Term Business Consolidated 2016 ('000s)
1.	STATUTORY CAPITAL						
(a)	Capital stock			1,500	1,500		
	(i) Common shares authorized 1,500,000 shares of par value $ 1.000 each issued and fully paid shares						
	(ii) Preferred shares authorized shares of par value each issued and fully paid shares; aggregate liquidation value for — 2011; 2010						
	(iii) Treasury shares repurchased shares of par value each issued						
(b)	Contributed surplus			2,292,098	2,292,098		
(c)	Any other fixed capital						
	(i) Hybrid capital instruments						
	(ii) Guarantees and others						
	(iii) Total any other fixed capital			-	-		
(d)	Total Statutory Capital			2,293,598	2,293,598		
2.	**STATUTORY SURPLUS:**						
(a)	Statutory Surplus - Beginning of Year			3,830,040	3,356,145		
(b)	Add: Income for Year			649,983	262,472		
(c)	Less: Dividends paid and payable						
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments						
(e)	Add (Deduct) change in non-admitted assets			305			
(f)	Add (Deduct) change in appraisal of real estate						
(g)	Add (Deduct) change in any other statutory capital			28,498			
(h)	Statutory Surplus - End of Year			4,508,826	3,618,617		
3.	**MINORITY INTEREST**						
4.	**TOTAL STATUTORY CAPITAL AND SURPLUS**			6,802,424	5,912,215		

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____________ to _____________

Commission File Number: 333-196392, 333-203647, 333-203648, 333-203649, 333-203650, 333-203651

Voya Insurance and Annuity Company

(Exact name of registrant as specified in its charter)

Iowa	**41-0991508**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1475 Dunwoody Drive	
West Chester, Pennsylvania	**19380-1478**
(Address of principal executive offices)	(Zip Code)

(610) 425-3400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒
State the aggregate market value of the voting and non-voting common equity held by non-affiliates: N/A

As of March 14, 2016, 250,000 shares of Common Stock, $10 par value, were outstanding, all of which were directly owned by Voya Holdings Inc.

NOTE: WHEREAS VOYA INSURANCE AND ANNUITY COMPANY MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND (b) OF FORM 10-K, THIS FORM IS BEING FILED WITH THE REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION I(2).

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Form 10-K for the period ended December 31, 2015

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*	Item omitted pursuant to General Instruction I(2) of Form 10-K, except as to Part III, Item 10 with respect to compliance with Sections 406 and 407 of the Sarbanes-Oxley Act of 2002.
**	Item prepared in accordance with General Instruction I(2) of Form 10-K.
***	Item omitted as registrant is neither an accelerated filer nor a well-known seasoned issuer.

As used in this Annual Report on Form 10-K, "VIAC," the "Company," "we," "our" and "us" refer to Voya Insurance and Annuity Company.

NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This *Annual Report on Form* 10-K, including "Risk Factors," "Management's Narrative Analysis of the Results of Operations and Financial Condition," and "Business" contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements relating to future developments in our business or expectations for our future financial performance and any statement not involving a historical fact. Forward-looking statements use words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," and other words and terms of similar meaning in connection with a discussion of future operating or financial performance. Actual results, performance or events may differ materially from those projected in any forward-looking statement due to, among other things, (i) general economic conditions, particularly economic conditions in our core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels, (v) persistency and lapse levels, (vi) interest rates, (vii) currency exchange rates, (viii) general competitive factors, (ix) changes in laws and regulations, including those relating to insurance regulatory reform initiatives applicable to captive reinsurance entities and those made pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act or the U.S. Department of Labor's proposed rules and exemptions pertaining to the fiduciary status of providers of investment advice; (x) changes in the policies of governments and/or regulatory authorities; and (xi) other factors described in the section "Item 1A. Risk Factors."

The risks included here are not exhaustive. Current reports on Form 8-K and other documents filed with the Securities and Exchange Commission ("SEC") include additional factors that could affect our businesses and financial performance. Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

PART I

Item 1. Business
(Dollar amounts in millions, unless otherwise stated)

Organization of Business

Voya Insurance and Annuity Company ("VIAC" or "the Company") is a stock life insurance company domiciled in the State of Iowa and provides financial products and services in the United States. VIAC is authorized to conduct its insurance business in all states, except New York and in the District of Columbia.

Prior to May 2013, Voya Financial, Inc., together with its subsidiaries, including the Company, was an indirect, wholly owned subsidiary of ING Groep N.V. ("ING Group" or "ING"), a global financial services holding company based in The Netherlands, with American Depository Shares listed on the New York Stock Exchange. In 2009, ING Group announced the anticipated separation of its global banking and insurance businesses, including the divestiture of Voya Financial, Inc., together with its subsidiaries, including the Company. On April 11, 2013, Voya Financial, Inc. announced plans to rebrand as Voya Financial. On May 2, 2013, the common stock of Voya Financial, Inc. began trading on the New York Stock Exchange under the symbol "VOYA." On May 7, 2013 and May 31, 2013, Voya Financial, Inc. completed its initial public offering of common stock, including the issuance and sale by Voya Financial, Inc. of 30,769,230 shares of common stock and the sale by ING Insurance International B.V. ("ING International"), an indirect wholly owned subsidiary of ING Group and previously the sole stockholder of Voya Financial, Inc., of 44,201,773 shares of outstanding common stock of Voya Financial, Inc. (collectively, the "IPO"). On September 30, 2013, ING International transferred all of its shares of Voya Financial, Inc. common stock to ING Group.

On October 29, 2013, ING Group completed a sale of 37,950,000 shares of common stock of Voya Financial, Inc. in a registered public offering ("Secondary Offering"), reducing ING Group's ownership of Voya Financial, Inc. to 57%.

Throughout 2014, ING Group completed the sale of an aggregate of 82,783,006 shares of common stock of Voya Financial, Inc. in a series of three registered public offerings. Also during 2014, pursuant to the terms of share repurchase agreements between ING Group and Voya Financial, Inc., Voya Financial, Inc. acquired 19,447,847 shares of its common stock from ING Group. As of the end of 2014, ING Group's ownership of Voya Financial, Inc. had been reduced to approximately 19%.

In March of 2015, ING Group completed a sale of 32,018,100 shares of common stock of Voya Financial, Inc. in a registered public offering. Concurrently with this offering, pursuant to the terms of a share repurchase agreement between ING Group and Voya Financial, Inc., Voya Financial, Inc. acquired 13,599,274 shares of its common stock from ING Group.

As a result of these transactions, ING Group satisfied the provisions of its agreement with the European Union regarding the divestment of its U.S. insurance and investment operations, which required ING Group to divest 100% of its ownership interest in Voya Financial, Inc. together with its subsidiaries, including the Company by the end of 2016. ING Group continues to hold warrants to purchase up to 26,050,846 shares of Voya Financial, Inc. common stock at an exercise price of $48.75, in each case subject to adjustments.

VIAC is a direct, wholly owned subsidiary of Voya Holdings Inc. ("Parent"), which is a direct, wholly owned subsidiary of Voya Financial, Inc.

Description of Business

We currently offer various insurance products, including fixed and indexed annuities, investment-only products and payout annuities for pre-retirement wealth accumulation and postretirement income management. Our annuity products are distributed by national and regional brokerage and securities firms, independent broker-dealers, banks, life insurance companies with captive agency sales forces, independent insurance agents, independent marketing organizations and affiliated broker-dealers. Our primary annuity customers are individual consumers. We stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010, as part of a global business strategy and risk reduction plan. New amounts will continue to be deposited in VIAC variable annuities as add-on premiums to existing contracts.

We have historically issued guaranteed investment contracts and funding agreements (collectively referred to as "GICs"), primarily to institutional investors and corporate benefit plans. In 2009, we made a strategic decision to run-off the assets and liabilities in the GIC business over time. New GIC contracts may be issued on a limited basis to replace maturing contracts.

See "-Reserves for Future Policy Benefits and Separate Accounts" below for a discussion of our reserves by product type.

We have one operating segment, which offers the products described below.

Products and Services

Products currently offered by us include fixed and indexed annuities, and payout annuities, designed to address customer needs for tax-advantaged savings, retirement needs and wealth-protection concerns, as well as GICs. As mentioned above, the Company stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010. However, because the existing contracts remain in effect, they are described below.

Fixed Annuities: The fixed annuities offered by us are general account products and include single premium immediate, multi-year guaranteed, annual reset and fixed indexed annuities ("FIA"). Under fixed annuity contracts, the principal amount is guaranteed and, for a specified time period, we credit interest to the contract owner accounts at a fixed interest rate. Interest on FIAs is credited based on allocations selected by a customer in one or more of the strategies we offer and upon policy parameters that we set. The FIA strategies include a fixed interest rate option, as well as several options based upon performance of various external financial market indices. Such indices may include equity indices, such as the Standard & Poor's 500 Index ("S&P 500"), or an interest rate benchmark, such as the change in London Interbank Offered Rates ("LIBOR"). For accounting purposes, the index return component of an FIA is considered an embedded derivative. See further discussion under "-Reserves for Future Policy Benefits and Separate Accounts" below. We bear the investment risk on fixed annuities, because, while we credit contract owner accounts with a stated interest rate, we cannot be certain the investment income earned on the general account assets will exceed that rate.

Some FIAs contain guaranteed withdrawal benefit features at an additional cost. These living benefits guarantee a minimum annual withdrawal amount for life. The amount of the guaranteed annual withdrawal may vary by age at first withdrawal.

Our major source of income from fixed annuities is the spread between the investment income earned on the underlying general account assets and the interest rate credited to contract owner accounts.

Guaranteed Investments Contracts and Funding Agreements: We also have GICs issued to the stable value market and other institutional customers. We profit from the GIC business by earning income in excess of the amount credited to the customer accounts, less the cost of administering the product. We bear the investment risk because, while we credit customer accounts with an interest rate based on a predetermined index, plus a spread or a fixed rate, we cannot be certain the investment income earned on the general account investments, less expenses will exceed that rate.

Variable Annuities: While we stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010, our existing variable annuities are investment vehicles in which contract owner deposits are recorded and primarily maintained in separate accounts established by us and registered with the SEC as a unit investment trust. Unlike fixed annuities, variable annuity contract owners bear the risk of investment gains and losses associated with the selected investment allocation. We, however, issued certain guaranteed death and living benefits (described below) under which we bear specific risks associated with these products.

Separate account assets and liabilities generally represent funds maintained to meet specific investment objectives of contract owners. In general, investment income and investment gains and losses accrue directly to the separate accounts. The assets of the separate account are legally segregated and are not subject to claims that arise out of any of the our other business.

Separate account assets supporting variable options under variable annuity contracts are invested, as designated by the contract owner or participant under a contract, in shares of sub-accounts managed by our affiliates or in other selected sub-accounts not managed by our affiliates. Variable annuity deposits are allocated to various sub-accounts established within the separate account. Each sub-account represents a different investment option into which the contract owner may allocate deposits. The account value of a variable annuity contract is equal to the aggregate value of the sub-accounts selected by the contract owner, including the value allocated to any fixed account, less fees and expenses. We offer investment options for our variable annuities covering a wide range of investment styles, including large, mid and small cap equity funds, as well as fixed income alternatives. Many of the variable annuity contracts issued by us are combination contracts, offering both variable and fixed options under which some or all of the deposits may be allocated by the contract owner to a fixed account.

Minimum Guarantees: Variable annuity contracts containing minimum guaranteed death and living benefits expose us to equity risk. A decrease in the equity markets may cause a decrease in the account values, thereby increasing the possibility that we may be required to pay amounts to contract owners due to guaranteed death and living benefits. An increase in the value of the equity

markets may increase account values for these contracts, thereby decreasing our risk associated with guaranteed death and living benefits.

We stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010. However, our existing variable annuity block of business contains certain guaranteed death and living benefits made available to contract owners as described in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk."

Other Insurance Products

Historically, we provided interest-sensitive, traditional life insurance and health insurance products. All health insurance has been ceded to other insurers and new policies are no longer written. We ceased the issuance of life insurance policies in 2001, and all life insurance business is currently in run-off. A certain portion of the assets held in the general account are dedicated to funding this block of business.

Fees and Margins

Insurance and expense charges, investment management fees, service fees and other fees earned by us vary by product and depend on, among other factors, the funding option selected by the customer under the product. For annuity products where assets are allocated to variable funding options through a separate account, we may charge the separate account asset-based insurance and expense fees.

In addition, where the customer selects a variable funding option, we may receive compensation from the fund's adviser, administrator, or other affiliated entity, for the performance of certain administrative, recordkeeping or other services. This compensation, which may be deducted from fund assets, may include a share of the management fee, service fees, 12b-1 distribution fees or other revenues based on a percentage of average net assets held in the fund by us. For funds managed by an affiliate, additional compensation may be received in the form of intercompany payments from the fund's investment advisor or the investment advisor's parent in order to allocate revenue and profits across the organization.

For fixed funding options, we earn a margin that is based on the difference between income earned on the investments supporting the liability and interest credited to customers.

We may also receive other fees or charges depending on the nature of the products.

Strategy, Method of Distribution and Principal Markets

We believe longer life expectancies, an aging population and growing concern over the stability and availability of the Social Security system have made retirement planning a priority for many Americans. The target market for our annuity products is primarily individuals.

The principal distribution channels of our fixed annuities include national and regional brokerages and securities firms, independent broker-dealers, banks, life insurance companies with captive agency sales forces, independent insurance agents, independent marketing organizations and affiliated broker-dealers.

Our investment-only products are distributed nationally, primarily through relationships with independent brokers, financial planners and agents. New sales are obtained from either a "rollover" from an existing retirement account, a 1035-exchange or funded through non-qualified after-tax dollars.

Indexed annuities are marketed primarily based on underlying guarantee features coupled with consumer-friendly product designs offering the potential for equity market upside. We also offer fixed annuities offering a guaranteed interest rate or annuity payment suitable for clients seeking a stable return.

We stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010, as part of a business strategy and risk reduction plan. Some new amounts will continue to be deposited on VIAC variable annuities as add-on deposits to existing contracts.

GICs are issued primarily to institutional investors and corporate benefit plans through direct sales by home office personnel or through specialty insurance brokers. In 2009, we made a strategic decision to run-off the assets and liabilities in the GIC business over time. New GIC contracts may be issued on a limited basis to replace maturing contracts.

Since December 2013, we have been engaged in a strategic alliance with The Allstate Corporation ("Allstate") under which Allstate offers a full suite of our fixed annuity product offerings to Allstate customers. In addition, during 2015, we engaged in a strategic alliance with Farmers Financial Solutions, a part of the Farmers Insurance Group of Companies, under which we will be the exclusive provider of indexed annuity products to Farmers customers.

Assets Under Management

A substantial portion of our fees, other charges and margins, are based on assets under management ("AUM"). AUM represents on-balance sheet assets supporting customer account values/liabilities and surplus. Customer account values reflect the amount of policyholder equity that has accumulated within annuity, GIC and other insurance products. AUM includes general account assets in which we bear the investment risk and separate account assets in which the contract owner bears the investment risk. AUM-based revenues increase or decrease with a rise or fall in the amount of AUM, whether caused by changes in capital markets or by net flows.

AUM is principally affected by net deposits (i.e., annuity premiums and GIC deposits, less surrenders) and investment performance (i.e., interest credited to contract owner accounts for assets that earn a fixed return or market performance for assets that earn a variable return). The general and separate account AUM were as follows as of the dates indicated:

	December 31,	
	2015	**2014**
Variable annuities	$ 36,415.8	$ 40,787.9
Fixed annuities	18,132.2	17,306.7
Guaranteed investment contracts and funding agreements	950.4	961.3
Other insurance products	970.1	1,028.5
Total	$ 56,468.5	$ 60,084.4

Competition

The competitive annuity market remains intense and is dominated by a number of large, highly-rated insurance companies. Increasing competition within the retirement savings business from traditional insurance carriers, as well as banks and mutual fund companies, offers consumers many choices. Our annuity products compete in the annuity market principally on the basis of investment performance, product design, brand recognition, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service.

Investment-only products compete with brokerage accounts and other financial service and asset allocation offerings.

We compete in the GIC market primarily on the basis of our capital markets, product structuring and risk management expertise, as well as its brand recognition and financial strength ratings. Other competitors in this market include other life insurance companies, as well as banks and other financial institutions.

Reserves for Future Policy Benefits and Separate Accounts

We establish and carry actuarially-determined reserves that are calculated to meet our future obligations. Reserves also include estimates of unpaid claims as well as claims that we believe have been incurred but have not yet been reported as of the balance sheet date. The principal assumptions used to establish liabilities for future policy benefits are based upon Company experience and periodically reviewed against industry standards. These assumptions include mortality, morbidity, policy lapse, contract renewal, payment of subsequent premiums or deposits by the contract owner, retirement, investment returns, inflation, benefit utilization and expenses. Changes in, or deviations from, the assumptions used can significantly affect our reserve levels and related results of operations.

Reserves for traditional life insurance contracts (term insurance, participating and non-participating whole life insurance and traditional group life insurance) and accident and health insurance represent the present value of future benefits to be paid to or on behalf of contract owners and related expenses, less the present value of future net premiums. Assumptions as to interest rates, mortality, expenses and persistency are based on our estimates of anticipated experience at the period the policy is sold or acquired,

including a provision for adverse deviation. Interest rates used to calculate the present value of these reserves ranged from 2.3% to 7.2%.

Reserves for payout contracts with life contingencies are equal to the present value of expected future payments. Assumptions as to interest rates, mortality and expenses are based on our estimates of experience at the period the policy is sold or acquired, including a provision for adverse deviation. Such assumptions generally vary by annuity plan type, year of issue and policy duration. Interest rates used to calculate the present value of future benefits ranged from 1.0% to 7.5%.

Reserves for FIAs are computed in accordance with the requirements of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 944, "Financial Services - Insurance," Topic 815, "Derivatives and Hedging" and Topic 820, "Fair Value Measurements and Disclosures." Accordingly, the aggregate initial liability is equal to the deposit received plus a bonus, if applicable, and is split into a host component and an embedded derivative component. Thereafter, the host liability accumulates at a set interest rate and the embedded derivative liability is recognized at fair value, with the change in fair value recorded in Other net realized capital gains (losses) in the Statements of Operations.

Reserves for universal life products are equal to cumulative deposits, less withdrawals and charges, plus credited interest thereon.

Under the requirements of ASC Topic 944, the Company calculates additional reserve liabilities for certain variable annuity guaranteed benefits, FIA withdrawal benefits and universal life products with certain patterns of cost of insurance charges and certain other fees. The additional reserve for such products recognizes the portion of contract assessments received in early years used to compensate the insurer for services provided in later years.

We calculate a benefit ratio for each block of business that meets the requirements for additional reserves as outlined in ASC Topic 944 and calculate an additional reserve by accumulating amounts equal to the benefit ratio multiplied by the assessments for each period, reduced by excess benefits during the period. The additional reserve is accumulated at interest rates consistent with the deferred policy acquisition costs model for the period. The calculated reserve includes a provision for universal life contracts with patterns of cost of insurance charges that produce expected gains from the insurance benefit function followed by losses from that function in later years.

Guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits ("GMWB") without life contingent payouts and guaranteed minimum withdrawal benefits for life ("GMWBL") are considered to be embedded derivatives under ASC Topic 815 and Topic 820. The additional reserves for these guarantees are recognized at fair value, with the change in fair value recorded in Other net realized capital gains (losses) in the Statements of Operations.

Reserves for GICs are calculated using the amount deposited with us, less withdrawals, plus interest accrued to the ending valuation date. Interest on these contracts is accrued by a predetermined index, plus a spread or a fixed rate, established at the issue date of the contract.

Our life and annuity insurance reserves (general and separate account) and deposit-type funds were comprised of each type of the following products as of the dates indicated:

	December 31,			
	2015		2014	
	Reserves	% of Total	Reserves	% of Total
Variable annuity	$ 40,353.9	66.0%	$ 43,902.4	67.9%
Fixed annuity	18,117.8	29.7%	18,111.5	28.0%
GICs	1,048.2	1.7%	1,036.5	1.6%
Other insurance products	1,585.4	2.6%	1,642.3	2.5%
Total	$ 61,105.3	100.0%	$ 64,692.7	100.0%

Reinsurance Arrangements

We utilize indemnity reinsurance agreements to reduce our exposure to losses from our annuity and life insurance businesses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge our primary liability as the direct insurer of the risks. Reinsurance treaties are structured as monthly or yearly renewable term, coinsurance, or modified

coinsurance. The Company also evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers.

As of December 31, 2015, we have a significant concentration of ceded reinsurance with our affiliates, Security Life of Denver Insurance Company ("SLD") and Security Life of Denver International Limited ("SLDI") primarily related to GICs and universal life policies with respect to SLD and variable annuities with respect to SLDI. The outstanding reinsurance recoverable balances may fluctuate from period to period. SLDI redomesticated from the Cayman Islands to the State of Arizona, effective December 20, 2013. SLDI was approved as an Arizona-domiciled captive reinsurer by the Arizona Department of Insurance.

One of the main risks reinsured by us is the guaranteed minimum death benefits ("GMDB") on our variable annuity policies issued prior to January 1, 2000. For contracts issued after December 31, 1999, we hedge our exposure due to these products. Other reinsurance contracts coinsure life, accident and health and annuity businesses. We continually monitor and evaluate the financial strength and credit ratings of our reinsurers. Only those reinsurance recoverable balances deemed probable of recovery are reflected as assets on our Balance Sheets.

We entered into an automatic reinsurance agreement on June 30, 2008 with SLDI. Under the terms of the agreement, we ceded to SLDI 100% of the benefits guaranteed under specific variable annuity guaranteed living benefit riders attached to certain variable annuity contracts issued by us on or after January 1, 2000. Effective July 1, 2009, we and SLDI entered into an amended and restated reinsurance agreement to change the reinsurance basis of the existing automatic reinsurance agreement dated June 30, 2008 between us and SLDI from coinsurance to a combined coinsurance and coinsurance funds withheld basis. Effective October 1, 2011, we and SLDI entered into an amended and restated automatic reinsurance agreement of the existing 2009 amended and restated automatic reinsurance agreement in order to provide more flexibility to the Company and SLDI with respect to the collateralization of the reserves related to the variable annuity guaranteed living benefits reinsured under the agreement.

Effective May 1, 2005, we entered into a coinsurance agreement with our affiliate, SLD. Under the terms of the agreement, SLD assumed and accepted the responsibility for paying, when due, 100% of the liabilities arising under the multi-year guaranteed fixed annuity contracts issued by us between January 1, 2001 and December 31, 2003. In addition, we assigned SLD all future premiums received by us attributable to the ceding contracts. The coinsurance agreement was accounted for using the deposit method. On September 25, 2015, we recaptured, via a commutation agreement, the multi-year guaranteed fixed annuity contracts ceded under the coinsurance agreement.

We also currently reinsure risks ceded by our affiliates, ReliaStar Life Insurance Company ("RLI") and SLD, on life insurance policies through a coinsurance funds withheld agreement, a quota share retrocession agreement and stop-loss agreements.

See "Item 7. Management's Narrative Analysis of the Results of Operations and Financial Condition-Liquidity and Capital Resources-Reinsurance Agreements" for further discussion of our reinsurance arrangements.

Investment Overview and Strategy

Our investment strategy seeks to achieve sustainable risk-adjusted returns by focusing on principal preservation, disciplined matching of asset characteristics with liability requirements and the diversification of risks. Investment activities are undertaken according to investment policy statements that contain internally established guidelines and risk tolerances and in all cases are required to comply with applicable laws and insurance regulations. Risk tolerances are established for credit risk, credit spread risk, market risk, liquidity risk and concentration risk across issuers, sectors and asset types that seek to mitigate the impact of cash flow variability arising from these risks.

Investments are managed by Voya Investment Management LLC, our affiliate, pursuant to an investment advisory agreement. Portfolios are established for groups of products with similar liability characteristics within us. Our investment portfolio consists largely of high quality fixed maturity securities and short-term investments, investments in commercial mortgage loans, limited partnerships and other instruments, including a small amount of equity holdings. Fixed maturity securities include publicly issued corporate bonds, government bonds, privately placed notes and bonds, mortgage-backed securities and asset-backed securities. We use derivatives for hedging purposes and to replicate exposure to other assets as a more efficient means of assuming credit exposure similar to bonds of the underlying issuer(s).

Employees and Other Shared Services

We had 479 employees as of December 31, 2015, primarily focused on managing new business processing, customer service and product management for us and certain of our affiliates, as well as providing product development and distribution, actuarial and

finance services to us and certain of our affiliates. We also utilize services provided by Voya Services Company and other affiliates. These services include underwriting, risk management, human resources, investment management, information technology, legal and compliance services, as well as other new business processing, product distribution, marketing, customer service, product management, actuarial and finance related services. The affiliated companies are reimbursed for our use of various services and facilities under a variety of intercompany agreements.

On June 2, 2014, our affiliate, Voya Services Company entered into an agreement to outsource the actuarial valuation, modeling and hedging functions for our retail variable annuity products for which we ceased sales in 2010 to Milliman, Inc. ("Milliman"). Under this agreement, Milliman performs the calculation of financial reporting and risk metrics, along with the analytics used to determine hedge positions. We will continue to oversee and manage our existing block of variable annuity business and retain full accountability for assumptions and methodologies, as well as the setting of hedge objectives and the execution of hedge positions. This agreement will allow us to create a more variable cost structure for the block of variable annuity business.

REGULATION

Our operations and businesses are subject to a significant number of Federal and state laws, regulations, administrative determinations and similar legal constraints. Such laws and regulations are generally designed to protect our policyholders, contract owners and other customers and not our stockholders. Many of the laws and regulations to which we are subject are regularly re-examined and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations.

Following is a description of certain legal and regulatory frameworks to which we are or may be subject.

Insurance Regulation

Our operations are subject to comprehensive regulation and supervision under U.S. state and federal laws. Each U.S. state, the District of Columbia and U.S. territories and possessions have insurance laws that apply to companies licensed to carry on an insurance business in the jurisdiction. We are subject to the insurance laws of the State of Iowa, where we are domiciled and other jurisdictions in which we transact business. The primary regulator of our insurance operations is the Division of Insurance for the State of Iowa.

State insurance regulators have broad administrative powers with respect to all aspects of the insurance business including: licensing to transact business, licensing agents, admittance of assets to statutory surplus, regulating premium rates for certain insurance products, approving policy forms, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards, establishing credit for reinsurance requirements, fixing maximum interest rates on life insurance policy loans and minimum accumulation or surrender values and other matters. State insurance laws and regulations include numerous provisions governing the marketplace conduct of insurers, including provisions governing the form and content of disclosures to consumers, product illustrations, advertising, product replacement, suitability, sales and underwriting practices, complaint handling and claims handling. State regulators enforce these provisions through periodic market conduct examinations. State insurance laws and regulations regulating affiliate transactions, the payment of dividends, and change of control transactions are discussed in greater detail below.

State insurance laws and regulations require us to file financial statements with state insurance regulators everywhere we are licensed and our operations and accounts are subject to examination by those regulators at any time. We prepare statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these regulators. The National Association of Insurance Commissioners (the “NAIC”) has approved a series of uniform statutory accounting principles ("SAP") that have been adopted, in some cases with minor modifications, by all state insurance regulators.

As a basis of accounting, SAP was developed to monitor and regulate the solvency of insurance companies. In developing SAP, insurance regulators were primarily concerned with assuring an insurer’s ability to pay all its current and future obligations to policyholders. As a result, statutory accounting focuses on conservatively valuing the assets and liabilities of insurers, generally in accordance with standards specified by the insurer’s domiciliary state. The values for assets, liabilities and equity reflected in financial statements prepared in accordance with U.S. GAAP are usually different from those reflected in financial statements prepared under SAP.

State insurance regulators conduct periodic financial examinations of the books, records, accounts and business practices of insurers domiciled in their states, generally every three to five years. Financial examinations are generally carried out in cooperation with the insurance regulators of other states under guidelines promulgated by the NAIC. State and federal insurance and securities regulatory authorities and other state law enforcement agencies and attorneys general also from time to time make inquiries and

conduct examinations or investigations regarding the compliance by our company, as well as other companies in our industry, with, among other things, insurance laws and securities laws.

State insurance regulators, the NAIC and other regulatory bodies are also investigating the use of affiliated captive reinsurers or off-shore entities to reinsure insurance risks and the NAIC has made recent advances in captive reform. In June 2014, the NAIC adopted a new regulatory framework for captives assuming business governed by Regulations XXX or AXXX, called the "Rector framework". In December 2014, the NAIC adopted Actuarial Guideline 48 ("AG48") which established a new regulatory requirement applicable to XXX and AG38 reserves ceded to reinsurers, including affiliated reinsurers, as the first step in implementing the Rector framework. As adopted, AG48 limits the type of assets that may be used as collateral to cover the XXX and AG38 statutory reserves and is applied prospectively to existing reinsurance transactions that reinsure policies issued on or after January 1, 2015 and new reinsurance transactions entered into on or after January 1, 2015. The NAIC has charged multiple working groups with the responsibility to prepare regulations that would codify the Rector framework and that work continues at the NAIC. In 2014, the NAIC also considered a proposal to require states to apply NAIC accreditation standards, applicable to traditional insurers, to captive reinsurers. In 2015, the NAIC adopted such a proposal, in the form of a revised preamble to the NAIC accreditation standards (the "Standard"), with an effective date of January 1, 2016 for application of the Standard to captives that assume XXX or AXXX business. Under the Standard, a state will be deemed in compliance as it relates to XXX or AXXX captives if the applicable reinsurance transaction satisfies AG 48. In addition, the Standard applies prospectively, so that XXX or AXXX captives will not be subject to the Standard if reinsured policies were issued prior to January 1, 2015 and ceded so that they were part of a reinsurance arrangement as of December 31, 2014. The NAIC left for future action application of the Standard to captives that assume variable annuity business. As drafted, it appears that the Standard would apply to our affiliate, Security Life of Denver International Limited, an Arizona captive.

During 2015, The NAIC Financial Conditions (E) Committee (the "E Committee") established the Variable Annuities Issues (E) Working Group ("VAIWG") to oversee the NAIC's efforts to study and address, as appropriate, regulatory issues resulting in variable annuity captive reinsurance transactions. The VAIWG retained Oliver Wyman to study the industry's use of variable annuity captive reinsurance and to develop a set of recommended changes to address the issues involving variable annuity captives. In September 2015, Oliver Wyman issued an initial report, which was adopted by the VAIWG, outlining its preliminary findings and making recommendations for enhancements to the variable annuity statutory framework. In November 2015, upon recommendation of the VAIWG, the E Committee adopted a Variable Annuities Framework for Change (the "VA Framework for Change") which recommends charges for NAIC working groups to adjust the variable annuity statutory framework applicable to all insurers that have written or are writing variable annuity business. The VA Framework for Change contemplates a holistic set of reforms that would improve the current reserve and capital framework and address root cause issues that result in the use of captive arrangements. Although the VA Framework for Change recommends an effective date of January 1, 2017, the timing of these proposals remains uncertain. In November 2015, the NAIC also approved funding for a quantitative impact study, to be conducted by Oliver Wyman and involving industry participants including us, of various reforms outlined in the VA Framework for Change (the "QIS Study").

We cannot predict what revisions, if any, would be made to the Rector framework or the Standard for application to captives that assume XXX or AXXX business, as multiple NAIC working groups undertake their implementation, to the VA Framework for Change proposal as a result of the QIS Study and ongoing NAIC deliberations, or to the Standard, if adopted for variable annuity captives. It is also unclear whether these or other proposals will be adopted by the NAIC, or what additional actions and regulatory changes will result from the continued captives scrutiny and reform efforts by the NAIC and other regulatory bodies. We utilize affiliated captive insurers to satisfy certain statutory reserve requirements related to certain of our variable annuity contracts. If state insurance regulators determine to restrict our use of affiliated captive reinsurers, it could require us to increase statutory reserves, incur higher operating or tax costs or reduce sales. See "Item 1A. Risk Factors - Risks Related to Regulation - Our businesses are heavily regulated, and changes in regulation in the United States, enforcement actions and regulatory investigations may reduce profitability".

Insurance Holding Company Regulation

Because we are part of an affiliated group of companies, we are subject to the insurance holding company law of the State of Iowa, our state of domicile. State insurance holding company law generally requires each insurance company directly or indirectly owned by the holding company to register with the insurance regulator in the insurance company's state of domicile and to furnish annually financial and other information about the operations of companies within the holding company system. Generally, all transactions affecting the insurers in the holding company system must be fair and reasonable and, if material, require prior notice and approval or non-disapproval by the state's insurance regulator.

Change of Control. State insurance holding company regulations, including those of Iowa, generally provide that no person, corporation or other entity may acquire control of an insurance company, or a controlling interest in any parent company of an insurance company, without the prior approval of such insurance company's domiciliary state insurance regulator. Under Iowa law, any person acquiring, directly or indirectly, 10% or more of the voting securities of an insurance company is presumed to have acquired "control" of the company. This statutory presumption of control may be rebutted by a showing that control does not exist in fact. Our Iowa insurance regulators, however, may find that "control" exists in circumstances in which a person owns or controls less than 10% of voting securities.

To obtain approval of any change in control, any proposed acquirer must file with the Iowa Division of Insurance an application disclosing, among other information, its background, financial condition, the financial condition of its affiliates, the source and amount of funds by which it will effect the acquisition, the criteria used in determining the nature and amount of consideration to be paid for the acquisition, proposed changes in the management and operations of the insurance company and other related matters.

Any purchaser of shares of common stock representing 10% or more of the voting power of our capital stock or that of Voya Financial, Inc. will be presumed to have acquired control of our Company unless, following application by that purchaser with the Iowa Division of Insurance, the Insurance Commissioner determines otherwise.

NAIC Amendments. In 2010, the NAIC adopted significant changes to the insurance holding company model act and regulations (the "NAIC Amendments"). The NAIC Amendments include a requirement that an insurance holding company system's ultimate controlling person submit annually to its lead state insurance regulator an "enterprise risk report" that identifies activities, circumstances or events involving one or more affiliates of an insurer that, if not remedied properly, are likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole. The NAIC Amendments also include a provision requiring a controlling person to submit prior notice to its domiciliary insurance regulator of a divestiture of control. The NAIC Amendments must be adopted by the individual state legislatures and insurance regulators in order to be effective. Iowa adopted its version of the NAIC Amendments.

In addition, the NAIC has proposed a "Solvency Modernization Initiative" which focuses on: (1) capital requirements; (2) corporate governance and risk management; (3) group supervision; (4) statutory accounting and financial reporting; and (5) reinsurance. This initiative has resulted in the adoption by the NAIC in September 2012 of the Risk Management and Own Risk and Solvency Assessment Model Act ("ORSA"), which has been enacted by the Iowa legislature. ORSA requires that insurers maintain a risk management framework and conduct an internal own risk and solvency assessment of the insurer's material risks in normal and stressed environments. The assessment must be documented in a confidential annual summary report, a copy of which must be made available to regulators as required or upon request. In 2015, Voya Financial, Inc. prepared and submitted the first ORSA summary report on behalf of the consolidated enterprise to the Connecticut Insurance Department, the lead insurance regulator of Voya Financial, Inc.'s consolidated enterprise. This initiative also resulted in the adoption by the NAIC in August 2014 of the Corporate Governance Annual Filing Model Act, which requires insurers to make an annual confidential filing regarding their corporate governance policies. This new model has been enacted by the Iowa legislature.

Dividend Payment Restrictions. The insurance law of an insurance company's state of domicile imposes certain restrictions on a domiciliary insurance company's ability to pay dividends to its parent. These restrictions are based in part on the prior year's statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval. Dividends in larger amounts, or extraordinary dividends, are subject to approval by the insurance commissioner of the state of domicile of the insurance subsidiary proposing to pay the dividend. In addition, under Iowa insurance law, no dividend or other distribution exceeding an amount equal to an insurance company's earned surplus may be paid without the domiciliary insurance regulator's prior approval.

Financial Regulation

Policy and Contract Reserve Sufficiency Analysis. Under the laws and regulations of Iowa, we are required to conduct annual analyses of the sufficiency of our life and annuity statutory reserves. Other jurisdictions in which we are licensed may have certain reserve requirements that differ from our state of domicile. In each case, a qualified actuary must submit an opinion that states that the aggregate statutory reserves, when considered in light of the assets held with respect to such reserves, are sufficient to meet the insurer's contractual obligations and related expenses. If such an opinion cannot be rendered, the affected insurer must set up additional statutory reserves by moving funds from available statutory surplus. We submit these opinions annually to applicable insurance regulatory authorities.

Recent actions by the NAIC. The NAIC has begun a process of redefining the reserve methodology for certain of our insurance liabilities under a framework known as Principles-Based Reserving ("PBR"). Under PBR, an insurer's reserves are still required

to be conservative, since a primary focus of SAP is the protection of policyholders, however, greater credence is given to the insurer's realized past experience and anticipated future experience as well as to current economic conditions. An important part of the PBR framework was the adoption of AG43 as of December 31, 2009 for variable annuity guaranteed benefits.

Surplus and Capital Requirements. Insurance regulators have the discretionary authority, in connection with the ongoing licensing of insurance companies, to limit or prohibit the ability of an insurer to issue new policies if, in the regulators' judgment, the insurer is not maintaining a minimum amount of surplus or is in hazardous financial condition. Insurance regulators may also limit the ability of an insurer to issue new life insurance policies and annuity contracts above an amount based upon the face amount and premiums of policies of a similar type issued in the prior year. We do not currently believe that the current or anticipated levels of our statutory surplus present a material risk that any such regulator would limit the amount of new policies that we may issue.

Risk-Based Capital. The NAIC has adopted risk-based capital ("RBC") requirements for life, health and property and casualty insurance companies. The requirements provide a method for analyzing the minimum amount of adjusted capital (statutory capital and surplus plus other adjustments) appropriate for an insurance company to support its overall business operations, taking into account the risk characteristics of the company's assets, liabilities and certain off-balance sheet items. State insurance regulators use the RBC requirements as an early warning tool to identify possibly inadequately capitalized insurers. An insurance company found to have insufficient statutory capital based on its RBC ratio may be subject to varying levels of additional regulatory oversight depending on the level of capital inadequacy. As of December 31, 2015, our RBC exceeded statutory minimum RBC levels that would require any regulatory or corrective action.

The NAIC is currently working with the American Academy of Actuaries as they consider possible updates to the asset risk factors applied to the investment portfolio assets. The NAIC review may lead to an expansion in the number of NAIC asset class categories for factor charges and the adoption of new factors, which could increase capital requirements on some securities and decrease capital requirements on others. We cannot predict what, if any, changes may result from this review or their potential impact on our RBC ratios. We will continue to monitor developments in this area.

IRIS Tests. The NAIC has developed a set of financial relationships or tests known as the Insurance Regulatory Information System ("IRIS") to assist state regulators in monitoring the financial condition of U.S. insurance companies and identifying companies requiring special attention or action. For IRIS ratio purposes, we submit data to the NAIC on an annual basis. The NAIC analyzes this data using prescribed financial data ratios. A ratio falling outside the prescribed "usual range" is not considered a failing result. Rather, unusual values are viewed as part of the regulatory early monitoring system. In many cases, it is not unusual for financially sound companies to have one or more ratios that fall outside the usual range.

Regulators typically investigate or monitor an insurance company if its IRIS ratios fall outside the prescribed usual range for four or more of the ratios, but each state has the right to inquire about any ratios falling outside the usual range. The inquiries made by state insurance regulators into an insurance company's IRIS ratios can take various forms.

Management does not anticipate regulatory action as a result of the 2015 IRIS ratio results. In all instances in prior years, regulators have been satisfied upon follow-up that no regulatory action was required. It is possible that similar results may not occur in the future.

Insurance Guaranty Associations. Each state has insurance guaranty association laws that require insurance companies doing business in the state to participate in various types of guaranty associations or other similar arrangements. The laws are designed to protect policyholders from losses under insurance policies issued by insurance companies that become impaired or insolvent. Typically, these associations levy assessments, up to prescribed limits, on member insurers on the basis of the member insurer's proportionate share of the business in the relevant jurisdiction in the lines of business in which the impaired or insolvent insurer is engaged. Some jurisdictions permit member insurers to recover assessments that they paid through full or partial premium tax offsets, usually over a period of years.

We accrue the cost of future guaranty fund assessments based on estimates of insurance company insolvencies provided by the National Organization of Life and Health Insurance Guaranty Associations and the amount of premiums written in each state. We have estimated this liability to be $1.2 million and $1.6 million as of December 31, 2015 and 2014, respectively. We have also recorded an asset of $1.7 million and $2.3 million as of December 31, 2015 and 2014, respectively, for future credits to premium taxes for assessments already paid. We estimate our liabilities for future assessments under state insurance guaranty association laws. We believe the reserves established are adequate for future assessments relating to insurance companies that are currently subject to insolvency proceedings.

Marketing and Sales

State insurance regulators are becoming more active in adopting and enforcing suitability standards with respect to sales of fixed, indexed and variable annuities. In particular, the NAIC has adopted a revised Suitability in Annuity Transactions Model Regulation ("SAT"), which will, if enacted by the states, place new responsibilities upon issuing insurance companies with respect to the suitability of annuity sales, including responsibilities for training agents. Several states have already enacted laws based on the SAT.

Federal Initiatives Affecting Insurance Operations

The U.S. federal government generally does not directly regulate the insurance business. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") established the Federal Stability Oversight Council ("FSOC"), which is authorized to designate non-bank financial companies as systemically significant and accordingly subject such companies to regulation and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve") if the FSOC determines that material financial distress at the company or the scope of the company's activities could pose a threat to the financial stability of the U.S. See "--Financial Reform Legislation and Initiatives -- Dodd-Frank Wall Street Reform and Consumer Protection Act" below.

The Dodd-Frank Act also established FIO within the United States Department of the Treasury ("Treasury Department"). While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance, including serving as a non-voting member of the FSOC, making recommendations to the FSOC regarding insurers to be designated for more stringent regulation as a nonbank financial entity supervised by the Federal Reserve and representing the U.S. in the negotiation of international insurance agreements with foreign insurance regulators. The Dodd-Frank Act also required the director of FIO to conduct a study on how to modernize and improve the system of insurance regulation in the United States. The director issued that report in December 2013, recommending increased federal involvement in certain areas of insurance regulation to improve uniformity, and setting out recommendations in areas of near-term reform for the states, including capital and marketplace oversight. The report also recommended that states develop a uniform and transparent solvency oversight regime for the transfer of risk to reinsurance captives, and adopt a uniform capital requirement for reinsurance captives, including a prohibition on transactions that do not constitute legitimate risk transfer. FIO has an ongoing charge to monitor all aspects of the insurance industry and will monitor state regulatory developments, including those called for in its modernization report and present options for federal involvement if deemed necessary.

Federal legislation and administrative policies in several areas can significantly and adversely affect insurance companies. These areas include federal health care regulation, pension regulation, financial services regulation, federal tax laws relating to life insurance companies and their products and the USA PATRIOT Act of 2001 (the "Patriot Act") requiring, among other things, the establishment of anti-money laundering monitoring programs.

In this regard, from time to time, federal measures are proposed which may significantly affect the insurance business, including measures that would limit antitrust immunity, change the tax treatment of insurance products relative to other financial products, simplify tax-advantaged or tax-exempt savings and retirement vehicles, restructure the corporate income tax provisions, or modify or eliminate the estate tax as well as proposals related to an optional federal charter for insurance companies. In addition, various forms of direct federal regulation of insurance have been proposed in recent years.

Regulation of Annuity Products

Our annuity products are subject to federal and state tax, securities, fiduciary, insurance and other laws and regulations. The SEC, the Financial Industry Regulatory Authority ("FINRA"), state securities commissions, state insurance departments and the Department of Labor ("DOL") and the Treasury Department are the principal regulators that regulate these products. The Dodd-Frank Act may also impact our annuity operations. See "Financial Reform Legislation and Initiatives-Dodd-Frank Wall Street Reform and Consumer Protection Act" below.

We sell variable annuities that are registered with the SEC as securities under the Securities Act of 1933, as amended (the "Securities Act") and are subject to regulation by the SEC and FINRA. In addition, certain fixed and indexed annuities we may offer are registered as securities under the Securities Act. The variable annuity products are issued through separate accounts and some of the separate accounts are registered as investment companies under the Investment Company Act of 1940 (the "Investment Company Act"), and are regulated by state law. Each separate account is generally divided into sub-accounts, each of which invests in an underlying mutual fund which is itself a registered investment company under the Investment Company Act. Such mutual funds, and in certain states, our variable annuity products, are subject to filing and other requirements under state securities laws. Federal

and state securities laws and regulations are primarily intended to protect investors and generally grant broad rulemaking and enforcement powers to regulatory agencies. Federal and state securities regulatory authorities and FINRA from time to time make inquiries and conduct examinations regarding compliance by us and our affiliates with securities and other laws and regulations.

Distribution of our annuity products registered as securities are affected by laws and regulations applicable to broker-dealers. Pursuant to the Dodd-Frank Act, the SEC is authorized to establish a standard of conduct applicable to brokers and dealers whereby they would be required to act in the best interest of the customer without regard to the financial or other interest of the broker or dealer when providing personalized investment advice to retail and other customers. A January 2011 SEC study acknowledges that the offering of proprietary products would not be a per se violation of any such standard of care and that broker-dealers selling proprietary or a limited range of products could be permitted to make certain disclosures about their limited product offerings and obtain customer consents or acknowledgments. The SEC has not yet decided whether to propose rules creating a uniform standard of conduct applicable to broker-dealers and investment advisers.

In April 2015, the DOL published a proposed rule that would broaden the definition of "fiduciary" under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and for other purposes. The proposal was subject to public comment and we submitted a comment letter to the DOL on July 16, 2015, expressing our views on the proposed rule and participated in a DOL hearing concerning the proposal on August 11, 2015. The DOL's final version of the proposed rule is currently under review by the President's Office of Management and Budget. We currently expect a final rule to be published sometime during the first half of 2016.

As proposed, the rule would expand the circumstances in which providers of investment advice to small plan sponsors, plan participants and beneficiaries, and IRA investors are deemed to act in a fiduciary capacity. The rule would require such providers to act in their clients' "best interests", not influenced by any conflicts of interest, including due to the direct or indirect receipt of compensation. The DOL concurrently proposed a "best interest contract exemption" intended to enable continuation of certain existing industry practices relating to receipt of commissions and other compensation, but the exemption includes conditions and requirements that may make it costly or difficult to rely upon in practice. Although the final outcome of the DOL rulemaking remains uncertain, the proposed rule, if adopted in its current form, would substantially change the legal framework within which we and our affiliates provide certain of our products and services. While these changes, as proposed, would restrict certain advisory practices and compensation arrangements that are common in our industry, we believe our experience providing retirement and investment products and services in a fiduciary environment positions us well to remain competitive as the industry adjusts to any final rulemaking from the DOL.

The SEC also has indicated that it may propose rules creating a uniform standard of conduct applicable to broker-dealers and investment advisers, which, if adopted may affect the distribution of our products. Should the SEC rules, if adopted, not align with any finalized DOL regulations related to conflicts of interest in the provision of investment advice, the distribution of our products could be further complicated.

Financial Reform Legislation and Initiatives

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Act, which effects comprehensive changes to the regulation of financial services in the United States. The Dodd-Frank Act directs existing and newly-created government agencies and bodies to perform studies and promulgate a multitude of regulations implementing the law, a process that is underway and is expected to continue over the next few years. While some studies have already been completed and the rule-making process is well underway, there continues to be significant uncertainty regarding the results of ongoing studies and the ultimate requirements of those regulations that have not yet been adopted. We cannot predict with certainty how the Dodd-Frank Act and such regulations will affect the financial markets generally, or impact our business, ratings, results of operations, cash flows or financial condition.

The Dodd-Frank Act created a new agency, the FSOC, which is authorized to subject nonbank financial companies to the supervision of the Federal Reserve if the FSOC determines that, among other matters, material financial distress at the company or the scope of the company's activities could pose risks to the financial stability of the United States. If we or Voya Financial, Inc. were designated by the FSOC as a systemically significant nonbank financial company subject to supervision by the Federal Reserve, we would become subject to a comprehensive system of prudential regulation, including minimum capital requirements, liquidity standards, credit exposure requirements, overall risk management requirements, management interlock prohibitions, a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress, stress testing, and additional fees and assessments and restrictions on proprietary trading and certain investments. The exact scope and consequences of these standards and requirements are subject to ongoing rulemaking activity by various federal banking regulators and therefore are currently

unclear. However, this comprehensive system of prudential regulation, if applied to Voya Financial, Inc. or us, would significantly impact the manner in which we operate and could materially and adversely impact the profitability of one or more of our business lines or the level of capital required to support our activities. In designating non-bank financial companies for heightened prudential regulation by the Federal Reserve, the FSOC considers, among other matters, the scope, size and potential impact of their activities on the financial stability of the United States.

In addition, the Dodd-Frank Act contains numerous other provisions, some of which may have an impact on us. These include:

- The FSOC may recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices we and other insurers or other financial services companies engage in if the FSOC determines that those activities or practices could create or increase the risk that significant liquidity, credit or other problems spread among financial companies. We cannot predict whether any such recommendations will be made or their effect on our business, results of operations, cash flows or financial condition.

- The Dodd-Frank Act creates a new framework for regulating over-the-counter ("OTC") derivatives, which may increase the costs of hedging and other permitted derivatives trading activity undertaken by us. Under the new regulatory regime and subject to certain exceptions, certain standardized OTC interest rate and credit derivatives must now be cleared through a centralized clearinghouse and executed on a centralized exchange or execution facility, and the CFTC and the SEC may designate additional types of OTC derivatives for mandatory clearing and trade execution requirements in the future. In addition to mandatory central clearing and trade execution of certain OTC derivatives, market participants like us are or will be (directly or indirectly) subject to regulatory requirements which may include reporting and recordkeeping, and capital and margin requirements. The transition to central clearing and the new regulatory regime governing OTC derivatives (especially margin requirements for non-cleared derivatives) presents potentially significant business, liquidity and operational risk for us which could materially and adversely impact both the cost and our ability to effectively hedge various risks, including equity, interest rate, currency and duration risks within many of our insurance and annuity products and investment portfolios. In addition, inconsistencies between the Dodd-Frank Act regime and parallel regimes in other jurisdictions, such as the EU, may increase costs of hedging or inhibit our ability to access market liquidity in those other jurisdictions.

- The Dodd-Frank Act established FIO within the Treasury Department to be headed by a director appointed by the Secretary of the Treasury. See "Insurance Regulation-Federal Initiatives Affecting Insurance Operations" above.

- The Dodd-Frank Act includes various securities law reforms that may affect our business practices and the liabilities and/or exposures associated therewith. See "Regulation of Annuity Products" above.

Until final regulations are promulgated pursuant to the Dodd-Frank Act, the full impact of the Dodd-Frank Act on our businesses, products, results of operation and financial condition will remain unclear.

Other Laws and Regulations

USA Patriot Act

The Patriot Act contains anti-money laundering and financial transparency laws applicable to broker-dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Anti-money laundering laws outside of the United States contain provisions that may be different, conflicting or more rigorous. Internal practices, procedures and controls are required to meet the increased obligations of financial institutions to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies and share information with other financial institutions.

We are also required to follow certain economic and trade sanctions programs administered by the Office of Foreign Asset Control that prohibit or restrict transactions with suspected countries, their governments and, in certain circumstances, their nationals. We are also subject to regulations governing bribery and other anti-corruption measures.

Privacy Laws and Regulation

U.S. federal and state laws and regulations require financial institutions, including insurance companies, to protect the security and confidentiality of personal information and to notify consumers about their policies and practices relating to their collection

and disclosure of consumer information and the protection of the security and confidentiality of that information. The disclosure and security of protected health information is also governed by federal and state laws. In particular, regulations promulgated by the U.S. Department of Health and Human Services regulate the disclosure and use of protected health information by health insurers and others (including life insurers), the physical and procedural safeguards employed to protect the security of that information and the electronic transmission of such information. Federal and state laws require notice to affected individuals, law enforcement, regulators and others if there is a breach of the security of certain personal information, including social security numbers, and require holders of certain personal information to protect the security of the data. Federal regulations require financial institutions to implement effective programs to detect, prevent and mitigate identity theft. Federal and state laws and regulations regulate the ability of financial institutions to make telemarketing calls and to send unsolicited e-mail or fax messages to consumers and customers. Federal laws and regulations also regulate the permissible uses of certain types of personal information, including consumer report information. Federal and state governments and regulatory bodies may consider additional or more detailed regulation regarding these subjects.

Environmental Considerations

Our ownership and operation of real property and properties within our commercial mortgage loan portfolio is subject to federal, state and local environmental laws and regulations. Risks of hidden environmental liabilities and the costs of any required clean-up are inherent in owning and operating real property. Under the laws of certain states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of clean-up, which could adversely affect the valuation of, and increase the liabilities associated with, the commercial mortgage loans we hold. In several states, this lien has priority over the lien of an existing mortgage against such property. In addition, we may be liable, in certain circumstances, as an “owner” or “operator,” for costs of cleaning-up releases or threatened releases of hazardous substances at a property mortgaged to us under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and the laws of certain states. Application of various other federal and state environmental laws could also result in the imposition of liability on us for costs associated with environmental hazards.

We routinely conduct environmental assessments prior to closing any new commercial mortgage loans or to taking title to real estate. Although unexpected environmental liabilities can always arise, we seek to minimize this risk by undertaking these environmental assessments and complying with our internal environmental policies and procedures.

U.S. Supreme Court Decision Regarding Same-Sex Marriage

On June 26, 2015, the United States Supreme Court held in *Obergefell v. Hodges* that same-sex couples have a constitutional right to marry, and accordingly, marriages between same-sex couples may now be celebrated, and will now be recognized in all 50 states. We expect this decision to result in changes to the administration of retirement and other benefit plans in various U.S. states, although we cannot predict with certainty how these changes will affect our business. In particular, it is possible that changes to our tax reporting and withholding systems will be required in order to comply with applicable state tax regulations.

Item 1A. Risk Factors
(Dollar amounts in millions, unless otherwise stated)

We face a variety of risks that are substantial and inherent in our business, including market, liquidity, credit, operational, legal, regulatory and reputational risks. The following are some of the more important factors that could affect our business.

Risks Related to Our Business - General

Continued difficult conditions in the global capital markets and the economy generally have affected and may continue to affect our business, results of operations and financial condition.

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. Slowing growth rates globally and the uncertain consequences of changing monetary policies among the world's large central banks could create economic disruption, decrease asset prices, increase market volatility and potentially affect the availability and cost of credit.

Although we carry out business almost exclusively in the United States, we are affected by both domestic and international macroeconomic developments. In the short and medium term, the U.S. market faces difficulties that include persistent weakness in economic growth, volatility in asset prices and questions surrounding the program announced by the Federal Open Market Committee ("FOMC") of the Federal Reserve to gradually tighten monetary policy. In the longer term, concerns persist around the long-term sustainability of the nation's debt profile, especially given expectations regarding future entitlement spending and persistent budget deficits, the effect on the financial system of the significant regulatory changes enacted in the aftermath of the 2008-09 financial crisis, and the consequences of increasing Federal legislative gridlock, in particular on tax and fiscal policy.

Internationally, slowing levels of growth in developing markets, in particular in China, could have significant adverse consequences for the level of global economic activity, and on commodity and other asset markets. In turn, falling commodity and energy prices can give rise to significant dislocations in global credit and currency markets, as the consequences of lower prices, revenues and asset prices are felt by borrowers and exporters, and in turn creditors and investors. In addition, the Chinese market faces concerns surrounding the stability of its credit, equity and real estate markets, and any crisis in these markets could have global consequences.

In Europe, although acute concerns regarding the economic and fiscal viability of countries such as Greece have to some extent abated, long-term structural headwinds remain in the Eurozone's move towards a closer currency, fiscal, economic and monetary union, and significant concerns persist regarding the sovereign debt of Greece and certain other Eurozone countries. In recent times, political events have increasingly threatened the cohesiveness of the European Union, and may ultimately result in the cessation or rollback of the political and economic integration of Europe that has occurred over the past several decades. In particular, the United Kingdom is expected to hold a referendum by 2017 on its future role within Europe, the outcome of which could have substantial adverse consequences for the U.K. and European economies. The financial and political turmoil in Europe continues to be a long-term threat to global capital markets and remains a challenge to global financial stability. If countries, such as Greece, require additional financial support or if their sovereign credit ratings decline further, yields on such sovereign debt may increase, the cost of borrowing may increase and the availability of credit may become more limited. Additionally, the possibility of capital market volatility spreading through a highly integrated and interdependent banking system remains elevated. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses for which they would require additional capital, which may not be available.

In 2015, the FOMC began to tighten U.S. monetary policy as it seeks to gradually reverse programs and policies that have, in recent years, fostered a historically low interest rate environment. The effect of this effort, and the novel mechanism through which the FOMC is implementing it, remains uncertain, and could include increased volatility in debt, equity, currency and commodity markets. As the FOMC moves towards normalizing monetary policy and moving short-term interest rates off of their lower bound, the central bank may adversely affect prospects for continued economic recovery with little headroom for incremental monetary accommodation. Any increase in interest rates resulting from the FOMC's monetary policy would generally result in declining values for fixed income investments, including those we hold in our investment portfolio. A failure to successfully implement a tightening policy, on the other hand, could lead to a continued persistence of low interest rates and an associated adverse effect on certain of our long-dated liabilities and the reserves we are required to hold against them. Our results of operations, investment portfolio and AUM are exposed to these risks and may be adversely affected as a result.

More generally, the international system has in recent years faced heightened geopolitical risk, most notably in Eastern Europe and the Middle East, but also in Africa and Southeast Asia, and events in any one of these regions could give rise to an increase in market volatility or a decrease in global economic output.

Even in the absence of a market downturn, our annuity, retirement and investment products, as well as our investment returns and our access to and cost of financing, are sensitive to equity, fixed income, real estate and other market fluctuations and general economic and political conditions. These fluctuations and conditions could materially and adversely affect our results of operations, financial condition and liquidity, including in the following respects:

- We provide a number of annuity, retirement and investment products that expose us to risks associated with fluctuations in interest rates, market indices, securities prices, default rates, the value of real estate assets, currency exchange rates and credit spreads. The profitability of many of our annuity, retirement and investment products depends in part on the value of the general accounts and separate accounts supporting them, which may fluctuate substantially depending on the foregoing conditions.
- Volatility or downturns in the equity markets can cause a reduction in fee income on annuity products. Because these products generate fees related primarily to the value of AUM, a decline in the equity markets could reduce our revenues.
- A change in market conditions, including prolonged periods of high or low inflation or interest rates, could cause a change in consumer sentiment and adversely affect sales and could cause the actual persistency of these products to vary from their anticipated persistency (the probability that a product will remain in force from one period to the next) and adversely affect profitability. Changing economic conditions or adverse public perception of financial institutions can influence customer behavior, which can result in, among other things, an increase or decrease in claims, lapses, withdrawals, deposits or surrenders in certain products, any of which could adversely affect profitability.
- An equity market decline, decreases in prevailing interest rates or a prolonged period of low interest rates could result in the value of guaranteed minimum benefits contained in certain of our life insurance, annuity and retirement products being higher than current account values or higher than anticipated in our pricing assumptions, requiring us to materially increase reserves for such products, and may result in a decrease in customer lapses, thereby increasing the cost to us. In addition, such a scenario could lead to increased amortization and/or unfavorable unlocking of our deferred acquisition costs ("DAC") and value of business acquired ("VOBA").
- We have significant investment and derivative portfolios that include, among other investments, corporate securities, asset-backed securities ("ABS"), equities and commercial mortgages. Economic conditions as well as adverse capital market and credit conditions, interest rate changes, changes in mortgage prepayment behavior or declines in the value of underlying collateral will impact the credit quality, liquidity and value of our investment and derivative portfolios, potentially resulting in higher capital charges and unrealized or realized losses and decreased investment income. The value of our investments and derivative portfolios may also be impacted by reductions in price transparency, changes in the assumptions or methodology we use to estimate fair value and changes in investor confidence or preferences, which could potentially result in higher realized or unrealized losses and have a material adverse effect on our results of operations or financial condition. Market volatility may also make it difficult to value certain of our securities if trading becomes less frequent.
- Market conditions determine the availability and cost of the reinsurance protection we purchase and may result in additional expenses for reinsurance or an inability to obtain sufficient reinsurance on acceptable terms, which could adversely affect the profitability of future business and the availability of capital to support new sales.
- Hedging instruments we use to manage product and other risks might not perform as intended or expected, which could result in higher realized losses and unanticipated cash needs to collateralize or settle such transactions. Adverse market conditions can limit the availability and increase the costs of hedging instruments, and such costs may not be recovered in the pricing of the underlying products being hedged. In addition, hedging counterparties may fail to perform their obligations resulting in unhedged exposures and losses on positions that are not collateralized.
- Regardless of market conditions, certain investments we hold, including privately placed fixed income investments, investments in private equity funds and commercial mortgages, are relatively illiquid. If we need to sell these investments, we may have difficulty selling them in a timely manner or at a price equal to what we could otherwise realize by holding the investment to maturity.
- We are exposed to interest rate and equity risk based upon the discount rate and expected long-term rate of return assumptions associated with our pension and other retirement benefit obligations. Sustained declines in long-term interest rates or equity returns could have a negative effect on the funded status of these plans and/or increase our future funding costs.
- Fluctuations in our operating results and realized and unrealized gains and losses on our investment and derivative portfolio may impact our tax profile, our ability to optimally utilize tax attributes and our deferred income tax assets. See "Our ability to use beneficial U.S. tax attributes is subject to limitations."
- A default by any financial institution or by a sovereign could lead to additional defaults by other market participants. The failure of a sufficiently large and influential institution could disrupt securities markets or clearance and settlement systems and lead to a chain of defaults, because the commercial and financial soundness of many financial institutions may be

closely related as a result of credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of a counterparty may lead to market-wide liquidity problems and losses or defaults by us or by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which we interact on a daily basis. Systemic risk could have a material adverse effect on our ability to raise new funding and on our business, results of operations, financial condition, liquidity and/or business prospects. In addition, such a failure could impact future product sales as a potential result of reduced confidence in the financial services industry. Regulatory changes implemented to address systemic risk could also cause market participants to curtail their participation in certain market activities, which could decrease market liquidity and increase trading and other costs.

- Widening credit spreads, if not offset by equal or greater declines in the risk-free interest rate, would also cause the total interest rate payable on newly issued securities to increase, and thus would have the same effect as an increase in underlying interest rates with respect to the valuation of our current portfolio.

Adverse capital and credit market conditions may impact our ability to access liquidity and capital, as well as the cost of credit and capital.

Adverse capital market conditions may affect the availability and cost of borrowed funds, thereby impacting our ability to support or grow our businesses. We need liquidity to pay our operating expenses, interest on our debt and dividends to our parent, to maintain our securities lending activities and to replace certain maturing liabilities. Without sufficient liquidity, we will be forced to curtail our operations and our business will suffer. Our principal sources of liquidity are insurance premiums and fees, annuity deposits and cash flow from investments and assets.

In the event current resources do not satisfy our needs, we may have to seek additional financing. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry and our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects. Similarly, our access to funds may be limited if regulatory authorities or rating agencies take negative actions against us. If our internal sources of liquidity prove to be insufficient, there is a risk that we may not be able to successfully obtain additional financing on favorable terms, or at all. Any actions we might take to access financing may cause rating agencies to reevaluate our ratings.

Disruptions, uncertainty or volatility in the capital and credit markets, such as that experienced over the past few years, may also limit our access to capital. Such market conditions may in the future limit our ability to raise additional capital to support business growth, or to counter-balance the consequences of losses or increased regulatory reserves and rating agency capital requirements. This would have the potential to decrease both our profitability and our financial flexibility. Our results of operations, financial condition, liquidity, statutory capital and rating agency capital position could be materially and adversely affected by disruptions in the financial markets.

The level of interest rates may adversely affect our profitability, particularly in the event of a continuation of the current low interest rate environment or a period of rapidly increasing interest rates.

Interest rates have remained at historical lows for an extended period and, although the Federal Reserve has recently moved to marginally increase short-term interest rates, medium- and long-term interest rates have remained at historically low levels. In addition, central banks in Europe and Japan have recently pursued largely unprecedented negative interest rate policies, the consequences of which are uncertain.

During periods of declining interest rates or a prolonged period of low interest rates, life insurance and annuity products may be relatively more attractive to consumers due to minimum guarantees that are frequently mandated by regulators, resulting in increased premium payments on products with flexible premium features and a higher percentage of insurance and annuity contracts remaining in force from year-to-year than we anticipated in our pricing, potentially resulting in greater claims costs than we expected and asset/liability cash flow mismatches. A decrease in interest rates or a prolonged period of low interest rates may also require additional provisions for guarantees included in life insurance and annuity contracts, as the guarantees become more valuable to policyholders. During a period of decreasing interest rates or a prolonged period of low interest rates, our investment earnings may decrease because the interest earnings on our recently purchased fixed income investments will likely have declined in parallel with market interest rates. In addition, a prolonged low interest rate period may result in higher costs for certain derivative instruments that may be used to hedge certain of our product risks. RMBS and callable fixed income securities in our investment portfolios will be more likely to be prepaid or redeemed as borrowers seek to borrow at lower interest rates. Consequently, we may be required to reinvest the proceeds in securities bearing lower interest rates. Accordingly, during periods of declining interest rates, our profitability may suffer as the result of a decrease in the spread between interest rates credited to policyholders and

contract owners and returns on our investment portfolios. An extended period of declining or prolonged low interest rates or a prolonged period of low interest rates may also cause us to change our long-term view of the interest rates that we can earn on our investments. Such a change in our view would cause us to change the long-term interest rate that we assume in our calculation of insurance assets and liabilities under U.S. GAAP. This revision would result in increased reserves, accelerated amortization of DAC and other unfavorable consequences. In addition, certain statutory capital and reserve requirements are based on formulas or models that consider interest rates, and an extended period of low interest rates may increase the statutory capital we are required to hold and the amount of assets we must maintain to support statutory reserves.

We believe a continuation of the current low interest rate environment would also negatively affect our financial performance. In addition, we expect that a continuation of the current low interest rate environment would reduce our Company's risk-based capital ratio in an amount that could be material.

Conversely, in periods of rapidly increasing interest rates, policy loans, and withdrawals from, and/or surrenders of, life insurance and annuity contracts and certain guaranteed investment contracts may increase as policyholders choose to seek higher investment returns. Obtaining cash to satisfy these obligations may require us to liquidate fixed income investments at a time when market prices for those assets are depressed because of increases in interest rates. This may result in realized investment losses. Regardless of whether we realize an investment loss, such cash payments would result in a decrease in total invested assets and may decrease our net income and capitalization levels. Premature withdrawals may also cause us to accelerate amortization of DAC, which would also reduce our net income. An increase in market interest rates could also have a material adverse effect on the value of our investment portfolio by, for example, decreasing the estimated fair values of the fixed income securities within our investment portfolio. An increase in market interest rates could also create a significant collateral posting requirement associated with our interest rate hedge programs and Federal Home Loan Bank ("FHLB") funding agreements, which could materially and adversely affect liquidity. In addition, an increase in market interest rates could require us to pay higher interest rates on debt securities we may issue in the financial markets from time to time to finance our operations, which would increase our interest expenses and reduce our results of operations. An increase in interest rates could result in decreased fee income associated with a decline in the value of variable annuity account balances invested in fixed income funds, which also might affect the value of the underlying guarantees within these variable annuities. Lastly, certain statutory reserve requirements are based on formulas or models that consider forward interest rates and an increase in forward interest rates may increase the statutory reserves we are required to hold thereby reducing statutory capital.

Changes in prevailing interest rates may negatively affect our business including the level of net interest margin we earn. In a period of changing interest rates, interest expense may increase and interest credited to policyholders may change at different rates than the interest earned on assets. Accordingly, changes in interest rates could decrease net interest margin. Changes in interest rates may negatively affect the value of our assets and our ability to realize gains or avoid losses from the sale of those assets, all of which also ultimately affect earnings. In addition, our insurance and annuity products and certain of our retirement and investment products are sensitive to inflation rate fluctuations. A sustained increase in the inflation rate in our principal markets may also negatively affect our business, financial condition and results of operation. For example, a sustained increase in the inflation rate may result in an increase in nominal market interest rates. A failure to accurately anticipate higher inflation and factor it into our product pricing assumptions may result in mispricing of our products, which could materially and adversely impact our results of operations.

A downgrade or a potential downgrade in our financial strength or credit ratings could result in a loss of business and adversely affect our results of operations and financial condition.

Ratings are important to our business. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Our credit ratings are important to our ability to raise capital through the issuance of debt and to the cost of such financing. Financial strength ratings, which are sometimes referred to as "claims-paying" ratings, represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Financial strength ratings are important factors affecting public confidence in insurers. Our financial strength ratings are important to our ability to sell our products and services to our customers. Ratings are not recommendations to buy our securities. Each of the rating agencies reviews its ratings periodically, and our current ratings may not be maintained in the future.

Our ratings could be downgraded at any time and without notice by any rating agency. For a description of material rating actions that have occurred from the end of 2014 through the date of this Annual Report on Form 10-K, see "Item 7. Management's Narrative Analysis of the Results of Operations and Financial Condition-Liquidity and Capital Resources-Ratings."

A downgrade of our financial strength rating could affect our competitive position by making it more difficult for us to market our products as potential customers may select companies with higher financial strength ratings and by leading to increased withdrawals

by current customers seeking companies with higher financial strength ratings. This could lead to a decrease in AUM and result in lower fee income. Furthermore, sales of assets to meet customer withdrawal demands could also result in losses, depending on market conditions. In addition, a downgrade in either our financial strength or credit ratings could potentially, among other things, increase our borrowing costs and make it more difficult to access financing; adversely affect the availability of LOCs and other financial guarantees; result in additional collateral requirements, or other required payments or termination rights under derivative contracts or other agreements; and/or impair, or cause the termination of, our relationships with creditors, broker-dealers, distributors, reinsurers or trading counterparties, which could potentially negatively affect our profitability, liquidity and/or capital. In addition, we use assumptions of market participants in estimating the fair value of our liabilities, including insurance liabilities that are classified as embedded derivatives under U.S. GAAP. These assumptions include our nonperformance risk (i.e., the risk that the obligations will not be fulfilled). Therefore, changes in our credit or financial strength ratings or the credit or financial strength ratings of Voya Financial, Inc. may affect the fair value of our liabilities.

As rating agencies continue to evaluate the financial services industry, it is possible that rating agencies will heighten the level of scrutiny that they apply to financial institutions, increase the frequency and scope of their credit reviews, request additional information from the companies that they rate and potentially adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. It is possible that the outcome of any such review of us would have additional adverse ratings consequences, which could have a material adverse effect on our results of operations, financial condition and liquidity. We may need to take actions in response to changing standards or capital requirements set by any of the rating agencies which could cause our business and operations to suffer. We cannot predict what additional actions rating agencies may take, or what actions we may take in response to the actions of rating agencies.

Because we operate in highly competitive markets, we may not be able to increase or maintain our market share, which may have an adverse effect on our results of operations and financial condition.

In each of our businesses we face intense competition, including from domestic and foreign insurance companies, broker-dealers, financial advisors, asset managers and diversified financial institutions, banks, technology companies and start-up financial services providers, both for the ultimate customers for our products and for distribution through independent distribution channels. We compete based on a number of factors including brand recognition, reputation, quality of service, quality of investment advice, investment performance of our products, product features, scope of distribution, price, perceived financial strength and credit ratings, scale and level of customer service. A decline in our competitive position as to one or more of these factors could adversely affect our profitability. In addition, we may in the future sacrifice our competitive or market position in order to improve our profitability. Many of our competitors are large and well-established and some have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, or have higher claims-paying or credit ratings than we do. Furthermore, the preferences of the end consumers for our products and services may shift, including as a result of technological innovations affecting the marketplaces in which we operate. To the extent our competitors are more successful than we are at adopting new technology and adapting to the changing preferences of the marketplace, our competitiveness may decline.

In recent years, there has been substantial consolidation among companies in the financial services industry resulting in increased competition from large, well-capitalized financial services firms. Future economic turmoil may accelerate additional consolidation activity. Many of our competitors also have been able to increase their distribution systems through mergers, acquisitions, partnerships or other contractual arrangements. Furthermore, larger competitors may have lower operating costs and have an ability to absorb greater risk, while maintaining financial strength ratings, allowing them to price products more competitively. These competitive pressures could result in increased pressure on the pricing of certain of our products and services, and could harm our ability to maintain or increase profitability. In addition, if our financial strength and credit ratings are lower than our competitors, we may experience increased surrenders and/or a significant decline in sales. The competitive landscape in which we operate may be further affected by the government sponsored programs or regulatory changes in the United States and similar governmental actions outside of the United States. Competitors that receive governmental financing, guarantees or other assistance, or that are not subject to the same regulatory constraints, may have or obtain pricing or other competitive advantages. Due to the competitive nature of the financial services industry, there can be no assurance that we will continue to effectively compete within the industry or that competition will not have a material adverse impact on our business, results of operations and financial condition.

Our risk management policies and procedures, including hedge programs, may prove inadequate for the risks we face, which could negatively affect our business and financial condition or result in losses.

We have developed risk management policies and procedures, including hedge programs that utilize derivative financial instruments, and expect to continue to do so in the future. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective, particularly during extremely turbulent times. Many of our methods of managing risk and exposures are based upon observed historical market behavior or statistics based on historical models. As a result, these methods may not

predict future exposures, which could be significantly greater than historical measures indicate. Other risk management methods depend on the evaluation of information regarding markets, customers, catastrophe occurrence or other matters that is publicly available or otherwise accessible to us. This information may not always be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record and verify large numbers of transactions and events. These policies and procedures may not be fully effective.

Recently, central monetary authorities in Japan and Europe have adopted negative interest rate policies, and the FOMC has not ruled out the possibility that it may in the future adopt such policies in the United States. Because of the novelty that negative interest rates would present, it is possible that such rates would adversely affect the functionality of our actuarial, risk and other models. This could lead to disruptions in our hedging and other risk management programs, or have other unforeseen consequences.

We employ various strategies, including hedging and reinsurance, with the objective of mitigating risks inherent in our business and operations. These risks include current or future changes in the fair value of our assets and liabilities, current or future changes in cash flows, the effect of interest rates, equity markets and credit spread changes, the occurrence of credit defaults, currency fluctuations and changes in mortality and longevity. We seek to control these risks by, among other things, entering into reinsurance contracts and derivative instruments, such as swaps, options, futures and forward contracts. See "Reinsurance subjects us to the credit risk of reinsurers and may not be available, affordable or adequate to protect us against losses" for a description of risks associated with our use of reinsurance. Developing an effective strategy for dealing with these risks is complex, and no strategy can completely insulate us from such risks. Our hedging strategies also rely on assumptions and projections regarding our assets, liabilities, general market factors and the creditworthiness of our counterparties that may prove to be incorrect or prove to be inadequate. Accordingly, our hedging activities may not have the desired beneficial impact on our results of operations or financial condition. Hedging strategies involve transaction costs and other costs, and if we terminate a hedging arrangement, we may also be required to pay additional costs, such as transaction fees or breakage costs. We may incur losses on transactions after taking into account our hedging strategies. In particular, certain of our hedging strategies focus on the protection of regulatory and rating agency capital, rather than U.S. GAAP earnings. Because our regulatory capital and rating agency capital react differently to market movements than our Variable Annuity Guarantee Hedge Program target, we have executed a capital hedge overlay ("CHO") program to generally target these differences. As U.S. GAAP accounting differs from the methods used to determine regulatory reserves and rating agency capital requirements, our hedge programs may create earnings volatility in our U.S. GAAP financial statements. Further, the nature, timing, design or execution of our hedging transactions could actually increase our risks and losses. Our hedging strategies and the derivatives that we use, or may use in the future, may not adequately mitigate or offset the hedged risk and our hedging transactions may result in losses.

Past or future misconduct by our employees, agents, intermediaries, representatives of our broker-dealer affiliates or employees of our vendors could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm and the precautions we take to prevent and detect this activity may not be effective in all cases. Although we employ controls and procedures designed to monitor associates' business decisions and to prevent us from taking excessive or inappropriate risks, associates may take such risks regardless of such controls and procedures. Our compensation policies and practices are reviewed by us as part of our overall risk management program, but it is possible that such compensation policies and practices could inadvertently incentivize excessive or inappropriate risk taking. If our associates take excessive or inappropriate risks, those risks could harm our reputation and have a material adverse effect on our results of operations and financial condition.

The inability of counterparties to meet their financial obligations could have an adverse effect on our results of operations.

Third parties that owe us money, securities or other assets may not pay or perform under their obligations. These parties include the issuers or guarantors of securities we hold, customers, reinsurers, trading counterparties, securities lending and repurchase counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. Defaults by one or more of these parties on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other factors, or even rumors about potential defaults by one or more of these parties, could have a material adverse effect on our results of operations, financial condition and liquidity.

We routinely execute a high volume of transactions such as unsecured debt instruments, derivative transactions and equity investments with counterparties and customers in the financial services industry, including broker-dealers, commercial and investment banks, mutual and hedge funds, institutional clients, futures clearing merchants, swap dealers, insurance companies and other institutions, resulting in large periodic settlement amounts which may result in our having significant credit exposure to one or more of such counterparties or customers. Many of these transactions comprise derivative instruments with a number of counterparties in order to hedge various risks, including equity and interest rate market risk features within many of our insurance and annuity products. Our obligations under our products are not changed by our hedging activities and we are liable for our obligations even if our derivative counterparties do not pay us. As a result, we face concentration risk with respect to liabilities

or amounts we expect to collect from specific counterparties and customers. A default by, or even concerns about the creditworthiness of, one or more of these counterparties or customers could have an adverse effect on our results of operations or liquidity. There is no assurance that losses on, or impairments to the carrying value of, these assets due to counterparty credit risk would not materially and adversely affect our business, results of operations or financial condition.

We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. The deterioration or perceived deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. Our credit risk may also be exacerbated when the collateral we hold cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due to us, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those experienced during the financial crisis of 2008-09. The termination of contracts and the foreclosure on collateral may subject us to claims for the improper exercise of rights under the contracts. Bankruptcies, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity.

Requirements to post collateral or make payments related to changes in market value of specified assets may adversely affect liquidity.

The amount of collateral we may be required to post under short-term financing agreements, FHLB funding agreements and derivative transactions may increase under certain circumstances. Pursuant to the terms of some transactions, we could be required to make payment to our counterparties related to any change in the market value of the specified collateral assets. Such requirements could have an adverse effect on liquidity. Furthermore, with respect to any such payments, we may have unsecured risk to the counterparty as these amounts may not be required to be segregated from the counterparty's other funds, may not be held in a third-party custodial account and may not be required to be paid to us by the counterparty until the termination of the transaction. Additionally, the implementation of the Dodd-Frank Act and the resultant changes in collateral requirements may increase the need for liquidity and eligible collateral assets in excess of what is already being held.

Our investment portfolio is subject to several risks that may diminish the value of our invested assets and the investment returns credited to customers, which could reduce our sales, revenues, AUM, results of operations and financial condition.

Fixed income securities represent a significant portion of our investment portfolio. We are subject to the risk that the issuers, or guarantors, of fixed income securities we own may default on principal and interest payments they owe us. We are also subject to the risk that the underlying collateral within asset-backed securities, including mortgage-backed securities, may default on principal and interest payments causing an adverse change in cash flows. The occurrence of a major economic downturn, acts of corporate malfeasance, widening mortgage or credit spreads, or other events that adversely affect the issuers, guarantors or underlying collateral of these securities could cause the estimated fair value of our fixed income securities portfolio and our earnings to decline and the default rate of the fixed income securities in our investment portfolio to increase. A ratings downgrade affecting issuers or guarantors of securities in our investment portfolio, or similar trends that could worsen the credit quality of such issuers, or guarantors could also have a similar effect. Similarly, a ratings downgrade affecting a security we hold could indicate the credit quality of that security has deteriorated and could increase the capital we must hold to support that security to maintain our RBC ratio. See -"A decrease in our RBC ratio (as a result of a reduction in statutory surplus and/or increase in RBC requirements) could result in increased scrutiny by insurance regulators and rating agencies and have a material adverse effect on our business, results of operations and financial condition." We are also subject to the risk that cash flows resulting from the payments on pools of mortgages that serve as collateral underlying the mortgage-backed securities we own may differ from our expectations in timing or size. Cash flow variability arising from an unexpected acceleration in mortgage prepayment behavior can be significant, and could cause a decline in the estimated fair value of certain "interest-only" securities within our mortgage-backed securities portfolio. Any event reducing the estimated fair value of these securities, other than on a temporary basis, could have a material adverse effect on our business, results of operations and financial condition.

From time to time we invest our capital to seed a particular investment strategy or investment portfolio. We may also co-invest in funds or take an equity ownership interest in certain structured finance/investment vehicles that are managed by our affiliates. Any decrease in the value of such investments could negatively affect our revenues and income.

Some of our investments are relatively illiquid and in some cases are in asset classes that have been experiencing significant market valuation fluctuations.

We hold certain assets that may lack liquidity, such as privately placed fixed income securities, commercial mortgage loans, policy loans and limited partnership interests. These asset classes represented 28.8% of the carrying value of our total cash and invested assets as of December 31, 2015. If we require significant amounts of cash on short notice in excess of normal cash requirements or are required to post or return collateral in connection with our investment portfolio, derivatives transactions or securities lending activities, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

The reported values of our relatively illiquid types of investments do not necessarily reflect the current market price for the asset. If we were forced to sell certain of our assets in the current market, there can be no assurance that we would be able to sell them for the prices at which we have recorded them and we might be forced to sell them at significantly lower prices.

We invest a portion of our invested assets in investment funds, many of which make private equity investments. The amount and timing of income from such investment funds tends to be uneven as a result of the performance of the underlying investments, including private equity investments. The timing of distributions from the funds, which depends on particular events relating to the underlying investments, as well as the funds' schedules for making distributions and their needs for cash, can be difficult to predict. As a result, the amount of income that we record from these investments can vary substantially from quarter to quarter. Recent equity and credit market volatility may reduce investment income for these types of investments.

Defaults or delinquencies in our commercial mortgage loan portfolio may adversely affect our profitability and financial condition.

The commercial mortgage loans we hold face both default and delinquency risk. We establish loan specific estimated impairments at the balance sheet date. These impairments are based on the excess carrying value of the loan over the present value of expected future cash flows discounted at the loan's original effective interest rate, the estimated fair value of the loan's collateral if the loan is in the process of foreclosure or otherwise collateral dependent, or the loan's observable market price. We also establish valuation allowances for loan losses when, based on past experience, it is probable that a credit event has occurred and the amount of the loss can be reasonably estimated. These valuation allowances are based on loan risk characteristics, historical default rates and loss severities, real estate market fundamentals and outlook as well as other relevant factors. The performance of our commercial mortgage loan investments may fluctuate in the future. In addition, legislative proposals that would allow or require modifications to the terms of commercial mortgage loans could be enacted. We cannot predict whether these proposals will be adopted, or what impact, if any, such laws, if enacted, could have on our business or investments. An increase in the delinquency and default rate of our commercial mortgage loan portfolio could adversely impact our results of operations and financial condition.

Further, any geographic or sector concentration of our commercial mortgage loans may have adverse effects on our investment portfolios and consequently on our results of operations or financial condition. While we generally seek to mitigate the risk of sector concentration by having a broadly diversified portfolio, events or developments that have a negative effect on any particular geographic region or sector may have a greater adverse effect on the investment portfolios to the extent that the portfolios are concentrated, which could affect our results of operations and financial condition.

In addition, liability under environmental protection laws resulting from our commercial mortgage loan portfolio and real estate investments could affect our results of operations or financial condition. Under the laws of several states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of cleanup. In some states, such a lien has priority over the lien of an existing mortgage against the property, which would impair our ability to foreclose on that property should the related loan be in default. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, we may be liable for costs of addressing releases or threatened releases of hazardous substances that require remedy at a property securing a mortgage loan held by us, regardless of whether or not the environmental damage or threat was caused by the obligor, which could harm our results of operations and financial condition. We also may face this liability after foreclosing on a property securing a mortgage loan held by us.

Our operations are complex and a failure to properly perform services could have an adverse effect on our revenues and income.

Our operations include annuity contract administration, portfolio management, shareholder services, contract and sales and servicing, underwriting, distribution, and other services. In order to be competitive, we must properly perform our administrative and related responsibilities, including recordkeeping and accounting, regulatory compliance, security pricing, corporate actions,

compliance with investment restrictions, daily net asset value computations, account reconciliations and required distributions. If we fail to properly perform and monitor our operations, our business could suffer and our revenues and income could be adversely affected.

Our products and services are complex and are frequently sold through intermediaries, and a failure to properly perform services or the misrepresentation of our products or services could have an adverse effect on our revenues, income and financial condition.

Many of our products and services are complex and are frequently sold through intermediaries. In particular, we are reliant on intermediaries to describe and explain our products to potential customers. The intentional or unintentional misrepresentation of our products and services in advertising materials or other external communications, or inappropriate activities by our personnel or an intermediary, could adversely affect our reputation and business prospects, as well as lead to potential regulatory actions or litigation.

The valuation of many of our financial instruments includes methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially and adversely affect our results of operations and financial condition.

The following financial instruments are carried at fair value in our financial statements: fixed income securities, equity securities, derivatives, embedded derivatives and separate account assets. We have categorized these instruments into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3), while quoted prices in markets that are not active or valuation techniques requiring inputs that are observable for substantially the full term of the asset or liability are Level 2.

Factors considered in estimating fair values of securities, and derivatives and embedded derivatives related to our securities include coupon rate, maturity, principal paydown including prepayments, estimated duration, call provisions, sinking fund requirements, credit rating, industry sector of the issuer and quoted market prices of comparable securities. Factors considered in estimating the fair values of embedded derivatives and derivatives related to product guarantees and index-crediting features (collectively, "guaranteed benefit derivatives") include risk-free interest rates, long-term equity implied volatility, interest rate implied volatility, correlations among mutual funds associated with variable annuity contracts, correlations between interest rates and equity funds and actuarial assumptions such as mortality rates, lapse rates and benefit utilization, as well as the amount and timing of policyholder deposits and partial withdrawals. The impact of our risk of nonperformance is also reflected in the estimated fair value of guaranteed benefit derivatives. In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, we will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value.

The determinations of fair values are made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

During periods of market disruption, including periods of rapidly changing credit spreads or illiquidity, it has been and will likely continue to be difficult to value certain of our securities, such as certain mortgage-backed securities, if trading becomes less frequent and/or market data becomes less observable.There may be certain asset classes that were in active markets with significant observable data that could become illiquid in a difficult financial environment. In such cases, more securities may fall to Level 3 and thus require more subjectivity and management judgment in determining fair value. As such, valuations may include inputs and assumptions that are less observable or require greater estimation, thereby resulting in values that may differ materially from the value at which the investments may be ultimately sold. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within the financial statements, and the period-to-period changes in value could vary significantly. Decreases in value could have a material adverse effect on our results of operations and financial condition.

The determination of the amount of allowances and impairments taken on our investments is subjective and could materially and adversely impact our results of operations or financial condition. Gross unrealized losses may be realized or result in future impairments, resulting in a reduction in our net income (loss).

We evaluate investment securities held by us for impairment on a quarterly basis. This review is subjective and requires a high degree of judgment. For fixed income securities held, an impairment loss is recognized if the fair value of the debt security is less than the carrying value and we no longer have the intent to hold the debt security; if it is more likely than not that we will be required to sell the debt security before recovery of the amortized cost basis; or if a credit loss has occurred.

When we do not intend to sell a security in an unrealized loss position, potential credit related other-than-temporary impairments ("OTTI") are considered using a variety of factors, including the length of time and extent to which the fair value has been less than cost, adverse conditions specifically related to the industry, geographic area in which the issuer conducts business, financial condition of the issuer or underlying collateral of a security, payment structure of the security, changes in credit rating of the security by the rating agencies, volatility of the fair value changes and other events that adversely affect the issuer. In addition, we take into account relevant broad market and economic data in making impairment decisions.

As part of the impairment review process, we utilize a variety of assumptions and estimates to make a judgment on how fixed income securities will perform in the future. It is possible that securities in our fixed income portfolio will perform worse than our expectations. There is an ongoing risk that further declines in fair value may occur and additional OTTI may be recorded in future periods, which could materially and adversely affect our results of operations and financial condition. Furthermore, historical trends may not be indicative of future impairments or allowances.

Fixed income and equity securities classified as available-for-sale are reported at their estimated fair value. Unrealized gains or losses on available-for-sale securities are recognized as a component of other comprehensive income (loss) and are therefore excluded from net income (loss). The accumulated change in estimated fair value of these available-for-sale securities is recognized in net income (loss) when the gain or loss is realized upon the sale of the security or in the event that the decline in estimated fair value is determined to be other-than-temporary and an impairment charge to earnings is taken. Such realized losses or impairments may have a material adverse effect on our net income (loss) in a particular quarterly or annual period.

Our participation in a securities lending program and a repurchase program subjects us to potential liquidity and other risks.

We engage in a securities lending program whereby certain securities, are loaned to other institutions for short periods of time. Initial collateral, primarily cash, is required at 102% of the market value of the loaned securities. The lending agent retains the cash collateral and invests it in liquid assets on our behalf. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loan security fluctuates.

We also participate in a repurchase agreement program for our general account whereby we sell fixed income securities to a third-party, primarily major brokerage firms or commercial banks, with a concurrent agreement to repurchase those same securities at a determined future date. During the term of the repurchase agreements, cash or other types of permitted collateral provided to us is sufficient to allow us to fund substantially all of the cost of purchasing replacement assets in the event of counterparty default (i.e., the sold securities are not returned to us on the scheduled repurchase date). Cash proceeds received by us under the repurchase program are typically invested in fixed income securities but may in certain circumstances be available to us for liquidity or other purposes prior to the scheduled repurchase date. The repurchase of securities or our inability to enter into new repurchase agreements would reduce the amount of such cash collateral available to us. Market conditions on or after the repurchase date may limit our ability to enter into new agreements at a time when we need access to additional cash collateral for investment or liquidity purposes.

For both securities lending and repurchase transactions, in some cases, the maturity of the securities held as invested collateral (i.e., securities that we have purchased with cash collateral received) may exceed the term of the related securities on loan and the estimated fair value may fall below the amount of cash received as collateral and invested. If we are required to return significant amounts of cash collateral on short notice and we are forced to sell securities to meet the return obligation, we may have difficulty selling such collateral that is invested in securities in a timely manner, be forced to sell securities in a volatile or illiquid market for less than we otherwise would have been able to realize under normal market conditions, or both. In addition, under adverse capital market and economic conditions, liquidity may broadly deteriorate, which would further restrict our ability to sell securities. If we decrease the amount of our securities lending and repurchase activities over time, the amount of net investment income generated by these activities will also likely decline. See "Item 7. Management's Narrative Analysis of the Results of Operations and Financial Condition-Liquidity and Capital Resources-Securities Lending."

Differences between actual claims experience and reserving assumptions may adversely affect our results of operations or financial condition.

We establish and hold reserves to pay future policy benefits and claims. Our reserves do not represent an exact calculation of liability, but rather are actuarial or statistical estimates based on data and models that include many assumptions and projections,

which are inherently uncertain and involve the exercise of significant judgment, including assumptions as to the levels and/or timing of receipt or payment of premiums, benefits, claims, expenses, interest credits, investment results (including equity market returns), retirement, mortality, morbidity and persistency. We periodically review the adequacy of reserves and the underlying assumptions. We cannot, however, determine with precision the amounts that we will pay for, or the timing of payment of, actual benefits, claims and expenses or whether the assets supporting our policy liabilities, together with future premiums, will grow to the level assumed prior to payment of benefits or claims. If actual experience differs significantly from assumptions or estimates, reserves may not be adequate. If we conclude that our reserves, together with future premiums, are insufficient to cover future policy benefits and claims, we would be required to increase our reserves and incur income statement charges for the period in which we make the determination, which could materially and adversely affect our results of operations and financial condition.

We may face significant losses if mortality rates, morbidity rates, persistency rates or other underwriting assumptions differ significantly from our pricing expectations.

We set prices for many of our annuity products based upon expected claims and payment patterns, using assumptions for mortality rates or likelihood of death and morbidity rates, or likelihood of sickness, of our policyholders. In addition to the potential effect of natural or man-made disasters, significant changes in mortality or morbidity could emerge gradually over time due to changes in the natural environment, the health habits of the insured population, technologies and treatments for disease or disability, the economic environment, or other factors. The long-term profitability of our annuity products depends upon how our actual mortality rates, and to a lesser extent actual morbidity rates, compare to our pricing assumptions. In addition, prolonged or severe adverse mortality or morbidity experience could result in increased reinsurance costs, and ultimately, reinsurers might not offer coverage at all. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient, we would have to accept an increase in our net risk exposures, revise our pricing to reflect higher reinsurance premiums, or otherwise modify our product offering.

Pricing of our annuity products is also based in part upon expected persistency of these products, which is the probability that a policy will remain in force from one period to the next. Persistency of our annuity products may be significantly and adversely impacted by the increasing value of guaranteed minimum benefits contained in many of our variable annuity products due to poor equity market performance or extended periods of low interest rates as well as other factors. The minimum interest rate guarantees in our fixed annuities may also be more valuable in extended periods of low interest rates. Persistency could be adversely affected generally by developments adversely affecting customer perception of us. Results may also vary based on differences between actual and expected premium deposits and withdrawals for these products. Many of our deferred annuity products also contain optional benefits that may be exercised at certain points within a contract. We set prices for such products using assumptions for the rate of election of deferred annuity living benefits and other optional benefits offered to our contract owners. The profitability of our deferred annuity products may be less than expected, depending upon how actual contract owner decisions to elect or delay the utilization of such benefits compare to our pricing assumptions. The potential development of third-party investor strategies in the annuities business could also adversely affect the profitability of existing business and our pricing assumptions for new business. Actual persistency that is lower than our persistency assumptions could have an adverse effect on profitability, especially in the early years of a policy, primarily because we would be required to accelerate the amortization of expenses we defer in connection with the acquisition of the policy. Actual persistency that is higher than our persistency assumptions could have an adverse effect on profitability in the later years of a block of business because the anticipated claims experience is higher in these later years. If actual persistency is significantly different from that assumed in our current reserving assumptions, our reserves for future policy benefits may prove to be inadequate. Although some of our products permit us to increase premiums or adjust other charges and credits during the life of the policy, the adjustments permitted under the terms of the policies may not be sufficient to maintain profitability. Many of our products, however, do not permit us to increase premiums or adjust charges and credits during the life of the policy or during the initial guarantee term of the policy. Even if permitted under the policy, we may not be able or willing to raise premiums or adjust other charges for regulatory or competitive reasons.

Pricing of our products is also based on long-term assumptions regarding interest rates, investment returns and operating costs. Management establishes target returns for each product based upon these factors, the other underwriting assumptions noted above and the average amount of regulatory and rating agency capital that we must hold to support in-force contracts. We monitor and manage pricing and sales to achieve target returns. Profitability from new business emerges over a period of years, depending on the nature and life of the product, and is subject to variability as actual results may differ from pricing assumptions. Our profitability depends on multiple factors, including the comparison of actual mortality, morbidity and persistency rates and policyholder behavior to our assumptions; the adequacy of investment margins; our management of market and credit risks associated with investments; our ability to maintain premiums and contract charges at a level adequate to cover mortality, benefits and contract administration expenses; the adequacy of contract charges and availability of revenue from providers of investment options offered in variable contracts to cover the cost of product features and other expenses; and management of operating costs and expenses.

We may be required to accelerate the amortization of DAC, deferred sales inducements ("DSI") and/or VOBA, any of which could adversely affect our results of operations or financial condition.

DAC represents policy acquisition costs that have been capitalized. DSI represents benefits paid to contract owners for a specified period that are incremental to the amounts we credit on similar contracts without sales inducements and are higher than the contract's expected ongoing crediting rates for periods after the inducement. VOBA represents outstanding value of in-force business acquired. Capitalized costs associated with DAC, DSI and VOBA are amortized in proportion to actual and estimated gross profits or gross premiums depending on the type of contract. On an ongoing basis, we test the DAC, DSI and VOBA recorded on our balance sheets to determine if these amounts are recoverable under current assumptions. In addition, we regularly review the estimates and assumptions underlying DAC, DSI and VOBA. The projection of estimated gross profits or gross premiums requires the use of certain assumptions, principally related to separate account fund returns in excess of amounts credited to policyholders, policyholder behavior such as surrender, lapse and annuitization rates, interest margin, expense margin, mortality, future impairments and hedging costs. Estimating future gross profits or gross premiums is a complex process requiring considerable judgment and the forecasting of events well into the future. If these assumptions prove to be inaccurate, if an estimation technique used to estimate future gross profits or gross premiums is changed, or if significant or sustained equity market declines occur and/or persist, we could be required to accelerate the amortization of DAC, DSI and VOBA, which would result in a charge to earnings. Such adjustments could have a material adverse effect on our results of operations and financial condition.

Reinsurance subjects us to the credit risk of reinsurers and may not be available, affordable or adequate to protect us against losses.

We cede life insurance policies and annuity contracts or certain risks related to life insurance policies and annuity contracts to other insurance companies using various forms of reinsurance including coinsurance, modified coinsurance, funds withheld, monthly renewable term and yearly renewable term. However, we remain liable to the underlying policyholders, even if the reinsurer defaults on its obligations with respect to the ceded business. If a reinsurer fails to meet its obligations under the reinsurance contract, we will be forced to bear the entire liability for claims on the reinsured policies. In addition, a reinsurer insolvency may cause us to lose our reserve credits on the ceded business, in which case we would be required to establish additional statutory reserves.

In addition, if a reinsurer does not have accredited reinsurer status or if a currently accredited reinsurer loses that status, in any state where we are licensed to do business, we are not entitled to take credit for reinsurance in that state if the reinsurer does not post sufficient qualifying collateral (either qualifying assets in a qualifying trust or qualifying LOCs). In this event, we would be required to establish additional statutory reserves. Similarly, the credit for reinsurance taken by us under reinsurance agreements with affiliated and unaffiliated non-accredited reinsurers is, under certain conditions, dependent upon the non-accredited reinsurer's ability to obtain and provide sufficient qualifying assets in a qualifying trust or qualifying LOCs issued by qualifying lending banks. In order to control expenses associated with LOCs, some of our affiliated reinsurers have established and will continue to pursue alternative sources for qualifying reinsurance collateral. If these steps are unsuccessful, or if unaffiliated non-accredited reinsurers that have reinsured business with us are unsuccessful in obtaining sources of qualifying reinsurance collateral, we might not be able to obtain full statutory reserve credit. Loss of reserve credit would require us to establish additional statutory reserves and would result in a decrease in the level of our capital, which could have a material adverse effect on our profitability, results of operations and financial condition.

Our reinsurance recoverable balances are periodically assessed for uncollectability and there were no significant allowances for uncollectible reinsurance as of December 31, 2015 and December 31, 2014. The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including whether the insured losses meet the qualifying conditions of the reinsurance contract, whether reinsurers or their affiliates have the financial capacity and willingness to make payments under the terms of the reinsurance contract, and the degree to which our reinsurance balances are secured by sufficient qualifying assets in qualifying trusts or qualifying LOCs issued by qualifying lender banks. Although a substantial portion of our reinsurance exposure is secured by assets held in trusts or LOCs, the inability to collect a material recovery from a reinsurer could have a material adverse effect on our profitability, results of operations and financial condition.

The premium rates and other fees that we charge are based, in part, on the assumption that reinsurance will be available at a certain cost. Some of our reinsurance contracts contain provisions that limit the reinsurer's ability to increase rates on in-force business; however, some do not. If a reinsurer raises the rates that it charges on a block of in-force business, in some instances, we will not be able to pass the increased costs onto our customers and our profitability will be negatively impacted. Additionally, such a rate increase could result in our recapturing of the business, which may result in a need to maintain additional reserves, reduce reinsurance receivables and expose us to greater risks. While in prior years, we faced rate increase actions on in-force business, our management of those actions resulted in no material effect on our results of operations or financial condition. However, there can be no assurance

that the outcome of future rate increase actions would similarly result in no material effect. In addition, if reinsurers raise the rates that they charge on new business, we may be forced to raise our premiums, which could have a negative impact on our competitive position.

We reinsure most of our living benefit guarantee riders to SLDI, an affiliated reinsurer, to mitigate the risk produced by such benefits. The reinsurance agreement covers all of the guaranteed minimum income benefits ("GMIB"), as well as the GMWBs with lifetime guarantees. The GMABs and the GMWBs without lifetime guarantees are not covered by this reinsurance.

A decrease in our RBC ratio (as a result of a reduction in statutory surplus and/or increase in RBC requirements) could result in increased scrutiny by insurance regulators and rating agencies and have a material adverse effect on our business, results of operations and financial condition.

The NAIC has established regulations that provide minimum capitalization requirements based on RBC formulas for insurance companies. The RBC formula for life insurance companies establishes capital requirements relating to asset, insurance, interest rate and business risks, including equity, interest rate and expense recovery risks associated with variable annuities and group annuities that contain guaranteed minimum death and living benefits. We are subject to RBC standards and/or other minimum statutory capital and surplus requirements imposed under the laws of Iowa, our state of domicile. (For additional discussion of possible updates to how the NAIC calculates RBC ratios, see “Item 1. Business-Regulation-Insurance Regulation-Financial Regulation-Risk - Based Capital.”)

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, including the amount of statutory income or losses (which are sensitive to equity market and credit market conditions), the amount of additional capital we must hold to support business growth, changes in equity market levels, the value and credit ratings of certain fixed-income and equity securities in our investment portfolio, the value of certain derivative instruments that do not receive hedge accounting and changes in interest rates, as well as changes to the RBC formulas and the interpretation of the NAIC's instructions with respect to RBC calculation methodologies. Many of these factors are outside of our control. Our financial strength and credit ratings are significantly influenced by statutory surplus amounts and RBC ratios. In addition, rating agencies may implement changes to their own internal models, which differ from the RBC capital model that have the effect of increasing or decreasing the amount of statutory capital we should hold relative to the rating agencies' expectations. In extreme scenarios of equity market declines, sustained periods of low interest rates, rapidly rising interest rates or credit spread widening, the amount of additional statutory reserves that we are required to hold for certain types of GICs and variable annuity guarantees may increase at a greater than linear rate. This increase in reserves would decrease the statutory surplus available for use in calculating the subsidiary's RBC ratios. To the extent that our RBC ratios are deemed to be insufficient, we may seek to take actions either to increase our capitalization or to reduce our capitalization requirements. If we were unable to accomplish such actions, the rating agencies may view this as a reason for a ratings downgrade.

Our failure to meet RBC requirements or minimum capital and surplus requirements could subject us to further examination or corrective action imposed by insurance regulators, including limitations on our ability to write additional business, supervision by regulators or seizure or liquidation. Any corrective action imposed could have a material adverse effect on our business, results of operations and financial condition. A decline in RBC ratios limits our ability to make dividends or distributions to our Parent, could result in a loss of customers or new business, and could be a factor in causing ratings agencies to downgrade our financial strength ratings, each of which could have a material adverse effect on our business, results of operations and financial condition.

A significant portion of our institutional funding originates from a Federal Home Loan Bank, which subjects us to liquidity risks associated with sourcing a large concentration of our funding from one counterparty.

A significant portion of our institutional funding originates from the Federal Home Loan Bank of Des Moines ("FHLB"). We have issued non-putable funding agreements in exchange for eligible collateral in the form of cash, mortgage-backed securities and U.S. Treasury securities. Should the FHLB choose to change its definition of eligible collateral, or if the market value of the pledged collateral decreases in value due to changes in interest rates or credit ratings, we may be required to post additional amounts of collateral in the form of cash or other eligible collateral. Additionally, we may be required to find other sources to replace this funding if we lose access to FHLB funding. This could occur if our creditworthiness falls below either of the FHLB's requirements or if legislative or other political actions cause changes to the FHLBs' mandate or to the eligibility of life insurance companies to be members of the FHLB system.

Any failure to protect the confidentiality of customer information could adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operation.

Our businesses and relationships with customers are dependent upon our ability to maintain the confidentiality of our and our customers' trade secrets, personal information, and other confidential information (including customer transactional data and personal information about our customers, the employees and customers of our customers, and our own employees). We are subject to numerous federal and state laws regarding the privacy and security of personal information, which laws vary significantly from jurisdiction to jurisdiction. Many of our employees and contractors and the representatives of our broker-dealer affiliates have access to and routinely process personal information in computerized, paper and other forms. We rely on various internal policies, procedures and controls to protect the confidentiality of personal information that is accessible to, or in the possession of, us, our employees, contractors and representatives. It is possible that an employee, contractor or representative could, intentionally or unintentionally, disclose or misappropriate personal information or other confidential information. If we fail to maintain adequate internal controls, including any failure to implement newly-required additional controls, or if our employees, contractors or representatives fail to comply with our policies and procedures, misappropriation or intentional or unintentional inappropriate disclosure or misuse of personal information or confidential customer information could occur. Such internal control inadequacies or non-compliance could materially damage our reputation, result in regulatory action or lead to civil or criminal penalties, which, in turn, could have a material adverse effect on our business, reputation, results of operations and financial condition. For additional risks related to our potential failure to protect confidential information, see "-Interruption or other operational failures in telecommunication, information technology, and other operational systems, including as a result of human error, could harm our business," and "-A failure to maintain the security, integrity, confidentiality or privacy of our telecommunication, information technology or other operational systems, or the sensitive data residing on such systems, could harm our business."

Interruption or other operational failures in telecommunication, information technology and other operational systems, including as a result of human error, could harm our business.

We are highly dependent on automated and information technology systems to record and process both our internal transactions and transactions involving our customers, as well as to calculate reserves, value invested assets and complete certain other components of our U.S. GAAP and statutory financial statements. We could experience a failure of one of these systems, our employees or agents could fail to monitor and implement enhancements or other modifications to a system in a timely and effective manner, or our employees or agents could fail to complete all necessary data reconciliation or other conversion controls when implementing a new software system or implementing modifications to an existing system. Despite the implementation of security and back-up measures, our information technology systems may remain vulnerable to disruptions. We may also be subject to disruptions of any of these systems arising from events that are wholly or partially beyond our control (for example, natural disasters, acts of terrorism, epidemics, computer viruses and electrical/telecommunications outages). All of these risks are also applicable where we rely on outside vendors to provide services to us and our customers and third party service providers, including those to whom we outsource certain of our functions. The failure of any one of these systems for any reason, or errors made by our employees or agents, could in each case cause significant interruptions to our operations, which could harm our reputation, adversely affect our internal control over financial reporting, or have a material adverse effect on our business, results of operations and financial condition.

Recently, central banks in Europe and Japan have begun to pursue negative interest rate policies, and the FOMC has not ruled out the possibility that the Federal Reserve would adopt a negative interest rate policy for the United States if circumstances so warranted. Because negative interest rates are largely unprecedented, there is uncertainty as to whether the technology used by financial institutions, including us, could operate correctly in such a scenario. Should negative interest rates emerge, our hardware or software, or the hardware or software used by our contractual counterparties and financial services providers, may not function as expected or at all. In such a case, our financial results and our operations could be adversely affected.

A failure to maintain the security, integrity, confidentiality or privacy of our telecommunication, information technology or other operational systems, or the sensitive data residing on such systems, could harm our business.

We are highly dependent on automated telecommunications, information technology and other operational systems to record and process our internal transactions and transactions involving our customers. Despite the implementation of security and back-up measures, our information technology systems may be vulnerable to physical or electronic intrusions, viruses or other attacks, programming errors, and similar disruptions. Businesses in the United States and in other countries have increasingly become the targets of "cyberattacks", "hacking" or similar illegal or unauthorized intrusions into computer systems and networks. Such events are often highly publicized, result in the theft of significant amounts of information, and cause extensive damage to the reputation of the targeted business, in addition to leading to significant expenses associated with investigation, remediation and customer protection measures. Like others in our industry, we are subject to cyber incidents in the ordinary course of our business. Although

we seek to limit our vulnerability to such events through technological and other means, it is not possible to anticipate or prevent all potential forms of cyberattack or to guarantee our ability to fully defend against all such attacks. In addition, due to the sensitive nature of much of the financial and other personal information we maintain, we may be at particular risk for targeting.

We retain confidential information in our information technology systems, and we rely on industry standard commercial technologies to maintain the security of those systems. Anyone who is able to circumvent our security measures and penetrate our information technology systems could access, view, misappropriate, alter, or delete information in the systems, including personal information and proprietary business information. Information security risks also exist with respect to the use of portable electronic devices, such as laptops, which are particularly vulnerable to loss and theft. The laws of most states require that individuals be notified if a security breach compromises the security or confidentiality of their personal information. Any attack or other breach of the security of our information technology systems that compromises personal information or that otherwise results in unauthorized disclosure or use of personal information could damage our reputation in the marketplace, deter purchases of our products, subject us to heightened regulatory scrutiny, sanctions, significant civil and criminal liability or other adverse legal consequences and require us to incur significant technical, legal and other expenses.

Our third party service providers, including third parties to whom we outsource certain of our functions are also subject to the risks outlined above, any one of which could result in our incurring substantial costs and other negative consequences, including a material adverse effect on our business, results of operations and financial condition.

Changes in accounting standards could adversely impact our reported results of operations and our reported financial condition.

Our financial statements are subject to the application of U.S. GAAP, which is periodically revised or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board ("FASB"). It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our financial statements and that such changes could have a material adverse effect on our results of operations and financial condition.

FASB is working on several projects, which could result in significant changes in U.S. GAAP, including how we account for our life insurance contracts and financial instruments and how our financial statements are presented. The changes to U.S. GAAP could affect the way we account for and report significant areas of our business, could impose special demands on us in the areas of governance, employee training, internal controls and disclosure and will likely affect how we manage our business.

Under the tax sharing agreement, a change in control could affect availability of cash payments.

Effective January 1, 2013, we entered into a federal tax sharing agreement with Voya Financial, Inc. which provides that for 2013 and subsequent years, Voya Financial, Inc. will pay us for the tax benefits of ordinary and capital losses only in the event that the consolidated tax group actually uses the tax benefit of losses generated. Accordingly, in years we incur losses and the associated tax benefits cannot be used by the consolidated tax group we may establish tax valuation allowances, reduce statutory-based admitted assets and may no longer be entitled to receive net cash payments to/(from) Voya Financial, Inc. During the years ended December 31, 2015 and 2014, we have additional net cash payments to/(receipts) from Voya Financial, Inc. under the tax sharing agreement of $(93.9) million and $44.3 million, respectively.

One such instance where the associated tax benefits may not be used by the consolidated tax group could occur if there is a change in control which would trigger the imposition of certain limitations pursuant to Section 382 and Section 383 of the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). These sections operate as anti-abuse rules, the general purpose of which is to prevent trafficking in tax losses and credits, but which can apply without regard to whether a "loss trafficking" transaction occurs or is intended. These rules are triggered when an "ownership change" (generally defined as when the ownership of a company changes by more than 50% (measured by value) on a cumulative basis in any three year period) occurs ("Section 382 event").

During March 2014, ING Group divested a portion of its shareholding in Voya Financial, Inc., our indirect parent company, which caused Voya Financial, Inc. to experience a Section 382 event. Using an estimated Section 382 value of Voya Financial, Inc., our deferred tax asset, tax valuation allowance, admitted deferred tax asset and tax sharing agreement payments did not materially change as a result of the Section 382 event with respect to Voya Financial, Inc.

Although Voya Financial, Inc. entered into an Issue Resolution Agreement in this regard with the IRS in December, 2014, as with such an agreement, the matters addressed may be revisited by the IRS in connection with a tax audit or other examination or inquiry of Voya Financial, Inc.'s tax position. If the IRS were to revisit and successfully challenge the IRC Section 382 calculations of

Voya Financial, Inc., this could impact our ability to obtain tax benefits from existing and future losses and deductions could be adversely affected.

We may be required to establish an additional valuation allowance against the deferred income tax asset if: (i) our business does not generate sufficient taxable income; (ii) there is a significant decline in the fair market value of our investment portfolio; or (iii) our tax planning strategies are modified. Increases in the deferred tax valuation allowance could have a material adverse effect on our results of operations and financial condition.

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets represent the tax benefit of future deductible temporary differences, operating loss carryforwards and tax credits carryforward. We periodically evaluate and test our ability to realize our deferred tax assets. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. In assessing the more likely than not criteria, we consider future taxable income as well as prudent tax planning strategies. Future facts, circumstances, tax law changes and FASB developments may result in an increase in the valuation allowance. An increase in the valuation allowance could have a material adverse effect on our results of operations and financial condition.

As of December 31, 2015, we have recognized deferred tax assets based on tax planning related to unrealized gains on investment assets. To the extent these unrealized gains decrease, the tax benefit may be reduced by increasing the tax valuation allowance. For example, if interest rates increase, the amount of the unrealized gains will, most likely, decrease, with all other things constant. The decrease in the deferred tax asset may be recorded as a tax expense in tax on continuing operations based on the intra period tax allocation rules described in ASC Topic 740, "Income Taxes."

Our business may be negatively affected by adverse publicity or increased governmental and regulatory actions with respect to us, other well-known companies or the financial services industry in general.

Governmental scrutiny with respect to matters relating to compensation, compliance with regulatory and tax requirements and other business practices in the financial services industry has increased dramatically in the past several years and has resulted in more aggressive and intense regulatory supervision and the application and enforcement of more stringent standards. The financial crisis of 2008-09 and current political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators and elected officials. Press coverage and other public statements that assert some form of wrongdoing, regardless of the factual basis for the assertions being made, could result in some type of inquiry or investigation by regulators, legislators and/or law enforcement officials or in lawsuits. Responding to these inquiries, investigations and lawsuits, regardless of the ultimate outcome of the proceeding, is time-consuming and expensive and can divert the time and effort of our senior management from its business. Future legislation or regulation or governmental views on compensation may result in us altering compensation practices in ways that could adversely affect our ability to attract and retain talented employees. Adverse publicity, governmental scrutiny, pending or future investigations by regulators or law enforcement agencies and/or legal proceedings involving us or our affiliates could also have a negative impact on our reputation and on the morale and performance of employees, and on business retention and new sales, which could adversely affect our businesses and results of operations.

Litigation may adversely affect our profitability and financial condition.

We are, and may be in the future, subject to legal actions in the ordinary course of our business operations. Some of these legal proceedings may be brought on behalf of a class. Plaintiffs may seek large or indeterminate amounts of damage, including compensatory, liquidated, treble and/or punitive damages. Our reserves for litigation may prove to be inadequate. It is possible that our results of operations or cash flows in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation depending, in part, upon the results of operations or cash flows for such period. Given the large or indeterminate amounts sometimes sought, and the inherent unpredictability of litigation, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation matters could have a material adverse effect on our financial condition.

A loss of, or significant change in, key product distribution relationships could materially affect sales.

We distribute certain products under agreements with affiliated distributors and other members of the financial services industry that are not affiliated with us. We compete with other financial institutions to attract and retain commercial relationships in each of these channels, and our success in competing for sales through these distribution intermediaries depends upon factors such as the amount of sales commissions and fees we pay, the breadth of our product offerings, the strength of our brand, our perceived

stability and financial strength ratings, and the marketing and services we provide to, and the strength of the relationships we maintain with, individual distributors. An interruption or significant change in certain key relationships could materially affect our ability to market our products and could have a material adverse effect on our business, operating results and financial condition. Distributors may elect to alter, reduce or terminate their distribution relationships with us, including for such reasons as changes in our distribution strategy, adverse developments in our business, adverse rating agency actions or concerns about market-related risks. Alternatively, we may terminate one or more distribution agreements due to, for example, a loss of confidence in, or a change in control of, one of the distributors, which could reduce sales.

We are also at risk that key distribution partners may merge or change their business models in ways that affect how our products are sold, either in response to changing business priorities or as a result of shifts in regulatory supervision or potential changes in state and federal laws and regulations regarding standards of conduct applicable to distributors when providing investment advice to retail and other customers.

The occurrence of natural or man-made disasters may adversely affect our results of operations and financial condition.

We are exposed to various risks arising from natural disasters, including hurricanes, climate change, floods, earthquakes, tornadoes and pandemic disease, as well as man-made disasters and core infrastructure failures, including acts of terrorism, military actions, power grid and telephone/internet infrastructure failures, which may adversely affect AUM, results of operations and financial condition by causing, among other things:

- losses in our investment portfolio due to significant volatility in global financial markets or the failure of counterparties to perform;
- changes in the rate of mortality, claims, withdrawals, lapses and surrenders of existing policies and contracts, as well as sales of new policies and contracts; and
- disruption of our normal business operations due to catastrophic property damage, loss of life, or disruption of public and private infrastructure, including communications and financial services.

There can be no assurance that our business continuation and crisis management plan or insurance coverages would be effective in mitigating any negative effects on operations or profitability in the event of a disaster, nor can we provide assurance that the business continuation and crisis management plans of the independent distributors and outside vendors on whom we rely for certain services and products would be effective in mitigating any negative effects on the provision of such services and products in the event of a disaster.

Claims resulting from a catastrophic event could also materially harm the financial condition of our reinsurers, which would increase the probability of default on reinsurance recoveries. Our ability to write new business could also be adversely affected.

In addition, the jurisdictions in which we are admitted to transact business require life insurers doing business within the jurisdiction to participate in guaranty associations, which raise funds to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. It is possible that a catastrophic event could require extraordinary assessments on us, which may have a material adverse effect on our business, results of operations and financial condition.

The loss of key personnel could negatively affect our financial results and impair our ability to implement our business strategy.

Our success depends in large part on our ability to attract and retain key people. Intense competition exists for key employees with demonstrated ability, and we may be unable to hire or retain such employees. Our key employees include investment professionals, such as portfolio managers, sales and distribution professionals, actuarial and finance professionals and information technology professionals. While we do not believe that the departure of any particular individual would cause a material adverse effect on our operations, the unexpected loss of several of our senior management, portfolio managers or other key employees could have a material adverse effect on our operations due to the loss of their skills, knowledge of our business, and their years of industry experience as well as the potential difficulty of promptly finding qualified replacement employees. We also rely upon the knowledge and experience of employees involved in functions that require technical expertise in order to provide for sound operational controls for our overall enterprise, including the accurate and timely preparation of required regulatory filings and U.S. GAAP and statutory financial statements and operation of internal controls. A loss of such employees could adversely impact our ability to execute key operational functions and could adversely affect our operational controls, including internal controls over financial reporting.

If we experience difficulties arising from outsourcing relationships, our ability to conduct business could be compromised, which may have an adverse effect on our business and results of operations.

As we continue to focus on reducing the expense necessary to support our operations, we have increasingly used outsourcing strategies for certain technology and business functions. If third-party providers experience disruptions or do not perform as anticipated, or we experience problems with a transition, we may experience operational difficulties, an inability to meet obligations, including, but not limited to, policyholder obligations, increased costs and a loss of business that may have a material adverse effect on our business and results of operations. For other risks associated with our outsourcing of certain functions, see "-Interruption or other operational failures in telecommunication, information technology and other operational systems, including as a result of human error, could harm our business," and "-A failure to maintain the security, integrity, confidentiality or privacy of our telecommunication, information technology or other operational systems, or the sensitive data residing on such systems, could harm our business."

We may not be able to protect our intellectual property and may be subject to infringement claims.

We rely on a combination of contracts and copyright, trademark, patent and trade secret laws to protect our intellectual property. Although we endeavor to protect our rights, third parties may infringe upon or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents and trade secrets or to determine their scope, validity or enforceability. This would represent a diversion of resources that may be significant and our efforts may not prove successful. The inability to secure or protect our intellectual property could have a material adverse effect on our business and our ability to compete.

We may also be subject to claims by third parties for (i) patent, trademark or copyright infringement, (ii) breach of contractual patent, trademark or copyright license rights, or (iii) misappropriation of trade secrets. Any such claims and any resulting litigation could result in significant expense and liability for damages. If we were found to have infringed or misappropriated a third-party patent or other intellectual property right, we could in some circumstances be enjoined from providing certain products or services to our customers or from utilizing and benefiting from certain methods, processes, technology copyrights, trademarks, trade secrets or licenses. Alternatively, we could be required to enter into costly licensing arrangements with third parties or implement a costly work around. Any of these scenarios could have a material adverse effect on our business and results of operations.

Risks Related to Our Closed Block of Variable Annuities

Although we no longer actively market retail variable annuities, our business, results of operations, financial condition and liquidity will continue to be affected by our closed block of variable annuity products for the foreseeable future.

Our closed block of retail variable annuities were sold primarily from 2001 to early 2010 when the block entered run-off. These products offered long-term savings vehicles in which customers (policyholders) made deposits that were invested, largely at the customer's direction, in a variety of U.S. and international equity, fixed income, real estate and other investment options. In addition, these products provided customers with the option to purchase living benefit riders, including GMWBL, GMIB, GMAB and GMWB. All retail variable annuity products include ("GMDB"). In 2009, we decided to cease sales of retail variable annuity products with substantial guarantee features. In early 2010, we ceased all new sales of these products with substantial guarantees, although we continue to accept new deposits in accordance with, and subject to the limitations of, the provisions of existing contracts.

Market movements and actuarial assumption changes (including, with respect to policyholder behavior and mortality) can result in material adverse impacts to our results of operations, financial condition and liquidity. Because policyholders have various contractual rights to defer withdrawals, annuitization and/or maturity of their contracts, the nature and period of contract maturity is subject to policyholder behavior and is therefore indeterminate. Future market movements and changes in actuarial assumptions can result in significant earnings and liquidity impacts, as well as increases in regulatory reserve and capital requirements for this closed block.

Our closed block of variable annuities is subject to market risks.

Our closed block of variable annuities is subject to a number of market risks, primarily associated with U.S. and other global equity market values and interest rates. For example, declining equity market values, increasing equity market volatility, declining interest rates or a prolonged period of low interest rates can result in an increase in the valuation of future policy benefits, reducing our net income. Declining market values for bonds and equities also reduce the account balances of our variable annuity contracts, and since we collect fees and risk charges based on these account balances, our net income may be further reduced.

Declining interest rates, a prolonged period of low interest rates, increased equity market volatility or declining equity market values may also subject us to increased hedging costs. Market events can cause an increase in the amount of statutory reserves that we are required to hold for variable annuity guarantees, lowering our statutory surplus. An increase in interest rates could result in decreased fee income associated with a decline in the value of variable annuity account balances invested in fixed income funds, which also might affect the value of the underlying guarantees within these variable annuities.

The performance of our closed block of variable annuity products depends on assumptions that may not be accurate.

Our in-force closed block of variable annuity products is subject to risks associated with the future behavior of policyholders and future claims payment patterns, using assumptions for mortality experience, lapse rates, GMIB annuitization rates and GMWBL withdrawal rates. We are required to make assumptions about these behaviors and patterns, which may not reflect the actual behaviors and patterns we experience in the future. It is possible that future assumption changes could produce reserve changes that could be material, before considering the impact of reinsurance with SLDI.

In particular, we have only minimal experience regarding the long-term implications of policyholder behavior for our GMIB products and as a result, future experience could lead to significant changes in our assumptions. Our GMIB contracts, most of which were issued during the period from 2004 to 2006, have a ten-year waiting period before annuitization is available. These contracts first become eligible to annuitize during the period from 2014 through 2016, but contain significant incentives to delay annuitization beyond the first eligibility date. In addition, during 2014 and 2015, we made two income enhancement offers to holders of particular series of GMIB contracts, under which policyholders were offered an incentive to annuitize prior to the end of the waiting period, and we have waived the remaining waiting period on these GMIB contracts. As a result, although we have increased experience on policyholder behavior for the first opportunity to annuitize, including from the acceptance rates of the income enhancement offers, we continue to have only a statistically small sample of experience used to set annuitization rates beyond the first eligibility date. Therefore, we anticipate that observable experience data will become statistically credible later in this decade, when a large volume of GMIB benefits begin to reach their maximum benefit over the four-year period from 2019 to 2022.

Similarly, most of our GMWBL contracts are still in the first seven to nine policy years, so our assumptions for withdrawal from contracts with GMWBL benefits may change as experience emerges. In addition, many of our GMWBL contracts contain significant incentives to delay withdrawal. Our experience for GMWBL contracts has recently become more credible, however it is possible that policyholders may choose to withdraw sooner or later than our current best estimate assumes. We expect customer decisions on withdrawal will be influenced by their financial plans and needs as well as by interest rate and market conditions over time and by the availability and features of competing products.

We also make estimates of expected lapse rates, which represent the probability that a policy will not remain in force from one period to the next, for our in-force closed block of variable annuity products. Lapse rates of our variable annuity contracts may be significantly impacted by the value of guaranteed minimum benefits relative to the value of the underlying separate accounts (account value or account balance). In general, policies with guarantees that are “in the money” are assumed to be less likely to lapse. Conversely, “out of the money” guarantees are assumed to be more likely to lapse as the policyholder has less incentive to retain the policy. Lapse rates could also be adversely affected generally by developments that affect customer perception of us.

Our variable annuity lapse rate experience has varied significantly over the period from 2006 to the present, reflecting among other factors, both pre-and post-financial crisis experience. Relative to our current expectations, actual lapse rates have generally demonstrated a declining trend over the period from 2006 to the present. We analyze actual experience over that entire period, as we believe that over the duration of the variable annuity policies we may experience the full range of policyholder behavior and market conditions. However, management’s current best estimate of variable annuity policyholder lapse behavior is weighted more heavily toward more recent experience, as the last three years of data have shown a more consistent trend of lapse behavior.

Actual lapse rates that are lower than our lapse rate assumptions could have an adverse effect on profitability in the later years of a block of business because the anticipated claims experience may be higher than expected in these later years, and, as discussed above, future reserve increases in connection with experience updates could be material and adverse to the results of operations or financial condition of the Company.

We make estimates regarding mortality, which refers to the ceasing of life contingent benefit payments due to the death of the annuitant. Mortality also refers to the incidence of death amongst policyholders triggering the payment of Guaranteed Minimum Death Benefits. We use a combination of actual and industry experience when setting our mortality assumptions.

We review overall policyholder experience at least annually (including lapse, annuitization, withdrawal and mortality), and update these assumptions when deemed necessary based on additional information that becomes available. As customer experience continues to materialize, we may adjust our assumptions. The magnitude of any required changes could be material and adverse to the results of operations or financial condition of the Company if SLDI, the reinsurer of our guaranteed living benefits, fails to meet its obligations under the reinsurance contract.

Our Variable Annuity Hedge Program may not be effective and may be more costly than anticipated.

We periodically re-evaluate our Variable Annuity Hedge Program to respond to changing market conditions and balance the trade-offs among several important factors, including regulatory reserves, rating agency capital, underlying economics, earnings and other factors. While our Variable Annuity Hedge Program is intended to balance numerous critical metrics, we are subject to the risk that our strategies and other management decisions may prove ineffective or that unexpected policyholder experience, alone or in combination with unfavorable market events, may produce losses or unanticipated cash needs beyond the scope of the risk management strategies employed. The Variable Annuity Hedge Program assumes that hedge positions can be rebalanced during a market shock and that the performance of the derivative contracts reasonably matches the performance of the contract owners' variable fund returns. In addition, our Variable Annuity Hedge Program does not hedge certain non-market risks inherent in this segment, including business, credit, insurance and operational risks; any of these risks could cause us to experience unanticipated losses or cash needs. For example, hedging counterparties may fail to perform their obligations resulting in unhedged exposures and losses on positions that are not collateralized. Finally, the cost of the Variable Annuity Hedge Program itself may be greater than anticipated as adverse market conditions can limit the availability and increase the costs of the hedging instruments we employ, and such costs may not be recovered in the pricing of the underlying products being hedged. For example, the cost of hedging guaranteed minimum benefits increases as market volatilities increase and/or interest rates decrease, resulting in a reduction to net income.

Risks Related to Regulation

Our businesses and those of our affiliates are heavily regulated and changes in regulation or the application of regulation may reduce our profitability.

We are subject to detailed insurance, securities and other financial services laws and government regulation. In addition to the insurance, securities and other regulations and laws specific to the industries in which we operate, regulatory agencies have broad administrative power over many aspects of our business, which may include ethical issues, money laundering, privacy, recordkeeping and marketing and sales practices. Also, bank regulators and other supervisory authorities in the United States and elsewhere continue to scrutinize payment processing and other transactions under regulations governing such matters as money-laundering, prohibited transactions with countries subject to sanctions, and bribery or other anti-corruption measures. The financial market dislocations we have experienced have produced, and are expected to continue to produce, extensive changes in existing laws and regulations applicable to our businesses.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in laws and regulations may materially increase the cost of compliance and other expenses of doing business. There are a number of risks that may arise where applicable regulations may be unclear, subject to multiple interpretations or under development or where regulations may conflict with one another, where regulators revise their previous guidance or courts overturn previous rulings, which could result in our failure to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which could result, among other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm our results of operations and financial condition. If we fail to address, or appear to fail to address, appropriately any of these matters, our reputation could be harmed and we could be subject to additional legal risk, which could increase the size and number of claims and damages asserted against us or subject us to enforcement actions, fines and penalties. See "Item 1. Business - Regulation" for further discussion on the impact of regulations on our businesses.

Our businesses are heavily regulated, and changes in regulation in the United States, enforcement actions and regulatory investigations may reduce profitability.

Our operations are subject to comprehensive regulation and supervision throughout the United States. State insurance laws regulate most aspects of our insurance business and we are regulated by the insurance department of our state of domicile, Iowa. The primary purpose of state regulation is to protect policyholders, and not necessarily to protect creditors and investors. See "Item 1. Business - Regulation-Insurance Regulation".

State insurance guaranty associations have the right to assess insurance companies doing business in their state in order to help pay the obligations of insolvent insurance companies to policyholders and claimants. Because the amount and timing of an assessment is beyond our control, liabilities we have currently established for these potential assessments may not be adequate.

State insurance regulators, the NAIC and other regulatory bodies regularly reexamine existing laws and regulations applicable to insurance companies and their products and their affiliated transactions. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and could materially and adversely affect our business, results of operations or financial condition. We currently use our affiliated Arizona domiciled captive reinsurance company to reinsure certain of our variable annuities. Uncertainties associated with continued use of our affiliated captive reinsurance company are primarily related to potential regulatory changes. In June 2014, the NAIC adopted a new regulatory framework for captives assuming business governed by Regulators XXX or AXXX, called the "Rector framework". In December 2014, the NAIC adopted Actuarial Guideline 48 (“AG48”) which established a new regulatory requirement applicable to XXX and AG38 reserves ceded to reinsurers, including affiliated reinsurers, as the first step in implementing the Rector framework. As adopted, AG48 limits the type of assets that may be used as collateral to cover the XXX and AG38 statutory reserves and is applied prospectively to existing reinsurance transactions that reinsure policies issued on or after January 1, 2015 and new reinsurance transactions entered into on or after January 1, 2015. The NAIC has charged multiple working groups with the responsibility to prepare regulations that would codify the Rector framework and that work continues at the NAIC. In 2014, the NAIC also considered a proposal to require states to apply NAIC accreditation standards, applicable to traditional insurers, to captive reinsurers. In 2015, the NAIC adopted such a proposal, in the form of a revised preamble to the NAIC accreditation standards (the “Standard”), with an effective date of January 1, 2016 for application of the Standard to captives that assume XXX or AXXX business. Under the Standard, a state will be deemed in compliance as it relates to XXX or AXXX captives if the applicable reinsurance transaction satisfies AG 48. In addition, the Standard applies prospectively, so that XXX or AXXX captives will not be subject to the Standard if reinsured policies were issued prior to January 1, 2015 and ceded so that they were part of a reinsurance arrangement as of December 31, 2014. The NAIC left for future action application of the Standard to captives that assume variable annuity business. As drafted, it appears that the Standard would apply to our affiliate, Security Life of Denver International Limited, an Arizona captive.

During 2015, The NAIC Financial Conditions (E) Committee (the “E Committee”) established the Variable Annuities Issues (E) Working Group (“VAIWG”) to oversee the NAIC’s efforts to study and address, as appropriate, regulatory issues resulting in variable annuity captive reinsurance transactions. The VAIWG retained Oliver Wyman to study the industry’s use of variable annuity captive reinsurance and to develop a set of recommended changes to address the issues involving variable annuity captives. In September 2015, Oliver Wyman issued an initial report, which was adopted by the VAIWG, outlining its preliminary findings and making recommendations for enhancement to the variable annuity statutory framework. In November 2015, upon recommendation of the VAIWG, the E Committee adopted a Variable Annuities Framework for Change (the “VA Framework for Change”) which recommends charges for NAIC working groups to adjust the variable annuity statutory framework applicable to all insurers that have written or are writing variable annuity business. The VA Framework for Change contemplates a holistic set of reforms that would improve the current reserve and capital framework and address root cause issues that result in the use of captive arrangements. Although the VA Framework for Change recommends an effective date of January 1, 2017, the timing of these proposals remains uncertain. In November 2015, the NAIC also approved funding for a quantitative impact study, to be conducted by Oliver Wyman and involving industry participants including us, of various reforms outlined in the VA Framework for Change (the “QIS Study”).

We cannot predict what revisions, if any, would be made to the Rector framework or the Standard for application to captives that assume XXX or AXXX business, as multiple NAIC working groups undertake their implementation, to the VA Framework for Change proposal as a result of the QIS Study and ongoing NAIC deliberations, or to the Standard, if adopted for variable annuity captives. It is also unclear whether these or other proposals will be adopted by the NAIC, or what additional actions and regulatory changes will result from the continued captives scrutiny and reform efforts by the NAIC and other regulatory bodies. Any regulatory action that limits our ability to achieve desired benefits from the use of or materially increases our cost of using captive reinsurance companies, either retroactively or prospectively, including, if adopted as proposed, without grandfathering provisions for existing captive variable annuity reinsurance entities, the Standard, could have a material adverse effect on our financial condition or results of operations.

Insurance regulators have implemented, or begun to implement significant changes in the way in which insurers must determine statutory reserves and capital, particularly for products with contractual guarantees such as variable annuities and universal life policies, and are considering further potentially significant changes in these requirements.

In addition, state insurance regulators are becoming more active in adopting and enforcing suitability standards with respect to sales of fixed and indexed annuities. In particular, the NAIC has adopted a revised SAT, which will, if enacted by the states, place

new responsibilities upon issuing insurance companies with respect to the suitability of annuity sales, including responsibilities for training agents. Several states have already enacted laws based on the SAT.

In addition to the foregoing risks, the financial services industry is the focus of increased regulatory scrutiny as various state and federal governmental agencies and self-regulatory organizations conduct inquiries and investigations into the products and practices of the financial services industries. For a description of certain regulatory inquiries affecting the Company, see the Litigation and Regulatory Matters section of the *Commitments and Contingencies* Note in our Financial Statements in Part II, Item 8. in this Annual Report on Form 10-K. It is possible that future regulatory inquiries or investigations involving the insurance industry generally, or the Company specifically, could materially and adversely affect our business, results of operations or financial condition.

In some cases, this regulatory scrutiny has led to legislation and regulation, or proposed legislation and regulation that could significantly affect the financial services industry, or has resulted in regulatory penalties, settlements and litigation. New laws, regulations and other regulatory actions aimed at the business practices under scrutiny could materially and adversely affect our business, results of operations or financial condition. The adoption of new laws and regulations, enforcement actions, or litigation, whether or not involving us, could influence the manner in which we distribute our products, result in negative coverage of the industry by the media, cause significant harm to our reputation and materially and adversely affect our business, results of operations or financial condition.

Our products are subject to extensive regulation and failure to meet any of the complex product requirements may reduce profitability.

Our annuity, retirement and investment products are subject to a complex and extensive array of state and federal tax, securities, insurance and employee benefit plan laws and regulations, which are administered and enforced by a number of different governmental and self-regulatory authorities, including state insurance regulators, state securities administrators, state banking authorities, the SEC, the Financial Industry Regulatory Authority ("FINRA"), the DOL, and the IRS.

For example, U.S. federal income tax law imposes requirements relating to insurance and annuity product design, administration and investments that are conditions for beneficial tax treatment of such products under the Internal Revenue Code. Additionally, state and federal securities and insurance laws impose requirements relating to insurance and annuity product design, offering and distribution and administration. Failure to administer product features in accordance with contract provisions or applicable law, or to meet any of these complex tax, securities, or insurance requirements could subject us to administrative penalties imposed by a particular governmental or self-regulatory authority, unanticipated costs associated with remedying such failure or other claims, harm to our reputation, interruption of our operations or adversely impact profitability.

The Dodd-Frank Act, its implementing regulations and other financial regulatory reform initiatives could have adverse consequences for the financial services industry, including us and/or materially affect our results of operations, financial condition or liquidity.

On July 21, 2010, the Dodd-Frank Act was signed into law. It effects comprehensive changes to the regulation of financial services in the United States. The Dodd-Frank Act directs existing and newly-created government agencies and bodies to perform studies and promulgate a multitude of regulations implementing the law, a process that is underway and is expected to continue over the next few years. While some studies have already been completed and the rule-making process is well underway, there continues to be significant uncertainty regarding the results of ongoing studies and the ultimate requirements of regulations that have not yet been adopted. We cannot predict with certainty how the Dodd-Frank Act and such regulations will affect the financial markets generally, or impact our business, ratings, results of operations, financial condition or liquidity. The Dodd-Frank Act's potential effects could include:

- If designated by the FSOC as a nonbank financial company subject to supervision by the Federal Reserve, we would become subject to a comprehensive system of prudential regulation, including, among other matters, minimum capital requirements, liquidity standards, credit exposure requirements, overall risk management requirements, management interlock prohibitions, a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress, stress testing, additional fees and assessments and restrictions on proprietary trading and certain investments. The exact scope and consequences of these standards are subject to ongoing rulemaking activity by various federal banking regulators and therefore are currently unclear. However, this comprehensive system of prudential regulation, if applied to us, would significantly impact the manner in which we operate and could materially and adversely impact the profitability of one or more of our business lines or the level of capital required to support our activities. In designating non-bank

financial companies for heightened prudential regulation by the Federal Reserve, the FSOC considers, among other matters, their scope, size and potential impact of their activities on the financial stability of the United States.

- Title VII of the Dodd-Frank Act creates a new framework for regulation of the over-the-counter ("OTC") derivatives markets. New margin and capital requirements on market participants could substantially increase the cost of hedging and related operations, affect the profitability of our products or their attractiveness to our customers, or cause us to alter our hedging strategy or change the composition of the risks we do not hedge.

- The Dodd-Frank Act established the FIO within the Treasury Department. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance, including participating in the FSOC's decisions regarding insurers to be designated for stricter regulation by the Federal Reserve. The Dodd-Frank Act also required the director of FIO to conduct a study on how to modernize and improve the system of insurance regulation in the United States. The director issued that report in December 2013, recommending increased federal involvement in certain areas of insurance regulation to improve uniformity, and setting out recommendations in areas of near-term reform for the states, including prudential and marketplace oversight. The report also recommended that states develop a uniform and transparent solvency oversight regime for the transfer of risk to reinsurance captives, and adopt a uniform capital requirement for reinsurance captives, including a prohibition on transactions that do not constitute legitimate risk transfer. FIO has an ongoing charge to monitor all aspects of the insurance industry and will monitor state regulatory developments, including those called for in its report and present options for federal involvement if deemed necessary.

The Dodd-Frank Act also includes various securities law reforms that may affect our business practices. See “Changes in U.S. federal and state securities laws and regulations may affect our operations and our profitability” below.

Although the full impact of the Dodd-Frank Act cannot be determined until the various studies mandated by the law are conducted and implementing regulations are adopted, many of the legislation's requirements could have profound and/or adverse consequences for the financial services industry, including for us. The Dodd-Frank Act could make it more expensive for us to conduct business, require us to make changes to our business model or satisfy increased capital requirements, subject us to greater regulatory scrutiny or to potential increases in whistleblower claims in light of the increased awards available to whistleblowers under the Act and have a material adverse effect on our results of operations or financial condition.

See "Item 1. Business - Regulation" for further discussion of the impact of the Dodd-Frank Act on our businesses.

Changes in U.S. federal and state securities laws and regulations may affect our operations and our profitability.

U.S. federal and state securities laws apply to sales of our variable annuity products (which are considered to be both insurance products and securities). In addition, certain fixed and indexed annuities we may offer may be registered as securities under the Securities Act. As a result, these products are subject to regulation by the SEC and FINRA. Our variable annuity products are issued through separate accounts and the separate accounts are registered as investment companies under the Investment Company Act. Distribution of our annuity products registered as securities is affected by laws and regulations applicable to broker-dealers.

Securities laws and regulations are primarily intended to ensure the integrity of the financial markets and to protect investors in the securities markets or investment advisory or brokerage clients. These laws and regulations generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with those laws and regulations. A number of changes have recently been proposed to the laws and regulations that govern the conduct of our registered insurance products business and our distributors that could have a material adverse effect on our results of operations and financial condition. For example, the Dodd-Frank Act authorizes the SEC to establish a standard of conduct applicable to brokers and dealers when providing personalized investment advice to retail customers. This standard of conduct would be to act in the best interest of the customer without regard to the financial or other interest of the broker or dealer providing the advice. The SEC has not yet decided whether to propose rules creating a uniform standard of conduct applicable to broker-dealers and investment advisers. Further, proposals have been made that the SEC establish a self-regulatory organization with respect to registered investment advisers, which could increase the level of regulatory oversight over them. Changes to these laws or regulations that restrict the conduct of our business could have an adverse effect on our results of operations and financial condition.

Changes to federal regulations could adversely affect our distribution model by restricting our ability to provide customers with advice.

The prohibited transaction rules of the Internal Revenue Code generally restrict providing investment advice to purchasers of individual retirement accounts and individual retirement annuities if the investment recommendation results in fees paid to the individual advisor, his or her firm or their affiliates that vary according to the investment recommendation chosen. In March 2010, the DOL issued proposed regulations that provide limited relief from these investment advice restrictions. The DOL issued final rules in October of 2011 and did not provide additional relief regarding these restrictions. As a result, the ability of certain of our investment advisory affiliates and their advisory representatives to provide investment advice with respect to individual retirement accounts and individual retirement annuities, will likely be significantly restricted. Also, the fee and revenue arrangements of certain advisory programs may be required to be revenue neutral, resulting in potential lost revenues for these investment advisers and their affiliates.

Other proposed regulatory initiatives applicable to individual retirement accounts and individual retirement annuities may negatively impact the distribution of our products. In particular, in April 2015 the DOL issued a proposed rule that would, if adopted as proposed, broaden the definition of "fiduciary" for purposes of ERISA and the Internal Revenue Code, as it applies to a person or entity providing investment advice with respect to ERISA plans or individual retirement accounts and individual retirement annuities. As proposed, the rule would expand the circumstances in which providers of investment advice to small plan sponsors, plan participants and beneficiaries, and IRA investors are deemed to act in a fiduciary capacity. The rule would require such providers to act in their clients' "best interests", not influenced by any conflicts of interest, including due to the direct or indirect receipt of compensation. Although the DOL concurrently proposed a "best interest contract exemption" intended to enable continuation of certain existing industry practices relating to receipt of commissions and other compensation, the exemption includes conditions and requirements that may make it difficult to rely upon in practice.

Although the final outcome of the DOL rulemaking remains uncertain, the proposed rule, if adopted in its current form, could lead to changes in how distributors of annuity products are compensated and could adversely affect sales of annuities to IRAs and other tax-qualified investors. In addition, the proposed rule may make it easier for the DOL in enforcement actions, and for plaintiffs' attorneys in ERISA litigation, to attempt to extend fiduciary status to, or to claim fiduciary or contractual breach by, advisors who would not be deemed fiduciaries under current regulations. Compliance with the proposed rule could also increase our overall operational costs for providing some of the services we currently provide.

Changes in tax laws and interpretations of existing tax law could increase our tax costs, impact our ability to make distributions to Voya Financial, Inc. or make our insurance, annuity and investment products less attractive to customers.

Changes in tax laws could increase our taxes and our effective tax rates. For example, as in prior years the Obama Administration recently re-proposed modifying the dividends received deduction for life insurance company separate accounts, and such a modification could significantly reduce or eliminate the dividends received deduction that we are able to claim for dividends received in separate accounts. As such, the dividend received deduction is a significant component of the difference between our actual tax expense and the expected tax expense determined using the federal statutory income tax rate of 35%. Also, interpretation and enforcement of existing tax law could change and could be applied to us as part of an IRS examination and increase our tax costs. In the course of such examinations, we have also entered into agreements with the IRS to resolve issues related to the application of the section 382 limitation and tax accounting matters such as: i) whether certain derivative transactions qualify for hedge treatment, ii) the proper treatment of valid tax hedge gains and losses and iii) "other than temporary impairment" losses. These agreements may be superseded by future enacted laws, regulations or public guidance that increases our taxes and our effective tax rates. Further, changes in tax rates could affect the amount of our deferred tax assets and deferred tax liabilities. One such change relates to the current debate over corporate tax reform and corporate tax rates. A reduction in the top federal tax rate would result in lower statutory deferred tax assets. Such a reduction in the statutory deferred tax asset may impact our ability to make distributions to Voya Financial, Inc.

Changes in tax laws could make some of our insurance, annuity and investment products less attractive to customers. Current U.S. federal income tax law permits tax-deferred accumulation of income earned under life insurance and annuity products, and permits exclusion from taxation of death benefits paid under life insurance contracts. Changes in tax laws that restrict these tax benefits could make some of our products less attractive to customers. Reductions in individual income tax rates or estate tax rates could also make some of our products less advantageous to customers. Changes in federal tax laws that reduce the amount an individual can contribute on a pre-tax basis to an employer-provided, tax-deferred product (either directly by reducing current limits or indirectly by changing the tax treatment of such contributions from exclusions to deductions) or changes that would limit an individual's aggregate amount of tax-deferred savings could make our retirement products less attractive to consumers.

Congress has signaled interest in possibly pursuing limited international tax reform. If successful, it is unlikely to result in reducing corporate tax rates by broadening the taxable income base. Also viewed as unlikely is a reduction of tax preferences, including possibly the reduction or elimination of tax preferences associated with our industry. States that stand to lose tax revenue of their own will exert pressure on the federal government not to enact additional measures as part of comprehensive tax reform that would negatively impact them. Such a situation may result in more pressure on raising revenue from tax preferences associated with our Company and products.

Item 1B. Unresolved Staff Comments

Omitted as registrant is neither an accelerated filer nor a well-known seasoned issuer.

Item 2. Properties

Our principal office is located at 1475 Dunwoody Drive, West Chester, Pennsylvania, 19380-1478. Our annuity operations and customer service center are located at 909 Locust Street, Des Moines, Iowa 50309, and the GIC business activities are located at 5780 Powers Ferry Road, N.W., Atlanta, Georgia 30327-4390. Our office space is leased or subleased by us or our other affiliates except for our location at 5780 Powers Ferry Road, N.W., Atlanta, Georgia.

Item 3. Legal Proceedings

See the Litigation and Regulatory Matters section of the *Commitments and Contingencies* Note in our Financial Statements in Part II, Item 8. in this Annual Report on Form 10-K for a description of our material legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
(Dollar amounts in millions, unless otherwise stated)

There is no public trading market for the common stock of VIAC. All of our outstanding common stock is owned by our parent, Voya Holdings Inc. ("Parent"), a direct, wholly owned subsidiary of Voya Financial, Inc.

Iowa insurance law imposes restrictions on an Iowa insurance company's ability to pay dividends to its parent. These restrictions are based in part on the prior year's statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval. Dividends in larger amounts, or extraordinary dividends, are subject to approval by the Iowa Insurance Commission.

Under Iowa law, an extraordinary dividend or distribution is defined as a dividend or distribution that, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (1) ten percent (10.0%) of our earned statutory surplus at the prior year end or (2) our prior year statutory net gain from operations. Iowa law also prohibits an Iowa insurer from declaring or paying a dividend except out of its earned surplus unless prior insurance regulatory approval is obtained.

During the year ended December 31, 2015, we declared an ordinary dividend to our Parent in the amount of $394.0 million, which was paid to our Parent on May 20, 2015. During the year ended December 31, 2014, we paid an ordinary dividend of $216.0 million to our Parent.

During the year ended December 31, 2015, we declared an extraordinary distribution in the amount of $98.0 million, subject to receipt of approval by the Iowa Insurance Division. The Iowa Insurance Division provided its approval on June 25, 2015, and we paid the extraordinary distribution to our Parent on June 26, 2015.

During the years ended December 31, 2015, and 2014, we did not receive any capital contributions from our Parent.

Item 6. Selected Financial Data

Omitted pursuant to General Instruction I(2)(a) of Form 10-K.

Item 7. Management's Narrative Analysis of the Results of Operations and Financial Condition
(Dollar amounts in millions, unless otherwise stated)

For the purposes of the discussion in this Annual Report on Form 10-K, the terms "Company," "we," "our," "us" and "VIAC" refer to Voya Insurance and Annuity Company. We are a direct, wholly owned subsidiary of Voya Holdings Inc. ("Parent"), which is a direct, wholly owned subsidiary of Voya Financial, Inc.

The following discussion and analysis presents a review of our results of operations for the years ended December 31, 2015, 2014 and 2013 and financial condition as of December 31, 2015 and 2014. This item should be read in its entirety and in conjunction with the Financial Statements and related notes contained in Part II, Item 8. of this Annual Report on Form 10-K.

In addition to historical data, this discussion contains forward-looking statements about our business, operations and financial performance based on current expectations that involve risks, uncertainties and assumptions. Actual results may differ materially from those discussed in the forward-looking statements as a result of various factors. See "Note Concerning Forward-Looking Statements."

Basis of Presentation

VIAC is a stock life insurance company domiciled in the State of Iowa and provides financial products and services in the United States. VIAC is authorized to conduct its insurance business in all states, except New York, and in the District of Columbia.

Products currently offered by us include fixed and indexed annuities, and payout annuities, designed to address customer needs for tax-advantaged savings, retirement needs and wealth-protection concerns. We also offer guaranteed investment contracts and funding agreements (collectively referred to as "GICs"). We stopped actively writing new retail annuity products with substantial guarantee features in early 2010.

We have one operating segment.

Critical Accounting Judgments and Estimates

General

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Critical estimates and assumptions are evaluated on an on-going basis based on historical developments, market conditions, industry trends and other information that is reasonable under the circumstances. There can be no assurance that actual results will conform to estimates and assumptions and that reported results of operations will not be materially affected by the need to make future accounting adjustments to reflect changes in these estimates and assumptions from time to time.

We have identified the following accounting judgments and estimates as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability:

- Reserves for future policy benefits;
- Deferred policy acquisition costs ("DAC"), value of business acquired ("VOBA") and deferred sales inducements ("DSI");
- Valuation of investments and derivatives;
- Impairments;
- Income taxes; and
- Contingencies.

In developing these accounting estimates, we make subjective and complex judgments that are inherently uncertain and subject to material changes as facts and circumstances develop. Although variability is inherent in these estimates, we believe the amounts provided are appropriate based on the facts available upon preparation of the Financial Statements.

The above critical accounting estimates are described in the *Business, Basis of Presentation and Significant Accounting Policies* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K.

Reserves for Future Policy Benefits

The determination of future policy benefit reserves is dependent on actuarial assumptions. The principal assumptions used to establish liabilities for future policy benefits are based on our experience and periodically reviewed against industry standards. These assumptions include mortality, morbidity, policy lapse, contract renewal, payment of subsequent premiums or deposits by the contract owner, retirement, investment returns, inflation, benefit utilization and expenses. The assumptions used require considerable judgments. Changes in, or deviations from, the assumptions used can significantly affect our reserve levels and related results of operations.

- Mortality is the incidence of death among policyholders triggering the payment of underlying insurance coverage by the insurer. In addition, mortality also refers to the ceasing of payments on life-contingent annuities due to the death of the annuitant. We utilize a combination of actual and industry experience when setting our mortality assumptions.
- A lapse rate is the percentage of in-force policies surrendered by the policyholder or canceled by us due to non-payment of premiums. For certain of our variable products, the lapse rate assumption varies according to the current account value relative to guarantees associated with the product and applicable surrender charges. In general, policies with guarantees that are considered "in the money" (i.e., where the notional benefit amount is in excess of the account value) are assumed to be less likely to lapse or surrender. Conversely, "out of the money" guarantees may be assumed to be more likely to lapse or surrender as the policyholder has less incentive to retain the policy.

See the *Guaranteed Benefit Features* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for further information on our reserves for future policy benefits, contract owner account balances and product guarantees.

Insurance and Other Reserves

Reserves for traditional life insurance contracts (term insurance, participating and non-participating whole life insurance and traditional group life insurance) and accident and health insurance represent the present value of future benefits to be paid to or on behalf of contract owners and related expenses, less the present value of future net premiums. Assumptions as to interest rates, mortality, expenses and persistency are based on our estimates of anticipated experience at the period the policy is sold or acquired, including a provision for adverse deviation. Interest rates used to calculate the present value of these reserves ranged from 2.3% to 7.2%.

Reserves for payout contracts with life contingencies are equal to the present value of expected future payments. Assumptions as to interest rates, mortality and expenses are based on our estimates of experience at the period the policy is sold or acquired, including a provision for adverse deviation. Such assumptions generally vary by annuity plan type, year of issue and policy duration. Interest rates used to calculate the present value of future benefits ranged from 1.0% to 7.5%.

Although assumptions are "locked-in" upon the issuance of traditional life insurance contracts, certain accident and health insurance contracts and payout contracts with life contingencies, significant changes in experience or assumptions may require us to provide for expected future losses on a product by establishing premium deficiency reserves. Premium deficiency reserves are determined based on best estimate assumptions that exist at the time the premium deficiency reserve is established and do not include a provision for adverse deviation. During the year ended December 31, 2015, we established premium deficiency reserves of $126.0 million before tax related to certain payout annuity contracts, which was recorded as an increase in Policyholder benefits and contract owner balances with a corresponding increase in Deposits and reinsurance recoverable, as the reserves are ceded to an affiliate on a 100% coinsurance and coinsurance funds withheld basis. The establishment of this premium deficiency reserve had no impact in the Statements of Operations for the year ended December 31, 2015.

Product Guarantees and Index-crediting Features

The assumptions used to establish the liabilities for our product guarantees require considerable judgment and are established as management's best estimate of future outcomes. We periodically review these assumptions and, if necessary, update them based on additional information that becomes available. Changes in, or deviations from, the assumptions used can significantly affect our reserve levels and related results of operations.

GMDB and GMIB: Reserves for annuity guaranteed minimum death benefits ("GMDB") and guaranteed minimum income benefits ("GMIB") are determined by estimating the value of expected benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. Expected experience is based on a range of scenarios. Assumptions used, such as the long-term equity market return, lapse rate and mortality, are consistent with assumptions used in estimating gross profits for the purpose of amortizing DAC. In addition, the reserve for the GMIB incorporates assumptions

for the likelihood and timing of the potential annuitizations that may be elected by the contract owner. In general, we assume that GMIB annuitization rates will be higher for policies with more valuable ("in the money") guarantees.

GMAB, GMWB, GMWBL and FIA: We also issue certain products which contain embedded derivatives that are measured at estimated fair value separately from the host contract. These embedded derivatives include annuity guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits without life contingencies ("GMWB"), guaranteed minimum withdrawal benefits with life payouts ("GMWBL") and fixed indexed annuities ("FIAs").

At inception of the GMAB, GMWB and GMWBL contracts, we project a fee to be attributed to the embedded derivative portion of the guarantee equal to the present value of projected future guaranteed benefits. After inception, the estimated fair value of the GMAB, GMWB and GMWBL contracts is determined based on the present value of projected future guaranteed benefits, minus the present value of projected attributed fees. A risk neutral valuation methodology is used under which the cash flows from the guarantees are projected under multiple capital market scenarios using observable risk free rates. The projection of future guaranteed benefits and future attributed fees require the use of assumptions for capital markets (e.g., implied volatilities, correlation among indices, risk-free swap curve, etc.) and policyholder behavior (e.g., lapse, benefit utilization, mortality, etc.).

The estimated fair value of the embedded derivative in the FIA contracts is based on the present value of the excess of interest payments to the contract owners over the growth in the minimum guaranteed contract value. The excess interest payments are determined as the excess of projected index driven benefits over the projected guaranteed benefits. The projection horizon is over the anticipated life of the related contracts, which takes into account best estimate actuarial assumptions, such as partial withdrawals, full surrenders, deaths, annuitizations and maturities.

Certain FIA contracts contain guaranteed withdrawal benefit provisions. Reserves for these benefits are calculated by estimating the value of expected benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments.

The liabilities for the GMAB, GMWB, GMWBL and FIA embedded derivatives include a risk margin to capture uncertainties related to policyholder behavior assumptions. The margin represents additional compensation a market participant would require to assume these risks.

The discount rate used to determine the fair value of the liabilities for our GMAB, GMWB, GMWBL and FIA embedded derivatives includes an adjustment to reflect the risk that these obligations will not be fulfilled (“nonperformance risk”). Our nonperformance risk adjustment is based on a blend of observable, similarly rated peer holding company credit default swap ("CDS") spreads, adjusted to reflect the credit quality of VIAC, the issuer of the guarantee, as well as an adjustment to reflect the priority of policyholder claims.The impact of the nonperformance risk adjustment on the fair value of these liabilities was a reduction of approximately $791.0 million and $754.0 million as of December 31, 2015 and 2014, respectively, with the change primarily due to the increases in observable credit spreads and an increase in the associated reserves.

Assumptions and Periodic Review

We review overall policyholder experience at least annually (including lapse, annuitization, withdrawal and mortality) and update these assumptions when deemed necessary, based on additional information that becomes available. If policyholder experience is significantly different from that assumed, this could have a significant effect on our reserve levels and related results of operations.

See the *Quantitative and Qualitative Disclosures About Market Risk* Section in Part II, Item 7A. of this Annual Report on Form 10-K for additional information regarding the specific hedging strategies and reinsurance we utilize to mitigate risk for the product guarantees, as well as sensitivities of the embedded derivative liabilities to changes in certain capital markets assumptions.

Deferred Policy Acquisition Costs, Value of Business Acquired and Deferred Sales Inducements

DAC represents policy acquisition costs that have been capitalized and are subject to amortization and interest. VOBA represents the outstanding value of in-force business acquired and is subject to amortization and interest. DSI represents benefits paid to contract owners for a specified period that are incremental to the amounts we credit on similar contracts without sales inducements and are higher than the contract's expected ongoing crediting rates for periods after the inducement.

See the *Deferred Policy Acquisition Costs and Value of Business Acquired* Note and the *Sales Inducements* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for additional information on DAC, VOBA and sales inducements.

Amortization Methodologies

We amortize DAC and VOBA related to universal life ("UL") and variable universal life ("VUL") contracts and fixed and variable deferred annuity contracts over the estimated lives of the contracts in relation to the emergence of estimated gross profits. Assumptions as to mortality, persistency, interest crediting rates, fee income, returns associated with separate account performance, impact of hedge performance, expenses to administer the business and certain economic variables, such as inflation, are based on our experience and overall capital markets. At each valuation date, estimated gross profits are updated with actual gross profits, and the assumptions underlying future estimated gross profits are evaluated for continued reasonableness. Adjustments to estimated gross profits require that amortization rates be revised retroactively to the date of the contract issuance ("unlocking"). If the update of assumptions causes estimated gross profits to increase, DAC and VOBA amortization will decrease, resulting in a current period increase to earnings. The opposite result occurs when the assumption update causes estimated gross profits to decrease. We amortize DSI over the estimated lives of the related contracts using the same methodology and assumptions used to amortize DAC.

Recoverability testing is performed for current issue year products to determine if gross profits are sufficient to cover DAC, VOBA and DSI, estimated benefits and related expenses. In subsequent periods, we perform testing to assess the recoverability of DAC, VOBA and DSI on an annual basis, or more frequently if circumstances indicate a potential loss recognition issue exists. If DAC, VOBA or DSI are not deemed recoverable from future gross profits, charges will be applied against the DAC, VOBA or DSI balances before an additional reserve is established.

During the year ended December 31, 2015, our reviews resulted in loss recognition of $342.0 million before income taxes, of which $276.9 million and $65.1 million was recorded to Net amortization of DAC and VOBA and Interest credited and other benefits to contract owners, respectively, in the Statements of Operations, with a corresponding decrease on the Balance Sheets to Deferred policy acquisition costs, Value of business acquired, and Sales inducements to contract owners.

In assessing loss recognition related to DAC, VOBA and DSI, we must select an approach for aggregating different blocks of business in the loss recognition calculation. In the first quarter of 2013, we updated the aggregation approach used in assessment of such loss recognition. This change in estimate was due to certain organizational changes that commenced in the first quarter of 2013, which resulted in changes to how we manage the variable annuity business that is no longer actively marketed. As a result of this estimate change, we recognized loss recognition of $350.8 million before taxes during the first quarter of 2013. This amount was recorded in the Statements of Operations of $306.0 million to Net amortization of deferred policy acquisition costs and value of business acquired and $44.8 million to Interest credited and other benefits to contract owners/policyholders, with a corresponding decrease in the Balance Sheets to Deferred policy acquisition costs, Value of business acquired and Sales inducements to contract owners.

Assumptions and Periodic Review

Changes in assumptions can have a significant impact on DAC, VOBA, and DSI, amortization rates, reserve levels, and results of operations. Assumptions are management's best estimate of future outcome. We periodically review these assumptions against actual experience and, based on additional information that becomes available, update our assumptions. Deviation of emerging experience from our assumptions could have a significant effect on our DAC, VOBA and DSI, reserves, and the related results of operations.

- One significant assumption is the assumed return associated with the variable account performance, which has historically had a greater impact on variable annuity than VUL products. To reflect the volatility in the equity markets, this assumption involves a combination of near-term expectations and long-term assumptions regarding market performance. The overall return on the variable account is dependent on multiple factors, including the relative mix of the underlying sub-accounts among bond funds and equity funds, as well as equity sector weightings. Our practice assumes that near-term and long-term increases or decreases in equity markets revert to the long-term appreciation in equity markets ("reversion to the mean"). We monitor market events and only change the assumption when sustained deviations are expected. This methodology incorporates a 9% long-term equity return assumption, a 14% cap and a five-year look-forward period.
- Another significant assumption used in the estimation of gross profits for certain products is mortality. We utilize a combination of actual and industry experience when setting our mortality assumptions, which are consistent with the assumptions used to calculate reserves for future policy benefits.
- Assumptions related to interest rate spreads and credit losses also impact estimated gross profits for all applicable products with credited rates. These assumptions are based on the current investment portfolio yields and credit quality, estimated future crediting rates, capital markets, and estimates of future interest rates and defaults.
- Other significant assumptions include estimated policyholder behavior assumptions, such as surrender, lapse, and annuitization rates. We use a combination of actual and industry experience when setting and updating our policyholder

behavior assumptions, and such assumptions require considerable judgment. Estimated gross profits for our variable annuity contracts are particularly sensitive to these assumptions.

We include the impact of the change in value of the embedded derivatives associated with the GMAB, GMWB, GMWBL and FIA contracts in gross profits for purposes of determining DAC amortization.

During the third quarter of 2015, 2014 and 2013, we conducted our annual review of assumptions, including projection model inputs. As a result of these reviews, we made a number of changes, which resulted in favorable (unfavorable) impacts on Income (loss) before income taxes of $(34.3) million, $231.7 million, and $(37.5) million in 2015, 2014, and 2013, respectively, of which $(83.0) million, $108.4 million, and $21.0 million, respectively, was related to DAC, VOBA and DSI unlocking.

Sensitivity

We perform sensitivity analyses to assess the impact that certain assumptions have on DAC, VOBA and DSI, as well as certain reserves. The following table presents the estimated instantaneous net impact to income before income taxes of various assumption changes on our DAC, VOBA and DSI balances and the impact on related reserves for future policy benefits and reinsurance. The effects presented are not representative of the aggregate impacts that could result if a combination of such changes to equity markets, interest rates and other assumptions occurred. (Assumptions regarding shifts in market factors may be overly simplistic and not indicative of actual market behavior in stress scenarios.)

($ in millions)	**As of December 31, 2015**	
Decrease in long-term rate of return assumption by 100 basis points	$	(9.5)
A change to the long-term interest rate assumption of -50 basis points		(4.9)
A change to the long-term interest rate assumption of +50 basis points		(125.9)
An assumed increase in future mortality by 1%		(5.1)
A one-time, 10% decrease in equity market values[1]		40.7

[1]Excludes impact of derivative results ceded to Security Life of Denver International Limited ("SLDI") under the combined coinsurance and coinsurance funds withheld agreement as amended.

Valuation of Investments and Derivatives

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities, short-term investments, other invested assets and derivative financial instruments. Fixed maturity and equity securities are primarily classified as available-for-sale and are carried at fair value. We enter into interest rate, equity market, credit default and currency contracts, including swaps, futures, forwards, caps, floors and options, to reduce and manage various risks associated with changes in value, yield, price, cash flow or exchange rates of assets or liabilities held or intended to be held, or to assume or reduce credit exposure associated with a referenced asset, index or pool. We also utilize options and futures on equity indices to reduce and manage risks associated with our annuity products.

See the *Investments* Note and the *Derivative Financial Instruments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for further information.

Investments

We measure the fair value of our financial assets and liabilities based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset, or nonperformance risk, including our own credit risk. The estimate of fair value is the price that would be received to sell an asset or transfer a liability ("exit price") in an orderly transaction between market participants in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability. We use a number of valuation sources to determine the fair values of our financial assets and liabilities, including quoted market prices, third-party commercial pricing services, third-party brokers, industry-standard, vendor-provided software that models the value based on market observable inputs, and other internal modeling techniques based on projected cash flows.

We categorize our financial instruments into a three-level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the

hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

When available, the estimated fair value of securities is based on quoted prices in active markets that are readily and regularly obtainable. When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, including discounted cash flows, matrix pricing or other similar techniques. Inputs to these methodologies include, but are not limited to, market observable inputs such as benchmark yields, credit quality, issuer spreads, bids, offers and cash flow characteristics of the security. For privately placed bonds, we also consider such factors as the net worth of the borrower, value of the collateral, the capital structure of the borrower, the presence of guarantees, and the borrower's ability to compete in its relevant market. Valuations are reviewed and validated monthly by an internal valuation committee using price variance reports, comparisons to internal pricing models, back testing of recent trades, and monitoring of trading volumes, as appropriate.

The valuation of financial assets and liabilities involves considerable judgment, is subject to considerable variability, is established using management's best estimate, and is revised as additional information becomes available. As such, changes in, or deviations from, the assumptions used in such valuations can significantly affect our results of operations. Financial markets are subject to significant movements in valuation and liquidity, which can impact our ability to liquidate and the selling price that can be realized for our securities.

Derivatives

Derivatives are carried at fair value, which is determined by using observable key financial data, such as yield curves, exchange rates, Standard & Poor's 500 Index ("S&P 500") prices, London Interbank Offered Rates ("LIBOR") and Overnight Index Swap Rates ("OIS") or through values established by third-party sources, such as brokers. Valuations for our futures contracts are based on unadjusted quoted prices from an active exchange. Counterparty credit risk is considered and incorporated in our valuation process through counterparty credit rating requirements and monitoring of overall exposure. Our own credit risk is also considered and incorporated in our valuation process.

We have certain CDS and options that are priced using models that primarily use market observable inputs, but contain inputs that are not observable to market participants.

We also have investments in certain fixed maturities and have issued certain annuity products that contain embedded derivatives whose fair value is at least partially determined by levels of or changes in domestic and/or foreign interest rates (short-term or long-term), exchange rates, prepayment rates, equity markets, or credit ratings/spreads. The fair values of these embedded derivatives are determined using prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. For additional information regarding the valuation of and significant assumptions associated with embedded derivatives associated with certain annuity contracts, see the "Reserves for Future Policy Benefits" section.

In addition, we have entered into coinsurance with funds withheld reinsurance arrangements that contain embedded derivatives. The fair value of the embedded derivatives is based on the change in the fair value of the underlying assets held in the trust using the valuation methods and assumptions described for our investments held.

The valuation of derivatives involves considerable judgment, is subject to considerable variability, is established using management's best estimate and is revised as additional information becomes available. As such, changes in, or deviations from, these assumptions used in such valuations can have a significant effect on our results of operations.

For additional information regarding the fair value of our investments and derivatives, see the *Fair Value Measurements* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K.

Impairments

We evaluate our available-for-sale general account investments quarterly to determine whether there has been an other-than-temporary decline in fair value below the amortized cost basis. This evaluation process entails considerable judgment and estimation. Factors considered in this analysis include, but are not limited to, the length of time and the extent to which the fair value has been less than amortized cost, the issuer's financial condition and near-term prospects, future economic conditions and market forecasts, interest rate changes and changes in ratings of the security. An extended and severe unrealized loss position on a fixed maturity may not have any impact on: (a) the ability of the issuer to service all scheduled interest and principal payments and (b) the evaluation of recoverability of all contractual cash flows or the ability to recover an amount at least equal to its amortized

cost based on the present value of the expected future cash flows to be collected. In contrast, for certain equity securities, we give greater weight and consideration to a decline in market value and the likelihood such market value decline will recover.

When assessing our intent to sell a security or if it is more likely than not we will be required to sell a security before recovery of its amortized cost basis, we evaluate facts and circumstances such as, but not limited to, decisions to rebalance the investment portfolio and sales of investments to meet cash flow or capital needs.

We use the following methodology and significant inputs to determine the amount of the OTTI credit loss:

- When determining collectability and the period over which the value is expected to recover for U.S. and foreign corporate securities, foreign government securities and state and political subdivision securities, we apply the same considerations utilized in our overall impairment evaluation process, which incorporates information regarding the specific security, the industry and geographic area in which the issuer operates and overall macroeconomic conditions. Projected future cash flows are estimated using assumptions derived from our best estimates of likely scenario-based outcomes, after giving consideration to a variety of variables that include, but is not limited to: general payment terms of the security; the likelihood that the issuer can service the scheduled interest and principal payments; the quality and amount of any credit enhancements; the security's position within the capital structure of the issuer; possible corporate restructurings or asset sales by the issuer; and changes to the rating of the security or the issuer by rating agencies.
- Additional considerations are made when assessing the unique features that apply to certain structured securities, such as subprime, Alt-A, non-agency RMBS, CMBS and ABS. These additional factors for structured securities include, but are not limited to: the quality of underlying collateral; expected prepayment speeds; loan-to-value ratio; debt service coverage ratios; current and forecasted loss severity; consideration of the payment terms of the underlying assets backing a particular security; and the payment priority within the tranche structure of the security.
- When determining the amount of the credit loss for U.S. and foreign corporate securities, foreign government securities and state and political subdivision securities, we consider the estimated fair value as the recovery value when available information does not indicate that another value is more appropriate. When information is identified that indicates a recovery value other than estimated fair value, we consider in the determination of recovery value the same considerations utilized in its overall impairment evaluation process, which incorporates available information and our best estimate of scenario-based outcomes regarding the specific security and issuer; possible corporate restructurings or asset sales by the issuer; the quality and amount of any credit enhancements; the security's position within the capital structure of the issuer; fundamentals of the industry and geographic area in which the security issuer operates; and the overall macroeconomic conditions.
- We perform a discounted cash flow analysis comparing the current amortized cost of a security to the present value of future cash flows expected to be received, including estimated defaults and prepayments. The discount rate is generally the effective interest rate of the fixed maturity prior to impairment.

Mortgage loans on real estate are all commercial mortgage loans. If a mortgage loan is determined to be impaired (i.e., when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement), the carrying value of the mortgage loan is reduced to the lower of either the present value of expected cash flows from the loan, discounted at the loan's original purchase yield, or the fair value of the collateral. For those mortgages that are determined to require foreclosure, the carrying value is reduced to the fair value of the underlying collateral, net of estimated costs to obtain and sell at the point of foreclosure.

Impairment analysis of the investment portfolio involves considerable judgment, is subject to considerable variability, is established using management's best estimate and is revised as additional information becomes available. As such, changes in, or deviations from, the assumptions used in such analysis can have a significant effect on the results of operations.

For additional information regarding the evaluation process for impairments, see the *Investments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K.

Income Taxes

The results of our operations are included in the consolidated tax return of Voya Financial, Inc. Generally, our Financial Statements recognize the current and deferred income tax consequences that result from our activities during the current and preceding periods pursuant to the provisions of Income Taxes (Accounting Standards Codification Topic 740) as if we were a separate taxpayer rather than a member of Voya Financial, Inc.'s consolidated income tax return group, with the exception of any net operating loss carryforwards and capital loss carryforwards, which are recorded pursuant to the tax sharing agreement.

Under our tax sharing agreement, Voya Financial, Inc. will pay us for the tax benefits of ordinary and capital losses only in the event that the consolidated tax group actually uses the tax benefit of losses generated.

Valuation Allowances

We use certain assumptions and estimates in determining the income taxes payable or refundable to/from Voya Financial, Inc. for the current year, the deferred income tax liabilities and assets for items recognized differently in our Financial Statements from amounts shown on our income tax returns and the federal income tax expense. Determining these amounts requires analysis and interpretation of current tax laws and regulations, including the loss limitation rules associated with change in control. We exercise considerable judgment in evaluating the amount and timing of recognition of the resulting income tax liabilities and assets. These judgments and estimates are reevaluated on a periodic basis. We will continue to evaluate as regulatory and business factors change.

Our deferred tax assets and liabilities resulting from temporary differences between financial reporting and tax basis of assets and liabilities are measured at the balance sheet date using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse.

Deferred tax assets represent the tax benefit of future deductible temporary differences, net operating loss carryforwards, and tax credit carryforwards. We evaluate and test the recoverability of deferred tax assets. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. Considerable judgment and the use of estimates are required in determining whether a valuation allowance is necessary and, if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance, we consider many factors, including:

- The nature, frequency and severity of book income or losses in recent years;
- The nature and character of the deferred tax assets and liabilities;
- The recent cumulative book income (loss) position after adjustment for permanent differences;
- Taxable income in prior carryback years;
- Projected future taxable income, exclusive of reversing temporary differences and carryforwards;
- Projected future reversals of existing temporary differences;
- The length of time carryforwards can be utilized;
- Prudent and feasible tax planning strategies we would employ to avoid a tax benefit from expiring unused; and
- Tax rules that would impact the utilization of the deferred tax assets.

As of December 31, 2015, we have recognized $161.5 million deferred tax assets based on tax planning strategies related to unrealized gains on investment assets. These tax planning strategies support the recognition of deferred tax assets, which have been provided on deductible temporary differences, and may be adversely impacted by decreases in unrealized gains.

We recorded the following valuation allowances as of the dates indicated:

	December 31,	
($ in millions)	**2015**	**2014**
Deferred tax assets	$ 597.4 [1]	$ 549.7 [2]

[1] Includes $590.6 million and $6.8 million related to ordinary deferred tax assets and foreign tax credits, respectively.

[2] Includes $540.6 million and $9.1 million related to ordinary deferred tax assets and foreign tax credits, respectively.

Tax Contingencies

In establishing unrecognized tax benefits, we determine whether a tax position is more likely than not to be sustained under examination by the appropriate taxing authority. We also consider positions that have been reviewed and agreed to as part of an examination by the appropriate taxing authority. Tax positions that do not meet the more likely than not standard are not recognized. Tax positions that meet this standard are recognized in our Financial Statements. We measure the tax position as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate resolution with the taxing authority that has full knowledge of all relevant information.

Changes in Law

Certain changes or future events, such as changes in tax legislation, completion of tax audits, planning opportunities and expectations about future outcomes could have an impact on our estimates of valuation allowances, deferred taxes, tax provisions and effective tax rates.

For example, a reduction in the corporate tax rate would most likely result in a tax expense based on the fact that, as of December 31, 2015, we have a deferred tax asset. Conversely, an increase in the corporate tax rate would most likely result in an additional tax benefit.

Contingencies

A loss contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. Examples of loss contingencies include pending or threatened adverse litigation, threat of expropriation of assets and actual or possible claims and assessments. Amounts related to loss contingencies involve considerable judgments and are accrued if it is probable that a loss has been incurred and the amount can be reasonably estimated, based on our best estimate of the ultimate outcome. Reserves are established reflecting management's best estimate, reviewed on a quarterly basis and revised as additional information becomes available. When a loss contingency is reasonably possible, but not probable, disclosure is made of our best estimate of possible loss, or the range of possible loss, or a statement is made that such an estimate cannot be made.

We are involved in threatened or pending lawsuits/arbitrations arising from the normal conduct of business. Due to the climate in insurance and business litigation/arbitration, suits against us sometimes include claims for substantial compensatory, consequential or punitive damages and other types of relief. Moreover, certain claims are asserted as class actions, purporting to represent a group of similarly situated individuals. It is not always possible to accurately estimate the outcome of such lawsuits/arbitrations. Therefore, changes to such estimates could be material. As facts and circumstances change, our estimates are revised accordingly. Our reserves reflect management's best estimate of the ultimate resolution.

Impact of New Accounting Pronouncements

For information regarding the impact of new accounting pronouncements, see the *Business, Basis of Presentation and Significant Accounting Policies* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K.

Results of Operations

Overview

Products currently offered by us include fixed and indexed annuities, designed to address customer needs for tax-advantaged savings, retirement needs and wealth-protection concerns as well as GICs. We stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010.

We derive our revenue mainly from (a) investment income earned on investments primarily related to annuity products with fixed investment options, GIC deposits and funding agreements, (b) Fee income generated from separate account assets supporting variable options under variable annuity contract investments, as designated by contract owners, (c) Premiums, (d) realized capital gains (losses) on investments and product guarantees and (e) certain other management fees included in Other revenue. Our Benefits and expenses primarily consist of (a) Interest credited and other benefits to contract owners/policyholders, (b) amortization of DAC and VOBA and (c) Operating expenses which consist of expenses related to the selling and servicing of the various products offered by us and other general business expenses.

($ in millions)	Year Ended December 31, 2015	2014	2013
Revenues:			
Net investment income	$ 1,305.5	$ 1,264.7	$ 1,267.2
Fee income	718.7	824.8	839.7
Premiums	505.8	537.8	436.3
Net realized capital gains (losses):			
Total other-than-temporary impairments	(30.3)	(6.0)	(12.1)
Less: Portion of other-than-temporary impairments recognized in Other comprehensive income (loss)	2.5	(0.3)	(1.8)
Net other-than-temporary impairments recognized in earnings	(32.8)	(5.7)	(10.3)
Other net realized capital gains (losses)	(98.8)	(768.4)	(2,205.5)
Total net realized capital gains (losses)	(131.6)	(774.1)	(2,215.8)
Other revenue	19.7	29.8	29.8
Total revenues	2,418.1	1,883.0	357.2
Benefits and expenses:			
Interest credited and other benefits to contract owners/policyholders	1,290.6	1,391.9	(1,855.4)
Operating expenses	486.2	489.6	462.3
Net amortization of deferred policy acquisition costs and value of business acquired	667.0	(116.0)	1,522.4
Interest expense	28.2	28.2	28.2
Other expense	25.1	16.9	31.1
Total benefits and expenses	2,497.1	1,810.6	188.6
Income (loss) before income taxes	(79.0)	72.4	168.6
Income tax expense (benefit)	(53.9)	97.3	185.5
Net income (loss)	$ (25.1)	$ (24.9)	$ (16.9)

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

Our Net income (loss) for the year ended December 31, 2015 reflected a slightly higher loss than the prior period due to unfavorable changes in Net amortization of DAC and VOBA and decreases in Fee income and Premiums, mostly offset by favorable changes in Total net realized capital gains (losses), Income tax expense (benefit), Interest credited and other benefits to contract owners/policyholders and an increase in Net investment income.

Revenues

Total revenues increased $535.1 million from $1,883.0 million to $2,418.1 million primarily due to favorable changes in Total net realized capital gains (losses) and an increase in Net investment income, partially offset by decreases in Fee income and Premiums.

Net investment income increased $40.8 million from $1,264.7 million to $1,305.5 million primarily due to growth in the general account assets and higher prepayment income, partially offset by lower alternative investment income and the impact of the continued low interest rate environment on reinvestment rates.

Fee income decreased $106.1 million from $824.8 million to $718.7 million primarily due to lower average separate account assets under management ("AUM") resulting from the continued runoff of our closed block of variable annuity business.

Premiums decreased $32.0 million from $537.8 million to $505.8 million primarily due to lower payout annuities with life contingencies, which corresponds to a decrease in Interest credited and other benefits to contract owners/policyholders, partially offset by an increase in assumed premiums from an affiliate due to favorable persistency.

Total net realized capital losses decreased $642.5 million from $774.1 million to $131.6 million primarily due to favorable changes in the fair value of embedded derivatives on product guarantees, partially offset by unfavorable changes in annuity hedging and the fair value of fixed maturities using the fair value option. The favorable changes of $804.2 million in the fair value of embedded derivatives on variable annuity and fixed indexed annuity product guarantees (from a loss of $708.4 million in the prior period to a gain of $95.8 million in the current period) were due to favorable impacts resulting from interest rate movements and implied volatility, partially offset by unfavorable impacts resulting from equity market movements and nonperformance risk. Under the variable annuity and fixed indexed annuity hedge programs, changes in interest rates and equity markets during the year ended December 31, 2015 resulted in net unfavorable changes in equity, interest and foreign exchange derivatives of $69.2 million compared to prior period (losses of $72.9 million in the current period and losses of $3.7 million in the prior period). A portion of these derivative losses was ceded to SLDI under the combined coinsurance and coinsurance funds withheld agreement (gains of $54.5 million in the current period and losses of $50.0 million in the prior period) and an offset was recorded to Interest credited and other benefits to contract owners/policyholders. Unfavorable changes of $48.0 million in the fair value of fixed maturities using fair value option as a result of interest rate changes in the current period compared to the prior period also contributed to the change in Total net realized capital gains (losses).

Benefits and Expenses

Total benefits and expenses increased $686.5 million from $1,810.6 million to $2,497.1 million primarily due to unfavorable changes in Net amortization of DAC and VOBA, partially offset by favorable changes in Interest credited and other benefits to contract owners/policyholders.

Interest credited and other benefits to contract owners/policyholders decreased $101.3 million from $1,391.9 million to $1,290.6 million primarily due to net favorable changes in the embedded derivatives on the coinsurance funds withheld arrangements resulting from interest rate movements. This decrease was partially offset by the change in the amount of equity and interest rate derivative gains/losses transferred under the combined coinsurance and coinsurance funds withheld agreement with SLDI (the corresponding offsetting amount is reported in Total net realized capital gains (losses)), unfavorable impacts due to the annual assumptions review and loss recognition on sales inducements.

Net amortization of DAC and VOBA changed $783.0 million from a benefit of $116.0 million to an expense of $667.0 million primarily due to loss recognition on DAC and VOBA, unfavorable impacts due to the annual assumptions review in the current period compared to favorable unlocking in the prior period and higher amortization as a result of higher gross profits. See *Critical Accounting Judgments and Estimates* for further detail on loss recognition on DAC and VOBA.

Income Taxes

Income tax expense (benefit) changed by $151.2 million from an expense of $97.3 million to a benefit of $53.9 million primarily due to a lower increase in the valuation allowance in the current period compared to the prior period, a decrease in income before income taxes, and an increase in the dividends received deduction.

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

Our Net income (loss) for the year ended December 31, 2014 reflected a higher loss than 2013 primarily due to unfavorable changes in Interest credited and other benefits to contract owners/policyholders, an increase in Operating expenses and a decrease in Fee income, partially offset by favorable changes in Net amortization of DAC and VOBA, favorable changes in Total net realized capital gains (losses), an increase in Premiums, favorable changes in Income tax expense (benefit) and a decrease in Other expense.

Revenues

Total revenues increased $1,525.8 million from $357.2 million to $1,883.0 million primarily due to favorable changes in Total net realized capital gains (losses) and an increase in Premiums, partially offset by a decrease in Fee income.

Fee income decreased $14.9 million from $839.7 million to $824.8 million primarily due to lower average separate account AUM driven by the continued runoff of our variable annuity business.

Premiums increased $101.5 million from $436.3 million to $537.8 million primarily due to higher payout annuities with life contingencies, partially offset by lower assumed stop loss premiums due to the novation of a reinsurance agreement in the third quarter of 2013.

Total net realized capital gains (losses) changed $1,441.7 million from a loss of $2,215.8 million to a loss of $774.1 million due to favorable changes in annuity hedging derivatives, partially offset by unfavorable changes in the fair value of embedded derivatives on product guarantees. Under the variable annuity and fixed indexed annuity hedge programs, changes in equity and interest markets during the year ended December 31, 2014 resulted in favorable changes in equity, interest and foreign exchange derivatives of $3,067.4 million during 2014 (net losses of $3.7 million in 2014 compared to net losses of $3,071.1 million during 2013). A portion of these derivative losses were ceded to SLDI under the combined coinsurance and coinsurance funds withheld agreement (losses of $50.0 million for 2014 and losses of $2,991.4 million for 2013) and an offset was recorded to Interest credited and other benefits to contract owners/policyholders. Favorable net changes of $39.0 million in the fair value of fixed maturities using fair value option as a result of decreasing interest rates in 2014 compared to increasing interest rates in 2013 also contributed to the variance. Partially offsetting these variances were unfavorable net changes of $1,670.1 million in the fair value of embedded derivatives on variable annuity and fixed indexed annuity product guarantees (from a gain of $961.7 million for the year ended December 31, 2013 to a loss of $708.4 million for the year ended December 31, 2014) due to unfavorable impacts from interest rates, equity market movements and implied volatility, partially offset by the favorable impact from nonperformance risk and annual assumption changes.

Benefits and Expenses

Total benefits and expenses increased $1,622.0 million from $188.6 million to $1,810.6 million primarily due to unfavorable changes in Interest credited and other benefits to contract owners/policyholders and an increase in Operating expenses, partially offset by favorable changes in Net amortization of DAC and VOBA and a decrease in Other expense.

Interest credited and other benefits to contract owners/policyholders changed $3,247.3 million from a benefit of $1,855.4 million to an expense of $1,391.9 million primarily due to the change in the amount of equity and interest rate derivative losses transferred under the combined coinsurance and coinsurance funds withheld agreement with SLDI (the corresponding offsetting amount is reported in Total net realized capital gains (losses)), the change in the embedded derivative on the two coinsurance funds withheld arrangements and unfavorable guaranteed benefit reserve changes due to lower fund returns compared to 2013. These increases were partially offset by lower amortization of sales inducements as a result of lower gross profits in 2014.

Operating expenses increased $27.3 million from $462.3 million to $489.6 million as a result of several factors, primarily increased costs in 2014 related to rebranding, initial costs related to the outsourcing of the actuarial valuation, modeling and hedging functions for our retail variable annuity products in 2014 and higher expenses on non-qualified retirement plans related to the immediate recognition of actuarial losses in 2014 compared to actuarial gains in 2013, resulting from changes in assumptions primarily due to discount rates, mortality and actual versus expected results. In addition, higher commissions and higher administrative expenses contributed to the increase. These increases were partially offset by a favorable cost of reinsurance due to the novation of a reinsurance agreement in the first quarter of 2014.

Net amortization of DAC and VOBA changed $1,638.4 million from an expense of $1,522.4 million to a benefit of $116.0 million primarily due to lower amortization as a result of lower gross profits in 2014 compared to 2013 and $306.0 million of loss recognition on DAC and VOBA in 2013 that did not reoccur in 2014. Favorable DAC and VOBA unlocking resulting from prospective assumption changes also contributed to the decrease. Partially offsetting these variances was favorable DAC and VOBA unlocking in 2013 that did not repeat in 2014.

Other expense decreased $14.2 million from $31.1 million to $16.9 million primarily due to lower amortization on deferred reinsurance losses as a result of prospective assumption changes.

Income Taxes

Income tax expense (benefit) decreased $88.2 million from $185.5 million to $97.3 million primarily due to a lower increase in the valuation allowance and a decrease in income before taxes, partially offset by a decrease in the dividend received deduction.

Financial Condition

Investments

Investment Strategy

Our investment strategy seeks to achieve sustainable risk-adjusted returns by focusing on principal preservation, disciplined matching of asset characteristics with liability requirements and the diversification of risks. Investment activities are undertaken

according to investment policy statements that contain internally established guidelines and risk tolerances and are required to comply with applicable laws and insurance regulations. Risk tolerances are established for credit risk, credit spread risk, market risk, liquidity risk and concentration risk across issuers, sectors and asset types that seek to mitigate the impact of cash flow variability arising from these risks.

Segmented portfolios are established for groups of products with similar liability characteristics. Our investment portfolio consists largely of high quality fixed maturities and short-term investments, investments in commercial mortgage loans, alternative investments and other instruments, including a small amount of equity holdings. Fixed maturities include publicly issued corporate bonds, government bonds, privately placed notes and bonds, bonds issued by states and municipalities, Other asset-backed securities ("ABS"), and traditional Mortgage-backed securities ("MBS").

We use derivatives for hedging purposes to reduce our exposure to the cash flow variability of assets and liabilities, interest rate risk, credit risk and market risk. In addition, we use credit derivatives to replicate exposure to individual securities or pools of securities as a means of achieving credit exposure similar to bonds of the underlying issuer(s) more efficiently.

See the *Investments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K.

Portfolio Composition

The following table presents the investment portfolio as of the dates indicated:

	December 31, 2015		December 31, 2014	
($ in millions)	Carrying Value	% of Total	Carrying Value	% of Total
Fixed maturities, available-for-sale, excluding securities pledged	$ 22,458.4	76.9%	$ 22,169.4	78.9%
Fixed maturities, at fair value using the fair value option	547.4	1.9%	480.8	1.7%
Equity securities, available-for-sale	19.2	0.1%	6.7	-%
Short-term investments[(1)]	1,069.4	3.7%	746.8	2.7%
Mortgage loans on real estate	3,310.9	11.3%	2,854.4	10.2%
Policy loans	79.8	0.3%	87.4	0.3%
Limited partnerships/corporations	186.3	0.6%	172.9	0.6%
Derivatives	799.4	2.7%	891.4	3.2%
Other investments	48.6	0.2%	49.4	0.2%
Securities pledged	672.4	2.3%	626.8	2.2%
Total investments	$ 29,191.8	100.0%	$ 28,086.0	100.0%

(1) Short-term investments include investments with remaining maturities of one year or less, but greater than 3 months, at the time of purchase.

Fixed Maturities

Total fixed maturities by market sector, including securities pledged, were as presented below as of the dates indicated:

	December 31, 2015			
($ in millions)	Amortized Cost	% of Total	Fair Value	% of Total
Fixed maturities:				
U.S. Treasuries	$ 992.7	4.3%	$ 1,058.7	4.5%
U.S. Government agencies and authorities	79.4	0.3%	81.9	0.3%
State, municipalities and political subdivisions	359.1	1.5%	360.5	1.5%
U.S. corporate public securities	10,718.9	46.1%	10,871.9	45.9%
U.S. corporate private securities	2,365.0	10.2%	2,394.4	10.1%
Foreign corporate public securities and foreign governments[1]	2,826.9	12.2%	2,793.0	11.8%
Foreign corporate private securities[1]	2,592.9	11.2%	2,626.0	11.1%
Residential mortgage-backed securities	1,746.8	7.5%	1,885.1	8.0%
Commercial mortgage-backed securities	1,311.0	5.6%	1,343.4	5.7%
Other asset-backed securities	257.6	1.1%	263.3	1.1%
Total fixed maturities, including securities pledged	$ 23,250.3	100.0%	$ 23,678.2	100.0%

[1] Primarily U.S. dollar denominated.

	December 31, 2014			
($ in millions)	Amortized Cost	% of Total	Fair Value	% of Total
Fixed maturities:				
U.S. Treasuries	$ 843.0	3.9%	$ 926.1	4.0%
U.S. Government agencies and authorities	78.9	0.4%	83.4	0.3%
State, municipalities and political subdivisions	155.4	0.7%	164.4	0.7%
U.S. corporate public securities	9,651.4	44.1%	10,307.6	44.3%
U.S. corporate private securities	2,026.9	9.3%	2,140.8	9.2%
Foreign corporate public securities and foreign governments[1]	2,716.9	12.4%	2,825.1	12.2%
Foreign corporate private securities[1]	2,683.6	12.3%	2,850.7	12.2%
Residential mortgage-backed securities	1,881.8	8.6%	2,050.5	8.8%
Commercial mortgage-backed securities	1,531.7	7.0%	1,627.5	7.0%
Other asset-backed securities	292.7	1.3%	300.9	1.3%
Total fixed maturities, including securities pledged	$ 21,862.3	100.0%	$ 23,277.0	100.0%

[1] Primarily U.S. dollar denominated.

As of December 31, 2015, the average duration of our fixed maturities portfolio, including securities pledged, is between 6.0 and 6.5 years.

Fixed Maturities Credit Quality - Ratings

The Securities Valuation Office ("SVO") of the NAIC evaluates the fixed maturity security investments of insurers for regulatory reporting and capital assessment purposes and assigns securities to one of six credit quality categories called "NAIC designations." An internally developed rating is used as permitted by the NAIC if no rating is available. These designations are generally similar to the credit quality designations of the NAIC acceptable rating organizations ("ARO") for marketable fixed maturity securities, called rating agency designations except for certain structured securities as described below. NAIC designations of "1," highest quality and "2," high quality, include fixed maturity securities generally considered investment grade by such rating organizations. NAIC designations 3 through 6 include fixed maturity securities generally considered below investment grade by such rating organizations.

The NAIC designations for structured securities, including subprime and Alt-A RMBS, are based upon a comparison of the bond's amortized cost to the NAIC's loss expectation for each security. Securities where modeling results in no expected loss in each scenario are considered to have the highest designation of NAIC 1. A large percentage of our RMBS securities carry the NAIC 1 designation while the ARO rating indicates below investment grade. This is primarily due to the credit and intent impairments recorded by us that reduced the amortized cost on these securities to a level resulting in no expected loss in any scenario, which corresponds to the NAIC 1 designation. The methodology reduces regulatory reliance on rating agencies and allows for greater regulatory input into the assumptions used to estimate expected losses from such structured securities. In the tables below, we present the rating of structured securities based on ratings from the NAIC methodologies described above (which may not correspond to rating agency designations). NAIC designations (e.g., NAIC 1-6) are based on the NAIC methodologies.

As a result of time lags between the funding of investments, the finalization of legal documents and the completion of the SVO filing process, the fixed maturity portfolio generally includes securities that have not yet been rated by the SVO as of each balance sheet date, such as private placements. Pending receipt of SVO ratings, the categorization of these securities by NAIC designation is based on the expected ratings indicated by internal analysis.

Information about certain of our fixed maturity securities holdings by the NAIC designation is set forth in the following tables. Corresponding rating agency designation does not directly translate into NAIC designation, but represents our best estimate of comparable ratings from rating agencies, including Moody's, S&P and Fitch. If no rating is available from a rating agency, then an internally developed rating is used. As of December 31, 2015 and 2014, the weighted average NAIC quality rating of our fixed maturities portfolio was 1.5.

The fixed maturities in our portfolio are generally rated by external rating agencies and, if not externally rated, are rated by us on a basis similar to that used by the rating agencies. As of December 31, 2015 and 2014, the weighted average quality rating of our fixed maturities portfolio was A. Ratings are derived from three ARO ratings and are applied as follows, based on the number of agency ratings received:

- when three ratings are received then the middle rating is applied;
- when two ratings are received then the lower rating is applied;
- when a single rating is received, the ARO rating is applied; and
- when ratings are unavailable then an internal rating is applied.

The following tables present credit quality of fixed maturities, including securities pledged, using NAIC designations as of the dates indicated:

($ in millions)	December 31, 2015						
NAIC Quality Designation	**1**	**2**	**3**	**4**	**5**	**6**	**Total Fair Value**
U.S. Treasuries	$ 1,058.7	$ -	$ -	$ -	$ -	$ -	$ 1,058.7
U.S. Government agencies and authorities	81.9	-	-	-	-	-	81.9
State, municipalities and political subdivisions	340.3	19.9	0.3	-	-	-	360.5
U.S. corporate public securities	5,854.3	4,568.0	346.1	93.9	-	9.6	10,871.9
U.S. corporate private securities	1,118.2	1,160.5	98.0	17.7	-	-	2,394.4
Foreign corporate public securities and foreign governments[1]	1,528.0	1,086.2	168.2	8.4	1.0	1.2	2,793.0
Foreign corporate private securities[1]	319.3	2,205.5	86.5	14.2	-	0.5	2,626.0
Residential mortgage-backed securities	1,812.3	7.0	3.8	15.8	18.0	28.2	1,885.1
Commercial mortgage-backed securities	1,339.7	-	1.1	2.6	-	-	1,343.4
Other asset-backed securities	237.1	8.3	5.4	11.3	1.2	-	263.3
Total fixed maturities	$ 13,689.8	$ 9,055.4	$ 709.4	$ 163.9	$ 20.2	$ 39.5	$ 23,678.2
% of Fair Value	57.8%	38.2%	3.0%	0.7%	0.1%	0.2%	100.0%

[1] Primarily U.S. dollar denominated.

($ in millions)	December 31, 2014						
NAIC Quality Designation	**1**	**2**	**3**	**4**	**5**	**6**	**Total Fair Value**
U.S. Treasuries	$ 926.1	$ -	$ -	$ -	$ -	$ -	$ 926.1
U.S. Government agencies and authorities	83.4	-	-	-	-	-	83.4
State, municipalities and political subdivisions	161.4	3.0	-	-	-	-	164.4
U.S. corporate public securities	5,699.7	4,168.7	374.0	54.1	0.6	10.5	10,307.6
U.S. corporate private securities	792.7	1,259.1	83.9	5.1	-	-	2,140.8
Foreign corporate public securities and foreign governments[1]	1,471.8	1,212.5	135.0	5.8	-	-	2,825.1
Foreign corporate private securities[1]	357.3	2,403.5	78.7	8.7	-	2.5	2,850.7
Residential mortgage-backed securities	1,952.0	14.8	19.0	7.3	23.0	34.4	2,050.5
Commercial mortgage-backed securities	1,620.3	-	3.6	3.6	-	-	1,627.5
Other asset-backed securities	272.2	23.9	-	4.1	0.7	-	300.9
Total fixed maturities	$ 13,336.9	$ 9,085.5	$ 694.2	$ 88.7	$ 24.3	$ 47.4	$ 23,277.0
% of Fair Value	57.3%	39.0%	3.0%	0.4%	0.1%	0.2%	100.0%

[1] Primarily U.S. dollar denominated.

The following tables present credit quality of fixed maturities, including securities pledged, using ARO ratings as of the dates indicated:

($ in millions)	December 31, 2015					
ARO Quality Ratings	**AAA**	**AA**	**A**	**BBB**	**BB and Below**	**Total Fair Value**
U.S. Treasuries	$ 1,058.7	$ -	$ -	$ -	$ -	$ 1,058.7
U.S. Government agencies and authorities	81.9	-	-	-	-	81.9
State, municipalities and political subdivisions	40.0	221.1	79.2	19.9	0.3	360.5
U.S. corporate public securities	224.4	775.3	4,834.3	4,568.0	469.9	10,871.9
U.S. corporate private securities	116.2	50.9	867.9	1,280.1	79.3	2,394.4
Foreign corporate public securities and foreign governments[1]	36.6	456.8	1,046.1	1,074.6	178.9	2,793.0
Foreign corporate private securities[1]	-	9.8	411.7	2,095.6	108.9	2,626.0
Residential mortgage-backed securities	1,604.1	6.6	2.9	17.9	253.6	1,885.1
Commercial mortgage-backed securities	853.0	148.8	99.3	52.0	190.3	1,343.4
Other asset-backed securities	115.6	6.5	18.3	23.0	99.9	263.3
Total fixed maturities	$ 4,130.5	$ 1,675.8	$ 7,359.7	$ 9,131.1	$ 1,381.1	$ 23,678.2
% of Fair Value	17.4%	7.1%	31.1%	38.6%	5.8%	100.0%

[1] Primarily U.S. dollar denominated.

($ in millions)	December 31, 2014					
ARO Quality Ratings	**AAA**	**AA**	**A**	**BBB**	**BB and Below**	**Total Fair Value**
U.S. Treasuries	$ 926.1	$ -	$ -	$ -	$ -	$ 926.1
U.S. Government agencies and authorities	83.4	-	-	-	-	83.4
State, municipalities and political subdivisions	17.6	107.2	36.6	3.0	-	164.4
U.S. corporate public securities	177.2	723.7	4,778.0	4,168.7	460.0	10,307.6
U.S. corporate private securities	140.1	52.3	622.2	1,287.3	38.9	2,140.8
Foreign corporate public securities and foreign governments[1]	35.4	517.7	932.2	1,199.1	140.7	2,825.1
Foreign corporate private securities[1]	-	17.3	434.4	2,284.3	114.7	2,850.7
Residential mortgage-backed securities	1,689.8	9.6	7.0	33.3	310.8	2,050.5
Commercial mortgage-backed securities	889.9	282.1	198.8	38.6	218.1	1,627.5
Other asset-backed securities	140.5	4.4	25.3	15.0	115.7	300.9
Total fixed maturities	$ 4,100.0	$ 1,714.3	$ 7,034.5	$ 9,029.3	$ 1,398.9	$ 23,277.0
% of Fair Value	17.6%	7.4%	30.2%	38.8%	6.0%	100.0%

[1] Primarily U.S. dollar denominated.

Fixed maturities rated BB and below may have speculative characteristics and changes in economic conditions or other circumstances that are more likely to lead to a weakened capacity of the issuer to make principal and interest payments than is the case with higher rated fixed maturities.

Unrealized Capital Losses

Gross unrealized capital losses on fixed maturities, including securities pledged, increased $377.4 million from $93.4 million to $470.8 million for the year ended December 31, 2015. The increase in gross unrealized capital losses was primarily due to rising interest rates and widening credit spreads. Gross unrealized losses on fixed maturities, including securities pledged, decreased $230.0 million from $323.4 million to $93.4 million for the year ended December 31, 2014. The decrease in gross unrealized capital losses was primarily due to declining interest rates.

As of December 31, 2015 and 2014 , we did not have any fixed maturities with an unrealized capital loss in excess of $10.0 million.

As of December 31, 2015 and 2014, we had $2.2 billion and $2.5 billion, fair value of energy sector fixed maturity securities, constituting 9.3% and 10.7%, of total fixed maturities portfolio, with gross unrealized capital losses of $175.9 million and $27.5 million, respectively. See the *Investments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for further information on unrealized capital losses.

Subprime and Alt-A Mortgage Exposure

Pre-2008 vintage subprime and Alt-A mortgage collateral continues to distance itself from the credit crisis and payment performance reflects a housing market firmly entrenched in recovery. While collateral losses continue to be realized, the amounts are steadily decreasing. Serious delinquencies and other measures of performance, like prepayments and loan defaults, have also displayed sustained periods of improvement. Reflecting these fundamental improvements, related bond prices and sector liquidity have increased substantially since the credit crisis. Home prices have moved steadily higher, further supporting payment performance. Year-over-year home price measures, while at a lower magnitude than experienced in recent years, appear to have stabilized at sustainable levels, when measured on a nationwide basis. This backdrop remains supportive of continued improvement in overall borrower payment behavior. In managing our risk exposure to subprime and Alt-A mortgages, we take into account collateral performance and structural characteristics associated with our various positions.

We do not originate or purchase subprime or Alt-A whole-loan mortgages. Subprime lending is the origination of loans to customers with weaker credit profiles. We define Alt-A mortgages to include the following: residential mortgage loans to customers who have strong credit profiles but lack some element(s), such as documentation to substantiate income; residential mortgage loans to borrowers that would otherwise be classified as prime but whose loan structure provides repayment options to the borrower that increase the risk of default; and any securities backed by residential mortgage collateral not clearly identifiable as prime or subprime.

We have exposure to RMBS, CMBS and ABS. Our exposure to subprime mortgage-backed securities is primarily in the form of ABS structures collateralized by subprime residential mortgages and the majority of these holdings were included in Other ABS under "Fixed Maturities" above. As of December 31, 2015, the fair value, amortized cost, and gross unrealized losses related to our exposure to subprime mortgage-backed securities totaled $118.9 million, $116.3 million and $5.6 million, respectively, representing 0.5% of total fixed maturities, including securities pledged, based on fair value. As of December 31, 2014, the fair value, amortized cost, and gross unrealized losses related to our exposure to subprime mortgage-backed securities totaled $152.6 million, $148.5 million and $7.0 million, respectively, representing 0.7% of total fixed maturities, including securities pledged, based on fair value.

The following table presents our exposure to subprime mortgage-backed securities by credit quality using NAIC designations, ARO ratings and vintage year as of the dates indicated:

	% of Total Subprime Mortgage-backed Securities					
	NAIC Quality Designation		ARO Quality Ratings		Vintage	
December 31, 2015						
	1	89.5%	AAA	-%	2007	15.3%
	2	3.8%	AA	3.7%	2006	2.0%
	3	3.2%	A	11.7%	2005 and prior	82.7%
	4	2.5%	BBB	8.1%		100.0%
	5	1.0%	BB and below	76.5%		
	6	-%		100.0%		
		100.0%				
December 31, 2014						
	1	82.8%	AAA	-%	2007	12.9%
	2	14.0%	AA	0.4%	2006	6.9%
	3	-%	A	12.9%	2005 and prior	80.2%
	4	2.7%	BBB	8.2%		100.0%
	5	0.5%	BB and below	78.5%		
	6	-%		100.0%		
		100.0%				

Our exposure to Alt-A mortgages is included in the "RMBS" line item in the "Fixed Maturities" table under "Fixed Maturities" above. As of December 31, 2015, the fair value, amortized cost and gross unrealized losses related to our exposure to Alt-A RMBS totaled $87.0 million, $76.0 million and $1.5 million, respectively, representing 0.4% of total fixed maturities, including securities pledged, based on fair value. As of December 31, 2014, the fair value, amortized cost, and gross unrealized losses related to our exposure to Alt-A RMBS totaled $104.9 million, $91.5 million and $1.5 million, respectively, representing 0.5% of total fixed maturities, including securities pledged, based on fair value.

The following table presents our exposure to Alt-A RMBS by credit quality using NAIC designations, ARO ratings and vintage year as of the dates indicated:

	% of Total Alt-A Mortgage-backed Securities					
	NAIC Quality Designation		ARO Quality Ratings		Vintage	
December 31, 2015						
	1	97.2%	AAA	-%	2007	33.8%
	2	1.4%	AA	0.1%	2006	19.6%
	3	1.0%	A	0.5%	2005 and prior	46.6%
	4	-%	BBB	2.9%		100.0%
	5	0.4%	BB and below	96.5%		
	6	-%		100.0%		
		100.0%				
December 31, 2014						
	1	92.6%	AAA	-	2007	32.3%
	2	3.5%	AA	-	2006	19.7%
	3	3.5%	A	0.4%	2005 and prior	48.0%
	4	0.4%	BBB	3.2%		100.0%
	5	-%	BB and below	96.4%		
	6	-%		100.0%		
		100.0%				

Commercial Mortgage-backed and Other Asset-backed Securities

CMBS investments represent pools of commercial mortgages that are broadly diversified across property types and geographical areas. Delinquency rates on commercial mortgages increased over the course of 2009 through mid-2012. Since then, the steep pace of increases observed in the early years following the credit crisis has ceased, and the percentage of delinquent loans declined through 2013 and the majority of 2014. In 2015, this trend has generally continued (certain months did post marginal increases), leaving delinquency measures at multi-year lows. Other performance metrics like vacancies, property values and rent levels have also continued to improve, although these metrics are not observed uniformly, differing by dimensions such as geographic location and property type. These improvements have been buoyed by some of the same macro-economic tailwinds alluded to in regards to our subprime and Alt-A mortgage exposure. In addition, a robust environment for property refinancing has continued to be supportive of improving credit performance metrics throughout the year. The new issue market for CMBS has been a meaningful contributor to the refinance environment. While spread performance in the second half of the year ended December 31, 2015 is characterized as volatile, it has steadily continued its recovery from the credit crisis. In terms of aggregate primary issuance volume, 2015 represents another new post crisis high.

For non-student loan consumer ABS, delinquency and loss rates have been maintained at levels considered low by historical standards and indicative of high credit quality. Relative strength in various credit metrics across multiple types of asset-backed loans have been observed on a sustained basis.

The following table presents our exposure to CMBS holdings by credit quality using NAIC designations, ARO ratings and vintage year as of the dates indicated:

	% of Total CMBS					
	NAIC Quality Designation		ARO Quality Ratings		Vintage	
December 31, 2015						
	1	99.7%	AAA	63.5%	2015	17.7%
	2	-%	AA	11.1%	2014	16.3%
	3	0.1%	A	7.4%	2013	7.3%
	4	0.2%	BBB	3.9%	2012	0.4%
	5	-%	BB and below	14.1%	2011	0.6%
	6	-%		100.0%	2010	-%
		100.0%			2009 and prior	57.7%
						100.0%
December 31, 2014						
	1	99.6%	AAA	54.7%	2014	10.5%
	2	-%	AA	17.3%	2013	5.1%
	3	0.2%	A	12.2%	2012	-%
	4	0.2%	BBB	2.4%	2011	0.3%
	5	-%	BB and below	13.4%	2010	-%
	6	-%		100.0%	2009	-%
		100.0%			2008 and prior	84.1%
						100.0%

As of December 31, 2015, the fair value and amortized cost related to our exposure to Other ABS, excluding subprime exposure, totaled $147.0 million and $142.8 million, respectively. There were no gross unrealized losses related to Other ABS. As of December 31, 2014, the fair value and amortized cost related to our exposure to Other ABS, excluding subprime exposure, totaled $152.5 million and $146.3 million, respectively. There were no gross unrealized losses related to Other ABS.

As of December 31, 2015, Other ABS was broadly diversified both by type and issuer with credit card receivables comprising 55.3% of total Other ABS, excluding subprime exposure. There were no automobile receivables and nonconsolidated collateralized loan obligations ("CLOs") related to Other ABS. As of December 31, 2014, Other ABS was broadly diversified both by type and

issuer with credit card receivables, nonconsolidated CLOs and automobile receivables, comprising 54.8%, 2.6% and 1.2%, respectively, of total Other ABS, excluding subprime exposure.

The following table presents our exposure to Other ABS holdings, excluding subprime exposure, by credit quality using NAIC designations, ARO ratings and vintage year as of the dates indicated:

	% of Total Other ABS					
	NAIC Quality Designation		ARO Quality Ratings		Vintage	
December 31, 2015						
	1	90.6%	AAA	78.6%	2015	7.7%
	2	2.6%	AA	1.4%	2014	19.4%
	3	1.1%	A	3.0%	2013	-%
	4	5.7%	BBB	9.1%	2012	-%
	5	-%	BB and below	7.9%	2011	-%
	6	-%		100.0%	2010	1.8%
		100.0%			2009 and prior	71.1%
						100.0%
December 31, 2014						
	1	98.4%	AAA	92.2%	2014	18.8%
	2	1.6%	AA	2.6%	2013	-%
	3	-%	A	3.6%	2012	1.0%
	4	-%	BBB	1.6%	2011	-%
	5	-%	BB and below	-%	2010	2.4%
	6	-%		100.0%	2009	6.8%
		100.0%			2008 and prior	71.0%
						100.0%

Troubled Debt Restructuring

Although our portfolio of commercial mortgage loans and private placements is high quality, a small number of these contracts have been granted modifications, certain of which are considered to be troubled debt restructurings. See the *Investments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for further information on troubled debt restructuring.

Mortgage Loans on Real Estate

We rate commercial mortgages to quantify the level of risk. We place those loans with higher risk on a watch list and closely monitor these loans for collateral deficiency or other credit events that may lead to a potential loss of principal and/or interest. If we determine the value of any mortgage loan to be OTTI (i.e., when it is probable that we will be unable to collect on amounts due according to the contractual terms of the loan agreement), the carrying value of the mortgage loan is reduced to either the present value of expected cash flows from the loan, discounted at the loan's effective interest rate, or fair value of the collateral. For those mortgages that are determined to require foreclosure, the carrying value is reduced to the fair value of the underlying collateral, net of estimated costs to obtain and sell at the point of foreclosure. The carrying value of the impaired loans is reduced by establishing an other-than-temporary write-down recorded in Net realized capital gains (losses) in the Statements of Operations.

Loan-to-value ("LTV") and debt service coverage ("DSC") ratios are measures commonly used to assess the risk and quality of commercial mortgage loans. The LTV ratio, calculated at time of origination, is expressed as a percentage of the amount of the loan relative to the value of the underlying property. An LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of a property's Net income (loss) to its debt service payments. A DSC ratio of less than 1.0 indicates that property's operations do not generate sufficient income to cover debt payments. These ratios are utilized as part of the review process described above.

As of December 31, 2015 and 2014, our mortgage loans on real estate portfolio had a weighted average DSC of 2.2 and 2.0 times, and a weighted average LTV ratio of 60.4% and 60.5%, respectively. See the *Investments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for further information on mortgage loans on real estate.

	Recorded Investment						
	Debt Service Coverage Ratios						
($ in millions)	> 1.5x	>1.25x - 1.5x	>1.0x - 1.25x	< 1.0x	Commercial mortgage loans secured by land or construction loans	Total	% of Total
December 31, 2015							
Loan-to-Value Ratios:							
0% - 50%	$ 373.3	$ 17.6	$ 6.4	$ 2.6	$ -	$ 399.9	12.1%
>50% - 60%	762.5	97.8	24.2	18.4	25.0	927.9	28.0%
>60% - 70%	1,345.9	325.1	74.5	11.5	15.0	1,772.0	53.5%
>70% - 80%	87.6	64.8	39.5	3.8	11.3	207.0	6.3%
>80% and above	-	-	1.0	4.1	-	5.1	0.1%
Total	$ 2,569.3	$ 505.3	$ 145.6	$ 40.4	$ 51.3	$ 3,311.9	100.0%

	Recorded Investment						
	Debt Service Coverage Ratios						
($ in millions)	> 1.5x	>1.25x - 1.5x	>1.0x - 1.25x	< 1.0x	Commercial mortgage loans secured by land or construction loans	Total	% of Total
December 31, 2014							
Loan-to-Value Ratios:							
0% - 50%	$ 317.7	$ 38.4	$ 3.8	$ 7.3	$ -	$ 367.2	12.9%
>50% - 60%	517.9	56.8	57.0	42.5	-	674.2	23.6%
>60% - 70%	1,221.3	231.2	197.3	17.4	3.8	1,671.0	58.5%
>70% - 80%	28.9	70.9	23.3	13.3	-	136.4	4.8%
>80% and above	-	-	1.0	5.4	-	6.4	0.2%
Total	$ 2,085.8	$ 397.3	$ 282.4	$ 85.9	$ 3.8	$ 2,855.2	100.0%

Other-Than-Temporary Impairments

We evaluate available-for-sale fixed maturities and equity securities for impairment on a regular basis. The assessment of whether impairments have occurred is based on a case-by-case evaluation of the underlying reasons for the decline in estimated fair value. See the *Business, Basis of Presentation and Significant Accounting Policies* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for the policy used to evaluate whether the investments are other-than-temporarily impaired.

For the year ended December 31, 2015, we recorded $7.3 million of credit related OTTI of which the primary contributor was $4.2 million of write-downs recorded in the Foreign Government and Public sector. For the year ended December 31, 2015, we recorded $25.5 million of intent related OTTI, which were primarily related to the intent to sell positions in energy sector public corporate credits either because of a commitment to sell or an expectation that we may be required to sell as a result of our investment guidelines. See the *Investments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for further information on OTTI.

European Exposures

We closely monitor our exposures to European sovereign debt in general, with a primary focus on the sovereign debt of Greece, Ireland, Italy, Portugal and Spain (which we refer to as "peripheral Europe"), as these countries have applied for support from the European Financial Stability Facility or received support from the European Central Bank via government bond purchases in the secondary market.

The financial turmoil in Europe continues to be a potential threat to global capital markets and remains a challenge to global financial stability. Additionally, the possibility of capital market volatility spreading through a highly integrated and interdependent banking system remains. Despite signs of continuous improvement in the region, it is our view that the risk among European sovereigns and financial institutions still warrants scrutiny, in addition to our customary surveillance and risk monitoring, given how highly correlated these sectors of the region have become.

The United States and European Union continue to maintain sanctions against select Russian businesses in response to the ongoing conflict in eastern Ukraine. We remain comfortable with our aggregate Russian exposure of $51.8 million, given its relatively small allocation in our total investment portfolio.

We quantify and allocate our exposure to the region, as described in the table below, by attempting to identify aspects of the region or country risk to which we are exposed. Among the factors we consider are the nationality of the issuer, the nationality of the issuer's ultimate parent, the corporate and economic relationship between the issuer and its parent, as well as the political, legal and economic environment in which each functions. By undertaking this assessment, we believe that we develop a more accurate assessment of the actual geographic risk, with a more integrated understanding of contributing factors to the full risk profile of the issuer.

In the normal course of our ongoing risk and portfolio management process, we closely monitor compliance with a credit limit hierarchy designed to minimize overly concentrated risk exposures by geography, sector and issuer. This framework takes into account various factors such as internal and external ratings, capital efficiency and liquidity and is overseen by a combination of Investment and Corporate Risk Management, as well as insurance portfolio managers focused specifically on managing the investment risk embedded in our portfolio.

As of December 31, 2015, we had $210.3 million of exposure to peripheral Europe, which consisted of a broadly diversified portfolio of credit-related investments primarily in the industrial and utility sectors. We did not have any fixed maturities or equity securities exposure to European sovereigns or financial institutions based in peripheral Europe. Peripheral European exposure included non-sovereign exposure in Ireland of $43.6 million, Italy of $91.8 million and Spain of $74.9 million. We did not have any exposure to Greece or Portugal. As of December 31, 2015, we did not have any exposure to derivative assets within the financial institutions based in peripheral Europe. For purposes of calculating the derivative assets exposure, we have aggregated exposure to single name and portfolio product CDS, as well as non-CDS derivative exposure for which it either has counterparty or direct credit exposure to a company whose country of risk is in scope.

Among the remaining $2.9 billion of total non-peripheral European exposure, we had a portfolio of credit-related assets similarly diversified by country and sector across developed and developing Europe. As of December 31, 2015, our sovereign exposure was $75.2 million, which consisted of fixed maturities. We also had $440.0 million in net exposure to non-peripheral financial institutions with a concentration in France of $117.7 million, The Netherlands of $90.3 million, Switzerland of $91.5 million and the United Kingdom of $109.8 million. The balance of $2.3 billion was invested across non-peripheral, non-financial institutions.

In addition to aggregate concentration in the United Kingdom of $1,080.7 million, we had significant non-peripheral European total country exposures in The Netherlands of $386.6 million, in France of $390.9 million, in Germany of $266.8 million and in Switzerland of $315.1 million. We place additional scrutiny on our financial exposure in the United Kingdom, France, Switzerland and The Netherlands given our concern for the potential for volatility to spread through the European banking system. We believe the primary risk results from market value fluctuations resulting from spread volatility and the secondary risk is default risk, dependent upon the strength of the recovery of economic conditions in Europe.

The following table represents our European exposures at fair value and amortized cost as of December 31, 2015.

($ in millions)	Fixed Maturity and Equity Securities					Loan and Receivables	Derivative Assets					
	Sovereign	Financial Institutions	Non-Financial Institutions	Total (Fair Value)	Total (Amortized Cost)	Sovereign (Amortized Cost)	Sovereign	Financial Institutions	Non-Financial Institutions	Less: Margin & Collateral	Total, (Fair Value)	Net Non-U.S. Funded[1]
Ireland	$ -	$ -	$ 43.2	$ 43.2	$ 39.7	$ -	$ -	$ -	$ 0.4	$ -	$ 0.4	$ 43.6
Italy	-	-	91.8	91.8	90.0	-	-	-	-	-	-	91.8
Spain	-	-	74.9	74.9	68.2	-	-	-	-	-	-	74.9
Total Peripheral Europe	$ -	$ -	$ 209.9	$ 209.9	$ 197.9	$ -	$ -	$ -	$ 0.4	$ -	$ 0.4	$ 210.3
France	$ -	$ 70.8	$ 273.2	$ 344.0	$ 331.6	$ -	$ -	$ 206.3	$ -	$ 159.4	$ 46.9	$ 390.9
Germany	-	9.9	256.2	266.1	265.1	-	-	13.4	-	12.7	0.7	266.8
Netherlands	-	90.3	296.3	386.6	377.4	-	-	1.3	-	1.3	-	386.6
Norway	-	-	139.1	139.1	135.0	-	-	-	-	-	-	139.1
Switzerland	-	89.3	223.2	312.5	302.3	-	-	2.2	0.4	-	2.6	315.1
United Kingdom	-	79.5	970.9	1,050.4	1,039.8	-	-	250.6	-	220.3	30.3	1,080.7
Other non-peripheral[2]	75.2	20.1	177.9	273.2	264.6	-	-	-	-	-	-	273.2
Total Non-Peripheral Europe	75.2	359.9	2,336.8	2,771.9	2,715.8	-	-	473.8	0.4	393.7	80.5	2,852.4
Total	$ 75.2	$ 359.9	$ 2,546.7	$2,981.8	$ 2,913.7	$ -	$ -	$ 473.8	$ 0.8	$ 393.7	$ 80.9	$ 3,062.7

[1] Represents: (i) Fixed maturity and equity securities at fair value; and (ii) Derivative assets at fair value.
[2] Other non-peripheral countries include: Belgium, Croatia, Denmark, Finland, Kazakhstan, Latvia, Lithuania, Russian Federation, Slovakia, Sweden and Turkey.

Liquidity and Capital Resources

Liquidity is our ability to generate sufficient cash flows to meet the cash requirements of operating, investing and financing activities. Capital refers to our long-term financial resources available to support the business operations and contribute to future growth. Our ability to generate and maintain sufficient liquidity and capital depends on the profitability of the businesses, timing of cash flows on investments and products, general economic conditions and access to the capital markets and the alternate sources of liquidity and capital described herein.

Liquidity Management

Our principal available sources of liquidity are annuity product charges, GICs, funding agreements and fixed annuity deposits, investment income, proceeds from the maturity and sale of investments, proceeds from debt issuance and borrowing facilities, repurchase agreements, securities lending, reinsurance and capital contributions. Primary uses of these funds are payments of commissions and operating expenses, interest and premium credits, payments under guaranteed death and living benefits, investment purchases, repayment of debt and contract maturities, withdrawals and surrenders and payment of dividends.

Our liquidity position is managed by maintaining adequate levels of liquid assets, such as cash, cash equivalents and short-term investments. As part of the liquidity management process, different scenarios are modeled to determine whether existing assets are adequate to meet projected cash flows. Key variables in the modeling process include interest rates, equity market movements, quantity and type of interest and equity market hedges, anticipated contract owner behavior, market value of the general account assets, variable separate account performance and implications of rating agency actions.

The fixed account liabilities are supported by a general account portfolio, principally composed of fixed rate investments with matching duration characteristics that can generate predictable, steady rates of return. The portfolio management strategy for the fixed account considers the assets available-for-sale. This strategy enables us to respond to changes in market interest rates, prepayment risk, relative values of asset sectors and individual securities and loans, credit quality outlook and other relevant factors. The objective of portfolio management is to maximize returns, taking into account interest rate and credit risk, as well as other risks. Our asset/liability management discipline includes strategies to minimize exposure to loss as interest rates and economic and market conditions change. In executing this strategy, we use derivative instruments to manage these risks. Our derivative counterparties are of high credit quality.

Liquidity and Capital Resources

Additional sources of liquidity include borrowing facilities to meet short-term cash requirements that arise in the ordinary course of business. We maintain the following agreements:

- A reciprocal loan agreement with Voya Financial, Inc., an affiliate, whereby either party can borrow from the other up to 3.0% of our statutory net admitted assets, excluding Separate Accounts, as of the preceding December 31. As of December 31, 2015 and 2014, we did not have any outstanding receivable/payable with Voya Financial, Inc. under the reciprocal loan agreement. We and Voya Financial, Inc. continue to maintain the reciprocal loan agreement and future borrowings by either party will be subject to the reciprocal loan terms summarized above. Effective January 2014, interest on any borrowing by either us or Voya Financial, Inc. is charged at a rate based on the prevailing market rate for similar third-party borrowings or securities.

- We hold approximately 50.6% of our assets in marketable securities. These assets include cash, U.S. Treasuries, Agencies, Corporate Bonds, ABS, CMBS and collateralized mortgage obligations ("CMO") and Equity securities. In the event of a temporary liquidity need, cash may be raised by entering into repurchase agreements, dollar rolls and/or security lending agreements by temporarily lending securities and receiving cash collateral. Under our Liquidity Plan, up to 12% of our general account statutory admitted assets may be allocated to repurchase, dollar roll and securities lending programs. At the time a temporary cash need arises, the actual percentage of admitted assets available for repurchase transactions will depend upon outstanding allocations to the three programs. As of December 31, 2015 and 2014, we had securities lending obligations of $153.6 million and $125.4 million respectively, which, for both years, represents approximately 0.2% of our general account statutory admitted assets.

Management believes that our sources of liquidity are adequate to meet our short-term cash obligations.

Capital Contributions and Dividends

During the years ended December 31, 2015 and 2014, we did not receive any capital contributions from our Parent.

During the year ended December 31, 2015, we declared an ordinary dividend to our parent in the amount of $394.0 million, which was paid to our Parent on May 20, 2015. During the year ended December 31, 2014, we paid an ordinary dividend in the amount of $216.0 million to our Parent.

During the year ended December 31, 2015, we declared an extraordinary distribution in the amount of $98.0 million, subject to receipt of approval by the Iowa Insurance Division. The Iowa Insurance Division provided its approval on June 25, 2015, and we paid the extraordinary distribution to our Parent on June 26, 2015.

Collateral

Under the terms of our Over-The-Counter ("OTC") Derivative International Swaps and Derivatives Association, Inc. ("ISDA") agreements, we may receive from, or deliver to, counterparties collateral to assure that all terms of the ISDA agreements will be met with regard to the Credit Support Annex ("CSA"). The terms of the CSA call for us to pay interest on any cash received equal to the Federal Funds rate. To the extent cash collateral is received and delivered, it is included in Payables under securities loan agreements, including collateral held and Short-term investments under securities loan agreements, including collateral delivered, respectively, on the Balance Sheets and is reinvested in short-term investments. Collateral held is used in accordance with the CSA to satisfy any obligations. Investment grade bonds owned by us are the source of non-cash collateral posted, which is reported in Securities pledged on the Balance Sheets. As of December 31, 2015, we held $423.0 million and $0.4 million of net cash collateral related to OTC derivative contracts and cleared derivative contracts, respectively. As of December 31, 2014, we held $268.5 million of net cash collateral and pledged $5.8 million of net cash collateral related to OTC derivative contracts and cleared derivative contracts, respectively. In addition, as of December 31, 2015, we delivered $524.5 million of securities and held $12.9 million of securities as collateral. As of December 31, 2014, we delivered $505.6 million of securities and held $130.5 million of securities as collateral.

Reinsurance Agreements

Reinsurance Ceded

As of December 31, 2015 and 2014, total reserves ceded to affiliates were $5.0 billion and $3.7 billion, respectively. For the years ended December 31, 2015, 2014 and 2013, premiums ceded to affiliates were $404.5 million, $502.5 million and $112.2 million, respectively.

Waiver of Premium - Coinsurance Funds Withheld

Effective October 1, 2010, we entered into a coinsurance funds withheld agreement with an affiliate, SLDI. Under the terms of the agreement, we ceded to SLDI 100% of the group life waiver of premium liability (except for groups covered under rate credit agreements) assumed from ReliaStar Life Insurance Company ("RLI"), an affiliate, related to the Group Annual Term Coinsurance Funds Withheld agreement between us and RLI described under "Reinsurance Assumed" below.

As of December 31, 2015 and 2014, the value of the funds withheld liability under this agreement was $170.6 million and $180.4 million, respectively, which is included in Funds held under reinsurance treaties with affiliates on the Balance Sheets. In addition, as of December 31, 2015 and 2014, we had an embedded derivative under this agreement with a value of $(5.6) million and $3.6 million, respectively, which is recorded in Funds held under reinsurance treaties with affiliates on the Balance Sheets. As of December 31, 2015 and 2014, reserves ceded under this agreement were $203.6 million and $216.7 million, respectively.

Guaranteed Living Benefit - Coinsurance and Coinsurance Funds Withheld

Effective June 30, 2008, we entered into an automatic reinsurance agreement with an affiliate, SLDI, covering 100% of the benefits guaranteed under specific variable annuity guaranteed living benefit riders attached to certain variable annuity contracts issued by us on or after January 1, 2000.

Also effective June 30, 2008, we entered into a services agreement with SLDI, under which we provide certain actuarial risk modeling consulting services to SLDI with respect to hedge positions undertaken by SLDI in connection with the reinsurance

agreement. For the years ended December 31, 2015, 2014 and 2013, revenue related to the agreement was $10.9 million, $12.3 million, and $12.3 million, respectively.

Effective July 1, 2009, the reinsurance agreement was amended and restated to change the reinsurance basis from coinsurance to a combined coinsurance and coinsurance funds withheld basis. On July 31, 2009, SLDI transferred assets with a market value of $3.2 billion to us and we deposited those assets into a funds withheld trust account. As of December 31, 2015 and 2014, the assets on deposit in the trust account were $6.6 billion and $5.5 billion, respectively. We also established a corresponding funds withheld liability to SLDI, which is included in Funds held under reinsurance treaties with affiliates on the Balance Sheets. Funds held under reinsurance treaties with affiliates had a balance of $6.6 billion and $5.3 billion as of December 31, 2015 and 2014, respectively. In addition, as of December 31, 2015 and 2014, we had an embedded derivative with a value of $15.8 million and $207.4 million, respectively, which is recorded in Funds held under reinsurance treaties with affiliates on the Balance Sheets.

Also effective July 1, 2009, we and SLDI entered into an asset management services agreement, under which SLDI serves as asset manager for the funds withheld account. SLDI has retained its affiliate, Voya Investment Management LLC as sub-advisor for the funds withheld account.

Effective October 1, 2011, we and SLDI entered into an amended and restated automatic reinsurance agreement in order to provide more flexibility to us and SLDI with respect to the collateralization of the reserves related to the variable annuity guaranteed living benefits reinsured under the agreement. As of December 31, 2015 and 2014, reserves ceded by us under this agreement were $4.8 billion and $3.4 billion, respectively. In addition, a deferred loss in the amount of $283.3 million and $308.1 million as of December 31, 2015 and 2014, respectively, is included in Other assets on the Balance Sheets and is amortized over the period of benefit in Other expense in the Statements of Operations.

On May 8, 2013, following the Voya Financial, Inc. initial public offering ("IPO"), Voya Financial, Inc. made a capital contribution in the amount of $1.8 billion into SLDI, which SLDI deposited into the funds withheld trust account established to provide collateral for the variable annuity guaranteed living benefit riders ceded to SLDI under the amended and restated automatic reinsurance agreement. Upon deposit of such contributed capital into the funds withheld trust, we submitted to ING Bank N.V. ("ING Bank") $1.5 billion of contingent capital letters of credit ("LOC") issued by ING Bank under the $1.5 billion contingent capital LOC facility between ING Bank and SLDI, and the contingent capital LOCs were canceled and the facility was terminated.

Multi-year Guaranteed Fixed Annuity - Coinsurance

Effective May 1, 2005, we entered into a coinsurance agreement with our affiliate, Security Life of Denver Insurance Company ("SLD"). Under the terms of the agreement, SLD assumed and accepted the responsibility for paying, when due, 100% of the liabilities arising under the multi-year guaranteed fixed annuity contracts issued by us between January 1, 2001 and December 31, 2003. In addition, we assigned SLD all future premiums received by us attributable to the ceding contracts.

Under the terms of the agreement, the Company ceded $2.5 billion in account balances and transferred a ceding commission and $2.7 billion in assets to SLD, resulting in a realized capital gain of $47.9 million to the Company, which reduced the ceding commission.

The coinsurance agreement was accounted for using the deposit method. As such, $2.7 billion of Deposit receivable from affiliate was established on the Balance Sheets. As of December 31, 2014, the deposit receivable was $653.2 million. On September 25, 2015, we recaptured, via a commutation agreement, the multi-year guaranteed fixed annuity contracts ceded under the coinsurance agreement. Under the terms of the agreement, which was effective July 1, 2015, the Company received net assets in the amount of $618.7 million in satisfaction of the deposit receivable balance and recognized a pre-tax loss of $4.2 million. We incurred amortization expense of the negative ceding commission of $3.2 million, $6.6 million and $4.8 million, for the years ended December 31, 2015, 2014 and 2013, respectively, which is recorded in Other expense in the Statements of Operations.

Universal Life - Coinsurance

Effective January 1, 2000, we entered into a 100% coinsurance agreement with our affiliate, SLD, covering certain universal life policies which had been issued and in force as of, as well as any such policies issued after, the effective date of the agreement. As of December 31, 2015 and 2014, reserves ceded by us under this agreement were $20.6 million and $20.0 million, respectively.

Guaranteed Investment Contract - Coinsurance

Effective August 20, 1999, we entered into a Facultative Coinsurance Agreement with an affiliate, SLD. Under the terms of the agreement, we facultatively cede, from time to time, certain GICs to SLD on a 100% coinsurance basis. We utilize this reinsurance facility primarily for diversification and asset-liability management purposes in connection with this business. The coinsurance agreement is accounted for using the deposit method.

Our senior management has established a current maximum of $4.0 billion for GIC reserves covered under this agreement. As of December 31, 2015 and 2014 the deposit receivable was $155.3 million and $153.5 million, respectively.

Reinsurance Assumed

As of December 31, 2015 and 2014, total reserves assumed from affiliates were $438.7 million and $439.1 million, respectively. For the years ended December 31, 2015, 2014 and 2013, premiums assumed from affiliates were $428.5 million, $407.7 million and $454.9 million, respectively.

Level Premium Term Life Insurance - Stop-loss

Effective January 1, 2012, we entered into a stop-loss agreement with RLI, which was amended and restated April 1, 2012, under which we agreed to indemnify RLI, and RLI agreed to reinsure with us, the aggregate mortality risk under the combined blocks of level premium term life insurance policies issued by RLI between January 1, 2009 and December 31, 2009 and also between January 1, 2012 and December 31, 2012. This coverage included certain level premium term life insurance policies assumed by RLI from RLNY under an Automatic Coinsurance Agreement effective March 1, 2008. Under the terms of the agreement, we will make benefit payments to RLI equal to the amount of claims in excess of the attachment point (equal to a percentage of net reinsurance premium) up to the maximum fully covered benefit. The stop-loss agreement is accounted for using the deposit method. A fee receivable from affiliate of $0.4 million as of December 31, 2015 and 2014 is included in Other liabilities on the Balance Sheets. The fee is accrued and subsequently settled in cash each quarterly accounting period.

Effective July 1, 2012, we entered into a stop-loss agreement with our affiliate, SLD, under which we agree to indemnify SLD, and SLD agrees to reinsure with us, aggregate mortality risk under certain level premium term life insurance policies assumed by SLD from RLI and written by either RLI or RLNY with issue dates between January 1, 2007 and March 31, 2008 and between January 1, 2010 and December 31, 2010. Under the terms of the agreement, we will make benefit payments to SLD equal to the amount of claims in excess of the attachment point (equal to a percentage of net reinsurance premium) up to the maximum fully covered benefit. The stop-loss agreement was accounted for using the deposit method and, effective October 1, 2014, the agreement was terminated.

Group Annual Term - Coinsurance Funds Withheld

Effective December 31, 2008, we entered into a coinsurance funds withheld agreement with RLI for an indefinite duration. Under the terms of the agreement, we assumed 100% quota share of RLI's net retained liability under certain Employee Benefits Group Annual Term policies, including disability waiver of premium.

The initial premium of $219.9 million was equal to the aggregate reserve assumed by us. Thereafter, premiums are equal to the total earned gross premiums collected by RLI from policyholders. RLI will retain all reinsurance premiums payable to us as funds withheld, as security for ceded liabilities and against which ceded losses will be offset. Monthly, we will receive or pay a net settlement. This agreement was amended and restated on October 1, 2010 to better reflect the current investment environment and to modify the treatment of claims under certain policies under which claims are not paid in the form of a single lump sum; the underlying terms described above remained unchanged. (Please see also description of "Waiver of Premium Coinsurance Funds Withheld" agreement between us and SLDI under "Reinsurance Ceded" above). As of December 31, 2015 and 2014, reserves assumed by us under this agreement were $438.7 million and $439.1 million, respectively.

As of December 31, 2015 and 2014, the value of the funds withheld by ceding companies under this agreement was $464.8 million and $467.3 million, respectively, which is included in Deposit and reinsurance recoverable on the Balance Sheets. In addition, as of December 31, 2015 and 2014, we had an embedded derivative under this agreement with a value of $(15.6) million and $9.6 million, respectively.

Separate Accounts

Separate account assets and liabilities generally represent funds maintained to meet specific investment objectives of contract owners or participants who bear the investment risk, subject, in limited cases, to certain minimum guaranteed rates. Investment income and investment gains and losses generally accrue directly to such contract owners. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company.

Separate account assets supporting variable options under variable annuity contracts are invested, as designated by the contract owner or participant under a contract, in shares of mutual funds that are managed by the Company, or in other selected mutual funds not managed by us or our affiliates.

The Company reports separately, as assets and liabilities, investments held in the separate accounts and liabilities of separate accounts if:

- Such separate accounts are legally recognized;
- Assets supporting the contract liabilities are legally insulated from the Company's general account liabilities;
- Investments are directed by the contract owner or participant; and
- All investment performance, net of contract fees and assessments, is passed through to the contract owner.

The Company reports separate account assets that meet the above criteria at fair value on the Balance Sheets based on the fair value of the underlying investments. Separate account liabilities equal separate account assets. Investment income and net realized and unrealized capital gains (losses) of the separate accounts, however, are not reflected in the Statements of Operations, and the Statements of Cash Flows do not reflect investment activity of the separate accounts.

FHLB

We are currently a member of the FHLB of Des Moines and are required to maintain a collateral deposit to back any funding agreements issued by the FHLB. We have the ability to obtain funding from the FHLB based on a percentage of the value of our assets and subject to the availability of eligible collateral. The program capacity is limited to 20% of the total assets of our general and separate accounts. Furthermore, collateral is pledged based on the outstanding balances of the FHLB funding agreement. The amount varies based on type, rating and maturity of the collateral posted to the FHLB. Generally, mortgage securities, commercial real estate and U.S. treasury securities are pledged to the FHLB. Market value fluctuations resulting from changes in interest rates, spreads and other risk factors for each type of assets are monitored and additional collateral is either pledged or released as needed.

Our maximum borrowing capacity under this credit facility was $13.0 billion and $13.4 billion as of December 31, 2015 and 2014, respectively, and does not have an expiration date as long as we maintain a satisfactory level of creditworthiness based on the FHLB credit assessment. As of December 31, 2015 and 2014, we had $950.4 million and $950.1 million, respectively, in non-putable funding agreements, including accrued interest, issued to the FHLB. These non-putable funding agreements are included in Future policy benefits and contract owner account balances on the Balance Sheets. As of December 31, 2015 and 2014, we had assets with a market value of $1.1 billion collateralized the funding agreements to the FHLB.

Ratings

Our access to funding and our related cost of borrowing, requirements for derivatives collateral posting and the attractiveness of certain of our products to customers are affected by our credit ratings and insurance financial strength ratings, which are periodically reviewed by the rating agencies. Financial strength ratings and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products. The credit ratings are also important for the ability to raise capital through the issuance of debt and for the cost of such financing.

A downgrade in our credit or financial strength ratings or the credit or financial strength ratings of our Parent or rated affiliates could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees or LOCs, cause additional collateral requirements or other required payments under certain agreements, allow counterparties to terminate derivative agreements and/or impair our relationships with creditors, distributors or trading counterparties thereby potentially negatively affecting our profitability, liquidity and/or capital. In addition, we consider nonperformance risk in determining the fair value of our liabilities. Therefore, changes in our credit or financial strength ratings or the credit or financial strength ratings of our Parent or rated affiliates may affect the fair value of our liabilities.

Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. These ratings are not a recommendation to buy or hold any of our securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

Our financial strength and credit ratings as of the date of this Annual Report on Form 10-K are summarized in the following table. In parentheses, following the initial occurrence in the table of each rating, is an indication of that rating's relative rank within the agency's rating categories. That ranking refers only to the generic or major rating category and not to the modifiers appended to the rating by the rating agencies to denote relative position within such generic or major category. For each rating, the relative position of the rating within the relevant rating agency's ratings scale is presented, with "1" representing the highest rating in the scale.

Company	A.M. Best	Fitch	Moody's	S&P
Voya Insurance and Annuity Company				
Financial Strength Rating	A (3 of 16)	A (3 of 9)	A2 (3 of 9)	A (3 of 9)
Short-term Issuer Credit Rating	NR*	NR	WD**	WD

* "NR" indicates not rated.
** "WD" indicates withdrawn.

Rating Agency	Financial Strength Rating Scale
A.M. Best[(1)]	"A++" to "S"
Fitch[(2)]	"AAA" to "C"
Moody's[(3)]	"Aaa" to "C"
S&P[(4)]	"AAA" to "R"

(1) A.M. Best’s financial strength rating is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. It is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.
(2) Fitch’s financial strength ratings provide an assessment of the financial strength of an insurance organization. The National Insurer Financial Strength ("IFS") Rating is assigned to the insurance company's policyholder obligations, including assumed reinsurance obligations and contract holder obligations, such as guaranteed investment contracts.
(3) Moody’s financial strength ratings are opinions of the ability of insurance companies to repay punctually senior policyholder claims and obligations. Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Moody’s short-term credit ratings are opinions of the ability of issuers to honor short-term financial obligations.
(4) S&P’s insurer financial strength rating is a forward-looking opinion about the financial security characteristics of an insurance organization with respect to its ability to pay under its insurance policies and contracts in accordance with their terms. A "+" or "-" indicates relative strength within a category. An S&P credit rating is an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Short-term credit ratings reflect the obligor's creditworthiness over a short-term time horizon.

Our ratings by A.M. Best Company, Inc. ("A.M. Best"), Fitch, Moody's and S&P reflect a broader view of how the financial services industry is being challenged by the current economic environment, but also are based on the rating agencies' specific views of our financial strength. In making their ratings decisions, the agencies consider past and expected future capital and earnings, asset quality and risk, profitability and risk of existing liabilities and current products, market share and product distribution capabilities and direct or implied support from parent companies.

Rating agencies use an "outlook" statement for both industry sectors and individual companies. For an industry sector, a stable outlook generally implies that over the next 12 to 18 months the rating agency expects ratings to remain unchanged among companies in the sector. For a particular company, an outlook generally indicates a medium- or long-term trend in credit fundamentals, which if continued, may lead to a rating change.

Ratings actions affirmation and outlook changes by S&P, Moody's, Fitch and A.M. Best from December 31, 2014 through December 31, 2015 and subsequently through the date of this Annual Report on Form 10-K are as follows:

- On September 15, 2015, Fitch affirmed Voya Financial, Inc.'s issuer credit rating and debt ratings. The financial strength ratings of the key operating subsidiaries, including us, were also affirmed. The rating outlook for all ratings is Stable.

- On August 18, 2015, A.M. Best affirmed the ratings of Voya Financial, Inc. and its operating subsidiaries, including us. A.M. Best maintained its stable outlook on the financial strength rating of the key life subsidiaries, including us. A.M. Best also maintained its positive outlook on the issuer credit rating of Voya Financial, Inc. as well as the ratings on the outstanding debt of Voya Financial, Inc.
- On March 16, 2015, Fitch raised the issuer credit ratings on Voya Financial, Inc. to BBB+ from BBB. Fitch also raised the senior unsecured credit ratings of Voya, Financial, Inc. to BBB from BBB- and its junior subordinated debt credit ratings to BB+ from BB. Fitch raised the financial strength ratings of the operating subsidiaries, including us, to A from A-. All ratings were assigned a Stable outlook.
- On March 3, 2015, Moody's raised the issuer credit ratings on Voya Financial, Inc. and Voya Holdings Inc. to Baa2 from Baa3. Moody's also raised the senior unsecured credit ratings of Voya Financial, Inc. to Baa2 from Baa3 and its junior subordinated debt credit ratings to Baa3(hyb) from Ba1(hyb). Moody's raised the financial strength ratings of the operating subsidiaries, including us, to A2 from A3. All ratings were assigned a Stable outlook.
- On February 17, 2015, S&P raised the issuer credit ratings on Voya Financial, Inc. and Voya Holdings Inc. to BBB from BBB-. S&P also raised the senior unsecured credit ratings of Voya Financial, Inc. to BBB from BBB- and its junior subordinated debt credit ratings to BB+ from BB. S&P raised the financial strength ratings of the operating subsidiaries, including us, to A from A-. All ratings were assigned a Stable outlook.

Other Insurance Products

Historically, we provided interest-sensitive, traditional life insurance and health insurance products. All health insurance has been ceded to other insurers and new policies are no longer written. We ceased the issuance of life insurance policies in 2001, and all life insurance business is currently in run-off. A certain portion of the assets held in the general account are dedicated to funding this block of business.

Derivatives

Our use of derivatives is limited mainly to economic hedging to reduce our exposure to cash flow variability of assets and liabilities, interest rate risk, credit risk, exchange rate risk and market risk. It is our policy not to offset amounts recognized for derivative instruments and amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

We enter into interest rate, equity market, credit default and currency contracts, including swaps, futures, forwards, caps, floors and options, to reduce and manage various risks associated with changes in value, yield, price, cash flow, or exchange rates of assets or liabilities held or intended to be held, or to assume or reduce credit exposure associated with a referenced asset, index, or pool. We also utilize options and futures on equity indices to reduce and manage risks associated with our annuity products. Open derivative contracts are reported as Derivatives assets or liabilities on the Balance Sheets at fair value. Changes in the fair value of derivatives are recorded in Other net realized capital gains (losses) in the Statements of Operations.

We also have investments in certain fixed maturities and have issued certain annuity products that contain embedded derivatives whose fair value is at least partially determined by levels of or changes in domestic and/or foreign interest rates (short-term or long-term), exchange rates, prepayment rates, equity markets, or credit ratings/spreads. Embedded derivatives within fixed maturities are included with the host contract on the Balance Sheets and changes in fair value of the embedded derivatives are recorded in Other net realized capital gains (losses) in the Statements of Operations. Embedded derivatives within certain annuity products are included in Future policy benefits and contract owner account balances on the Balance Sheets and changes in the fair value of the embedded derivatives are recorded in Other net realized capital gains (losses) in the Statements of Operations.

In addition, we have entered into coinsurance with funds withheld arrangements that contain embedded derivatives, the fair value of which is based on the change in the fair value of the underlying assets held in trust. Embedded derivatives within coinsurance with funds withheld arrangements are reported with the host contract in Deposits and reinsurance recoverable (assumed reinsurance) or Funds held under reinsurance treaties with affiliates (ceded reinsurance) on the Balance Sheets, and changes in the fair value of the embedded derivatives are recorded in Interest credited and other benefits to contract owners/policyholders in the Statements of Operations.

Deposits and Reinsurance Recoverable

We utilize reinsurance agreements to reduce our exposure to large losses in most aspects of our insurance business. Such reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge our primary liability as direct insurer of the

risks reinsured. We evaluate the financial strength of potential reinsurers and continually monitor the financial condition of reinsurers. Only those reinsurance recoverable balances deemed probable of recovery are reflected as assets on our Balance Sheets.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Through the normal course of investment operations, we commit to either purchase or sell securities, mortgage loans, or money market instruments, at a specified future date and at a specified price or yield. The inability of counterparties to honor these commitments may result in either a higher or lower replacement cost. Also, there is likely to be a change in the value of the securities underlying the commitments.

As of December 31, 2015 and 2014, the Company had off-balance sheet commitments to acquire mortgage loans of $323.6 and $156.6, respectively, and purchase limited partnerships and private placement investments of $285.9 and $57.5, respectively.

As of December 31, 2015, we had certain contractual obligations due over a period of time as summarized in the following table.

($ in millions)	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Purchase obligations[1]	$ 609.5	$ 568.0	$ 41.5	$ -	$ -
Reserves for insurance obligations[2]	33,375.3	3,283.9	5,862.4	5,424.4	18,804.6
Retirement and other plans[3]	22.3	1.8	4.1	4.6	11.8
Long-term debt[4]	956.4	28.3	56.3	56.4	815.4
Operating lease obligations[5]	12.3	7.0	5.3	-	-
Securities lending and repurchase agreements	153.6	153.6	-	-	-
Total[6]	$ 35,129.4	$ 4,042.6	$ 5,969.6	$ 5,485.4	$ 19,631.8

(1) Purchase obligations consist primarily of outstanding commitments under limited partnerships that may occur any time within the terms of the partnership and private loans. The exact timing, however, of funding these commitments related to partnerships and private loans cannot be estimated. Therefore, the total amount of the commitments related to partnerships and private loans is included in the category "Less than 1 Year."

(2) Reserves for insurance obligations consist of amounts required to meet our future obligations for future policy benefits and contract owner account balances. Amounts presented in the table represent estimated cash payments under such contracts, including significant assumptions related to the receipt of future premiums, mortality, morbidity, lapse, renewal, retirement, disability and annuitization comparable with actual experience. These assumptions also include market growth and interest crediting consistent with assumptions used in amortizing DAC. All estimated cash payments are undiscounted for the time value of money.

(3) Includes estimated benefit payments under our non-qualified pension plans, estimated benefit payments under our other postretirement benefit plans and estimated payments of deferred compensation based on participant elections and an average retirement age.

(4) Long-term debt, including interest, consists of the following:

- A surplus note in the principal amount of $35.0 million and the related interest payable with our affiliate, SLD. As of December 31, 2015, the outstanding principal, interest rate and maturity date, of the surplus note were $35.0 million, 7.98% and December 7, 2029, respectively.
- Surplus notes in the aggregate principal amount of $400.0 million and the related interest payable, with our affiliates, Voya Retirement Insurance and Annuity Company, RLI and SLDI. As of December 31, 2015, the aggregate amount of outstanding principal, interest rate and maturity date of these surplus notes were $400.0 million, 6.26% and December 29, 2034, respectively.

(5) Operating lease obligations relate to the rental of office space under various non-cancellable operating lease agreements, the longest term of which expires in 2017.

(6) Unrecognized tax benefits are excluded from the table due to immateriality.

Repurchase Agreements

We engage in dollar repurchase agreements with mortgage-backed securities ("dollar rolls") and repurchase agreements with other collateral types to increase our return on investments and improve liquidity. Such arrangements meet the requirements to be accounted for as financing arrangements. We enter into dollar rolls by selling existing MBS and concurrently entering into an agreement to repurchase similar securities within a short time frame at a lower price. Under repurchase agreements, we borrow cash from a counterparty at an agreed upon interest rate for an agreed upon time frame and pledge collateral in the form of securities. At the end of the agreement, the counterparty returns the collateral to us and we, in turn, repay the loan amount along with the additional agreed upon interest. We require that at all times during the term of the dollar rolls and repurchase agreements that cash or other collateral types obtained is sufficient to allow us to fund substantially all of the cost of purchasing replacement assets. Cash received is invested in Short-term investments, with the offsetting obligation to repay the loan included as an Other liability on the Balance Sheets. We also enter into reverse repurchase agreements. These transactions involve a purchase of securities and an agreement to sell substantially the same securities as those purchased.

The carrying value of the securities pledged in dollar rolls and repurchase agreement transactions and the related repurchase obligation are included in Securities pledged and Short-term debt, respectively, on the Balance Sheets. As of December 31, 2015 and 2014, we did not have any securities pledged in dollar rolls, repurchase agreement transactions or reverse repurchase agreements.

The primary risk associated with short-term collateralized borrowings is that the counterparty will be unable to perform under the terms of the contract. Our exposure is limited to the excess of the net replacement cost of the securities over the value of the short-term investments. We believe the counterparties to the dollar rolls and repurchase agreements are financially responsible and that the counterparty risk is minimal.

Securities Lending

We engage in securities lending whereby certain securities from our portfolio are loaned to other institutions through a lending agent for short periods of time. We have the right to approve any institution with whom the lending agent transacts on our behalf. Initial collateral, primarily cash, is required at a rate of 102% of the market value of the loaned securities. The lending agent retains the cash collateral and invests it in short-term liquid assets on our behalf. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. The lending agent indemnifies us against losses resulting from the failure of a counterparty to return securities pledged where collateral is insufficient to cover the loss. As of December 31, 2015 and 2014, the fair value of loaned securities was $147.9 million and $121.2 million, respectively, and is included in Securities pledged on the Balance Sheets. As of December 31, 2015 and 2014, collateral retained by the lending agent and invested in short-term liquid assets on our behalf was $153.6 million and $125.4 million, respectively, and is recorded in Short-term investments under securities loan agreements, including collateral delivered on the Balance Sheets. As of December 31, 2015 and 2014, liabilities to return collateral of $153.6 million and $125.4 million, respectively, were included in Payables under securities loan agreements, including collateral held, on the Balance Sheets.

Statutory Capital and Risk-Based Capital

Our primary regulator, the State of Iowa Insurance Division (the "Division") recognizes only statutory accounting practices prescribed or permitted by the State of Iowa for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Iowa Insurance Law. The NAIC Accounting Practices and Procedures Manual has been adopted as a component of prescribed or permitted practices by the State of Iowa.

We are subject to minimum RBC requirements established by the Division. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of total adjusted capital ("TAC"), as defined by the NAIC, to authorized control level RBC, as defined by the NAIC. We exceeded the minimum RBC requirements that would require any regulatory or corrective action for all periods presented herein.

We are required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the Division. Such statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities and contract owner account balances using different actuarial assumptions as well as valuing investments and certain assets and accounting for deferred taxes on a different basis. Certain assets that are not admitted under statutory accounting principles are charged directly to surplus. Depending on the regulations of the Division, the entire amount or a portion of an insurance company's asset balance can be non-admitted based on the specific rules regarding admissibility. The most significant non-admitted assets are typically deferred tax assets.

The sensitivity of our statutory reserves and surplus established for variable annuity contracts and guaranteed benefit riders to changes in the equity markets will vary depending on the magnitude of the decline. The sensitivity will be affected by the level of account values relative to the level of guaranteed amounts, product design and reinsurance. Statutory reserves for variable annuities depend upon the cumulative equity market impacts on the business in force and therefore result in non-linear relationships with respect to the level of equity market performance within any reporting period.

The statutory reserves and surplus for certain long-dated floating rate GICs are sensitive to changes in forward interest rates. The statutory reserves are based on the present value of the future contract payments, including interest credited, discounted at prescribed statutory rates. Increases in forward interest rates will increase the reserves and decreases in forward interest rates will decrease the reserves.

RBC is also affected by the product mix of the in force book of business (i.e., the amount of business without guarantees is not subject to the same level of reserves as the business with guarantees). RBC is an important factor in the determination of the credit

and financial strength ratings of us. Declines in the market value of our separate account assets can increase the reserves for certain guaranteed benefits, even though we reinsure many of our guaranteed living benefits. Future declines in the market values of our separate account assets could cause future reductions in our surplus, which may also impact RBC.

Further, our statutory credit for reinsurance taken under the reinsurance agreement with SLDI covering our guaranteed living benefits is subject to uncertainty arising from SLDI's ability to provide letters of credit from lending banks under adverse market conditions. We are taking various steps to develop alternative sources of credit for reinsurance collateral.

The Iowa Insurance Division recognizes as capital and surplus those amounts determined in conformity with statutory accounting practices prescribed or permitted by the Division. Our statutory capital and surplus was $2.1 billion as of December 31, 2015 and 2014.

See also "Reinsurance Agreements" above and "Minimum Guarantees" in Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Contingencies

For information regarding other contingencies related to legal proceedings, regulatory matters and other contingencies involving us, see the *Commitments and Contingencies* Note in our Financial Statements in Part II, Item 8. in this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk
(Dollar amounts in millions, unless otherwise stated)

Market risk is the risk that our financial position and results of operations will be affected by fluctuations in the value of financial instruments. We have significant holdings in financial instruments and are naturally exposed to a variety of market risks. The main market risks we are exposed to include interest rate risk, equity market price risk and credit risk. We do not have material market risk exposure to "trading" activities in our Financial Statements.

Risk Management

As a financial services company offering immediate and deferred fixed annuities, and with existing blocks of guaranteed investment contracts, variable annuities and other income liabilities, taking measured risks is part of our business. As part of our effort to ensure measured risk taking, we have integrated risk management in our daily business activities and strategic planning.

We place a high priority on risk management and risk control. We have comprehensive risk management and control procedures in place, which are integrated with our affiliates. We have established an integrated risk management function together with our affiliates with responsibility for the formulation of our risk appetite, strategies, policies and limits. The risk management function is also responsible for monitoring our overall market risk exposures and provides review, oversight and support functions on risk-related issues.

Our risk appetite is aligned with how our business is managed and anticipates future regulatory developments. In particular, our risk appetite is aligned with regulatory capital requirements as well as metrics that are aligned with various ratings agency models.

Our risk governance and control systems enable us to identify, control, monitor and aggregate risks and provide assurance that risks are being measured, monitored and reported adequately and effectively. To promote measured risk taking, we have integrated risk management with our business activities and strategic planning.

We have implemented several limit structures to manage risk. Examples include, but are not limited to, the following:

- At-risk limits on sensitivities of earnings and regulatory capital;
- Duration and convexity mismatch limits;
- Credit risk limits;
- Liquidity limits
- Mortality concentration limits
- Catastrophe and mortality exposure retention limits for our insurance risk; and
- Investment and derivative guidelines.

We are also subject to cash flow stress testing pursuant to regulatory requirements. This analysis measures the effect of changes in interest rate assumptions on asset and liability cash flows. The analysis includes the effects of:

- the timing and amount of redemptions and prepayments in our asset portfolio;
- our derivative portfolio;
- death benefits and other claims payable under the terms of our insurance products;
- lapses and surrenders in our insurance products;
- minimum interest guarantees in our insurance products; and
- book value guarantees in our insurance products.

We evaluate any shortfalls that our cash flow testing reveals and if needed increase statutory reserves or adjust portfolio management strategies.

Derivatives are financial instruments whose values are derived from interest rates, foreign currency exchange rates, financial indices, or other prices of securities or commodities. Derivatives include swaps, futures, options and forward contracts. Under U.S. insurance statutes, we may use derivatives to hedge market values or cash flows of assets or liabilities; to replicate cash market instruments; and for certain limited income generating activities. We are generally prohibited from using derivatives for speculative purposes. References below to hedging and hedge programs refer to our process of reducing exposure to various risks. This does not mean that the process necessarily results in hedge accounting treatment for the respective derivative instruments. To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item and meet other specific requirements. Effectiveness of the hedge is assessed at inception and throughout the life of the hedging relationship. Even if a derivative qualifies for hedge accounting treatment, there may be an element of ineffectiveness of the hedge. The ineffective portion of a hedging relationship subject to hedge accounting is recognized in Net realized capital gains (losses) in the Statements of Operations.

Market Risk Related to Interest Rates

We define interest rate risk as the risk of an economic loss due to adverse changes in interest rates. This risk arises from our holdings in interest sensitive assets and liabilities, primarily as a result of investing life insurance premiums, fixed annuity and guaranteed investment contract deposits received in interest-sensitive assets and carrying these funds as interest-sensitive liabilities. We are also subject to interest rate risk on our variable annuity business. A sustained decline in interest rates or a prolonged period of low interest rates may subject us to higher cost of guaranteed benefits and increased hedging costs. In a rising interest rate environment, we are exposed to the risk of disintermediation through a potential increase in book value withdrawals from certain annuity products. Conversely, a steady increase in interest rates would tend to improve financial results due to reduced hedging costs, lower costs of guaranteed benefits and improvement to fixed margins.

We use product design, pricing and asset liability management ("ALM") strategies to reduce the adverse effects of interest rate movement. Product design and pricing strategies can include the use of surrender charges, withdrawal restrictions and the ability to reset credited interest rates. ALM strategies can include the use of derivatives and duration and convexity mismatch limits. See "Item 1A. Risk Factors-Risks Related to Our Business-General - The level of interest rates may adversely affect our profitability, particularly in the event of a continuation of the current low interest rate environment or a period of rapidly increasing interest rates."

Derivatives strategies include the following:

- *Interest Risk Related to Variable Annuity Guaranteed Living Benefits*. For Variable Annuity contracts with Guaranteed Living benefits, the contract holder may elect to receive income benefits over the remainder of their lifetime. We use derivatives such as interest rate swaps to hedge a portion of the interest rate risk associated with this type of guarantee.
- *Other Market Value and Cash Flow Hedges*. We also use derivatives in general to hedge present or future changes in cash flows or market value changes in our assets and liabilities. We use derivatives such as interest rate swaps to specifically hedge interest rate risks associated with certain asset classes in our portfolio.

We assess interest rate exposures for financial assets, liabilities and derivatives using hypothetical test scenarios that assume either increasing or decreasing 100 basis point parallel shifts in the yield curve, reflecting changes in either credit spreads or risk-free rates. The following tables summarize the net estimated potential change in fair value from hypothetical 100 basis point upward and downward shifts in interest rates as of December 31, 2015 and 2014. While the test scenarios are for illustrative purposes only and do not reflect our expectations regarding future interest rates or the performance of fixed-income markets, they are a near-term, reasonably possible hypothetical change that illustrates the potential impact of such events. These tests do not measure the

change in value that could result from non-parallel shifts in the yield curve. As a result, the actual change in fair value from a 100 basis point change in interest rates could be different from that indicated by these calculations.

	As of December 31, 2015			
			Hypothetical Change in Fair Value[2]	
($ in millions)	Notional	Fair Value[1]	+ 100 Basis Points Yield Curve Shift	- 100 Basis Points Yield Curve Shift
Financial assets with interest rate risk:				
Fixed maturities, including securities pledged	$ -	$ 23,678.2	$ (1,463.7)	$ 1,585.7
Mortgage loans on real estate	-	3,429.8	(179.8)	196.2
Derivatives:				
Interest rate swaps, caps, forwards	27,452.3	410.0	(527.6)	677.1
Deposits from affiliates	-	156.3	(1.9)	2.0
Embedded derivative on reinsurance	-	(15.6)	(34.3)	39.4
Financial liabilities with interest rate risk:				
Investment contract liabilities:				
Deferred annuities[3]	-	19,367.9	(1,409.6)	1,748.6
Funding agreements with fixed maturities and guaranteed investment contracts	-	1,083.1	(32.9)	34.3
Supplementary contracts, immediate annuities and other	-	1,955.3	(128.2)	143.4
Long-term debt	-	524.7	(66.7)	66.7
Embedded derivative on reinsurance	-	10.2	(436.7)	494.2
Guaranteed benefit derivatives[3]:				
FIA[4]	-	1,779.1	142.7	(143.1)
GMAB/GMWB/GMWBL	-	1,849.0	(703.8)	903.6

[1] Separate account assets and liabilities which are interest sensitive are not included herein as any interest rate risk is borne by the holder of the separate account.
[2] (Decreases) in assets or (decreases) in liabilities are presented in parentheses. Increases in assets or increases in liabilities are presented without parentheses.
[3] Certain amounts included in the Deferred annuities line are also reflected within the Guaranteed benefit derivatives lines of the table above.
[4] As part of our annual unlocking of assumptions, the calculation of the FIA reserve was modified to more closely align projections of future option budgets with projected interest rates. As a result, the FIA reserve will react differently to changes in interest rates such that increases to the interest rates will lead to increases in reserves.

($ in millions)	As of December 31, 2014			
			Hypothetical Change in Fair Value[2]	
	Notional	Fair Value[1]	+ 100 Basis Points Yield Curve Shift	- 100 Basis Points Yield Curve Shift
Financial assets with interest rate risk:				
Fixed maturities, including securities pledged	$ -	$ 23,277.0	$ (1,412.0)	$ 1,499.2
Mortgage loans on real estate	-	2,989.1	(150.0)	159.2
Derivatives:				
Interest rate swaps, caps, forwards	24,099.5	330.4	(536.6)	707.9
Deposits from affiliates	-	848.3	(30.7)	39.3
Embedded derivative on reinsurance	-	9.6	(33.1)	37.5
Financial liabilities with interest rate risk:				
Investment contract liabilities:				
Deferred annuities[3]	-	19,122.0	(1,297.4)	1,661.3
Funding agreements with fixed maturities and guaranteed investment contracts	-	1,091.5	(42.8)	44.9
Supplementary contracts, immediate annuities and other	-	1,404.5	(85.1)	96.0
Long-term debt	-	545.6	(60.7)	71.5
Embedded derivative on reinsurance	-	211.0	(399.2)	450.2
Guaranteed benefit derivatives[3]:				
FIA	-	1,924.4	(101.2)	104.2
GMAB/GMWB/GMWBL	-	1,564.4	(724.5)	952.0

[1] Separate account assets and liabilities which are interest sensitive are not included herein as any interest rate risk is borne by the holder of the separate account.
[2] (Decreases) in assets or (decreases) in liabilities are presented in parentheses. Increases in assets or increases in liabilities are presented without parentheses.
[3] Certain amounts included in the Deferred annuities line are also reflected within the Guaranteed benefit derivatives lines of the table above.

Market Risk Related to Equity Market Prices

Our variable products, fixed indexed annuity ("FIA") products and general account equity securities are significantly influenced by global equity markets. Increases or decreases in equity markets impact certain assets and liabilities related to our variable products and our earnings derived from those products. Our variable products include variable annuity contracts and variable life insurance.

We assess equity risk exposures for financial assets, liabilities and derivatives using hypothetical test scenarios that assume either an increase or decrease of 10% in all equity market benchmark levels. The following tables summarize the net estimated potential change in fair value from an instantaneous increase and decrease in all equity market benchmark levels of 10% as of December 31, 2015 and 2014. In calculating these amounts, we exclude separate account equity securities related to products for which the investment risk is borne primarily by the separate account contract holder rather than by us. While the test scenarios are for illustrative purposes only and do not reflect our expectations regarding the future performance of equity markets, they are near-term, reasonably possible hypothetical changes that illustrate the potential impact of such events. These scenarios consider only the direct effect on fair value of declines in equity benchmark market levels and not changes in asset-based fees recognized as revenue, changes in our estimates of total gross profits used as a basis for amortizing DAC, VOBA and DSI and other costs, or changes in any other assumptions such as market volatility or mortality, utilization or persistency rates in variable contracts that could also impact the fair value of our living benefits features. In addition, these scenarios do not reflect the effect of basis risk, such as potential differences in the performance of the investment funds underlying the variable annuity products relative to the equity market benchmark we use as a basis for developing our hedging strategy. The impact of basis risk could result in larger differences between the change in fair value of the equity-based derivatives and the related living benefit features, in comparison to the hypothetical test scenarios.

	As of December 31, 2015			
			Hypothetical Change in Fair Value[1]	
($ in millions)	Notional	Fair Value	+ 10% Equity Shock	-10% Equity Shock
Financial assets with equity market risk:				
Equity securities, available-for-sale	$ -	$ 19.2	$ 1.9	$ (1.9)
Limited partnerships/corporations	-	186.3	11.2	(11.2)
Derivatives:				
Equity futures and total return swaps[2]	10,666.4	41.6	(661.7)	664.6
Equity options	8,396.0	116.5	(16.1)	52.9
Financial liabilities with equity market risk:				
Guaranteed benefit derivatives:				
FIA	-	1,779.1	127.4	(107.1)
GMAB / GMWB/ GMWBL	-	1,849.0	(237.2)	282.3

[1] (Decreases) in assets or (decreases) in liabilities are presented in parentheses. Increases in assets or increases in liabilities are presented without parentheses.
[2] Primarily related to variable annuity guarantee hedge program.

	As of December 31, 2014			
			Hypothetical Change in Fair Value[1]	
($ in millions)	Notional	Fair Value	+ 10% Equity Shock	-10% Equity Shock
Financial assets with equity market risk:				
Equity securities, available-for-sale	$ -	$ 6.7	$ 0.6	$ (0.6)
Limited partnerships/corporations	-	172.9	10.4	(10.4)
Derivatives:				
Equity futures and total return swaps[2]	8,558.6	92.6	(711.8)	711.8
Equity options	12,051.9	117.8	(67.5)	26.4
Financial liabilities with equity market risk:				
Guaranteed benefit derivatives:				
FIA	-	1,924.4	97.8	(178.7)
GMAB / GMWB/ GMWBL	-	1,564.4	(182.9)	251.8

[1] (Decreases) in assets or (decreases) in liabilities are presented in parentheses. Increases in assets or increases in liabilities are presented without parentheses.
[2] Primarily related to variable annuity guarantee hedge program.

Net Amount at Risk ("NAR")

Minimum Guarantees

Variable annuity contracts containing minimum guaranteed death and living benefits expose us to equity risk. A decrease in the equity markets may cause a decrease in the account values, thereby increasing the possibility that we may be required to pay amounts to contract owners due to guaranteed death and living benefits. An increase in the value of the equity markets may increase account values for these contracts, thereby decreasing our risk associated with guaranteed death and living benefits.

We stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010. However, our existing variable annuity block of business contains certain guaranteed death and living benefits made available to contract owners as described below:

Guaranteed Minimum Death Benefits ("GMDB"):

- Standard - Guarantees that, upon death of the individual specified in the policy, the death benefit will be no less than the premiums paid by the contract owner, adjusted for withdrawals.
- Ratchet - Guarantees that, upon death of the individual specified in the policy, the death benefit will be no less than the greater of (1) Standard or (2) the maximum policy anniversary (or quarterly) value of the variable annuity, adjusted for withdrawals.
- Rollup - Guarantees that, upon death of the individual specified in the policy, the death benefit will be no less than the aggregate premiums paid by the contract owner, with interest at the contractual rate per annum, adjusted for withdrawals. The Rollup may be subject to a maximum cap on the total benefit.
- Combo - Guarantees that, upon death of the individual specified in the policy, the death benefit will be no less than the greater of (1) Ratchet or (2) Rollup.

A number of other versions of death benefits were offered previously but sales were discontinued. For contracts issued prior to January 1, 2000, most contracts with enhanced death benefit guarantees were reinsured to third party reinsurers to mitigate the risk produced by such guaranteed death benefits. For contracts issued after December 31, 1999, we instituted a variable annuity guarantee hedge program in lieu of reinsurance. The variable annuity guarantee hedging program is based on us entering into derivative positions to offset exposures to guaranteed minimum death benefits due to adverse changes in the equity markets.

As of the dates indicated, the guaranteed value of these death benefits in excess of account values was estimated to be as follows:

($ in millions)

		December 31, 2015
Net amount at risk, before reinsurance	$	6,458
Net amount at risk, net of reinsurance		6,074

($ in millions)

		December 31, 2014
Net amount at risk, before reinsurance	$	5,392
Net amount at risk, net of reinsurance		4,982

The increase in the guaranteed value of these death benefits was primarily driven by relatively flat equity markets which resulted in unfavorable fund performance net of deductions for fees during the year ended December 31, 2015.

The additional liabilities recognized related to GMDB, as of the periods indicated, were as follows:

($ in millions)

		December 31, 2015
Separate account liability	$	33,321.3
Additional liability balance		517.2

($ in millions)

		December 31, 2014
Separate account liability	$	38,547.7
Additional liability balance		374.3

The above additional liability recorded by us, net of reinsurance, represented the estimated net present value of our future obligation for guaranteed minimum death benefits in excess of account values. The decrease in additional separate account liability and the increase in additional liability balance is mainly due to unfavorable fund performance.

Guaranteed Minimum Living Benefits

Guaranteed Minimum Income Benefit (GMIB). Guarantees a minimum income payout, exercisable only on a contract anniversary on or after a specified date, in most cases 10 years after purchase of the GMIB rider. The income payout is determined based on contractually established annuity factors multiplied by the benefit base. The benefit base equals the premium paid at the time of product issue and may increase over time based on a number of factors, including a rollup percentage (mainly 7% or 6% depending on the version of the benefit) and ratchet frequency subject to maximum caps which vary by product version (200%, 250% or 300% of initial premium).

Guaranteed Minimum Withdrawal Benefit and Guaranteed Minimum Withdrawal Benefit for Life (GMWB/GMWBL). Guarantees an annual withdrawal amount for a specified period of time (GMWB) or life (GMWBL) that is calculated as a percentage of the benefit base that equals the premium paid at the time of product issue and may increase over time based on a number of factors, including a rollup percentage (mainly 7%, 6% or 0%, depending on versions of the benefit) and ratchet frequency (primarily annually or quarterly, depending on versions). The percentage used to determine the guaranteed annual withdrawal amount may vary by age at first withdrawal and depends on versions of the benefit. A joint life-time withdrawal benefit option was available to include coverage for spouses. Most versions of the withdrawal benefit included reset and/or step-up features that may increase the guaranteed withdrawal amount in certain conditions. Earlier versions of the withdrawal benefit guarantee that annual withdrawals of up to 7.0% of eligible premiums may be made until eligible premiums previously paid by the contract owner are returned, regardless of account value performance. Asset allocation requirements apply at all times where withdrawals are guaranteed for life.

Guaranteed Minimum Accumulation Benefit (GMAB). Guarantees that the account value will be at least 100% of the eligible premiums paid by the customer after 10 years, adjusted for withdrawals. We offered an alternative design that guaranteed the account value to be at least 200% of the eligible premiums paid by contract owners after 20 years.

We reinsured most of our living benefit guarantee riders to SLDI to mitigate the risk produced by such benefits. This reinsurance agreement covers all of the GMIBs, as well as the GMWBs with lifetime guarantees (the "Reinsured living benefits"). The GMABs and the GMWBs without lifetime guarantees (the "Non-reinsured living benefits") are not covered by this reinsurance. The Non-reinsured living benefits are still covered by our variable annuity guarantee hedging program.

The following guaranteed living benefits information is as of the dates indicated:

($ in millions)	Non-reinsured Living Benefits (GMAB/GMWB)	Reinsured Living Benefits (GMIB/GMWBL)
	December 31, 2015	
Net amount at risk, before reinsurance	$ 17	$ 5,087
Net amount at risk, net of reinsurance	17	-
($ in millions)	**December 31, 2014**	
Net amount at risk, before reinsurance	$ 15	$ 3,645
Net amount at risk, net of reinsurance	15	-

The net amount at risk for the reinsured living benefits is equal to the excess of the present value of the minimum guaranteed annuity payments available to the contractholder over the current account value. The methodology used to calculate the net amount at risk partially reflects the current interest rate environment and also includes a provision for the expected mortality of the clients covered by these living benefits. The increase in the net amount at risk of these living benefits (GMIB/GMWBL) from December 31, 2014 to December 31, 2015 was primarily driven by lower equity markets.

The net amount at risk for the non-reinsured living benefits is equal to the guaranteed value of these benefits in excess of the account values, which is reflected in the table above.

The separate account liabilities subject to the requirements for additional reserve liabilities under ASC Topic 944 for minimum guaranteed benefits and the additional liabilities recognized related to minimum guarantees, by type, as of the dates indicated, were as follows:

($ in millions)	Non-reinsured Living Benefits (GMAB/GMWB)	Reinsured Living Benefits (GMIB/GMWBL)
	December 31, 2015	
Separate account liability	$ 593.5	$ 25,149.5
Additional liability balance, net of reinsurance	29.1	1,246.0
	December 31, 2014	
Separate account liability	$ 728.9	$ 29,062.8
Additional liability balance, net of reinsurance	32.8	1,045.5

As of December 31, 2015 and 2014, the above additional liabilities for non-reinsured living benefits recorded by us, net of reinsurance, represent the estimated net present value of our future obligations for these benefits. The above additional liabilities for reinsured living benefits recorded by us, net of reinsurance, represent the present value of future claims less the present value of future attributed fees (GMWBLs) or the benefits ratio approach (GMIBs), less the reinsurance ceded reserve calculated under Accounting Standards Codification Topic 944. The additional liability for GMIBs was zero. The increase in the additional liability balance for reinsured living benefits corresponds to the increase in the GMWBL liability, which increased mainly due to decrease in the equity markets during the year ended December 31, 2015.

Variable Annuity Hedge Program

Variable Annuity Guarantee Hedge Program

We primarily mitigate variable annuity market risk exposures through hedging. Market risk arises primarily from the minimum guarantees within the variable annuity products, whose economic costs are primarily dependent on future equity market returns, interest rate levels, equity volatility levels and policyholder behavior. The Variable Annuity Guarantee Hedge Program is used to mitigate our exposure to equity market and interest rate changes and seeks to ensure that the required assets are available to satisfy future death benefit and living benefit obligations. While the Variable Annuity Guarantee Hedge Program does not explicitly hedge statutory or U.S. GAAP reserves, as markets move up or down, in aggregate the returns generated by the Variable Annuity Guarantee Hedge Program will significantly offset the statutory and U.S. GAAP reserve changes due to market movements.

The objective of the Variable Annuity Guarantee Hedge Program is to offset changes in equity market returns for most minimum guaranteed death benefits and all guaranteed living benefits, while also providing interest rate protection for certain minimum guaranteed living benefits. We hedge the equity market exposure using a hedge target set using market consistent valuation techniques for all guaranteed living benefits and most death benefits. We also hedge a portion of the interest rate risk in our GMWB/GMAB/GMWBL blocks using a market consistent valuation hedge target. The Variable Annuity Guarantee Hedge Program does not hedge interest rate risks for our GMIB or GMDB. However, interest rate risk is fully hedged to our targets with inclusion of the Variable Annuity Capital Hedge Overlay ("CHO") Program, which is discussed below. These hedge targets may change over time with market movements, changes in regulatory and rating agency capital, available collateral and our risk tolerance.

Equity index futures on various equity indices are used to mitigate the risk of the change in value of the policyholder-directed separate account funds underlying the variable annuity contracts with minimum guarantees. A dynamic trading program is utilized to seek replication of the performance of targeted fund groups (i.e., the fund groups that can be covered by indices where liquid futures markets exist).

Total return swaps are also used to mitigate the risk of the change in value of certain policyholder directed separate account funds. These include fund classes such as emerging markets and real estate. They may also be used instead of futures of more liquid indices where it may be deemed advantageous. This hedging strategy is employed at our discretion based on current risk exposures and related transaction costs.

Interest rate swaps are used to match a portion of the hedge targets on GMWB/GMAB/GMWBL as described above.

Variance swaps and equity options were used to mitigate the impact of changes in equity volatility on the economic liabilities associated with certain minimum guaranteed living benefits. In the second quarter of 2015, we chose to cease this program because of the limited benefit of it covering a small block of business.

Foreign exchange forwards are used to mitigate the impact of policyholder-directed investments in international funds with exposure to fluctuations in exchange rates of certain foreign currencies. Rebalancing is performed based on pre-determined notional exposures to the specific currencies.

Variable Annuity CHO Program

Variable annuity guaranteed benefits are hedged based on their economic or fair value; however, the statutory reserves and rating agency required assets are not based on a market value. When equity markets decrease, the statutory reserve and rating agency required assets for the variable annuity guaranteed benefits can increase more quickly than the value of the derivatives held under the Variable Annuity Guarantee Hedge Program. This causes regulatory reserves to increase and rating agency capital to decrease. The CHO program is intended to mitigate market risk to the regulatory and rating agency capital of the Company. The hedge is executed through the purchase and sale of equity index derivatives, variance and credit default swaps, and is designed to limit the uncovered reserve and rating agency capital increases and certain rebalancing costs in an immediate down equity market, credit spread widening or increased volatility scenario to an amount we believe prudent for a company of our size and scale. This amount will change over time with market movements, changes in regulatory and rating agency capital, available collateral and our risk tolerance.

The primary focus of the hedge program is to protect regulatory and rating agency capital from equity market movements. Hedge ineffectiveness, along with other aspects not directly hedged (including unexpected policyholder behavior), may cause losses of regulatory or rating agency capital. Regulatory and rating agency capital requirements may move disproportionately (i.e., they may change by different amounts as market conditions and other factors change), and, therefore, could also cause our hedge program to not realize its key objective of protecting both regulatory and rating agency capital from equity market movements.

Hedging of FIA Benefits

We mitigate FIA market risk exposures through a combination of capital market hedging and product design. For FIAs, these risks stem from the minimum guaranteed contract value offered and the additional interest credits (Equity Participation or Interest Rate Participation) based on exposure to various stock market indices or the interest rate benchmark. The minimum guarantees, interest rate and equity market exposures, are strongly dependent on capital markets and, to a lesser degree, policyholder behavior.

These hedge programs are limited to the current policy term of the liabilities, based on current participation rates. Future returns, which may be reflected in FIA credited rates beyond the current policy term, are not hedged.

Call options and futures contracts are used to hedge against an increase in various equity indices. An increase in various equity indices may result in increased payments to contract holders of FIA contracts. The call options and futures contracts offset this increased expense.

Interest rate swaptions are used to hedge against an increase in the interest rate benchmark. An increase in the interest rate benchmark may result in increased payments to contract holders of FIA contracts. The interest rate swaptions offset this increased expense.

Market Risk Related to Credit Risk

Credit risk is primarily embedded in the general account portfolio. The carrying value of our fixed maturity, including securities pledged, and equity portfolio totaled $23.7 billion and $23.3 billion as of December 31, 2015 and 2014, respectively. Our credit risk materializes primarily as impairment losses and/or credit risk related trading losses. We are exposed to occasional cyclical economic downturns, during which impairment losses may be significantly higher than the long-term historical average. This is offset by years where we expect the actual impairment losses to be substantially lower than the long-term average.

Credit risk in the portfolio can also materialize as increased capital requirements caused by rating down-grades. The effect of rating migration on our capital requirements is also dependent on the economic cycle and increased asset impairment levels may go hand in hand with increased asset related capital requirements.

We manage the risk of default and rating migration by applying disciplined credit evaluation and underwriting standards and prudently limiting allocations to lower quality, higher risk investments. In addition, we diversify our exposure by issuer and

country, using rating based issuer and country limits, as well as by industry segment, using specific investment constraints. Limit compliance is monitored on a daily, monthly, or quarterly basis. Limit violations are reported to senior management and we are actively involved in decisions around curing such limit violations.

We also have credit risk related to the ability of our derivatives counterparties to honor their obligations to pay the contract amounts under various agreements. In order to minimize the risk of credit loss on such contracts, we diversify our exposures among several counterparties and limit the amount of exposure to each based on credit rating. For most counterparties, we have collateral agreements in place that would substantially limit our credit losses in case of a counterparty default. We also generally limit our selection of counterparties that we do new transactions with to those with an "A-" credit rating or above. When exceptions are made to that principle, we ensure that we obtain collateral to mitigate our risk of loss. For derivatives counterparty risk exposures (which includes reverse repurchase and securities lending transactions), we measure and monitor our risks on a market value basis daily.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Voya Insurance and Annuity Company

We have audited the accompanying balance sheets of Voya Insurance and Annuity Company as of December 31, 2015 and 2014, and the related statements of operations, comprehensive income, changes in shareholder's equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Voya Insurance and Annuity Company at December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts

March 18, 2016

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Balance Sheets
December 31, 2015 and 2014
(In millions, except share and per share data)

	As of December 31,	
	2015	**2014**
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of $22,069.6 as of 2015 and $20,814.2 as of 2014)	$ 22,458.4	$ 22,169.4
Fixed maturities, at fair value using the fair value option	547.4	480.8
Equity securities, available-for-sale, at fair value (cost of $15.4 as of 2015 and $3.1 as of 2014)	19.2	6.7
Short-term investments	1,069.4	746.8
Mortgage loans on real estate, net of valuation allowance of $1.0 as of 2015 and $0.8 as of 2014	3,310.9	2,854.4
Policy loans	79.8	87.4
Limited partnerships/corporations	186.3	172.9
Derivatives	799.4	891.4
Other investments	48.6	49.4
Securities pledged (amortized cost of $633.3 as of 2015 and $567.3 as of 2014)	672.4	626.8
Total investments	29,191.8	28,086.0
Cash and cash equivalents	646.5	362.4
Short-term investments under securities loan agreements, including collateral delivered	232.7	170.1
Accrued investment income	239.3	224.1
Deposits and reinsurance recoverable	5,645.9	4,969.0
Deferred policy acquisition costs, Value of business acquired and Sales inducements to contract owners	2,576.4	2,683.3
Due from affiliates	27.5	31.8
Deferred income taxes	94.8	-
Other assets	337.5	382.8
Assets held in separate accounts	33,355.5	38,547.7
Total assets	$ 72,347.9	$ 75,457.2

The accompanying notes are an integral part of these Financial Statements.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Balance Sheets
December 31, 2015 and 2014
(In millions, except share and per share data)

	As of December 31,	
	2015	**2014**
Liabilities and Shareholder's Equity		
Future policy benefits and contract owner account balances	$ 27,749.8	$ 26,145.0
Payable for securities purchased	108.1	2.4
Payables under securities loan agreements, including collateral held	656.1	432.8
Long-term debt	435.0	435.0
Due to affiliates	44.4	58.9
Funds held under reinsurance treaties with affiliates	6,797.1	5,653.1
Derivatives	204.6	340.6
Current income tax payable to Parent	27.6	2.1
Deferred income taxes	-	44.9
Other liabilities	153.4	174.5
Liabilities related to separate accounts	33,355.5	38,547.7
Total liabilities	69,531.6	71,837.0
Commitments and Contingencies (Note 13)		
Shareholder's equity:		
Common stock (250,000 shares authorized, issued and outstanding as of 2015 and 2014; $10 par value per share)	2.5	2.5
Additional paid-in capital	4,821.2	5,310.6
Accumulated other comprehensive income (loss)	319.6	609.0
Retained earnings (deficit)	(2,327.0)	(2,301.9)
Total shareholder's equity	2,816.3	3,620.2
Total liabilities and shareholder's equity	$ 72,347.9	$ 75,457.2

The accompanying notes are an integral part of these Financial Statements.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Statements of Operations
For the Years Ended December 31, 2015, 2014 and 2013
(In millions)

	Year Ended December 31,		
	2015	**2014**	**2013**
Revenues:			
Net investment income	$ 1,305.5	$ 1,264.7	$ 1,267.2
Fee income	718.7	824.8	839.7
Premiums	505.8	537.8	436.3
Net realized capital gains (losses):			
Total other-than-temporary impairments	(30.3)	(6.0)	(12.1)
Less: Portion of other-than-temporary impairments recognized in Other comprehensive income (loss)	2.5	(0.3)	(1.8)
Net other-than-temporary impairments recognized in earnings	(32.8)	(5.7)	(10.3)
Other net realized capital gains (losses)	(98.8)	(768.4)	(2,205.5)
Total net realized capital gains (losses)	(131.6)	(774.1)	(2,215.8)
Other revenue	19.7	29.8	29.8
Total revenues	2,418.1	1,883.0	357.2
Benefits and expenses:			
Interest credited and other benefits to contract owners/policyholders	1,290.6	1,391.9	(1,855.4)
Operating expenses	486.2	489.6	462.3
Net amortization of Deferred policy acquisition costs and Value of business acquired	667.0	(116.0)	1,522.4
Interest expense	28.2	28.2	28.2
Other expense	25.1	16.9	31.1
Total benefits and expenses	2,497.1	1,810.6	188.6
Income (loss) before income taxes	(79.0)	72.4	168.6
Income tax expense (benefit)	(53.9)	97.3	185.5
Net income (loss)	$ (25.1)	$ (24.9)	$ (16.9)

The accompanying notes are an integral part of these Financial Statements.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Statements of Comprehensive Income
For the Years Ended December 31, 2015, 2014 and 2013
(In millions)

	Year Ended December 31,		
	2015	**2014**	**2013**
Net income (loss)	$ (25.1)	$ (24.9)	$ (16.9)
Other comprehensive income (loss), before tax:			
Unrealized gains/losses on securities	(451.6)	180.1	(252.8)
Other-than-temporary impairments	6.6	16.7	17.7
Pension and other postretirement benefits liability	(0.2)	(0.2)	(0.2)
Other comprehensive income (loss), before tax	(445.2)	196.6	(235.3)
Income tax expense (benefit) related to items of other comprehensive income (loss)	(155.8)	68.8	(82.3)
Other comprehensive income (loss), after tax	(289.4)	127.8	(153.0)
Comprehensive income (loss)	$ (314.5)	$ 102.9	$ (169.9)

The accompanying notes are an integral part of these Financial Statements.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Statements of Changes in Shareholder's Equity
For the Years Ended December 31, 2015, 2014 and 2013
(In millions)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Shareholder's Equity
Balance at January 1, 2013	$ 2.5	$ 5,755.5	$ 634.2	$ (2,260.1)	$ 4,132.1
Comprehensive income (loss):					
Net income (loss)	-	-	-	(16.9)	(16.9)
Other comprehensive income (loss), after tax	-	-	(153.0)	-	(153.0)
Total comprehensive income (loss)					(169.9)
Dividends paid and distributions of capital	-	(230.0)	- &bbsp;	-	(230.0)
Employee related benefits	-	0.1	-	-	0.1
Balance as of December 31, 2013	2.5	5,525.6	481.2	(2,277.0)	3,732.3
Comprehensive income (loss):					
Net income (loss)	-	-	-	(24.9)	(24.9)
Other comprehensive income (loss), after tax	-	-	127.8	-	127.8
Total comprehensive income (loss)					102.9
Dividends paid and distributions of capital	-	(216.0)	-	-	(216.0)
Employee related benefits	-	1.0	-	-	1.0
Balance as of December 31, 2014	2.5	5,310.6	609.0	(2,301.9)	3,620.2
Comprehensive income (loss):					
Net income (loss)	-	-	-	(25.1)	(25.1)
Other comprehensive income (loss), after tax	-	-	(289.4)	-	(289.4)
Total comprehensive income (loss)					(314.5)
Dividends paid and distributions of capital	-	(492.0)	-	-	(492.0)
Employee related benefits	-	2.6	-	-	2.6
Balance as of December 31, 2015	$ 2.5	$ 4,821.2	$ 319.6	$ (2,327.0)	$ 2,816.3

The accompanying notes are an integral part of these Financial Statements.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Statements of Cash Flows
For the Years Ended December 31, 2015, 2014 and 2013
(In millions)

	Year Ended December 31,		
	2015	**2014**	**2013**
Cash Flows from Operating Activities:			
Net income (loss)	$ (25.1)	$ (24.9)	$ (16.9)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Capitalization of deferred policy acquisition costs, value of business acquired and sales inducements	(137.4)	(146.6)	(126.9)
Net amortization of deferred policy acquisition costs, value of business acquired and sales inducements	776.9	(96.7)	1,994.4
Net accretion/amortization of discount/premium	10.8	16.0	44.2
Future policy benefits, claims reserves and interest credited	1,452.8	1,145.3	290.3
Deferred income tax expense (benefit)	14.6	27.4	(1.9)
Net realized capital losses	131.6	774.1	2,215.8
Employee related benefits	2.2	(0.3)	0.1
Change in:			
Accrued investment income	(15.2)	(3.8)	(11.6)
Reinsurance recoverable	(1,328.3)	(1,195.1)	66.3
Other receivables and asset accruals	18.5	(3.9)	(11.3)
Other reinsurance asset	24.8	7.6	28.2
Due to/from affiliates	(10.2)	-	-
Income tax recoverable	25.5	24.7	(45.2)
Funds held under reinsurance treaties with affiliates	1,046.1	1,924.4	(354.2)
Other payables and accruals	(19.1)	4.8	(13.1)
Other, net	7.5	(10.6)	(50.4)
Net cash provided by operating activities	$ 1,976.0	$ 2,442.4	$ 4,007.8

The accompanying notes are an integral part of these Financial Statements.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Statements of Cash Flows
For the Years Ended December 31, 2015, 2014 and 2013
(In millions)

	Year Ended December 31,		
	2015	**2014**	**2013**
Cash Flows from Investing Activities:			
Proceeds from the sale, maturity, disposal or redemption of:			
Fixed maturities	$ 3,752.5	$ 4,169.4	$ 6,647.7
Equity securities, available-for-sale	-	0.4	9.0
Mortgage loans on real estate	463.7	562.0	646.6
Limited partnerships/corporations	33.2	33.9	94.8
Acquisition of:			
Fixed maturities	(4,553.0)	(4,531.7)	(8,771.0)
Equity securities, available-for-sale	(7.4)	-	(0.6)
Mortgage loans on real estate	(833.1)	(578.8)	(648.9)
Limited partnerships/corporations	(54.6)	(63.2)	(12.1)
Derivatives, net	(128.6)	(969.4)	(2,067.1)
Short-term investments, net	(322.5)	(179.8)	2,119.6
Policy loans, net	7.6	7.5	6.9
Collateral received (delivered), net	160.7	215.2	(719.1)
Other investments, net	0.7	25.0	22.0
Net cash used in investing activities	(1,480.8)	(1,309.5)	(2,672.2)
Cash Flows from Financing Activities:			
Deposits received for investment contracts	2,597.1	3,363.0	7,432.8
Maturities and withdrawals from investment contracts	(2,349.3)	(4,484.5)	(8,868.9)
Receipts on deposit contracts	32.7	167.7	432.9
Excess tax benefits on share-based compensation	0.4	1.3	-
Dividends paid and distributions of capital	(492.0)	(216.0)	(230.0)
Net cash provided by (used in) financing activities	(211.1)	(1,168.5)	(1,233.2)
Net increase (decrease) in cash and cash equivalents	284.1	(35.6)	102.4
Cash and cash equivalents, beginning of period	362.4	398.0	295.6
Cash and cash equivalents, end of period	$ 646.5	$ 362.4	$ 398.0
Supplemental cash flow information:			
Income taxes paid (received), net	$ (93.9)	$ 44.3	$ 232.5
Interest paid	28.2	28.2	28.2
Non-cash investing and financing activities:			
Securities received from affiliate under reinsurance agreements	$ 716.6	$ -	$ -

The accompanying notes are an integral part of these Financial Statements.

1. Business, Basis of Presentation and Significant Accounting Policies

Business

Voya Insurance and Annuity Company ("VIAC" or "the Company") is a stock life insurance company domiciled in the State of Iowa and provides financial products and services in the United States. VIAC is authorized to conduct its insurance business in all states, except New York, and in the District of Columbia.

Prior to May 2013, Voya Financial, Inc., together with its subsidiaries, including the Company was an indirect, wholly owned subsidiary of ING Groep N.V. ("ING Group" or "ING"), a global financial services holding company based in The Netherlands, with American Depository Shares listed on the New York Stock Exchange. In 2009, ING Group announced the anticipated separation of its global banking and insurance businesses, including the divestiture of Voya Financial, Inc., together with its subsidiaries, including the Company. On April 11, 2013, Voya Financial, Inc. announced plans to rebrand as Voya Financial. On May 2, 2013, the common stock of Voya Financial, Inc. began trading on the New York Stock Exchange under the symbol "VOYA." On May 7, 2013 and May 31, 2013, Voya Financial, Inc. completed its initial public offering of common stock, including the issuance and sale by Voya Financial, Inc. of 30,769,230 shares of common stock and the sale by ING Insurance International B.V. ("ING International"), an indirect wholly owned subsidiary of ING Group and previously the sole stockholder of Voya Financial, Inc., of 44,201,773 shares of outstanding common stock of Voya Financial, Inc. (collectively, "the IPO"). On September 30, 2013, ING International transferred all of its shares of Voya Financial, Inc. common stock to ING Group.

On October 29, 2013, ING Group completed a sale of 37,950,000 shares of common stock of Voya Financial, Inc. in a registered public offering ("Secondary Offering"), reducing ING Group's ownership of Voya Financial, Inc. to 57%.

Throughout 2014, ING Group completed the sale of an aggregate of 82,783,006 shares of common stock of Voya Financial, Inc. in a series of registered public offerings. Also during 2014, pursuant to the terms of share repurchase agreements between ING Group and Voya Financial, Inc., Voya Financial, Inc. acquired 19,447,847 shares of its common stock from ING Group. As of the end of 2014, ING Group's ownership of Voya Financial, Inc. had been reduced to approximately 19%.

In March of 2015, ING Group completed a sale of 32,018,100 shares of common stock of Voya Financial, Inc. in a registered public offering. Concurrently with this offering, pursuant to the terms of a share repurchase agreement between ING Group and Voya Financial, Inc., Voya Financial, Inc. acquired 13,599,274 shares of its common stock from ING Group.

As a result of these transactions, ING Group satisfied the provisions of its agreement with the European Union regarding the divestment of its U.S. insurance and investment operations, which required ING Group to divest 100% of its ownership interest in Voya Financial, Inc. together with its subsidiaries, including the Company by the end of 2016. ING Group continues to hold warrants to purchase up to 26,050,846 shares of Voya Financial, Inc. common stock at an exercise price of $48.75, in each case subject to adjustments.

VIAC is a direct, wholly owned subsidiary of Voya Holdings Inc. ("Parent"), which is a direct, wholly owned subsidiary of Voya Financial, Inc.

The Company offers various insurance products, including fixed and indexed annuities, investment-only products and payout annuities for pre-retirement wealth accumulation and postretirement income management. The Company's annuity products are distributed by national and regional brokerage and securities firms, independent broker-dealers, banks, life insurance companies with captive agency sales forces, independent insurance agents, independent marketing organizations and affiliated broker-dealers. The Company's primary annuity customers are individual consumers. The Company stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010, as part of a global business strategy and risk reduction plan. New amounts will continue to be deposited in VIAC variable annuities as add-on premiums to existing contracts.

The Company has historically issued guaranteed investment contracts and funding agreements (collectively referred to as "GICs"), primarily to institutional investors and corporate benefit plans. In 2009, the Company made a strategic decision to run-off the assets and liabilities in the GIC business over time. New GIC contracts may be issued on a limited basis to replace maturing contracts.

The Company has one operating segment.

Basis of Presentation

The accompanying Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

Certain immaterial reclassifications have been made to prior year financial information to conform to the current year classifications.

Significant Accounting Policies

Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates.

The Company has identified the following accounts and policies as the most significant in that they involve a higher degree of judgment, are subject to a significant degree of variability and/or contain significant accounting estimates:

- Reserves for future policy benefits;
- Deferred policy acquisition costs ("DAC"), value of business acquired ("VOBA") and deferred sales inducements ("DSI");
- Valuation of investments and derivatives;
- Impairments;
- Income taxes; and
- Contingencies.

Fair Value Measurement

The Company measures the fair value of its financial assets and liabilities based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset, or nonperformance risk, including the Company's own credit risk. The estimate of fair value is the price that would be received to sell an asset or transfer a liability ("exit price") in an orderly transaction between market participants in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability. The Company uses a number of valuation sources to determine the fair values of its financial assets and liabilities, including quoted market prices, third-party commercial pricing services, third-party brokers, industry-standard, vendor-provided software that models the value based on market observable inputs, and other internal modeling techniques based on projected cash flows.

Investments

The accounting policies for the Company's principal investments are as follows:

Fixed Maturities and Equity Securities: The Company's fixed maturities and equity securities are currently designated as available-for-sale, except those accounted for using the fair value option ("FVO"). Available-for-sale securities are reported at fair value and unrealized capital gains (losses) on these securities are recorded directly in Accumulated other comprehensive income (loss) ("AOCI") and presented net of related changes in DAC, VOBA, DSI and Deferred income taxes. In addition, certain fixed maturities have embedded derivatives, which are reported with the host contract on the Balance Sheets.

The Company has elected the FVO for certain of its fixed maturities to better match the measurement of assets and liabilities in the Statements of Operations. Certain collateralized mortgage obligations ("CMOs"), primarily interest-only and principal-only strips, are accounted for as hybrid instruments and valued at fair value with changes in the fair value recorded in Other net realized capital gains (losses) in the Statements of Operations.

Purchases and sales of fixed maturities and equity securities, excluding private placements, are recorded on the trade date. Purchases and sales of private placements and mortgage loans are recorded on the closing date. Investment gains and losses on sales of securities are generally determined on a first-in-first-out ("FIFO") basis.

Interest income on fixed maturities is recorded when earned using an effective yield method, giving effect to amortization of premiums and accretion of discounts. Dividends on equity securities are recorded when declared. Such dividends and interest income are recorded in Net investment income in the Statements of Operations.

Included within fixed maturities are loan-backed securities, including residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") and asset-backed securities ("ABS"). Amortization of the premium or discount from the purchase of these securities considers the estimated timing and amount of prepayments of the underlying loans. Actual prepayment experience is periodically reviewed and effective yields are recalculated when differences arise between the prepayments originally anticipated and the actual prepayments received and currently anticipated. Prepayment assumptions for single-class and multi-class mortgage-backed securities ("MBS") and ABS are estimated by management using inputs obtained from third-party specialists, including broker-dealers, and based on management's knowledge of the current market. For prepayment-sensitive securities such as interest-only and principal-only strips, inverse floaters and credit-sensitive MBS and ABS securities, which represent beneficial interests in securitized financial assets that are not of high credit quality or that have been credit impaired, the effective yield is recalculated on a prospective basis. For all other MBS and ABS, the effective yield is recalculated on a retrospective basis.

Short-term Investments: Short-term investments include investments with remaining maturities of one year or less, but greater than three months, at the time of purchase. These investments are stated at fair value.

Assets Held in Separate Accounts: Assets held in separate accounts are reported at the fair values of the underlying investments in the separate accounts. The underlying investments include mutual funds, short-term investments, cash and fixed maturities.

Mortgage Loans on Real Estate: The Company's mortgage loans on real estate are all commercial mortgage loans, which are reported at amortized cost, less impairment write-downs and allowance for losses. If a mortgage loan is determined to be impaired (i.e., when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement), the carrying value of the mortgage loan is reduced to the lower of either the present value of expected cash flows from the loan, discounted at the loan's original purchase yield, or fair value of the collateral. For those mortgages that are determined to require foreclosure, the carrying value is reduced to the fair value of the underlying collateral, net of estimated costs to obtain and sell at the point of foreclosure. The carrying value of the impaired loans is reduced by establishing a permanent write-down recorded in Other net realized capital gains (losses) in the Statements of Operations. Property obtained from foreclosed mortgage loans is recorded in Other investments on the Balance Sheets.

Mortgage loans are evaluated by the Company's investment professionals, including an appraisal of loan-specific credit quality, property characteristics and market trends. Loan performance is continuously monitored on a loan-specific basis throughout the year. The Company's review includes submitted appraisals, operating statements, rent revenues and annual inspection reports, among other items. This review evaluates whether the properties are performing at a consistent and acceptable level to secure the debt.

Mortgages are rated for the purpose of quantifying the level of risk. Those loans with higher risk are placed on a watch list and are closely monitored for collateral deficiency or other credit events that may lead to a potential loss of principal or interest. The Company defines delinquent mortgage loans consistent with industry practice as 60 days past due.

Commercial loans are placed on non-accrual status when 90 days in arrears if the Company has concerns regarding the collectability of future payments, or if a loan has matured without being paid off or extended. Factors considered may include conversations with the borrower, loss of major tenant, bankruptcy of borrower or major tenant, decreased property cash flow, number of days past due, or various other circumstances. Based on an assessment as to the collectability of the principal, a determination is made either to apply against the book value or apply according to the contractual terms of the loan. Funds recovered in excess of book value would then be applied to recover expenses, impairments, and then interest. Accrual of interest resumes after factors resulting in doubts about collectability have improved.

The Company records an allowance for probable losses incurred on non-impaired loans on an aggregate basis, rather than specifically identified probable losses incurred by individual loan.

Policy Loans: Policy loans are carried at an amount equal to the unpaid balance. Interest income on such loans is recorded as earned in Net investment income using the contractually agreed upon interest rate. Generally, interest is capitalized on the policy's anniversary date. Valuation allowances are not established for policy loans, as these loans are collateralized by the cash surrender value of the associated insurance contracts. Any unpaid principal or interest on the loan is deducted from the account value or the death benefit prior to settlement of the policy.

Limited Partnerships/Corporations: The Company uses the equity method of accounting for investments in limited partnership interests, which consists primarily of private equities and hedge funds. Generally, the Company records its share of earnings using a lag methodology, relying on the most recent financial information available, generally not to exceed three months. The Company's earnings from limited partnership interests accounted for under the equity method are recorded in Net investment income.

Other Investments: Other investments are comprised primarily of Federal Home Loan Bank ("FHLB") stock and property obtained from foreclosed mortgage loans, as well as other miscellaneous investments. The Company is a member of the FHLB system and is required to own a certain amount of FHLB stock based on the level of borrowings and other factors. FHLB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value.

Securities Lending: The Company engages in securities lending whereby certain securities from its portfolio are loaned to other institutions, through a lending agent, for short periods of time. The Company has the right to approve any institution with whom the lending agent transacts on its behalf. Initial collateral, primarily cash, is required at a rate of 102% of the market value of the loaned securities. The lending agent retains the cash collateral and invests it in short-term liquid assets on behalf of the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. The lending agent indemnifies the Company against losses resulting from the failure of a counterparty to return securities pledged where collateral is insufficient to cover the loss.

Impairments

The Company evaluates its available-for-sale general account investments quarterly to determine whether there has been an other-than-temporary decline in fair value below the amortized cost basis.This evaluation process entails considerable judgment and estimation. Factors considered in this analysis include, but are not limited to, the length of time and the extent to which the fair value has been less than amortized cost, the issuer's financial condition and near-term prospects, future economic conditions and market forecasts, interest rate changes and changes in ratings of the security. An extended and severe unrealized loss position on a fixed maturity may not have any impact on: (a) the ability of the issuer to service all scheduled interest and principal payments and (b) the evaluation of recoverability of all contractual cash flows or the ability to recover an amount at least equal to its amortized cost based on the present value of the expected future cash flows to be collected. In contrast, for certain equity securities, the Company gives greater weight and consideration to a decline in market value and the likelihood such market value decline will recover.

When assessing the Company's intent to sell a security or if it is more likely than not, it will be required to sell a security before recovery of its amortized cost basis, management evaluates facts and circumstances such as, but not limited to, decisions to rebalance the investment portfolio and sales of investments to meet cash flow or capital needs.

When the Company has determined it has the intent to sell or if it is more likely than not that the Company will be required to sell a security before recovery of its amortized cost basis and the fair value has declined below amortized cost ("intent impairment"), the individual security is written down from amortized cost to fair value, and a corresponding charge is recorded in Net realized capital gains (losses) in the Statements of Operations as an other-than-temporary impairment ("OTTI"). If the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, but the Company has determined that there has been an other-than-temporary decline in fair value below the amortized cost basis, the OTTI is bifurcated into the amount representing the present value of the decrease in cash flows expected to be collected ("credit impairment") and the amount related to other factors ("noncredit impairment"). The credit impairment is recorded in Net realized capital gains (losses) in the Statements of Operations. The noncredit impairment is recorded in Other comprehensive income (loss).

The Company uses the following methodology and significant inputs to determine the amount of the OTTI credit loss:

- When determining collectability and the period over which the value is expected to recover for U.S. and foreign corporate securities, foreign government securities and state and political subdivision securities, the Company applies the same considerations utilized in its overall impairment evaluation process, which incorporates information regarding the specific security, the industry and geographic area in which the issuer operates and overall macroeconomic conditions. Projected future cash flows are estimated using assumptions derived from the Company's best estimates of likely scenario-based outcomes, after giving consideration to a variety of variables that includes, but is not limited to: general payment terms of the security; the likelihood that the issuer can service the scheduled interest and principal payments; the quality and amount of any credit enhancements; the security's position within the capital structure of the issuer; possible corporate restructurings or asset sales by the issuer; and changes to the rating of the security or the issuer by rating agencies.
- Additional considerations are made when assessing the unique features that apply to certain structured securities, such as subprime, Alt-A, non-agency RMBS, CMBS and ABS. These additional factors for structured securities include, but are not limited to: the quality of underlying collateral; expected prepayment speeds; loan-to-value ratios; debt service coverage ratios; current and forecasted loss severity; consideration of the payment terms of the underlying assets backing a particular security; and the payment priority within the tranche structure of the security.
- When determining the amount of the credit loss for U.S. and foreign corporate securities, foreign government securities and state and political subdivision securities, the Company considers the estimated fair value as the recovery value when available information does not indicate that another value is more appropriate. When information is identified that indicates a recovery value other than estimated fair value, the Company considers in the determination of recovery value the same considerations utilized in its overall impairment evaluation process, which incorporates available information and the Company's best estimate of scenario-based outcomes regarding the specific security and issuer; possible corporate restructurings or asset sales by the issuer; the quality and amount of any credit enhancements; the security's position within the capital structure of the issuer; fundamentals of the industry and geographic area in which the security issuer operates; and the overall macroeconomic conditions.
- The Company performs a discounted cash flow analysis comparing the current amortized cost of a security to the present value of future cash flows expected to be received, including estimated defaults and prepayments. The discount rate is generally the effective interest rate of the fixed maturity prior to impairment.

In periods subsequent to the recognition of the credit related impairment components of OTTI on a fixed maturity, the Company accounts for the impaired security as if it had been purchased on the measurement date of the impairment. Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into Net investment income over the remaining term of the fixed maturity in a prospective manner based on the amount and timing of estimated future cash flows.

Derivatives

The Company's use of derivatives is limited mainly to economic hedging to reduce the Company's exposure to cash flow variability of assets and liabilities, interest rate risk, credit risk, exchange rate risk and market risk. It is the Company's policy not to offset amounts recognized for derivative instruments and amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

The Company enters into interest rate, equity market, credit default and currency contracts, including swaps, futures, forwards, caps, floors and options, to reduce and manage various risks associated with changes in value, yield, price, cash flow or exchange rates of assets or liabilities held or intended to be held, or to assume or reduce credit exposure associated with a referenced asset, index or pool. The Company also utilizes options and futures on equity indices to reduce and manage risks associated with its annuity products. Derivative contracts are reported as Derivatives assets or liabilities on the Balance Sheets at fair value. Changes in the fair value of derivatives are recorded in Other net realized capital gains (losses) in the Statements of Operations.

To qualify for hedge accounting, at the inception of the hedging relationship, the Company formally documents its risk management objective and strategy for undertaking the hedging transaction, as well as its designation of the hedge as either (a) a hedge of the exposure to changes in the estimated fair value of a recognized asset or liability or an identified portion thereof that is attributable to a particular risk ("fair value hedge") or (b) a hedge of a forecasted transaction or of the variability of cash flows that is attributable to interest rate risk to be received or paid related to a recognized asset or liability ("cash flow hedge"). In this documentation, the Company sets forth how the hedging instrument is expected to hedge the designated risks related to the hedged item and sets forth the method

that will be used to retrospectively and prospectively assess the hedging instrument's effectiveness and the method that will be used to measure ineffectiveness. A derivative designated as a hedging instrument must be assessed as being highly effective in offsetting the designated risk of the hedged item. Hedge effectiveness is formally assessed at inception and periodically throughout the life of the designated hedging relationship.

- *Fair Value Hedge*: For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument, as well as the hedged item, to the extent of the risk being hedged, are recognized in Other net realized capital gains (losses) in the Statements of Operations.
- *Cash Flow Hedge*: For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of AOCI and reclassified into earnings in the same periods during which the hedged transaction impacts earnings in the same line item associated with the forecasted transaction. The ineffective portion of the derivative's change in value, if any, along with any of the derivative's change in value that is excluded from the assessment of hedge effectiveness, are recorded in Other net realized capital gains (losses) in the Statements of Operations.

When hedge accounting is discontinued because it is determined that the derivative is no longer expected to be highly effective in offsetting changes in the estimated fair value or cash flows of a hedged item, the derivative continues to be carried on the Balance Sheets at its estimated fair value, with subsequent changes in estimated fair value recognized currently in Other net realized capital gains (losses). The carrying value of the hedged asset or liability under a fair value hedge is no longer adjusted for changes in its estimated fair value due to the hedged risk, and the cumulative adjustment to its carrying value is amortized into income over the remaining life of the hedged item. Provided the hedged forecasted transaction is still probable of occurrence, the changes in estimated fair value of derivatives recorded in Other comprehensive income (loss) related to discontinued cash flow hedges are released into the Statements of Operations when the Company's earnings are affected by the variability in cash flows of the hedged item.

When hedge accounting is discontinued because it is no longer probable that the forecasted transactions will occur on the anticipated date or within two months of that date, the derivative continues to be carried on the Balance Sheets at its estimated fair value, with changes in estimated fair value recognized currently in Other net realized capital gains (losses). Derivative gains and losses recorded in Other comprehensive income (loss) pursuant to the discontinued cash flow hedge of a forecasted transaction that is no longer probable are recognized immediately in Other net realized capital gains (losses).

The Company also has investments in certain fixed maturities and has issued certain annuity products that contain embedded derivatives whose fair value is at least partially determined by levels of or changes in domestic and/or foreign interest rates (short-term or long-term), exchange rates, prepayment rates, equity markets or credit ratings/spreads. Embedded derivatives within fixed maturities are included with the host contract on the Balance Sheets, and changes in the fair value of the embedded derivatives are recorded in Other net realized capital gains (losses) in the Statements of Operations. Embedded derivatives within certain annuity products are included in Future policy benefits and contract owner account balances on the Balance Sheets, and changes in the fair value of the embedded derivatives are recorded in Other net realized capital gains (losses) in the Statements of Operations.

In addition, the Company has entered into coinsurance with funds withheld reinsurance arrangements that contain embedded derivatives, the fair value of which is based on the change in the fair value of the underlying assets held in trust. The embedded derivatives within coinsurance with funds withheld arrangements are reported with the host contract in Deposits and reinsurance recoverable or Funds held under reinsurance treaties with affiliates on the Balance Sheets, and changes in the fair value of the embedded derivatives are recorded in Interest credited and other benefits to contract owners/policyholders in the Statements of Operations.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks and other highly liquid investments, such as money market instruments and debt instruments with maturities of three months or less at the time of purchase. Cash and cash equivalents are stated at fair value.

Deferred Policy Acquisition Costs, Value of Business Acquired and Deferred Sales Inducements

DAC represents policy acquisition costs that have been capitalized and are subject to amortization and interest. Capitalized costs are incremental, direct costs of contract acquisition and certain other costs related directly to successful acquisition activities. Such costs

consist principally of commissions, underwriting, sales and contract issuance and processing expenses directly related to the successful acquisition of new and renewal business. Indirect or unsuccessful acquisition costs, maintenance, product development and overhead expenses are charged to expense as incurred. VOBA represents the outstanding value of in-force business acquired and is subject to amortization and interest. The value is based on the present value of estimated net cash flows embedded in the insurance contracts at the time of the acquisition and increased for subsequent deferrable expenses on purchased policies. (See also "Sales Inducements" below.) DAC, VOBA and DSI are adjusted for the impact of unrealized capital gains (losses) on investments, as if such gains (losses) have been realized, with corresponding adjustments included in AOCI.

Amortization Methodologies

The Company amortizes DAC and VOBA related to universal life ("UL") and variable universal life ("VUL") contracts and fixed and variable deferred annuity contracts over the estimated lives of the contracts in relation to the emergence of estimated gross profits. Assumptions as to mortality, persistency, interest crediting rates, fee income, returns associated with separate account performance, impact of hedge performance, expenses to administer the business and certain economic variables, such as inflation, are based on the Company's experience and overall capital markets. At each valuation date, estimated gross profits are updated with actual gross profits, and the assumptions underlying future estimated gross profits are evaluated for continued reasonableness. Adjustments to estimated gross profits require that amortization rates be revised retroactively to the date of the contract issuance ("unlocking").

Recoverability testing is performed for current issue year products to determine if gross profits are sufficient to cover DAC, VOBA, DSI, estimated benefits and related expenses. In subsequent years, the Company performs testing to assess the recoverability of DAC, VOBA and DSI on an annual basis, or more frequently if circumstances indicate a potential loss recognition issue exists. If DAC, VOBA or DSI are not deemed recoverable from future gross profits, charges will be applied against the DAC, VOBA or DSI balances before an additional reserve is established.

During the year ended December 31, 2015, the Company's reviews resulted in loss recognition of $342.0 before income taxes, of which $276.9 and $65.1 was recorded to Net amortization of DAC and VOBA and Interest credited and other benefits to contract owners, respectively, in the Statements of Operations, with a corresponding decrease on the Balance Sheets to Deferred policy acquisition costs, Value of business acquired, and Sales inducements to contract owners.

In assessing loss recognition related to DAC, VOBA and DSI, the Company must select an approach for aggregating different blocks of business in the loss recognition calculation. In the first quarter of 2013, the Company updated the aggregation approach used in assessment of such loss recognition. This change in estimate was due to certain organizational changes that commenced in the first quarter of 2013, which resulted in changes to how the Company manages the variable annuity business that is no longer actively marketed. As a result of this estimate change, the Company recognized loss recognition of $350.8 before taxes during the first quarter of 2013. This amount was recorded in the Statements of Operations as $306.0 to Net amortization of deferred policy acquisition costs and value of business acquired and $44.8 to Interest credited and other benefits to contract owners/policyholders, with a corresponding decrease in the Balance Sheets to Deferred policy acquisition costs, Value of business acquired and Sales inducements to contract owners.

Internal Replacements

Contract owners may periodically exchange one contract for another, or make modifications to an existing contract. These transactions are identified as internal replacements. Internal replacements that are determined to result in substantially unchanged contracts are accounted for as continuations of the replaced contracts. Any costs associated with the issuance of the new contracts are considered maintenance costs and expensed as incurred. Unamortized DAC, VOBA and DSI related to the replaced contracts continue to be deferred and amortized in connection with the new contracts. Internal replacements that are determined to result in contracts that are substantially changed are accounted for as extinguishments of the replaced contracts, and any unamortized DAC, VOBA and DSI related to the replaced contracts are written off to the same account in which amortization is reported in the Statements of Operations.

Assumptions

Changes in assumptions can have a significant impact on DAC, VOBA and DSI balances, amortization rates, reserve levels, and results of operations. Assumptions are management's best estimate of future outcome.

Several assumptions are considered significant in the estimation of gross profits associated with the Company's variable products. One significant assumption is the assumed return associated with the variable account performance. To reflect the volatility in the equity markets, this assumption involves a combination of near-term expectations and long-term assumptions regarding market

performance. The overall return on the variable account is dependent on multiple factors, including the relative mix of the underlying sub-accounts among bond funds and equity funds, as well as equity sector weightings. The Company's practice assumes that intermediate-term appreciation in equity markets reverts to the long-term appreciation in equity markets ("reversion to the mean"). The Company monitors market events and only changes the assumption when sustained deviations are expected. This methodology incorporates a 9% long-term equity return assumption, a 14% cap and a five-year look-forward period.

Other significant assumptions used in the estimation of gross profits include mortality, and for products with credited rates include interest rate spreads and credit losses. Estimated gross profits of variable annuity contracts are sensitive to mortality and estimated policyholder behavior assumptions, such as surrender, lapse and annuitization rates.

Sales Inducements

DSI represent benefits paid to contract owners for a specified period that are incremental to the amounts the Company credits on similar contracts without sales inducements and are higher than the contract's expected ongoing crediting rates for periods after the inducement. The Company defers sales inducements and amortizes DSI over the estimated lives of the related contracts using the same methodology and assumptions used to amortize DAC. The amortization of DSI is included in Interest credited and other benefits to contract owners in the Statements of Operations. Each year, or more frequently if circumstances indicate a potentially significant recoverability issue exists, the Company reviews DSI to determine the recoverability of these balances.

Future Policy Benefits and Contract Owner Accounts

Future Policy Benefits

The Company establishes and carries actuarially-determined reserves that are calculated to meet its future obligations, including estimates of unpaid claims and claims that the Company believes have been incurred but have not yet been reported as of the balance sheet date. The principal assumptions used to establish liabilities for future policy benefits are based on Company experience and periodically reviewed against industry standards. These assumptions include mortality, morbidity, policy lapse, contract renewal, payment of subsequent premiums or deposits by the contract owner, retirement, investment returns, inflation, benefit utilization and expenses. Changes in, or deviations from, the assumptions used can significantly affect the Company's reserve levels and related results of operations.

- Reserves for traditional life insurance contracts (term insurance, participating and non-participating whole life insurance and traditional group life insurance) and accident and health insurance represent the present value of future benefits to be paid to or on behalf of contract owners and related expenses, less the present value of future net premiums. Assumptions as to interest rates, mortality, expenses and persistency are based on the Company's estimates of anticipated experience at the period the policy is sold or acquired, including a provision for adverse deviation. Interest rates used to calculate the present value of these reserves ranged from 2.3% to 7.2%.
- Reserves for payout contracts with life contingencies are equal to the present value of expected future payments. Assumptions as to interest rates, mortality and expenses are based on the Company's experience at the period the policy is sold or acquired, including a provision for adverse deviation. Such assumptions generally vary by annuity plan type, year of issue and policy duration. Interest rates used to calculate the present value of future benefits ranged from 1.0% to 7.5%.

Although assumptions are "locked-in" upon the issuance of traditional life insurance contracts, certain accident and health insurance contracts and payout contracts with life contingencies, significant changes in experience or assumptions may require the Company to provide for expected future losses on a product by establishing premium deficiency reserves. Premium deficiency reserves are determined based on best estimate assumptions that exist at the time the premium deficiency reserve is established and do not include a provision for adverse deviation. During the year ended December 31, 2015, the Company established premium deficiency reserves of $126.0 million before tax related to certain payout annuity contracts, which was recorded as an increase in Policyholder benefits and contract owner balances with a corresponding increase in Deposits and reinsurance recoverable, as the reserves are ceded to an affiliate on a 100% coinsurance and coinsurance funds withheld basis. The establishment of this premium deficiency reserve had no impact in the Statements of Operations for the year ended December 31, 2015.

Contract Owner Account Balances
Contract owner account balances relate to universal life-type and investment-type contracts, as follows:

- Account balances for GICs are calculated using the amount deposited with the Company, less withdrawals, plus interest accrued to the ending valuation date. Interest on these contracts is accrued by a predetermined index, plus a spread or a fixed rate, established at the issue date of the contract.
- Account balances for universal life-type contracts, including VUL, are equal to cumulative deposits, less charges, withdrawals and account values released upon death, plus credited interest thereon.
- Account balances for fixed annuities and payout contracts without life contingencies are equal to cumulative deposits, less charges and withdrawals, plus credited interest thereon. Credited interest rates vary by product and ranged up to

8.0% for the years 2015, 2014 and 2013. Account balances for group immediate annuities without life contingent payouts are equal to the discounted value of the payment at the implied break-even rate.

- For fixed-indexed annuity contracts ("FIAs"), the aggregate initial liability is equal to the deposit received, plus a bonus, if applicable, and is split into a host component and an embedded derivative component. Thereafter, the host liability accumulates at a set interest rate, and the embedded derivative liability is recognized at fair value.

Product Guarantees and Additional Reserves
The Company calculates additional reserve liabilities for certain universal life-type products and certain variable annuity guaranteed benefits. The Company periodically evaluates its estimates and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. Changes in, or deviations from, the assumptions used can significantly affect the Company's reserve levels and related results of operations.

Universal and Variable Life: Reserves for UL and VUL secondary guarantees and paid-up guarantees are calculated by estimating the expected value of death benefits payable and recognizing those benefits ratably over the accumulation period based on total expected assessments. The reserve for such products recognizes the portion of contract assessments received in early years used to compensate the Company for benefits provided in later years. Assumptions used, such as the interest rate, lapse rate and mortality, are consistent with assumptions used in estimating gross profits for purposes of amortizing DAC. Reserves for UL and VUL secondary guarantees and paid-up guarantees are recorded in Future policy benefits and contract owner account balances on the Balance Sheets.

The Company also calculates a benefit ratio for each block of business that meets the requirements for additional reserves and calculates an additional reserve by accumulating amounts equal to the benefit ratio multiplied by the assessments for each period, reduced by excess benefits during the period. The additional reserve is accumulated at interest rates consistent with the DAC model for the period. The calculated reserve includes provisions for UL contracts that produce expected gains from the insurance benefit function followed by losses from that function in later years. Additional reserves are recorded in Future policy benefits and contract owner account balances on the Balance Sheets.

GMDB and GMIB: Reserves for annuity guaranteed minimum death benefits ("GMDB") and guaranteed minimum income benefits ("GMIB") are determined by estimating the value of expected benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. Expected experience is based on a range of scenarios. Assumptions used, such as the long-term equity market return, lapse rate and mortality, are consistent with assumptions used in estimating gross profits for the purpose of amortizing DAC. The assumptions of investment performance and volatility are consistent with the historical experience of the appropriate underlying equity index, such as the Standard & Poor's ("S&P") 500 Index. In addition, the reserve for the GMIB incorporates assumptions for the likelihood and timing of the potential annuitizations that may be elected by the contract owner. In general, the Company assumes that GMIB annuitization rates will be higher for policies with more valuable guarantees ("in the money"), where the notional benefit amount is in excess of the account value. Reserves for GMDB and GMIB are recorded in Future policy benefits and contract owner account balances on the Balance Sheets. Changes in reserves for GMDB and GMIB are reported in Interest credited and other benefits to contract owners/policyholders in the Statements of Operations.

Most contracts issued on or before December 31, 1999 with enhanced death benefit guarantees were reinsured to third-party reinsurers to mitigate the risk associated with such guarantees. For contracts issued after December 31, 1999, the Company instituted a variable annuity guarantee hedge program to mitigate the risks associated with these guarantees, which do not qualify for hedge accounting. The variable annuity guarantee hedge program is based on the Company entering into derivative positions to offset such exposures to GMDB and GMIB due to adverse changes in the equity markets.

GMAB, GMWB, GMWBL and FIA: The Company also issues certain products which contain embedded derivatives that are measured at estimated fair value separately from the host contracts. These products include annuity guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits without life contingencies ("GMWB"), guaranteed minimum withdrawal benefits with life contingent payouts ("GMWBL") and FIAs. Such embedded derivatives are recorded in Future policy benefits and contract owner account balances on the Balance Sheets, with changes in estimated fair value, along with attributed fees collected or payments made, reported in Other net realized capital gains (losses) in the Statements of Operations.

At inception of the GMAB, GMWB and GMWBL contracts, the Company projects a fee to be attributed to the embedded derivative portion of the guarantee equal to the present value of projected future guaranteed benefits. After inception, the estimated fair value of the GMAB, GMWB and GMWBL contracts is determined based on the present value of projected future guaranteed benefits, minus the present value of projected attributed fees. A risk neutral valuation methodology is used under which the cash flows from the guarantees are projected under multiple capital market scenarios using observable risk free rates. The projection of future guaranteed benefits and future attributed fees require the use of assumptions for capital markets (e.g., implied volatilities, correlation among indices, risk-free swap curve, etc.) and policyholder behavior (e.g., lapse, benefit utilization, mortality, etc.).

The estimated fair value of the embedded derivative in the FIA contracts is based on the present value of the excess of interest payments to the contract owners over the growth in the minimum guaranteed contract value. The excess interest payments are determined as the excess of projected index driven benefits over the projected guaranteed benefits. The projection horizon is over the anticipated life of the related contracts, which takes into account best estimate actuarial assumptions, such as partial withdrawals, full surrenders, deaths, annuitizations and maturities.

Certain FIA contracts contain guaranteed withdrawal benefit provisions. Reserves for these benefits are calculated by estimating the value of expected benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments.

The liabilities for the GMAB, GMWB, GMWBL and FIA embedded derivatives include a risk margin to capture uncertainties related to policyholder behavior assumptions. The margin represents additional compensation a market participant would require to assume these risks. The discount rate used to determine the fair value of the liabilities for the GMAB, GMWB, GMWBL and FIA embedded derivatives includes an adjustment to reflect the risk that these obligations will not be fulfilled (“nonperformance risk”).

Separate Accounts

Separate account assets and liabilities generally represent funds maintained to meet specific investment objectives of contract owners or participants who bear the investment risk, subject, in limited cases, to minimum guaranteed rates. Investment income and investment gains and losses generally accrue directly to such contract owners. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company or its affiliates.

Separate account assets supporting variable options under variable annuity contracts are invested, as designated by the contract owner or participant under a contract, in shares of mutual funds that are managed by the Company, or its affiliates, or in other selected mutual funds not managed by the Company, or its affiliates.

The Company reports separately, as assets and liabilities, investments held in the separate accounts and liabilities of separate accounts if:

- Such separate accounts are legally recognized;
- Assets supporting the contract liabilities are legally insulated from the Company's general account liabilities;
- Investments are directed by the contract owner or participant; and
- All investment performance, net of contract fees and assessments, is passed through to the contract owner.

The Company reports separate account assets that meet the above criteria at fair value on the Balance Sheets based on the fair value of the underlying investments. Separate account liabilities equal separate account assets. Investment income and net realized and unrealized capital gains (losses) of the separate accounts, however, are not reflected in the Statements of Operations, and the Statements of Cash Flows do not reflect investment activity of the separate accounts.

Long-term Debt

Long-term debt is carried at an amount equal to the unpaid principal balance, net of any remaining unamortized discount or premium attributable to issuance. Direct and incremental costs to issue the debt are recorded in Other assets on the Balance Sheets. Discounts, premiums and direct and incremental costs are amortized as a component of Interest expense in the Statements of Operations over the life of the debt using the effective interest method of amortization.

Repurchase Agreements

The Company engages in dollar repurchase agreements with MBS ("dollar rolls") and repurchase agreements with other collateral types to increase its return on investments and improve liquidity. Such arrangements meet the requirements to be accounted for as financing arrangements.

The Company enters into dollar roll transactions by selling existing MBS and concurrently entering into an agreement to repurchase similar securities within a short time frame at a lower price. Under repurchase agreements, the Company borrows cash from a counterparty at an agreed upon interest rate for an agreed upon time frame and pledges collateral in the form of securities. At the end of the agreement, the counterparty returns the collateral to the Company, and the Company, in turn, repays the loan amount along with the additional agreed upon interest.

The Company's policy requires that at all times during the term of the dollar roll and repurchase agreements that cash or other collateral types obtained is sufficient to allow the Company to fund substantially all of the cost of purchasing replacement assets. Cash received is invested in Short-term investments, with the offsetting obligation to repay the loan included within Other liabilities on the Balance Sheets. The carrying value of the securities pledged in dollar rolls and repurchase agreement transactions and the related repurchase obligation are included in Securities pledged and Short-term debt, respectively, on the Balance Sheets.

The primary risk associated with short-term collateralized borrowings is that the counterparty will be unable to perform under the terms of the contract. The Company's exposure is limited to the excess of the net replacement cost of the securities over the value of the short-term investments. The Company believes the counterparties to the dollar rolls and repurchase agreements are financially responsible and that the counterparty risk is minimal.

Recognition of Insurance Revenue and Related Benefits

Premiums related to traditional life insurance contracts and payout contracts with life contingencies are recognized in Premiums in the Statements of Operations when due from the contract owner. When premiums are due over a significantly shorter period than the period over which benefits are provided, any gross premium in excess of the net premium (i.e., the portion of the gross premium required to provide for all expected future benefits and expenses) is deferred and recognized into revenue in a constant relationship to insurance in force. Benefits are recorded in Interest credited and other benefits to contract owners/policyholders in the Statements of Operations when incurred.

Amounts received as payment for investment-type, universal life-type, fixed annuities, payout contracts without life contingencies and FIA contracts are reported as deposits to contract owner account balances. Revenues from these contracts consist primarily of fees assessed against the contract owner account balance for mortality and policy administration charges and are reported in Fee income. Surrender charges are reported in Other revenue. In addition, the Company earns investment income from the investment of contract deposits in the Company's general account portfolio, which is reported in Net investment income in the Statements of Operations. Fees assessed that represent compensation to the Company for services to be provided in future periods and certain other fees are deferred and amortized into revenue over the expected life of the related contracts in proportion to estimated gross profits in a manner consistent with DAC for these contracts. Benefits and expenses for these products include claims in excess of related account balances, expenses of contract administration and interest credited to contract owner account balances.

Income Taxes

The Company uses certain assumptions and estimates in determining the income taxes payable or refundable to/from Voya Financial, Inc. for the current year, the deferred income tax liabilities and assets for items recognized differently in its Financial Statements from amounts shown on its income tax returns and the federal income tax expense. Determining these amounts requires analysis and

interpretation of current tax laws and regulations, including the loss limitation rules associated with change in control. Management exercises considerable judgment in evaluating the amount and timing of recognition of the resulting income tax liabilities and assets. These judgments and estimates are reevaluated on a periodic basis. The Company will continue to evaluate as regulatory and business factors change.

Items required by tax regulations to be included in the tax return may differ from the items reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements may be different than the actual rate applied on the tax return. Some of these differences are permanent such as the dividends received deduction which is estimated using information from the prior period and current year results. Other differences are temporary, reversing over time, such as the valuation of insurance reserves, and create deferred tax assets and liabilities.

The Company's deferred tax assets and liabilities resulting from temporary differences between financial reporting and tax bases of assets and liabilities are measured at the balance sheet date using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse.

Deferred tax assets represent the tax benefit of future deductible temporary differences, net operating loss carryforwards and tax credit carryforwards. The Company evaluates and tests the recoverability of its deferred tax assets. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. Considerable judgment and the use of estimates are required in determining whether a valuation allowance is necessary and, if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance, the Company considers many factors, including:

- The nature, frequency and severity of book income or losses in recent years;
- The nature and character of the deferred tax assets and liabilities;
- The recent cumulative book income (loss) position after adjustment for permanent differences;
- Taxable income in prior carryback years;
- Projected future taxable income, exclusive of reversing temporary differences and carryforwards;
- Projected future reversals of existing temporary differences;
- The length of time carryforwards can be utilized;
- Prudent and feasible tax planning strategies the Company would employ to avoid a tax benefit from expiring unused; and
- Tax rules that would impact the utilization of the deferred tax assets.

In establishing unrecognized tax benefits, the Company determines whether a tax position is more likely than not to be sustained under examination by the appropriate taxing authority. The Company also considers positions that have been reviewed and agreed to as part of an examination by the appropriate taxing authority. Tax positions that do not meet the more likely than not standard are not recognized in the Financial Statements. Tax positions that meet this standard are recognized in the Financial Statements. The Company measures the tax position as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate resolution with the tax authority that has full knowledge of all relevant information.

Reinsurance

The Company utilizes reinsurance agreements in most aspects of its insurance business to reduce its exposure to large losses. Such reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Company as direct insurer of the risks reinsured.

For each of its reinsurance agreements, the Company determines whether the agreement provides indemnification against loss or liability relating to insurance risk. The Company reviews contractual features, particularly those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims. The assumptions used to account for both long and short-duration reinsurance agreements are consistent with those used for the underlying contracts. Ceded Future policy benefits and contract owner account balances are reported gross on the Balance Sheets.

Long-duration: For reinsurance of long-duration contracts that transfer significant insurance risk, the difference, if any, between the amounts paid and benefits received related to the underlying contracts is included in the expected net cost of reinsurance, which is

recorded as a component of the reinsurance asset or liability. Any difference between actual and expected net cost of reinsurance is recognized in the current period and included as a component of profits used to amortize DAC.

Short-duration: For prospective reinsurance of short-duration contacts that meet the criteria for reinsurance accounting, amounts paid are recorded as ceded premiums and ceded unearned premiums and are reflected as a component of Premiums in the Statements of Operations and Other assets on the Balance Sheets, respectively. Ceded unearned premiums are amortized through premiums over the remaining contract period in proportion to the amount of protection provided.

If the Company determines that a reinsurance agreement does not expose the reinsurer to a reasonable possibility of a significant loss from insurance risk, the Company records the agreement using the deposit method of accounting. Deposits received are included in Other liabilities, and deposits made are included in Deposits and reinsurance recoverable on the Balance Sheets. As amounts are paid or received, consistent with the underlying contracts, the deposit assets or liabilities are adjusted. Interest on such deposits is recorded as Other revenues or Other expenses in the Statements of Operations, as appropriate. Periodically, the Company evaluates the adequacy of the expected payments or recoveries and adjusts the deposit asset or liability through Other revenues or Other expenses, as appropriate.

Accounting for reinsurance requires extensive use of assumptions and estimates, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish assets and liabilities relating to ceded and assumed reinsurance. The Company also evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers.

Only those reinsurance recoverable balances deemed probable of recovery are recognized as assets on the Company's Balance Sheets and are stated net of allowances for uncollectible reinsurance. Amounts currently recoverable and payable under reinsurance agreements are included in Reinsurance recoverable and Other liabilities, respectively. Such assets and liabilities relating to reinsurance agreements with the same reinsurer are recorded net on the Balance Sheets if a right of offset exists within the reinsurance agreement. Premiums, Fee income and Interest credited and other benefits to contract owners/policyholders are reported net of reinsurance ceded. Amounts received from reinsurers for policy administration are reported in Other revenue.

The Company has entered into combined coinsurance and coinsurance funds withheld reinsurance arrangements that contain embedded derivatives whose carrying value is estimated based on the change in the fair value of the assets supporting the funds withheld payable under the agreements.

The Company currently has significant concentrations of ceded reinsurance with its affiliates, Security Life of Denver Insurance Company ("SLD") and Security Life of Denver International Limited ("SLDI") primarily related to GICs, SLD related to fixed annuities and UL policies and SLDI related to variable annuities. SLDI re-domesticated from the Cayman Islands to the State of Arizona, effective December 20, 2013. SLDI was approved as an Arizona-domiciled captive reinsurer by the Arizona Department of Insurance.

Participating Insurance

Participating business approximates 13.5% of the Company's ordinary life insurance in force and 30.1% of life insurance premium income. The amount of dividends to be paid is determined annually by the Board of Directors. Amounts allocable to participating contract owners are based on published dividend projections or expected dividend scales. Dividends to participating policyholders of $8.6, $8.6 and $9.1, were incurred during the years ended December 31, 2015, 2014 and 2013, respectively.

Contingencies

A loss contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. Examples of loss contingencies include pending or threatened adverse litigation, threat of expropriation of assets and actual or possible claims and assessments. Amounts related to loss contingencies are accrued and recorded in Other liabilities on the Balance Sheets if it is probable that a loss has been incurred and the amount can be reasonably estimated, based on the Company's best estimate of the ultimate outcome.

Adoption of New Pronouncements

Repurchase Agreements
In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-11, "Transfers and Servicing (Accounting Standards Codification ("ASC") Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures" ("ASU 2014-11"), which (1) changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting and (2) requires separate accounting for a transfer of a financial asset executed with a repurchase agreement with the same counterparty. This results in secured borrowing accounting for the repurchase agreement. The amendments also require additional disclosures for certain transactions accounted for as a sale and for repurchase agreements, securities lending transactions and repurchase-to-maturity transactions that are accounted for as secured borrowings.

The provisions of ASU 2014-11 were adopted by the Company on January 1, 2015, with the exception of disclosure amendments for repurchase agreements, securities lending transactions and repurchase-to-maturity transactions that are accounted for as secured borrowings, which were adopted April 1, 2015. The adoption of the January 1, 2015 provisions had no effect on the Company's financial condition, results of operations or cash flows. The disclosures required by ASU 2014-11 are included in the *Investments* Note to these Financial Statements.

Discontinued Operations and Disposals
In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (ASC Topic 205) and Property, Plant, and Equipment (ASC Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08"), which requires the disposal of a component of an entity to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on the entity's operations and financial results. The component should be reported in discontinued operations when it meets the criteria to be classified as held for sale, is disposed of by sale or is disposed of other than by sale.

The amendments also require additional disclosures about discontinued operations, including disclosures about an entity’s significant continuing involvement with a discontinued operation and disclosures for a disposal of an individually significant component of an entity that does not qualify for discontinued operations.

The provisions of ASU 2014-08 were adopted prospectively by the Company on January 1, 2015. The adoption had no effect on the Company’s financial condition, results of operations or cash flows.

Future Adoption of Accounting Pronouncements

Financial Instruments
In January 2016, the FASB issued ASU 2016-01, “Financial Instruments-Overall (ASC Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”), which requires:

- Equity investments (except those consolidated or accounted for under the equity method) to be measured at fair value with changes in fair value recognized in net income.
- Elimination of the disclosure of methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost.
- The use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
- Separate presentation in other comprehensive income of the portion of the total change in fair value of a liability resulting from a change in own credit risk if the liability is measured at fair value under the fair value option.
- Separate presentation on the balance sheet or financial statement notes of financial assets and financial liabilities by measurement category and form of financial asset.

The provisions of ASU 2016-01 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption only permitted for certain provisions. Initial adoption of ASU 2016-01 should be reported on a modified retrospective basis, with a cumulative-effect adjustment to balance sheet as of the beginning of the year of adoption, except for certain provisions that should be applied prospectively. The Company is currently in the process of determining the impact of adoption of the provisions of ASU 2016-01.

Short-Duration Contracts
In May 2015, the FASB issued ASU 2015-09, "Financial Services - Insurance (ASC Topic 944): Disclosures about Short-Duration Contracts" ("ASU 2015-09"), which requires insurance entities to disclose for annual reporting periods information about the liability for unpaid claims and claim adjustment expenses and about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claims adjustment expenses. The standard also requires entities to disclose, for annual and interim reporting periods, a rollforward of the liability for unpaid claims and claim adjustment expenses.

The provisions of ASU 2015-09 are effective, retrospectively, for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016, with early adoption permitted. The Company is currently in the process of determining the impact of adoption of the provisions of ASU 2015-09.

Consolidation
In February 2015, the FASB issued ASU 2015-02, "Consolidation (ASC Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02"), which:

- Modifies the evaluation of whether limited partnerships and similar legal entities are Variable Interest Entities ("VIEs") or Voting Interest Entities ("VOEs"), including the requirement to consider the rights of all equity holders at risk to determine if they have the power to direct the entity's most significant activities.
- Eliminates the presumption that a general partner should consolidate a limited partnership. Limited partnerships and similar entities will be VIEs unless the limited partners hold substantive kick-out rights in the participating rights.
- Affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships.
- Provides a new scope exception for registered money market funds and similar unregistered money market funds, and ends the deferral granted to investment companies from applying the VIE guidance.

The provisions of ASU 2015-02 are effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted, using either a retrospective or modified retrospective approach. The Company plans to adopt the provisions of ASU 2015-02 on January 1, 2016 using the modified retrospective approach, and does not expect ASU 2015-02 to have an impact on the Company's financial condition or results of operations, but to impact disclosures only.

Hybrid Financial Instruments
In November 2014, the FASB issued ASU 2014-16, "Derivatives and Hedging (ASC Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity" ("ASU 2014-16"), which requires an entity to determine the nature of the host contract by considering the economic characteristics and risks of the entire hybrid financial instrument, including all embedded derivative features.

The provisions of ASU 2014-16 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. Initial adoption of ASU 2014-16 may be reported on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, or on a full retrospective basis, with application to all prior periods presented. The Company does not expect ASU 2014-16 to have an impact on the Company's financial condition, results of operations or cash flows.

Revenue from Contracts with Customers
In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (ASC Topic 606)" ("ASU 2014-09"), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the entity satisfies a performance obligation under the contract. The standard also requires disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

In August 2015, the FASB issued ASU 2015-14 to amend the effective date of ASU 2014-09 to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted as of the original effective date, which was January 1, 2017. The provisions of ASU 2014-09 are effective retrospectively. The Company is currently in the process of determining the impact of adoption of the provisions of ASU 2014-09.

2. Investments

Fixed Maturities and Equity Securities

Available-for-sale and FVO fixed maturities and equity securities were as follows as of December 31, 2015:

	Amortized Cost	Gross Unrealized Capital Gains	Gross Unrealized Capital Losses	Embedded Derivatives[2]	Fair Value	OTTI[3]
Fixed maturities:						
U.S. Treasuries	$ 992.7	$ 70.2	$ 4.2	$ -	$ 1,058.7	$ -
U.S. Government agencies and authorities	79.4	2.8	0.3	-	81.9	-
State, municipalities and political subdivisions	359.1	6.6	5.2	-	360.5	-
U.S. corporate public securities	10,718.9	389.2	236.2	-	10,871.9	4.5
U.S. corporate private securities	2,365.0	74.3	44.9	-	2,394.4	-
Foreign corporate public securities and foreign governments [1]	2,826.9	67.3	101.2	-	2,793.0	-
Foreign corporate private securities [1]	2,592.9	95.0	61.9	-	2,626.0	-
Residential mortgage-backed securities:						
Agency	1,525.4	81.2	5.8	14.9	1,615.7	-
Non-Agency	221.4	43.9	2.1	6.2	269.4	19.5
Total Residential mortgage-backed securities	1,746.8	125.1	7.9	21.1	1,885.1	19.5
Commercial mortgage-backed securities	1,311.0	35.8	3.4	-	1,343.4	-
Other asset-backed securities	257.6	11.3	5.6	-	263.3	0.3
Total fixed maturities, including securities pledged	23,250.3	877.6	470.8	21.1	23,678.2	24.3
Less: Securities pledged	633.3	52.2	13.1	-	672.4	-
Total fixed maturities	22,617.0	825.4	457.7	21.1	23,005.8	24.3
Equity securities	15.4	3.8	-	-	19.2	-
Total fixed maturities and equity securities investments	$ 22,632.4	$ 829.2	$ 457.7	$ 21.1	$ 23,025.0	$ 24.3

(1) Primarily U.S. dollar denominated.
(2) Embedded derivatives within fixed maturity securities are reported with the host investment. The changes in fair value of embedded derivatives are reported in Other net realized capital gains (losses) in the Statements of Operations.
(3) Represents OTTI reported as a component of Other comprehensive income (loss).

Available-for-sale and FVO fixed maturities and equity securities were as follows as of December 31, 2014:

	Amortized Cost	Gross Unrealized Capital Gains	Gross Unrealized Capital Losses	Embedded Derivatives[2]	Fair Value	OTTI[3]
Fixed maturities:						
U.S. Treasuries	$ 843.0	$ 83.9	$ 0.8	$ -	$ 926.1	$ -
U.S. Government agencies and authorities	78.9	4.5	-	-	83.4	-
State, municipalities and political subdivisions	155.4	9.1	0.1	-	164.4	-
U.S. corporate public securities	9,651.4	692.9	36.7	-	10,307.6	4.8
U.S. corporate private securities	2,026.9	121.7	7.8	-	2,140.8	-
Foreign corporate public securities and foreign governments [1]	2,716.9	134.6	26.4	-	2,825.1	-
Foreign corporate private securities [1]	2,683.6	173.8	6.7	-	2,850.7	-
Residential mortgage-backed securities						
Agency	1,589.5	96.2	4.9	18.5	1,699.3	-
Non-Agency	292.3	53.5	2.3	7.7	351.2	25.8
Total Residential mortgage-backed securities	1,881.8	149.7	7.2	26.2	2,050.5	25.8
Commercial mortgage-backed securities	1,531.7	96.5	0.7	-	1,627.5	-
Other asset-backed securities	292.7	15.2	7.0	-	300.9	0.3
Total fixed maturities, including securities pledged	21,862.3	1,481.9	93.4	26.2	23,277.0	30.9
Less: Securities pledged	567.3	62.2	2.7	-	626.8	-
Total fixed maturities	21,295.0	1,419.7	90.7	26.2	22,650.2	30.9
Equity securities	3.1	3.6	-	-	6.7	-
Total fixed maturities and equity securities investments	$ 21,298.1	$ 1,423.3	$ 90.7	$ 26.2	$ 22,656.9	$ 30.9

[1] Primarily U.S. dollar denominated.
[2] Embedded derivatives within fixed maturity securities are reported with the host investment. The changes in fair value of embedded derivatives are reported in Other net realized capital gains (losses) in the Statements of Operations.
[3] Represents OTTI reported as a component of Other comprehensive income (loss).

The amortized cost and fair value of fixed maturities, including securities pledged, as of December 31, 2015, are shown below by contractual maturity. Actual maturities may differ from contractual maturities as securities may be restructured, called or prepaid. MBS and Other ABS are shown separately because they are not due at a single maturity date.

	Amortized Cost	Fair Value
Due to mature:		
One year or less	$ 375.0	$ 378.4
After one year through five years	5,189.8	5,328.3
After five years through ten years	8,938.9	8,901.8
After ten years	5,431.2	5,577.9
Mortgage-backed securities	3,057.8	3,228.5
Other asset-backed securities	257.6	263.3
Fixed maturities, including securities pledged	$ 23,250.3	$ 23,678.2

The investment portfolio is monitored to maintain a diversified portfolio on an ongoing basis. Credit risk is mitigated by monitoring concentrations by issuer, sector and geographic stratification and limiting exposure to any one issuer.

As of December 31, 2015 and 2014, the Company did not have any investments in a single issuer, other than obligations of the U.S. Government and government agencies, with a carrying value in excess of 10% of the Company's Shareholder's equity.

The following tables set forth the composition of the U.S. and foreign corporate securities within the fixed maturity portfolio by industry category as of the dates indicated:

	Amortized Cost	Gross Unrealized Capital Gains	Gross Unrealized Capital Losses	Fair Value
December 31, 2015				
Communications	$ 1,147.2	$ 64.9	$ 17.9	$ 1,194.2
Financial	2,798.2	108.8	22.1	2,884.9
Industrial and other companies	8,778.0	282.1	165.9	8,894.2
Energy	2,357.3	32.2	175.9	2,213.6
Utilities	2,500.6	113.6	31.2	2,583.0
Transportation	571.8	17.0	13.8	575.0
Total	$ 18,153.1	$ 618.6	$ 426.8	$ 18,344.9
December 31, 2014				
Communications	$ 1,081.6	$ 122.1	$ 0.9	$ 1,202.8
Financial	2,451.3	175.0	1.6	2,624.7
Industrial and other companies	8,148.0	468.6	36.1	8,580.5
Energy	2,434.0	120.4	27.5	2,526.9
Utilities	2,145.0	188.1	4.1	2,329.0
Transportation	490.9	36.9	1.7	526.1
Total	$ 16,750.8	$ 1,111.1	$ 71.9	$ 17,790.0

Fixed Maturities and Equity Securities

The Company's fixed maturities and equity securities are currently designated as available-for-sale, except those accounted for using the FVO. Available-for-sale securities are reported at fair value and unrealized capital gains (losses) on these securities are recorded directly in AOCI and presented net of related changes in DAC, VOBA and Deferred income taxes. In addition, certain fixed maturities have embedded derivatives, which are reported with the host contract on the Balance Sheets.

The Company has elected the FVO for certain of its fixed maturities to better match the measurement of assets and liabilities in the Statements of Operations. Certain CMOs, primarily interest-only and principal-only strips, are accounted for as hybrid instruments and valued at fair value with changes in the fair value recorded in Other net realized capital gains (losses) in the Statements of Operations.

The Company invests in various categories of CMOs, including CMOs that are not agency-backed, that are subject to different degrees of risk from changes in interest rates and defaults. The principal risks inherent in holding CMOs are prepayment and extension risks related to significant decreases and increases in interest rates resulting in the prepayment of principal from the underlying mortgages, either earlier or later than originally anticipated. As of December 31, 2015 and 2014, approximately 46.6% and 41.7%, respectively, of the Company's CMO holdings, were invested in the above mentioned types of CMOs such as interest-only or principal-only strips, that are subject to more prepayment and extension risk than traditional CMOs.

Public corporate fixed maturity securities are distinguished from private corporate fixed maturity securities based upon the manner in which they are transacted. Public corporate fixed maturity securities are issued initially through market intermediaries on a registered basis or pursuant to Rule 144A under the Securities Act of 1933 (the "Securities Act") and are traded on the secondary market through brokers acting as principal. Private corporate fixed maturity securities are originally issued by borrowers directly to investors pursuant to Section 4(a)(2) of the Securities Act, and are traded in the secondary market directly with counterparties, either without the participation of a broker or in agency transactions.

Repurchase Agreements

As of December 31, 2015 and 2014, the Company did not have any securities pledged in dollar rolls, repurchase agreement transactions or reverse repurchase agreements.

Securities Lending

As of December 31, 2015 and 2014, the fair value of loaned securities was $147.9 and $121.2, respectively, and is included in Securities pledged on the Balance Sheets. As of December 31, 2015 and 2014, collateral retained by the lending agent and invested in short-term liquid assets on the Company's behalf was $153.6 and $125.4, respectively, and is recorded in Short-term investments under securities loan agreements, including collateral delivered on the Balance Sheets. As of December 31, 2015 and 2014, liabilities to return collateral of $153.6 and $125.4, respectively, is included in Payables under securities loan agreements, including collateral held on the Balance Sheets.

The following table sets forth borrowings under securities lending transactions by class of collateral pledged for the dates indicated:

	December 31, 2015	December 31, 2014
U.S. Treasuries	$ -	$ 25.3
U.S. Government agencies and authorities	-	1.0
U.S. corporate public securities	73.5	70.2
Foreign corporate public securities and foreign governments	80.1	28.9
Payables under securities loan agreements	$ 153.6	$ 125.4

The Company's securities lending activities are conducted on an overnight basis, and all securities loaned can be recalled at any time. The Company does not offset assets and liabilities associated with its securities lending program.

Variable Interest Entities ("VIEs")

The Company holds certain VIEs for investment purposes. VIEs may be in the form of private placement securities, structured securities, securitization transactions, or limited partnerships. The Company has reviewed each of its holdings and determined that consolidation of these investments in the Company's financial statements is not required, as the Company is not the primary beneficiary, because the Company does not have both the power to direct the activities that most significantly impact the entity's economic performance and the obligation or right to potentially significant losses or benefits, for any of its investments in VIEs. The Company did not provide any non-contractual financial support and its carrying value represents the Company's exposure to loss. The carrying value of the equity tranches of the Collateralized loan obligations ("CLOs") of $1.2 and $1.8 as of December 31, 2015 and 2014, respectively, is included in Limited partnerships/corporations on the Balance Sheets. Income and losses recognized on these investments are reported in Net investment income in the Statements of Operations.

Securitizations

The Company invests in various tranches of securitization entities, including RMBS, CMBS and ABS. Through its investments, the Company is not obligated to provide any financial or other support to these entities. Each of the RMBS, CMBS and ABS entities are thinly capitalized by design and considered VIEs. The Company's involvement with these entities is limited to that of a passive investor. The Company has no unilateral right to appoint or remove the servicer, special servicer or investment manager, which are generally viewed to have the power to direct the activities that most significantly impact the securitization entities' economic performance, in any of these entities, nor does the Company function in any of these roles. The Company through its investments or other arrangements does not have the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the entity. Therefore, the Company is not the primary beneficiary and will not consolidate any of the RMBS, CMBS and ABS entities in which it holds investments. These investments are accounted for as investments available-for-sale as described in the *Business, Basis of Presentation and Significant Accounting Policies* Note to these Financial Statements and unrealized capital gains (losses) on these securities are recorded directly in AOCI, except for certain RMBS which are accounted for under the FVO for which changes in fair value are reflected in Other net realized gains (losses) in the Statements of Operations. The Company's maximum exposure to loss on these structured investments is limited to the amount of its investment.

Unrealized Capital Losses

Unrealized capital losses (including noncredit impairments), along with the fair value of fixed maturity securities, including securities pledged, by market sector and duration were as follows as of December 31, 2015:

	Six Months or Less Below Amortized Cost		More Than Six Months and Twelve Months or Less Below Amortized Cost		More Than Twelve Months Below Amortized Cost		Total	
	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses
U.S. Treasuries	$ 311.6	$ 4.2	$ -	$ -	$ -	$ -	$ 311.6	$ 4.2
U.S. Government agencies and authorities	49.3	0.3	-	-	-	-	49.3	0.3
State, municipalities and political subdivisions	116.9	1.3	98.9	3.9	-	-	215.8	5.2
U.S. corporate public securities	1,973.2	63.0	2,250.3	140.7	136.1	32.5	4,359.6	236.2
U.S. corporate private securities	362.0	9.7	369.5	28.2	34.3	7.0	765.8	44.9
Foreign corporate public securities and foreign governments	815.3	28.0	416.3	45.7	134.0	27.5	1,365.6	101.2
Foreign corporate private securities	492.8	40.6	194.5	14.3	23.0	7.0	710.3	61.9
Residential mortgage-backed	145.8	1.0	94.1	1.7	150.8	5.2	390.7	7.9
Commercial mortgage-backed	236.2	1.9	25.2	0.8	0.7	0.7	262.1	3.4
Other asset-backed	13.5	- *	-	-	76.7	5.6	90.2	5.6
Total	$ 4,516.6	$ 150.0	$ 3,448.8	$ 235.3	$ 555.6	$ 85.5	$ 8,521.0	$ 470.8

* Less than $0.1.

Unrealized capital losses (including noncredit impairments), along with the fair value of fixed maturity securities, including securities pledged, by market sector and duration were as follows as of December 31, 2014:

	Six Months or Less Below Amortized Cost		More Than Six Months and Twelve Months or Less Below Amortized Cost		More Than Twelve Months Below Amortized Cost		Total	
	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses
U.S. Treasuries	$ 25.6	$ - *	$ -	$ -	$ 36.6	$ 0.8	$ 62.2	$ 0.8
U.S. Government agencies and authorities	1.8	- *	-	-	-	-	1.8	- *
State, municipalities and political subdivisions	23.1	0.1	-	-	-	-	23.1	0.1
U.S. corporate public securities	727.0	13.8	20.5	0.4	833.9	22.5	1,581.4	36.7
U.S. corporate private securities	114.8	1.6	9.9	0.1	104.7	6.1	229.4	7.8
Foreign corporate public securities and foreign governments	558.9	20.5	20.0	0.8	112.2	5.1	691.1	26.4
Foreign corporate private securities	180.4	3.2	-	-	26.3	3.5	206.7	6.7
Residential mortgage-backed	122.8	0.6	26.0	0.3	322.5	6.3	471.3	7.2
Commercial mortgage-backed	34.7	0.3	1.6	0.4	-	-	36.3	0.7
Other asset-backed	12.6	- *	0.8	- *	97.0	7.0	110.4	7.0
Total	$ 1,801.7	$ 40.1	$ 78.8	$ 2.0	$ 1,533.2	$ 51.3	$ 3,413.7	$ 93.4

*Less than $0.1.

Of the unrealized capital losses aged more than twelve months, the average market value of the related fixed maturities was 86.6% and 96.8% of the average book value as of December 31, 2015 and 2014, respectively.

Unrealized capital losses (including noncredit impairments) in fixed maturities, including securities pledged, for instances in which fair value declined below amortized cost by greater than or less than 20% for consecutive months as indicated in the tables below, were as follows as of the dates indicated:

	Amortized Cost		Unrealized Capital Losses		Number of Securities	
	< 20%	> 20%	< 20%	> 20%	< 20%	> 20%
December 31, 2015						
Six months or less below amortized cost	$ 4,611.3	$ 468.6	$ 131.4	$ 131.5	758	93
More than six months and twelve months or less below amortized cost	3,445.1	-	171.2	-	524	-
More than twelve months below amortized cost	450.4	16.4	32.4	4.3	158	3
Total	$ 8,506.8	$ 485.0	$ 335.0	$ 135.8	1,440	96
December 31, 2014						
Six months or less below amortized cost	$ 1,844.0	$ 33.9	$ 39.7	$ 7.6	368	8
More than six months and twelve months or less below amortized cost	117.3	-	5.5	-	35	-
More than twelve months below amortized cost	1,509.4	2.5	40.1	0.5	236	1
Total	$ 3,470.7	$ 36.4	$ 85.3	$ 8.1	639	9

Unrealized capital losses (including noncredit impairments) in fixed maturities, including securities pledged, by market sector for instances in which fair value declined below amortized cost by greater than or less than 20% were as follows as of the dates indicated:

	Amortized Cost		Unrealized Capital Losses		Number of Securities	
	< 20%	> 20%	< 20%	> 20%	< 20%	> 20%
December 31, 2015						
U.S. Treasuries	$ 315.8	$ -	$ 4.2	$ -	8	-
U.S. Government agencies and authorities	49.6	-	0.3	-	1	-
State, municipalities and political subdivisions	221.0	-	5.2	-	117	-
U.S. corporate public securities	4,316.2	279.6	159.1	77.1	681	57
U.S. corporate private securities	769.5	41.2	33.3	11.6	90	4
Foreign corporate public securities and foreign governments	1,343.5	123.3	66.6	34.6	251	26
Foreign corporate private securities	734.2	38.0	50.4	11.5	81	5
Residential mortgage-backed	398.6	- *	7.9	- *	141	2
Commercial mortgage-backed	264.1	1.4	2.7	0.7	33	1
Other asset-backed	94.3	1.5	5.3	0.3	37	1
Total	$ 8,506.8	$ 485.0	$ 335.0	$ 135.8	1,440	96
December 31, 2014						
U.S. Treasuries	$ 63.0	$ -	$ 0.8	$ -	4	-
U.S. Government agencies and authorities	1.8	-	-	-	1	-
State, municipalities and political subdivisions	23.2	-	0.1	-	8	-
U.S. corporate public securities	1,617.3	0.8	36.5	0.2	257	2
U.S. corporate private securities	223.7	13.5	4.6	3.2	30	1
Foreign corporate public securities and foreign governments	710.0	7.5	24.7	1.7	147	2
Foreign corporate private securities	205.0	8.4	5.0	1.7	19	1
Residential mortgage-backed	478.5	-	7.2	-	125	-
Commercial mortgage-backed	35.0	2.0	0.3	0.4	9	1
Other asset-backed	113.2	4.2	6.1	0.9	39	2
Total	$ 3,470.7	$ 36.4	$ 85.3	$ 8.1	639	9

*Less than $0.1.

Investments with fair values less than amortized cost are included in the Company's other-than-temporary impairments analysis. Impairments were recognized as disclosed in the "Evaluating Securities for Other-Than-Temporary Impairments" section below. The Company evaluates non-agency RMBS and ABS for "other-than-temporary impairments" each quarter based on actual and projected cash flows, after considering the quality and updated loan-to-value ratios reflecting current home prices of underlying collateral, forecasted loss severity, the payment priority within the tranche structure of the security and amount of any credit enhancements. The Company's assessment of current levels of cash flows compared to estimated cash flows at the time the securities were acquired (typically pre-2008) indicates the amount and the pace of projected cash flows from the underlying collateral has generally been lower and slower, respectively. However, since cash flows are typically projected at a trust level, the impairment review incorporates the security's position within the trust structure as well as credit enhancement remaining in the trust to determine whether an impairment is warranted. Therefore, while lower and slower cash flows will impact the trust, the effect on the valuation of a particular security within the trust will also be dependent upon the trust structure. Where the assessment continues to project full recovery of principal and interest on schedule, the Company has not recorded an impairment. Based on this analysis, the Company determined that the remaining investments in an unrealized loss position were not other-than-temporarily impaired and therefore no further other-than-temporary impairment was necessary.

Troubled Debt Restructuring

The Company invests in high quality, well performing portfolios of commercial mortgage loans and private placements. Under certain circumstances, modifications are granted to these contracts. Each modification is evaluated as to whether a troubled debt restructuring has occurred. A modification is a troubled debt restructuring when the borrower is in financial difficulty and the creditor makes concessions. Generally, the types of concessions may include reducing the face amount or maturity amount of the debt as originally stated, reducing the contractual interest rate, extending the maturity date at an interest rate lower than current market interest rates and/or reducing accrued interest. The Company considers the amount, timing and extent of the concession granted in determining any impairment or changes in the specific valuation allowance recorded in connection with the troubled debt restructuring. A valuation allowance may have been recorded prior to the quarter when the loan is modified in a troubled debt restructuring. Accordingly, the carrying value (net of the specific valuation allowance) before and after modification through a troubled debt restructuring may not change significantly, or may increase if the expected recovery is higher than the pre-modification recovery assessment. For the year ended December 31, 2015 and 2014, the Company had no new troubled debt restructurings for private placement bonds or commercial mortgage loans.

As of December 31, 2015, the Company held 8 commercial mortgage troubled debt restructured loans with a carrying value of $3.7. These 8 commercial mortgage loans were restructured in August 2013 with a pre-modification and post modification carrying value of $11.6. These loans represent what remains of an initial portfolio of 20 restructures with a pre-modification and post modification carrying value of $24.6. This portfolio of loans is comprised of cross-defaulted, cross-collateralized individual loans, which are owned by the same sponsor. Between the date of the troubled debt restructurings and December 31, 2015, this portfolio of loans has repaid $20.9 in principal.

As of December 31, 2015 and 2014, the Company did not have any commercial mortgage loans or private placements modified in a troubled debt restructuring with a subsequent payment default.

Mortgage Loans on Real Estate

The Company's mortgage loans on real estate are all commercial mortgage loans held for investment, which are reported at amortized cost, less impairment write-downs and allowance for losses. The Company diversifies its commercial mortgage loan portfolio by geographic region and property type to reduce concentration risk. The Company manages risk when originating commercial mortgage loans by generally lending only up to 75% of the estimated fair value of the underlying real estate. Subsequently, the Company continuously evaluates mortgage loans based on relevant current information including a review of loan-specific credit quality, property characteristics and market trends. Loan performance is monitored on a loan specific basis through the review of submitted appraisals, operating statements, rent revenues and annual inspection reports, among other items. This review ensures properties are performing at a consistent and acceptable level to secure the debt. The components to evaluate debt service coverage are received and reviewed at least annually to determine the level of risk.

The following table summarizes the Company's investment in mortgage loans as of the dates indicated:

	December 31, 2015			December 31, 2014		
	Impaired	Non Impaired	Total	Impaired	Non Impaired	Total
Commercial mortgage loans	$ 3.7	$ 3,308.2	$ 3,311.9	$ 17.1	$ 2,838.1	$ 2,855.2
Collective valuation allowance for losses	N/A	(1.0)	(1.0)	N/A	(0.8)	(0.8)
Total net commercial mortgage loans	$ 3.7	$ 3,307.2	$ 3,310.9	$ 17.1	$ 2,837.3	$ 2,854.4

N/A - Not Applicable

There were no impairments taken on the mortgage loan portfolio for the years ended December 31, 2015 and 2014.

The following table summarizes the activity in the allowance for losses for all commercial mortgage loans for the periods indicated:

	December 31, 2015	December 31, 2014
Collective valuation allowance for losses, balance at January 1	$ 0.8	$ 1.1
Addition to (reduction of) allowance for losses	0.2	(0.3)
Collective valuation allowance for losses, end of period	$ 1.0	$ 0.8

The carrying values and unpaid principal balances of impaired mortgage loans were as follows as of the dates indicated:

	December 31, 2015	December 31, 2014
Impaired loans without allowances for losses	$ 3.7	$ 17.1
Less: Allowances for losses on impaired loans	-	-
Impaired loans, net	$ 3.7	$ 17.1
Unpaid principal balance of impaired loans	$ 3.7	$ 17.1

The following table presents information on restructured loans as of the dates indicated:

	December 31, 2015	December 31, 2014
Troubled debt restructured loans	$ 3.7	$ 17.1

There were no mortgage loans in the Company's portfolio in process of foreclosure as of December 31, 2015 and 2014.

There were two loans 30 days or less in arrears, with respect to principal and interest as of December 31, 2015, with a total amortized cost of $2.1. There were no loans in arrears, with respect to principal and interest as of December 31, 2014.

The following table presents information on the average investment during the period in impaired loans and interest income recognized on impaired and troubled debt restructured loans for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Impaired loans, average investment during the period (amortized cost) [(1)]	$ 10.4	$ 20.2	$ 11.7
Interest income recognized on impaired loans, on an accrual basis [(1)]	0.5	1.1	0.7
Interest income recognized on impaired loans, on a cash basis [(1)]	0.6	1.0	0.7
Interest income recognized on troubled debt restructured loans, on an accrual basis	0.5	1.1	0.7

[(1)] Includes amounts for Troubled debt restructured loans.

Loan-to-value ("LTV") and debt service coverage ("DSC") ratios are measures commonly used to assess the risk and quality of mortgage loans. The LTV ratio, calculated at time of origination, is expressed as a percentage of the amount of the loan relative

to the value of the underlying property. A LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the underlying collateral. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of a property's net income to its debt service payments. A DSC ratio of less than 1.0 indicates that property's operations do not generate sufficient income to cover debt payments. These ratios are utilized as part of the review process described above.

The following table presents the LTV ratios as of the dates indicated:

	December 31, 2015[1]	December 31, 2014[1]
Loan-to-Value Ratio:		
0% - 50%	$ 399.9	$ 367.2
>50% - 60%	927.9	674.2
>60% - 70%	1,772.0	1,671.0
>70% - 80%	207.0	136.4
>80% and above	5.1	6.4
Total Commercial mortgage loans	$ 3,311.9	$ 2,855.2

[1] Balances do not include collective valuation allowance for losses.

The following table presents the DSC ratios as of the dates indicated:

	December 31, 2015[1]	December 31, 2014[1]
Debt Service Coverage Ratio:		
Greater than 1.5x	$ 2,569.3	$ 2,085.8
>1.25x - 1.5x	505.3	397.3
>1.0x - 1.25x	145.6	282.4
Less than 1.0x	40.4	85.9
Commercial mortgage loans secured by land or construction loans	51.3	3.8
Total Commercial mortgage loans	$ 3,311.9	$ 2,855.2

[1] Balances do not include collective valuation allowance for losses.

Properties collateralizing mortgage loans are geographically dispersed throughout the United States, as well as diversified by property type, as reflected in the following tables as of the dates indicated:

	December 31, 2015[1]		December 31, 2014[1]	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
Commercial Mortgage Loans by U.S. Region:				
Pacific	$ 763.0	23.0%	$ 673.0	23.6%
South Atlantic	792.5	23.9%	597.6	20.9%
Middle Atlantic	467.2	14.1%	395.6	13.9%
West South Central	388.8	11.7%	386.2	13.5%
Mountain	334.1	10.1%	277.5	9.7%
East North Central	324.2	9.8%	281.1	9.8%
New England	58.2	1.8%	37.4	1.3%
West North Central	117.6	3.6%	122.2	4.3%
East South Central	66.3	2.0%	84.6	3.0%
Total Commercial mortgage loans	$ 3,311.9	100.0%	$ 2,855.2	100.0%

[1] Balances do not include collective valuation allowance for losses.

	December 31, 2015[1]		December 31, 2014[1]	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
Commercial Mortgage Loans by Property Type:				
Retail	$ 1,125.1	33.9%	$ 932.9	32.7%
Industrial	788.3	23.8%	806.8	28.3%
Apartments	615.2	18.6%	508.6	17.8%
Office	535.6	16.2%	340.1	11.9%
Hotel/Motel	83.3	2.5%	83.3	2.9%
Mixed Use	29.9	0.9%	80.2	2.8%
Other	134.5	4.1%	103.3	3.6%
Total Commercial mortgage loans	$ 3,311.9	100.0%	$ 2,855.2	100.0%

[1]Balances do not include collective valuation allowance for losses.

The following table sets forth the breakdown of mortgages by year of origination as of the dates indicated:

	December 31, 2015[1]	December 31, 2014[1]
Year of Origination:		
2015	$ 810.1	$ -
2014	557.9	540.1
2013	624.7	628.7
2012	232.8	282.0
2011	460.4	601.0
2010	100.9	109.3
2009 and prior	525.1	694.1
Total Commercial mortgage loans	$ 3,311.9	$ 2,855.2

[1] Balances do not include collective valuation allowance for losses.

Evaluating Securities for Other-Than-Temporary Impairments

The Company performs a regular evaluation, on a security-by-security basis, of its available-for-sale securities holdings, including fixed maturity securities and equity securities in accordance with its impairment policy in order to evaluate whether such investments are other-than-temporarily impaired.

The following table identifies the Company's credit-related and intent-related impairments included in the Statements of Operations, excluding impairments included in Other comprehensive income (loss) by type for the periods indicated:

	Year Ended December 31,					
	2015		2014		2013	
	Impairment	No. of Securities	Impairment	No. of Securities	Impairment	No. of Securities
U.S. corporate public securities	$ 11.0	10	$ 1.4	2	$ -	-
Foreign corporate public securities and foreign governments [1]	18.2	6	0.6	4	-	-
Foreign corporate private securities [1]	0.5	1	-	-	1.4	1
Residential mortgage-backed	2.7	27	2.8	39	7.5	57
Commercial mortgage-backed	0.4	2	0.1	2	0.3	2
Other asset-backed	-	-	0.5	2	1.1	3
Equity	- *	1	0.3	2	-	-
Total	$ 32.8	47	$ 5.7	51	$ 10.3	63

* Less than $0.1.
[1] Primarily U.S. dollar denominated.

The above tables include $7.3, $3.7 and $6.4 of write-downs related to credit impairments for the years ended December 31, 2015, 2014 and 2013, respectively, in Other-than-temporary impairments, which are recognized in the Statements of Operations. The remaining $25.5, $2.0 and $3.9, for the years ended December 31, 2015, 2014 and 2013, respectively, are related to intent impairments.

The following table summarizes these intent impairments, which are also recognized in earnings, by type for the periods indicated:

	Year Ended December 31,					
	2015		2014		2013	
	Impairment	No. of Securities	Impairment	No. of Securities	Impairment	No. of Securities
U.S. corporate public securities	$ 11.0	9	$ 1.2	2	$ -	-
Foreign corporate public securities and foreign governments [1]	14.0	5	0.6	4	-	-
Foreign corporate private securities [1]	-	-	-	-	-	-
Residential mortgage-backed	0.1	4	0.1	5	3.6	12
Commercial mortgage-backed	0.4	2	0.1	2	0.3	2
Other asset-backed	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Total	$ 25.5	20	$ 2.0	13	$ 3.9	14

[1] Primarily U.S. dollar denominated.

The Company may sell securities during the period in which fair value has declined below amortized cost for fixed maturities or cost for equity securities. In certain situations, new factors, including changes in the business environment, can change the Company's previous intent to continue holding a security. Accordingly, these factors may lead the Company to record additional intent related capital losses.

The following table identifies the amount of credit impairments on fixed maturities for which a portion of the OTTI loss was recognized in Other comprehensive income (loss) and the corresponding changes in such amounts for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Balance at January 1	$ 33.1	$ 42.1	$ 47.9
Additional credit impairments:			
On securities not previously impaired	-	0.4	0.5
On securities previously impaired	1.8	3.0	3.8
Reductions:			
Increase in cash flows	0.4	0.5	-
Securities sold, matured, prepaid or paid down	7.3	11.9	10.1
Balance at December 31	$ 27.2	$ 33.1	$ 42.1

Net Investment Income

The following table summarizes Net investment income for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Fixed maturities	$ 1,169.5	$ 1,121.7	$ 1,075.8
Equity securities, available-for-sale	2.1	2.4	3.6
Mortgage loans on real estate	165.0	145.6	152.9
Policy loans	4.7	5.0	5.7
Short-term investments and cash equivalents	0.3	0.8	0.4
Other	18.3	39.9	79.7 [1]
Gross investment income	1,359.9	1,315.4	1,318.1
Less: investment expenses	54.4	50.7	50.9
Net investment income	$ 1,305.5	$ 1,264.7	$ 1,267.2

[1] Includes $42.4 in conjunction with a bankruptcy settlement for a prime broker who held assets on behalf of a limited partnership previously written down to realizable value.

As of December 31, 2015 and 2014, the Company had $1.7 and $0.2, respectively, of investments in fixed maturities that did not produce net investment income. Fixed maturities are moved to a non-accrual status when the investment defaults.

Interest income on fixed maturities is recorded when earned using an effective yield method, giving effect to amortization of premiums and accretion of discounts. Such interest income is recorded in Net investment income in the Statements of Operations.

Net Realized Capital Gains (Losses)

Net realized capital gains (losses) comprise the difference between the amortized cost of investments and proceeds from sale and redemption, as well as losses incurred due to the credit-related and intent-related other-than-temporary impairment of investments. Realized investment gains and losses are also primarily generated from changes in fair value of embedded derivatives within products and fixed maturities, changes in fair value of fixed maturities recorded at FVO and changes in fair value including accruals on derivative instruments, except for effective cash flow hedges. The cost of the investments on disposal is generally determined based on FIFO methodology.

Net realized capital gains (losses) were as follows for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Fixed maturities, available-for-sale, including securities pledged	$ (37.5)	$ 2.4	$ (11.4)
Fixed maturities, at fair value option	(98.0)	(50.0)	(89.0)
Equity securities, available-for-sale	-	(0.1)	-
Derivatives	(86.8)	(33.8)	(3,050.2)
Embedded derivatives - fixed maturities	(5.0)	(2.7)	(24.3)
Guaranteed benefit derivatives	95.8	(708.4)	961.7
Other investments	(0.1)	18.5	(2.6)
Net realized capital gains (losses)	$ (131.6)	$ (774.1)	$ (2,215.8)
After-tax net realized capital gains (losses)	$ (85.6)	$ (503.2)	$ (1,440.3)

Proceeds from the sale of fixed maturities and equity securities, available-for-sale and the related gross realized gains and losses, before tax were as follows for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Proceeds on sales	$ 1,700.4	$ 2,436.1	$ 4,548.9
Gross gains	24.7	21.9	41.6
Gross losses	35.6	26.3	27.0

3. Derivative Financial Instruments

The Company enters into the following types of derivatives:

Interest rate swaps: Interest rate swaps are used by the Company primarily to reduce market risks from changes in interest rates and to alter interest rate exposure arising from mismatches between assets and/or liabilities. Interest rate swaps are also used to hedge the interest rate risk associated with the value of assets it owns or in an anticipation of acquiring them. Using interest rate swaps, the Company agrees with another party to exchange, at specified intervals, the difference between fixed rate and floating rate interest payments, calculated by reference to an agreed upon notional principal amount. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made to/from the counterparty at each due date. The Company utilizes these contracts in qualifying hedging relationships as well as non-qualifying hedging relationships.

Foreign exchange swaps: The Company uses foreign exchange or currency swaps to reduce the risk of change in the value, yield or cash flows associated with certain foreign denominated invested assets. Foreign exchange swaps represent contracts that require the exchange of foreign currency cash flows against U.S. dollar cash flows at regular periods, typically quarterly or semi-annually. The Company utilizes these contracts in qualifying hedging relationships as well as non-qualifying hedging relationships.

Credit default swaps: Credit default swaps are used to reduce credit loss exposure with respect to certain assets that the Company owns, or to assume credit exposure on certain assets that the Company does not own. Payments are made to or received from the counterparty at specified intervals. In the event of a default on the underlying credit exposure, the Company will either receive a payment (purchased credit protection) or will be required to make a payment (sold credit protection) equal to the par minus recovery value of the swap contract. The Company utilizes these contracts in non-qualifying hedging relationships.

Total return swaps: The Company uses total return swaps as a hedge against a decrease in variable annuity account values, which are invested in certain indices. Using total return swaps, the Company agrees with another party to exchange, at specified intervals, the difference between the economic risk and reward of assets or a market index and the LIBOR rate, calculated by reference to an agreed upon notional principal amount. No cash is exchanged at the onset of the contracts. Cash is paid and received over the life of the contract based upon the terms of the swaps. The Company utilizes these contracts in non-qualifying hedging relationships.

Currency forwards: The Company uses currency forward contracts to hedge policyholder liabilities associated with the variable annuity contracts which are linked to foreign indices. The currency fluctuations may result in a decrease in account values, which would increase the possibility of the Company incurring an expense for guaranteed benefits in excess of account values. The Company also utilizes currency forward contracts to hedge currency exposure related to invested assets. The Company utilizes these contracts in non-qualifying hedging relationships.

Forwards: The Company uses forward contracts to hedge certain invested assets against movement in interest rates, particularly mortgage rates. The Company uses To-Be-Announced mortgage-backed securities as an economic hedge against rate movements. The Company utilizes forward contracts in non-qualifying hedging relationships.

Futures: Futures contracts are used to hedge against a decrease in certain equity indices. Such decreases may result in a decrease in variable annuity account values which would increase the possibility of the Company incurring an expense for guaranteed benefits in excess of account values. The Company also uses futures contracts as a hedge against an increase in certain equity indices. Such increases may result in increased payments to the holders of the FIA contracts. The Company also uses interest rate futures contracts to hedge its exposure to market risks due to changes in interest rates. The Company enters into exchange traded futures with regulated futures commissions that are members of the exchange. The Company also posts initial and variation margins with the exchange on a daily basis. The Company utilizes exchange-traded futures in non-qualifying hedging relationships.

Swaptions: A swaption is an option to enter into a swap with a forward starting effective date. The Company uses swaptions to hedge the interest rate exposure associated with the minimum crediting rate and book value guarantees embedded in the retirement products that the Company offers. Increases in interest rates will generate losses on assets that are backing such liabilities. In certain instances, the Company locks in the economic impact of existing purchased swaptions by entering into offsetting written swaptions. Swaptions are also used to hedge against an increase in the interest rate benchmarked crediting strategies within FIA contracts. Such increases may result in increased payments to contract holders of FIA contracts and the interest rate swaptions offset this increased exposure. The Company pays a premium when it purchases the swaption. The Company utilizes these contracts in non-qualifying hedging relationships.

Options: The Company uses put options to manage the equity, interest rate and equity volatility risk of the economic liabilities associated with certain variable annuity minimum guaranteed benefits and/or to mitigate certain rebalancing costs resulting from increased volatility. The Company also uses call options to hedge against an increase in various equity indices. Such increases may result in increased payments to the holders of the FIA contracts. The Company pays an upfront premium to purchase these options. The Company utilizes these options in non-qualifying hedging relationships.

Variance swaps: The Company uses variance swaps to manage equity volatility risk on the economic liabilities associated with certain minimum guaranteed living benefits and/or to mitigate certain rebalancing costs resulting from increased volatility. An increase in the equity volatility results in a higher valuations of such liabilities. In an equity variance swap, the Company agrees with another party to exchange amounts in the future, based on the changes in equity volatility over a defined period. The Company utilizes equity variance swaps in non-qualifying hedging relationships.

Embedded derivatives: The Company also invests in certain fixed maturity instruments and has issued certain products that contain embedded derivatives whose market value is at least partially determined by, among other things, levels of or changes in domestic and/or foreign interest rates (short-term or long-term), exchange rates, prepayment rates, equity rates, or credit ratings/spreads. In addition, the Company has entered into coinsurance with funds withheld arrangements, which contain embedded derivatives.

The Company's use of derivatives is limited mainly to economic hedging to reduce the Company's exposure to cash flow variability of assets and liabilities, interest rate risk, credit risk, exchange rate risk and market risk. It is the Company's policy not to offset amounts recognized for derivative instruments and amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement, which provides the Company with the legal right of offset.

The notional amounts and fair values of derivatives were as follows as of the dates indicated:

	December 31, 2015			December 31, 2014		
	Notional Amount	**Asset Fair Value**	**Liability Fair Value**	**Notional Amount**	**Asset Fair Value**	**Liability Fair Value**
Derivatives: Qualifying for hedge accounting[1]						
Cash flow hedges:			&sbsp;			
Interest rate contracts	$ 18.2	$ 0.5	$ -	$ 7.7	$ 0.4	$ -
Foreign exchange contracts	57.1	11.7	-	57.1	7.9	-
Fair value hedges:						
Interest rate contracts	295.1	0.8	5.9	299.1 &sbsp;	2.1	7.8
Derivatives: Non-qualifying for hedge accounting[1]						
Interest rate contracts	27,139.0	529.5	114.9	23,792.7	434.2	98.5
Foreign exchange contracts	967.0	30.9	12.3	1,032.0	22.5	8.2
Equity contracts	19,062.4	223.7	65.6	20,610.5	420.2	209.8
Credit contracts	1,230.0	2.3	5.9	1,220.0	4.1	16.3
Embedded derivatives:						
Within fixed maturity investments	N/A	21.1	-	N/A	26.2	-
Within products	N/A	-	3,628.1	N/A	-	3,488.8
Within reinsurance agreements	N/A	(15.6)	10.2	N/A	9.6	211.0
Total		$ 804.9	$ 3,842.9		$ 927.2	$ 4,040.4

[1] Open derivative contracts are reported as Derivatives assets or liabilities on the Balance Sheets at fair value.
N/A - Not Applicable

Based on the notional amounts, a substantial portion of the Company's derivative positions was not designated or did not qualify for hedge accounting as part of a hedging relationship as of December 31, 2015 and 2014. The Company utilizes derivative contracts mainly to hedge exposure to variability in cash flows, interest rate risk, credit risk, foreign exchange risk and equity market risk. The majority of derivatives used by the Company are designated as product hedges, which hedge the exposure arising from insurance liabilities or guarantees embedded in the contracts the Company offers through various product lines. These derivatives do not qualify for hedge accounting as they do not meet the criteria of being "highly effective" as outlined in ASC Topic 815, but do provide an economic hedge, which is in line with the Company's risk management objectives. The Company also uses derivatives contracts to hedge its exposure to various risks associated with the investment portfolio. The Company does not seek hedge accounting treatment for certain of these derivatives as they generally do not qualify for hedge accounting due to the criteria required under the portfolio hedging rules outlined in ASC Topic 815. The Company also uses credit default swaps coupled with other investments in order to produce the investment characteristics of otherwise permissible investments that do not qualify as effective accounting hedges under ASC Topic 815.

Although the Company has not elected to net its derivative exposures, the notional amounts and fair values of Over-The-Counter ("OTC") and cleared derivatives excluding exchange traded contracts and forward contracts (To Be Announced mortgage-backed securities) are presented in the tables below as of the dates indicated:

	December 31, 2015		
	Notional Amount	**Asset Fair Value**	**Liability Fair Value**
Credit contracts	$ 1,230.0	$ 2.3	$ 5.9
Equity contracts	11,528.3	167.5	53.9
Foreign exchange contracts	1,024.1	42.6	12.3
Interest rate contracts	24,030.4	530.8	120.1
		743.2	192.2
Counterparty netting[1]		(184.6)	(184.6)
Cash collateral netting[1]		(427.3)	(5.9)
Securities collateral netting[1]		(12.5)	(1.7)
Net receivables/payables		$ 118.8	$ -

[1] Represents the netting of receivable balances with payable balances, net of collateral, for the same counterparty under eligible netting agreements.

	December 31, 2014		
	Notional Amount	**Asset Fair Value**	**Liability Fair Value**
Credit contracts	$ 1,220.0	$ 4.1	$ 16.3
Equity contracts	13,184.3	317.1	201.7
Foreign exchange contracts	1,089.1	30.4	8.2
Interest rate contracts	24,099.5	436.7	106.3
		788.3	332.5
Counterparty netting[1]		(311.1)	(311.1)
Cash collateral netting[1]		(267.3)	(19.3)
Securities collateral netting[1]		(130.4)	(2.1)
Net receivables/payables		$ 79.5	$ -

[1] Represents the netting of receivable balances with payable balances, net of collateral, for the same counterparty under eligible netting agreements.

Collateral

Under the terms of the OTC Derivative International Swaps and Derivatives Association, Inc. ("ISDA ") agreements, the Company may receive from, or deliver to, counterparties collateral to assure that terms of the ISDA agreements will be met with regard to the Credit Support Annex ("CSA"). The terms of the CSA call for the Company to pay interest on any cash received equal to the Federal Funds rate. To the extent cash collateral is received and delivered, it is included in Payables under securities loan agreements, including collateral held and Short-term investments under securities loan agreements, including collateral delivered, respectively, on the Balance Sheets and is reinvested in short-term investments. Collateral held is used in accordance with the CSA to satisfy any obligations. Investment grade bonds owned by the Company are the source of noncash collateral posted, which is reported in Securities pledged on the Balance Sheets. As of December 31, 2015, the Company held $423.0 and $0.4 of net cash collateral related to OTC derivative contracts and cleared derivative contracts, respectively. As of December 31, 2014, the Company held $268.5 of net cash collateral and pledged $5.8 of net cash collateral related to OTC derivative contracts and cleared derivative contracts, respectively. In addition, as of December 31, 2015, the Company delivered $524.5 of securities and held $12.9 of securities as collateral. As of December 31, 2014, the Company delivered $505.6 of securities and held $130.5 of securities as collateral.

Net realized gains (losses) on derivatives were as follows for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Derivatives: Qualifying for hedge accounting[(1)]:			
Cash flow hedges:			
Interest rate contracts	$ 0.3	$ 0.2	$ - *
Foreign exchange contracts	0.8	0.7	0.2
Fair value hedges:			
Interest rate contracts	(3.6)	(12.9)	15.6
Derivatives: Non-qualifying for hedge accounting[(2)]:			
Interest rate contracts	135.4	797.0	(920.0)
Foreign exchange contracts	56.8	91.8	53.6
Equity contracts	(277.3)	(911.4)	(2,204.2)
Credit contracts	0.8	0.8	4.6
Embedded derivatives:			
Within fixed maturity investments[(2)]	(5.0)	(2.7)	(24.3)
Within products[(2)]	95.8	(708.4)	961.7
Within reinsurance agreements[(3)]	175.6	(231.1)	311.3
Total	$ 179.6	$ (976.0)	$ (1,801.5)

* Less than $0.1.
(1) Changes in value for effective fair value hedges are recorded in Other net realized capital gains (losses). Changes in fair value upon disposal for effective cash flow hedges are amortized through Net investment income and the ineffective portion is recorded in Other net realized capital gains (losses) in the Statements of Operations. For the years ended December 31, 2015, 2014 and 2013, ineffective amounts were immaterial.
(2) Changes in value are included in Other net realized capital gains (losses) in the Statements of Operations.
(3) Changes in value are included in Interest credited and other benefits to contract owners/policyholders in the Statements of Operations.

Credit Default Swaps

The Company has entered into various credit default swaps. When credit default swaps are sold, the Company assumes credit exposure to certain assets that it does not own. Credit default swaps may also be purchased to reduce credit exposure in the Company's portfolio. Credit default swaps involve a transfer of credit risk from one party to another in exchange for periodic payments. As of December 31, 2015, the fair values of credit default swaps of $2.3 and $5.9 were included in Derivatives assets and Derivatives liabilities, respectively, on the Balance Sheets. As of December 31, 2014, the fair value of credit default swaps of $4.1 and $16.3 were included in Derivatives assets and Derivatives liabilities, respectively, on the Balance Sheets. As of December 31, 2015, and 2014, the maximum potential future net exposure to the Company was $220.0 on credit default swaps. These instruments are typically written for a maturity period of 5 years and contain no recourse provisions. If the Company's current debt and claims paying ratings were downgraded in the future, the terms in the Company's derivative agreements may be triggered, which could negatively impact overall liquidity.

4. Fair Value Measurements

Fair Value Measurement

The Company categorizes its financial instruments into a three-level hierarchy based on the priority of the inputs to the valuation technique, pursuant to ASU 2011-04, "Fair Value Measurements (ASC Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP" ("ASU 2011-04"). The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest

priority level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded at fair value on the Balance Sheets are categorized as follows:

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in an active market. The Company defines an active market as a market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Quoted prices in markets that are not active or valuation techniques that require inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

a) Quoted prices for similar assets or liabilities in active markets;
b) Quoted prices for identical or similar assets or liabilities in non-active markets;
c) Inputs other than quoted market prices that are observable; and
d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means.

- Level 3 - Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These valuations, whether derived internally or obtained from a third party, use critical assumptions that are not widely available to estimate market participant expectations in valuing the asset or liability.

When available, the estimated fair value of financial instruments is based on quoted prices in active markets that are readily and regularly obtainable. When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, including discounted cash flow methodologies, matrix pricing or other similar techniques.

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Assets:			&sbsp;	
Fixed maturities, including securities pledged:				
U.S. Treasuries	$ 1,049.2	$ 9.5	$ -	$ 1,058.7
U.S. Government agencies and authorities	-	81.9	-	81.9
State, municipalities and political subdivisions	-	360.5	-	360.5
U.S. corporate public securities	-	10,871.2	0.7	10,871.9
U.S. corporate private securities	-	2,067.1	327.3	2,394.4
Foreign corporate public securities and foreign governments[1]	-	2,791.8	1.2	2,793.0
Foreign corporate private securities[1]	-	2,481.0	145.0	2,626.0
Residential mortgage-backed securities	-	1,856.5	28.6	1,885.1
Commercial mortgage-backed securities	-	1,331.3	12.1	1,343.4
Other asset-backed securities	-	252.0	11.3	263.3
Total fixed maturities, including securities pledged	1,049.2	22,102.8	526.2	23,678.2
Equity securities, available-for-sale	12.5	-	6.7	19.2
Derivatives:				
Interest rate contracts	-	530.8	-	530.8
Foreign exchange contracts	-	42.6	-	42.6
Equity contracts	56.2	161.8	5.7	223.7
Credit contracts	-	2.3	-	2.3
Embedded derivative on reinsurance	-	(15.6)	-	(15.6)
Cash and cash equivalents, short-term investments and short-term investments under securities loan agreements	1,947.2	1.4	-	1,948.6
Assets held in separate accounts	33,355.5	-	-	33,355.5
Total assets	$ 36,420.6	$ 22,826.1	$ 538.6	$ 59,785.3
Liabilities:				
Derivatives:				
Guaranteed benefit derivatives:				
FIA	$ -	$ -	$ 1,779.1	$ 1,779.1
GMAB / GMWB / GMWBL	-	-	1,849.0	1,849.0
Other derivatives:				
Interest rate contracts	0.7	120.1	-	120.8
Foreign exchange contracts	-	12.3	-	12.3
Equity contracts	11.7	53.9	-	65.6
Credit contracts	-	5.9	-	5.9
Embedded derivative on reinsurance	-	10.2	-	10.2
Total liabilities	$ 12.4	$ 202.4	$ 3,628.1	$ 3,842.9

[1] Primarily U.S. dollar denominated

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities, including securities pledged:				
U.S. Treasuries	$ 916.6	$ 9.5	$ -	$ 926.1
U.S. Government agencies and authorities	-	83.4	-	83.4
State, municipalities and political subdivisions	-	164.4	-	164.4
U.S. corporate public securities	-	10,253.8	53.8	10,307.6
U.S. corporate private securities	-	1,880.6	260.2	2,140.8
Foreign corporate public securities and foreign governments[1]	-	2,825.1	-	2,825.1
Foreign corporate private securities[1]	-	2,703.4	147.3	2,850.7
Residential mortgage-backed securities	-	2,019.2	31.3	2,050.5
Commercial mortgage-backed securities	-	1,627.5	-	1,627.5
Other asset-backed securities	-	300.0	0.9	300.9
Total fixed maturities, including securities pledged	916.6	21,866.9	493.5	23,277.0
Equity securities, available-for-sale	6.7	-	-	6.7
Derivatives:				
Interest rate contracts	-	436.7	-	436.7
Foreign exchange contracts	-	30.4	-	30.4
Equity contracts	103.1	285.9	31.2	420.2
Credit contracts	-	4.1	-	4.1
Embedded derivative on reinsurance	-	9.6	-	9.6
Cash and cash equivalents, short-term investments and short-term investments under securities loan agreements	1,277.5	-	1.8	1,279.3
Assets held in separate accounts	38,547.7	-	-	38,547.7
Total assets	$ 40,851.6	$ 22,633.6	$ 526.5	$ 64,011.7
Liabilities:				
Derivatives:				
Guaranteed benefit derivatives:				
FIA	$ -	$ -	$ 1,924.4	$ 1,924.4
GMAB / GMWB / GMWBL	-	-	1,564.4	1,564.4
Other derivatives:				
Interest rate contracts	-	106.3	-	106.3
Foreign exchange contracts	-	8.2	-	8.2
Equity contracts	8.1	201.7	-	209.8
Credit contracts	-	16.3	-	16.3
Embedded derivative on reinsurance	-	211.0	-	211.0
Total liabilities	$ 8.1	$ 543.5	$ 3,488.8	$ 4,040.4

[1] Primarily U.S. dollar denominated

Valuation of Financial Assets and Liabilities at Fair Value

Certain assets and liabilities are measured at estimated fair value on the Company's Balance Sheets. The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The exit price and the transaction (or entry) price will be the same at initial recognition in many circumstances. However, in certain cases, the transaction price may not represent fair value. The fair value of a liability is based on the amount that would be paid to

transfer a liability to a third-party with an equal credit standing. Fair value is required to be a market-based measurement that is determined based on a hypothetical transaction at the measurement date, from a market participant's perspective. The Company considers three broad valuation techniques when a quoted price is unavailable: (i) the market approach, (ii) the income approach and (iii) the cost approach. The Company determines the most appropriate valuation technique to use, given the instrument being measured and the availability of sufficient inputs. The Company prioritizes the inputs to fair valuation techniques and allows for the use of unobservable inputs to the extent that observable inputs are not available.

The Company utilizes a number of valuation methodologies to determine the fair values of its financial assets and liabilities in conformity with the concepts of exit price and the fair value hierarchy as prescribed in ASC Topic 820. Valuations are obtained from third-party commercial pricing services, brokers and industry-standard, vendor-provided software that models the value based on market observable inputs. The valuations obtained from third-party commercial pricing services are non-binding. The Company reviews the assumptions and inputs used by third-party commercial pricing services for each reporting period in order to determine an appropriate fair value hierarchy level. The documentation and analysis obtained from third-party commercial pricing services are reviewed by the Company, including in-depth validation procedures confirming the observability of inputs. The valuations are reviewed and validated monthly through the internal valuation committee price variance review, comparisons to internal pricing models, back testing to recent trades or monitoring of trading volumes.

The following valuation methods and assumptions were used by the Company in estimating the reported values for the investments and derivatives described below:

Fixed maturities: The fair values for actively traded marketable bonds are determined based upon the quoted market prices and are classified as Level 1 assets. Assets in this category primarily include certain U.S. Treasury securities.

For fixed maturities classified as Level 2 assets, fair values are determined using a matrix-based market approach, based on prices obtained from third-party commercial pricing services and the Company’s matrix and analytics-based pricing models, which in each case incorporate a variety of market observable information as valuation inputs. The market observable inputs used for these fair value measurements, by fixed maturity asset class, are as follows:

U.S. Treasuries: Fair value is determined using third-party commercial pricing services, with the primary inputs being stripped interest and principal U.S. Treasury yield curves that represent a U.S. Treasury zero-coupon curve.
U.S. government agencies and authorities, State, municipalities and political subdivisions: Fair value is determined using third-party commercial pricing services, with the primary inputs being U.S. Treasury yield curves, trades of comparable securities, credit spreads off benchmark yields and issuer ratings.

U.S. corporate public securities, Foreign corporate public securities and foreign governments: Fair value is determined using third-party commercial pricing services, with the primary inputs being benchmark yields, trades of comparable securities, issuer ratings, bids and credit spreads off benchmark yields.

U.S. corporate private securities and Foreign corporate private securities: Fair values are determined using a matrix and analytics-based pricing model. The model incorporates the current level of risk-free interest rates, current corporate credit spreads, credit quality of the issuer and cash flow characteristics of the security. The model also considers a liquidity spread, the value of any collateral, the capital structure of the issuer, the presence of guarantees, and prices and quotes for comparably rated publicly traded securities.

RMBS, CMBS and ABS: Fair value is determined using third-party commercial pricing services, with the primary inputs being credit spreads off benchmark yields, prepayment speed assumptions, current and forecasted loss severity, debt service coverage ratios, collateral type, payment priority within tranche and the vintage of the loans underlying the security.

Generally, the Company does not obtain more than one vendor price from pricing services per instrument. The Company uses a hierarchy process in which prices are obtained from a primary vendor and, if that vendor is unable to provide the price, the next vendor in the hierarchy is contacted until a price is obtained or it is determined that a price cannot be obtained from a commercial

pricing service. When a price cannot be obtained from a commercial pricing service, independent broker quotes are solicited. Securities priced using independent broker quotes are classified as Level 3.

Broker quotes and prices obtained from pricing services are reviewed and validated through an internal valuation committee price variance review, comparisons to internal pricing models, back testing to recent trades, or monitoring of trading volumes. As of December 31, 2015, $504.8 and $18.6 billion of a total fair value of $23.7 billion in fixed maturities, including securities pledged, were valued using unadjusted broker quotes and unadjusted prices obtained from pricing services, respectively and verified through the review process. The remaining balance in fixed maturities consisted primarily of privately placed bonds valued using a matrix-based pricing. As of December 31, 2014, $467.8 and $18.1 billion of a total fair value of $23.3 billion in fixed maturities, including securities pledged, were valued using unadjusted broker quotes and unadjusted prices obtained from pricing services, respectively and verified through the review process. The remaining balance in fixed maturities consisted primarily of privately placed bonds valued using a matrix-based pricing.

All prices and broker quotes obtained go through the review process described above including valuations for which only one broker quote is obtained. After review, for those instruments where the price is determined to be appropriate, the unadjusted price provided is used for financial statement valuation. If it is determined that the price is questionable, another price may be requested from a different vendor. The internal valuation committee then reviews all prices for the instrument again, along with information from the review, to determine which price best represents exit price for the instrument.

Fair values of privately placed bonds are determined primarily using a matrix-based pricing model and are generally classified as Level 2 assets. The model considers the current level of risk-free interest rates, current corporate spreads, the credit quality of the issuer and cash flow characteristics of the security. Also considered are factors such as the net worth of the borrower, the value of collateral, the capital structure of the borrower, the presence of guarantees and the Company's evaluation of the borrower's ability to compete in its relevant market. Using this data, the model generates estimated market values which the Company considers reflective of the fair value of each privately placed bond.

Equity securities, available-for-sale: Fair values of publicly traded equity securities are based upon quoted market price and are classified as Level 1 assets. Other equity securities, typically private equities or equity securities not traded on an exchange, are valued by other sources such as analytics or brokers and are classified as Level 2 or Level 3 assets.

Derivatives: Derivatives are carried at fair value which is determined using the Company's derivative accounting system in conjunction with observable key financial data from third party sources, such as yield curves, exchange rates, S&P 500 Index prices, London Interbank Offered Rates ("LIBOR") and Overnight Index Swap ("OIS") rates. The Company uses OIS for valuations of collateralized interest rate derivatives, which are obtained from third-party sources. For those derivatives that are unable to be valued by the accounting system, the Company typically utilizes values established by third-party brokers. Counterparty credit risk is considered and incorporated in the Company's valuation process through counterparty credit rating requirements and monitoring of overall exposure. It is the Company's policy to transact only with investment grade counterparties with a credit rating of A- or better. The Company's nonperformance risk is also considered and incorporated in the Company's valuation process. Valuations for the Company's futures and interest rate forward contracts are based on unadjusted quoted prices from an active exchange and, therefore, are classified as Level 1. The Company also has certain credit default swaps and options that are priced using models that primarily use market observable inputs, but contain inputs that are not observable to market participants, which have been classified as Level 3. The remaining derivative instruments, including those priced by third-party vendors, are valued based on market observable inputs and are classified as Level 2.

Cash and cash equivalents, Short-term investments and Short-term investments under securities loan agreement: The carrying amounts for cash reflect the assets' fair values. The fair values for cash equivalents and most short-term investments are determined based on quoted market prices. These assets are classified as Level 1. Other short-term investments are valued and classified in the fair value hierarchy consistent with the policies described herein, depending on investment type.

Assets held in separate accounts: Assets held in separate accounts are reported at the quoted fair values of the underlying investments in the separate accounts. The underlying investments include mutual funds, short-term investments and cash, the valuations of which are based upon a quoted market price and are included in Level 1. Fixed maturity valuations are obtained from third-party commercial pricing services and brokers and are classified in the fair value hierarchy consistent with the policy described above for fixed maturities.

Guaranteed benefit derivatives: The Company records reserves for annuity contracts containing GMAB, GMWB and GMWBL riders. The guarantee is an embedded derivative and is required to be accounted for separately from the host variable annuity contract. The fair value of the obligation is calculated based on actuarial and capital market assumptions related to the projected cash flows, including benefits and related contract charges, over the anticipated life of the related contracts. The cash flow estimates are produced by using stochastic techniques under a variety of market return scenarios and other market implied assumptions. These derivatives are classified as Level 3 liabilities in the fair value hierarchy.

The indexed-crediting feature in the Company's FIA contracts is an embedded derivative that is required to be accounted for separately from the host contract. The fair value of the obligation is calculated based on actuarial and capital market assumptions related to the projected cash flows, including benefits and related contract charges, over the anticipated life of the related contracts. The cash flow estimates are produced by market implied assumptions. These derivatives are classified as Level 3 liabilities in the fair value hierarchy.

The discount rate used to determine the fair value of the Company's GMAB, GMWB, GMWBL and FIA embedded derivative liabilities includes an adjustment to reflect nonperformance risk. The nonperformance risk adjustment incorporates a blend of observable, similarly rated peer holding company credit default swap spreads, adjusted to reflect the credit quality of the Company, the issuer of the guarantee, as well as an adjustment to reflect the priority of policyholder claims.

The Company's valuation actuaries are responsible for the policies and procedures for valuing the embedded derivatives, reflecting the capital markets and actuarial valuation inputs and nonperformance risk in the estimate of the fair value of the embedded derivatives. The actuarial and capital market assumptions for each liability are approved by each product's Chief Risk Officer ("CRO"), including an independent annual review by the CRO. Models used to value the embedded derivatives must comply with the Company's governance policies.

Quarterly, an attribution analysis is performed to quantify changes in fair value measurements and a sensitivity analysis is used to analyze the changes. The changes in fair value measurements are also compared to corresponding movements in the hedge target to assess the validity of the attributions. The results of the attribution analysis are reviewed by the valuation actuaries, responsible CFOs, Controllers, CROs and/or others as nominated by management.

Embedded derivative on reinsurance: The carrying value of embedded derivatives is estimated based upon the change in the fair value of the assets supporting the funds withheld payable under reinsurance agreements. As the fair value of the assets held in trust is based on a quoted market price (Level 1), the fair value of the embedded derivative is based on market observable inputs and is classified as Level 2.

ansfers in and out of Level 1 and 2

There were no securities transferred between Level 1 and Level 2 for the years ended December 31, 2015 and 2014. The Company's policy is to recognize transfers in and transfers out as of the beginning of the reporting period.

Level 3 Financial Instruments

The fair values of certain assets and liabilities are determined using prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement (i.e., Level 3 as defined by ASC Topic 820), including but not limited to liquidity spreads for investments within markets deemed not currently active. These valuations, whether derived internally or obtained from a third party, use critical assumptions that are not widely available to estimate market participant expectations in valuing the asset or liability. In addition, the Company has determined, for certain financial instruments, an active market is such a significant input to determine fair value that the presence of an inactive market may lead to classification in Level 3. In light of the methodologies employed to obtain the fair values of financial assets and liabilities classified as Level 3, additional information is presented below.

The following table summarizes the change in fair value of the Company's Level 3 assets and liabilities and transfers in and out of Level 3 for the period indicated:

	Year Ended December 31, 2015										
	Fair Value as of January 1	Total Realized/Unrealized Gains (Losses) Included in:									
		Net Income	OCI	Purchases	Issuances	Sales	Settlements	Transfers into Level 3[3]	Transfers out of Level 3[3]	Fair Value as of December 31	Change In Unrealized Gains (Losses) Included in Earnings[4]
Fixed maturities, including securities pledged:											
U.S. Government agencies and authorities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
U.S. corporate public securities	53.8	-	(0.1)	0.2	-	-	-	-	(53.2)	0.7	-
U.S. corporate private securities	260.2	(0.1)	(11.9)	111.3	-	(2.6)	(73.3)	43.7	-	327.3	(0.1)
Foreign corporate public securities and foreign governments[1]	-	(4.2)	(0.3)	-	-	-	(5.1)	10.8	-	1.2	(4.2)
Foreign corporate private securities[1]	147.3	(0.5)	(3.4)	9.4	-	-	(40.2)	32.4	-	145.0	(0.7)
Residential mortgage-backed securities	31.3	(1.1)	(0.5)	-	-	-	(0.3)	1.8	(2.6)	28.6	(1.1)
Commercial mortgage-backed securities	-	-	(0.1)	15.0	-	-	(2.8)	-	-	12.1	-
Other asset-backed securities	0.9	-	-	11.9	-	-	(0.7)	16.5	(17.3)	11.3	-
Total fixed maturities, including securities pledged	493.5	(5.9)	(16.3)	147.8	-	(2.6)	(122.4)	105.2	(73.1)	526.2	(6.1)
Equity securities, available-for-sale	-	-	0.2	6.5	-	-	-	-	-	6.7	-
Derivatives:											
Guaranteed benefit derivatives:											
FIA[2]	(1,924.4)	228.7	-	-	(255.2)	-	171.8	-	-	(1,779.1)	-
GMWB/GMAB/GMWBL[2]	(1,564.4)	(132.9)	-	-	(152.3)	-	0.6	-	-	(1,849.0)	-
Other derivatives, net	31.2	(29.8)	-	21.6	-	-	(17.3)	-	-	5.7	(25.5)
Cash and cash equivalents, short-term investments and short-term investments under securities loan agreements	1.8	-	-	-	-	-	(1.8)	-	-	-	-

[1] Primarily U.S. dollar denominated
[2] All gains and losses on Level 3 liabilities are classified as realized gains (losses) for the purpose of this disclosure because it is impracticable to track realized and unrealized gains (losses) separately on a contract-by-contract basis. These amounts are included in Other net realized capital gains (losses) in the Statements of Operations.
[3] The Company's policy is to recognize transfers in and transfers out as of the beginning of the reporting period.
[4] For financial instruments still held as of December 31, amounts are included in Net investment income and Total net realized capital gains (losses) in the Statements of Operations.

The following table summarizes the change in fair value of the Company's Level 3 assets and liabilities and transfers in and out of Level 3 for the period indicated:

	Year Ended December 31, 2014										
	Fair Value as of January 1	Total Realized/Unrealized Gains (Losses) Included in:		Purchases	Issuances	Sales	Settlements	Transfers into Level 3[3]	Transfers out of Level 3[3]	Fair Value as of December 31	Change in Unrealized Gains (Losses) Included in Earnings [4]
		Net Income	OCI								
Fixed maturities, including securities pledged:											
U.S. Government agencies and authorities	$ 4.2	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (4.2)	$ -	$ -
U.S. corporate public securities	41.9	(0.1)	0.1	7.7	-	-	(20.2)	24.4	-	53.8	(0.2)
U.S. corporate private securities	48.5	(0.1)	(3.8)	70.2	-	-	(23.9)	169.3	-	260.2	(0.1)
Foreign corporate public securities and foreign governments[1]	-	-	-	-	-	-	-	-	-	-	-
Foreign corporate private securities[1]	24.6	(0.1)	(7.8)	24.0	-	-	(8.5)	122.8	(7.7)	147.3	(0.1)
Residential mortgage-backed securities	27.6	(2.3)	0.5	2.9	-	-	(1.5)	8.8	(4.7)	31.3	(2.2)
Commercial mortgage-backed securities	-	-	-	-	-	-	-	-	-	-	-
Other asset-backed securities	22.0	3.2	(2.9)	-	-	-	(15.2)	-	(6.2)	0.9	-
Total fixed maturities, including securities pledged	168.8	0.6	(13.9)	104.8	-	-	(69.3)	325.3	(22.8)	493.5	(2.6)
Equity securities, available-for-sale	-	(0.3)	0.3	-	-	-	-	-	-	-	(0.3)
Derivatives:											
Guaranteed benefit derivatives:											
FIA[2]	(1,693.5)	(195.5)	-	-	(166.2)	-	130.8	-	-	(1,924.4)	-
GMWB/GMAB/GMWBL[2]	(901.0)	(512.9)	-	-	(151.2)	-	0.7	-	-	(1,564.4)	-
Other derivatives, net	57.0	31.6	-	22.7	-	-	(80.1)	-	-	31.2	(25.8)
Cash and cash equivalents, short-term investments and short-term investments under securities loan agreements	-	-	-	1.8	-	-	-	-	-	1.8	-

[1] Primarily U.S. dollar denominated
[2] All gains and losses on Level 3 liabilities are classified as realized gains (losses) for the purpose of this disclosure because it is impracticable to track realized and unrealized gains (losses) separately on a contract-by-contract basis. These amounts are included in Other net realized capital gains (losses) in the Statements of Operations.
[3] The Company's policy is to recognize transfers in and transfers out as of the beginning of the reporting period.
[4] For financial instruments still held as of December 31, amounts are included in Net investment income and Total net realized capital gains (losses) in the Statements of Operations.

For the years ended December 31, 2015 and 2014, the transfers in and out of Level 3 for fixed maturities and equity securities, were due to the variation in inputs relied upon for valuation each quarter. Securities that are primarily valued using independent broker quotes when prices are not available from one of the commercial pricing services are reflected as transfers into Level 3. When securities are valued using more widely available information, the securities are transferred out of Level 3 and into Level 1 or 2, as appropriate.

Significant Unobservable Inputs

The Company's Level 3 fair value measurements of its fixed maturities, equity securities available-for-sale and equity and credit derivative contracts are primarily based on broker quotes for which the quantitative detail of the unobservable inputs is neither provided nor reasonably corroborated, thus negating the ability to perform a sensitivity analysis. The Company performs a review of broker quotes by performing a monthly price variance comparison and back tests broker quotes to recent trade prices.

Quantitative information about the significant unobservable inputs used in the Company's Level 3 fair value measurements of its guaranteed benefit derivatives is presented in the following sections and table.

Significant unobservable inputs used in the fair value measurements of GMABs, GMWBs and GMWBLs include long-term equity and interest rate implied volatility, correlations between the rate of return on policyholder funds and between interest rates and equity returns, nonperformance risk, mortality and policyholder behavior assumptions, such as benefit utilization, lapses and partial withdrawals. Such inputs are monitored quarterly.

Significant unobservable inputs used in the fair value measurements of FIAs include nonperformance risk and policyholder behavior assumptions, such as lapses and partial withdrawals. Such inputs are monitored quarterly.

Following is a description of selected inputs:

Equity/Interest Rate Volatility: A term-structure model is used to approximate implied volatility for the equity indices and swap rates for GMAB, GMWB and GMWBL fair value measurements. Where no implied volatility is readily available in the market, an alternative approach is applied based on historical volatility.

Correlations: Integrated interest rate and equity scenarios are used in GMAB, GMWB and GMWBL fair value measurements to better reflect market interest rates and interest rate volatility correlations between equity and fixed income fund groups and between equity fund groups and interest rates. The correlations are based on historical fund returns and swap rates from external sources.

Nonperformance Risk: For the estimate of the fair value of embedded derivatives associated with the Company's product guarantees, the Company uses a blend of observable, similarly rated peer company credit default swap spreads, adjusted to reflect the credit quality of the Company as well as adjustment to reflect the priority of policyholder claims.

Actuarial Assumptions: Management regularly reviews actuarial assumptions, which are based on the Company's experience and periodically reviewed against industry standards. Industry standards and Company experience may be limited on certain products.

The following table presents the unobservable inputs for Level 3 fair value measurements as of December 31, 2015:

	Range[1]		
Unobservable Input	**GMWB / GMWBL**	**GMAB**	**FIA**
Long-term equity implied volatility	15% to 25%	15% to 25%	-
Interest rate implied volatility	0.1% to 18%	0.1% to 18%	-
Correlations between:			
Equity Funds	48% to 98%	48% to 98%	-
Equity and Fixed Income Funds	-38% to 62%	-38% to 62%	-
Interest Rates and Equity Funds	-32% to 16%	-32% to 16%	-
Nonperformance risk	0.23% to 1.3%	0.23% to 1.3%	0.23% to 1.3%
Actuarial Assumptions:			
Benefit Utilization	85% to 100% [2]	-	-
Partial Withdrawals	0% to 10%	0% to 10%	0% to 10%
Lapses	0.08% to 22% [3][4]	0.08% to 25% [3][4]	0% to 60% [3]
Mortality	- [5]	- [5]	- [5]

[1] Represents the range of reasonable assumptions that management has used in its fair value calculations.

[2] Those policyholders who have elected systematic withdrawals are assumed to continue taking withdrawals. As a percent of account value, 36% are taking systematic withdrawals. Of those policyholders who are not taking withdrawals, the Company assumes that 85% will begin systematic withdrawals after a delay period. The utilization function varies by policyholder age and policy duration. Interactions with lapse and mortality also affect utilization. The utilization rate for GMWB and GMWBL tends to be lower for younger contract owners and contracts that have not reached their maximum accumulated GMWB and GMWBL benefit amount. There is also a lower utilization rate, though indirectly, for contracts that are less "in the money" (i.e., where the notional benefit amount is in excess of the account value) due to higher lapses. Conversely, the utilization rate tends to be higher for contract owners near or beyond retirement age and contracts that have accumulated their maximum GMWB or GMWBL benefit amount. There is also a higher utilization rate, though indirectly, for contracts which are highly "in the money". The chart below provides the GMWBL account value by current age group and average expected delay times from the associated attained age group as of December 31, 2015 (account value amounts are in $ billions).

	Account Values			
Attained Age Group	**In the Money**	**Out of the Money**	**Total**	**Average Expected Delay (Years)****
< 60	$ 2.2	$ - *	$ 2.2	9.0
60-69	6.1	- *	6.1	4.2
70+	5.4	- *	5.4	2.4
	$ 13.7	$ - *	$ 13.7	5.0

*Less than $0.1.

** For population expected to withdraw in future. Excludes policies taking systematic withdraws and 15% of policies the Company assumes will never withdraw.

[3] Lapse rates tend to be lower during the contractual surrender charge period and higher after the surrender charge period ends; the highest lapse rates occur in the year immediately after the end of the surrender charge period.

[4] The Company makes dynamic adjustments to lower the lapse rates for contracts that are more "in the money." The table below shows an analysis of policy account values according to whether they are in or out of the surrender charge period and to whether they are "in the money" or "out of the money" as of December 31, 2015 (account value amounts are in $ billions).

		GMAB		GMWB/GMWBL	
	Moneyness	**Account Value**	**Lapse Range**	**Account Value**	**Lapse Range**
During Surrender Charge Period					
	In the Money**	$ - *	0.08% to 7.2%	$ 4.9	0.08% to 5.6%
	Out of the Money	- *	0.41% to 7.9%	- *	0.36% to 5.9%
After Surrender Charge Period					
	In the Money**	$ - *	2.5% to 22.5%	$ 8.8	1.4% to 20.7%
	Out of the Money	- *	11.9% to 24.8%	0.6	5.0% to 21.7%

* Less than $0.1.

** The low end of the range corresponds to policies that are highly "in the money." The high end of the range corresponds to the policies that are close to zero in terms of "in the moneyness."

(5) The mortality rate is based on the 2012 Individual Annuity Mortality Basic table with mortality improvements.

The following table presents the unobservable inputs for Level 3 fair value measurements as of December 31, 2014:

	Range(1)		
Unobservable Input	**GMWB / GMWBL**	**GMAB**	**FIA**
Long-term equity implied volatility	15% to 25%	15% to 25%	-
Interest rate implied volatility	0.2% to 16% &bbsp;	0.2% to 16%	-
Correlations between:			
Equity Funds	49% to 98%	49% to 98%	-
Equity and Fixed Income Funds	-38% to 62%	-38% to 62%	-
Interest Rates and Equity Funds	-32% to -4%	-32% to -4%	-
Nonperformance risk	0.13% to 1.1%	0.13% to 1.1%	0.13% to 1.1%
Actuarial Assumptions:			
Benefit Utilization	85% to 100% (2)	-	-
Partial Withdrawals	0% to 10%	0% to 10%	0% to 5%
Lapses	0.08% to 24% (3)(4)	0.08% to 31% (3)(4)	0% to 60% (3)
Mortality	- (5)	- (5)	- (6)

(1) Represents the range of reasonable assumptions that management has used in its fair value calculations.

(2) Those policyholders who have elected systematic withdrawals are assumed to continue taking withdrawals. As a percent of account value, 33% are taking systematic withdrawals. Of those policyholders who are not taking withdrawals, the Company assumes that 85% will begin systematic withdrawals after a delay period. The utilization function varies by policyholder age and policy duration. Interactions with lapse and mortality also affect utilization. The utilization rate for GMWB and GMWBL tends to be lower for younger contract owners and contracts that have not reached their maximum accumulated GMWB and GMWBL benefit amount. There is also a lower utilization rate, though indirectly, for contracts that are less "in the money" (i.e., where the notional benefit amount is in excess of the account value) due to higher lapses. Conversely, the utilization rate tends to be higher for contract owners near or beyond retirement age and contracts that have accumulated their maximum GMWB or GMWBL benefit amount. There is also a higher utilization rate, though indirectly, for contracts which are highly "in the money". The chart below provides the GMWBL account value by current age group and average expected delay times from the associated attained age group as of December 31, 2014 (account value amounts are in $ billions).

	Account Values			
Attained Age Group	In the Money	Out of the Money	Total	Average Expected Delay (Years)*
< 60	$ 2.4	$ 0.5	$ 2.9	9.5
60-69	6.1	0.9	7.0	4.9
70+	5.0	0.5	5.5	3.1
	$ 13.5	$ 1.9	$ 15.4	5.8

* For population expected to withdraw in future. Excludes policies taking systematic withdraws and 15% of policies the Company assumes will never withdraw.

[3] Lapse rates tend to be lower during the contractual surrender charge period and higher after the surrender charge period ends; the highest lapse rates occur in the year immediately after the end of the surrender charge period.

[4] The Company makes dynamic adjustments to lower the lapse rates for contracts that are more "in the money." The table below shows an analysis of policy account values according to whether they are in or out of the surrender charge period and to whether they are "in the money" or "out of the money" as of December 31, 2014 (account value amounts are in $ billions).

		GMAB		GMWB/GMWBL	
	Moneyness	Account Value	Lapse Range	Account Value	Lapse Range
During Surrender Charge Period					
	In the Money**	$ - *	0.08% to 8.2%	$ 6.5	0.08% to 6.3%
	Out of the Money	- *	0.41% to 12%	1.1	0.36% to 7%
After Surrender Charge Period					
	In the Money**	$ - *	2.5% to 21%	$ 7.2	1.7% to 21%
	Out of the Money	0.1	12.3% to 31%	1.4	5.6% to 24%

* Less than $0.1.

** The low end of the range corresponds to policies that are highly "in the money." The high end of the range corresponds to the policies that are close to zero in terms of "in the moneyness."

[5] The mortality rate is based on the Annuity 2000 Basic table with mortality improvements.

[6] The mortality rate is based on the 2012 Individual Annuity Mortality Basic table with mortality improvements.

Generally, the following will cause an increase (decrease) in the GMAB, GMWB and GMWBL embedded derivative fair value liabilities:

- An increase (decrease) in long-term equity implied volatility
- An increase (decrease) in interest rate implied volatility
- An increase (decrease) in equity-interest rate correlations
- A decrease (increase) in nonperformance risk
- A decrease (increase) in mortality
- An increase (decrease) in benefit utilization
- A decrease (increase) in lapses

Changes in fund correlations may increase or decrease the fair value depending on the direction of the movement and the mix of funds. Changes in partial withdrawals may increase or decrease the fair value depending on the timing and magnitude of withdrawals.

Generally, the following will cause an increase (decrease) in the FIA embedded derivative fair value liability:

- A decrease (increase) in nonperformance risk
- A decrease (increase) in lapses

The Company notes the following interrelationships:

- Higher long-term equity implied volatility is often correlated with lower equity returns, which will result in higher in-the-moneyness, which in turn, results in lower lapses due to the dynamic lapse component reducing the lapses. This increases the projected number of policies that are available to use the GMWBL benefit and may also increase the fair value of the GMWBL.

- Generally, an increase (decrease) in benefit utilization will decrease (increase) lapses for GMWB and GMWBL.

Other Financial Instruments

The carrying values and estimated fair values of the Company's financial instruments as of the dates indicated:

	December 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Fixed maturities, including securities pledged	$ 23,678.2	$ 23,678.2	$ 23,277.0	$ 23,277.0
Equity securities, available-for-sale	19.2	19.2	6.7	6.7
Mortgage loans on real estate	3,310.9	3,429.8	2,854.4	2,989.1
Policy loans	79.8	79.8	87.4	87.4
Cash, cash equivalents, short-term investments and short-term investments under securities loan agreements	1,948.6	1,948.6	1,279.3	1,279.3
Derivatives	799.4	799.4	891.4	891.4
Other investments	48.6	48.6	49.4	49.4
Deposits from affiliates	155.3	156.3	806.7	848.3
Embedded derivative on reinsurance	(15.6)	(15.6)	9.6	9.6
Assets held in separate accounts	33,355.5	33,355.5	38,547.7	38,547.7
Liabilities:				
Investment contract liabilities:				
Deferred annuities[(1)]	19,274.7	19,367.9	19,054.6	19,122.0
Funding agreements with fixed maturities and guaranteed investment contracts	1,105.7	1,083.1	1,114.8	1,091.5
Supplementary contracts, immediate annuities and other	1,766.5	1,955.3	1,296.7	1,404.5
Derivatives:				
Guaranteed benefit derivatives:				
FIA	1,779.1	1,779.1	1,924.4	1,924.4
GMAB/GMWB/GMWBL	1,849.0	1,849.0	1,564.4	1,564.4
Other derivatives	204.6	204.6	340.6	340.6
Long-term debt	435.0	524.7	435.0	545.6
Embedded derivative on reinsurance	10.2	10.2	211.0	211.0

[(1)] Certain amounts included in Deferred annuities are also reflected within the Guaranteed benefit derivatives section of the table above.

The following disclosures are made in accordance with the requirements of ASC Topic 825 which requires disclosure of fair value information about financial instruments, whether or not recognized at fair value on the Balance Sheets, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates, in many cases, could not be realized in immediate settlement of the instrument.

ASC Topic 825 excludes certain financial instruments, including insurance contracts and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following valuation methods and assumptions were used by the Company in estimating the fair value of the following financial instruments, which are not carried at fair value on the Balance Sheets:

Mortgage loans on real estate: The fair values for mortgage loans on real estate are estimated on a monthly basis using discounted cash flow analyses and rates currently being offered in the marketplace for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. Mortgage loans on real estate are classified as Level 3.

Policy loans: The fair value of policy loans approximates the carrying value of the loans. Policy loans are collateralized by the cash surrender value of the associated insurance contracts and are classified as Level 2.

Other investments: FHLB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value and is classified as Level 1.

Deposits from affiliates: Fair value is estimated based on the fair value of the liabilities for the underlying contracts, plus the fair value of the unamortized ceding allowance. The Fair value of the liabilities of the underlying contract is estimated based on the mean present value of stochastically modeled cash flows associated with the contract liabilities taking into account assumptions about contract holder behavior. The stochastic valuation scenario set is consistent with current market parameters and discount is taken using stochastically evolving short risk-free rates plus an adjustment for nonperformance risk. Margins for non-financial risks associated with the contract liabilities are also included. The fair value of the unamortized ceding allowance is based on the projected release ceding allowances and discounted at risk-free rates plus an adjustment for nonperformance risk. These liabilities are classified as Level 3.

Investment contract liabilities:

Deferred annuities: Fair value is estimated as the mean present value of stochastically modeled cash flows associated with the contract liabilities, taking into account assumptions about contract holder behavior. The stochastic valuation scenario set is consistent with current market parameters and discount is taken using stochastically evolving risk-free rates in the scenarios plus an adjustment for nonperformance risk. Margins for non-financial risks associated with the contract liabilities are also included. These liabilities are classified as Level 3.

Funding agreements with fixed maturities and guaranteed investment contracts: Fair value is estimated by discounting cash flows, including associated expenses for maintaining the contracts, at rates, that are risk-free rates plus an adjustment for nonperformance risk. These liabilities are classified as Level 2.

Supplementary contracts and immediate annuities: Fair value is estimated as the mean present value of the single deterministically modeled cash flows associated with the contract liabilities discounted using stochastically evolving short risk-free rates in the scenarios plus an adjustment for nonperformance risk. The valuation is consistent with current market parameters. Margins for non-financial risks associated with the contract liabilities are also included. These liabilities are classified as Level 3.

Long-term debt: Estimated fair value of the Company's notes to affiliates is based upon discounted future cash flows using a discount rate approximating the current market rate, incorporating nonperformance risk and is classified as Level 2.

Fair value estimates are made at a specific point in time, based on available market information and judgments about various financial instruments, such as estimates of timing and amounts of future cash flows. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument, nor do they consider the tax impact of the realization of unrealized capital gains (losses). In many cases, the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realized in immediate settlement of the instruments. In evaluating the Company's management of interest rate, price and liquidity risks, the fair values of all assets and liabilities should be taken into consideration, not only those presented above.

5. Deferred Policy Acquisition Costs and Value of Business Acquired

The following table presents a rollforward of DAC and VOBA for the periods indicated:

	DAC	VOBA	Total
Balance at January 1, 2013	$ 2,968.2	$ 28.4	$ 2,996.6
Deferrals of commissions and expenses	99.7	-	99.7
Amortization:			
Amortization[2]	(1,681.3)	12.5	(1,668.8)
Interest accrued[1]	143.1	3.3	146.4
Net amortization included in the Statements of Operations	(1,538.2)	15.8	(1,522.4)
Change in unrealized capital gains/losses on available-for-sale securities	742.0	14.4	756.4
Balance as of December 31, 2013	2,271.7	58.6	2,330.3
Deferrals of commissions and expenses	118.2	-	118.2
Amortization:			
Amortization	24.4	(12.2)	12.2
Interest accrued[1]	100.5	3.3	103.8
Net amortization included in the Statements of Operations	124.9	(8.9)	116.0
Change in unrealized capital gains/losses on available-for-sale securities	(301.9)	(10.6)	(312.5)
Balance as of December 31, 2014	2,212.9	39.1	2,252.0
Deferrals of commissions and expenses	115.3	-	115.3
Amortization:			
Amortization[2]	(688.2)	(17.2)	(705.4)
Interest accrued[1]	35.8	2.6	38.4
Net amortization included in the Statements of Operations	(652.4)	(14.6)	(667.0)
Change in unrealized capital gains/losses on available-for-sale securities	424.4	20.1	444.5
Balance as of December 31, 2015	$ 2,100.2	$ 44.6	$ 2,144.8

[1] Interest accrued at the following rates for VOBA: 2.2% to 5.8% during 2015, 2.0% to 5.8% during 2014 and 1.0% to 6.0% during 2013.
[2] Includes loss recognition for DAC and VOBA of $275.7 and $1.2, respectively, during 2015 and loss recognition for DAC and VOBA of $305.0 and $1.0, respectively, during 2013. There was no loss recognition for DAC and VOBA during 2014.

The estimated amount of VOBA amortization expense, net of interest, for the next five years is presented in the following table. Actual amortization incurred during these years may vary as assumptions are modified to incorporate actual results and/or changes in best estimates of future results.

Year	Amount
2016	$ 8.4
2017	7.5
2018	6.4
2019	6.4
2020	6.4

6. Sales Inducements

During the years ended December 31, 2015, 2014 and 2013, the Company capitalized $22.0, $28.4 and $27.4, respectively, of Sales inducements to contract owners. During the years ended December 31, 2015, 2014 and 2013, the Company amortized $(109.8), $(19.3) and $(472.0), respectively, of Sales inducements to contract owners. The unamortized balance of capitalized Sales inducements to contract owners was $431.6 and $431.3 as of December 31, 2015 and 2014, respectively. Loss recognition related to Sales inducements to contract owners for the years ended December 31, 2015 and 2013 was $65.1 and $44.8, respectively. The Company had no loss recognition related to Sales inducements to contract owners for the year ended December 31, 2014.

7. Guaranteed Benefit Features

While the Company stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010, its currently-sold retail variable annuity contracts with separate account options guarantee the contract owner a return of no less than (i) total deposits made to the contract less any partial withdrawals, (ii) total deposits made to the contract less any partial withdrawals plus a minimum return, or (iii) the highest contract value on a specified date minus any withdrawals. These guarantees include benefits that are payable in the event of death, annuitization or at specified dates.

The Company also has certain indexed annuity products which contain guaranteed withdrawal benefit provisions. This provision guarantees an annual withdrawal amount for life that is calculated as a percentage of the benefit base, which equals premium paid at the time of product issue, and can increase by a rollup percentage (mainly 7%, 6% or a percentage linked to index credits earned, depending on versions of the benefit) or annual ratchet. The percentage used to determine the guaranteed annual withdrawal amount may vary by age at first withdrawal and depends on whether the benefit is for a single life or joint lives.

The Company’s major source of income from guaranteed benefit features is the base contract mortality, expense, and guaranteed death and living benefit rider fees charged to the contract owner, less the costs of administering the product and providing for the guaranteed death and living benefits.

The Company's closed block of variable annuity contracts offer one or more of the following guaranteed death and living benefits:

Guaranteed Minimum Death Benefits (GMDB)

- *Standard*: Guarantees that, upon the death of the individual specified in the policy, the death benefit will be no less than the premiums paid by the customer, adjusted for withdrawals.
- *Ratchet*: Guarantees that, upon the death of the individual specified in the policy, the death benefit will be no less than the greater of (1) Standard or (2) the maximum policy anniversary (or quarterly) value of the variable annuity, adjusted for withdrawals.
- *Rollup*: Guarantees that, upon the death of the individual specified in the policy, the death benefit will be no less than the aggregate premiums paid by the contract owner, with interest at the contractual rate per annum, adjusted for withdrawals. The Rollup may be subject to a maximum cap on the total benefit.
- *Combo*: Guarantees that, upon the death of the individual specified in the policy, the death benefit will be no less than the greater of (1) Ratchet or (2) Rollup.

Guaranteed Minimum Living Benefits

Guaranteed Minimum Income Benefit (GMIB): Guarantees a minimum income payout, exercisable only on a contract anniversary on or after a specified date, in most cases 10 years after purchase of the GMIB rider. The income payout is determined based on contractually established annuity factors multiplied by the benefit base. The benefit base equals the premium paid at the time of product issue and may increase over time based on a number of factors, including a rollup percentage (mainly 7% or 6% depending on the version of the benefit) and ratchet frequency subject to maximum caps which vary by product version (200%, 250% or 300% of initial premium).

Guaranteed Minimum Withdrawal Benefit and Guaranteed Minimum Withdrawal Benefit for Life (GMWB/GMWBL): Guarantees an annual withdrawal amount for a specified period of time (GMWB) or life (GMWBL) that is calculated as a percentage of the benefit base that equals premium paid at the time of product issue and may increase over time based on a number of factors, including a rollup percentage (mainly 7%, 6% or 0%, depending on versions of the benefit) and ratchet frequency (primarily annually or quarterly, depending on versions). The percentage used to determine the guaranteed annual withdrawal amount may vary by age at first withdrawal and depends on versions of the benefit. A joint life-time withdrawal benefit option was available to include coverage for spouses. Most versions of the withdrawal benefit included reset and/or step-up features that may increase the guaranteed withdrawal amount in certain conditions. Earlier versions of the withdrawal benefit guarantee that annual withdrawals of up to 7.0% of eligible premiums may be made until eligible premiums previously paid by the contract owner are returned, regardless of account value performance. Asset allocation requirements apply at all times where withdrawals are guaranteed for life.

Guaranteed Minimum Accumulation Benefit (GMAB): Guarantees that the account value will be at least 100% of the eligible premiums paid by the customer after 10 years, adjusted for withdrawals. The Company offered an alternative design that guaranteed the account value to be at least 200% of the eligible premiums paid by contract owners after 20 years.

The following assumptions and methodology were used to determine the guaranteed reserves for closed block of variable annuity contracts as of December 31, 2015 and 2014:

Area	Assumptions/Basis for Assumptions
Data used	Based on 1,000 investment performance scenarios.
Mean investment performance	GMDB: The mean investment performance varies by fund group. In general, the Company groups all separate account returns into 6 fund groups and generate stochastic returns for each of these fund groups. The overall mean blended separate account return is 8.1%. The general account fixed portion is a small percentage of the overall total. GMIB: The overall blended mean is 8.1% based on a single fund group. GMAB / GMWB / GMWBL: Zero rate curve.
Volatility	GMDB: 15.1% for 2015 and 15.8% for 2014. GMIB: 15.1% for 2015 and 15.8% for 2014. GMAB / GMWB / GMWBL: Implied volatilities through the first 5 years and then a blend of implied and historical thereafter.
Mortality	Depending on the type of benefit and gender, the Company uses the 2012 Individual Annuity Mortality Basic table with mortality improvement as of December 31, 2015 and the Annuity 2000 Basic table with mortality improvement as of December 31, 2014, further adjusted for company experience.
Lapse rates	Vary by contract type, share class, time remaining in the surrender charge period and in-the-moneyness.
Discount rates	GMDB / GMIB: 5.5% for 2015 and 2014. GMAB / GMWB / GMWBL: Zero rate curve plus adjustment for nonperformance risk.

Variable annuity contracts containing guaranteed minimum death and living benefits expose the Company to equity risk. With a decline in the equity markets, the Company has exposure to increasing claims due to the guaranteed minimum benefits. On the other hand, with an increase in the equity markets, the Company's exposure to risks associated with the guaranteed minimum benefits generally decreases. In order to mitigate the risk associated with guaranteed death and living benefits, the Company enters into reinsurance agreements and derivative positions on various public market indices chosen to closely replicate contract owner variable fund returns.

The calculation of the GMDB, GMIB, GMAB, GMWB, and GMWBL liabilities assumes dynamic surrenders and dynamic utilization of the guaranteed living benefit feature.

The liabilities for variable annuity contracts containing guaranteed minimum death and living benefits are recorded in separate account liabilities as follows as of December 31, 2015 and 2014. The separate account liabilities may include more than one type of guarantee. These liabilities are subject to the requirements for additional reserve liabilities under ASC Topic 944, which are recorded on the Balance Sheets in Future policy benefits and contract owner account balances. The paid and incurred amounts were as follows for the years ended December 31, 2015, 2014 and 2013:

	GMDB[1]	GMAB/GMWB	GMIB[2]	GMWBL[3]
Separate account liability at December 31, 2015	$ 33,321.3	$ 593.5	$ 11,338.1	$ 13,811.4
Separate account liability at December 31, 2014	$ 38,547.7	$ 728.9	$ 13,618.4	$ 15,444.4
Additional liability balance:				
Balance at January 1, 2013	$ 488.0	$ 76.0	$ -	$ 1,511.8
Incurred guaranteed benefits	(59.8)	(46.8)	-	(1,097.8)
Paid guaranteed benefits	(89.2)	(0.5)	-	-
Balance at December 31, 2013	339.0	28.7	-	414.0
Incurred guaranteed benefits	108.6	4.8	-	631.5
Paid guaranteed benefits	(73.3)	(0.7)	-	-
Balance at December 31, 2014	374.3	32.8	-	1,045.5
Incurred guaranteed benefits	231.4	(3.1)	-	200.5
Paid guaranteed benefits	(88.5)	(0.6)	-	-
Balance at December 31, 2015	$ 517.2	$ 29.1	$ -	$ 1,246.0

[1] The additional liability balances as of December 31, 2015, 2014, 2013 and as of January 1, 2013 are presented net of reinsurance of $32.8, $30.8, $33.2 and $143.1, respectively.
[2] The additional liability balances as of December 31, 2015, 2014, 2013 and as of January 1, 2013 are presented net of reinsurance of $1.4 billion, $1.1 billion, $1.1 billion and $1.2 billion, respectively.
[3] The additional liability balances as of December 31, 2015, 2014, 2013 and as of January 1, 2013 are presented net of reinsurance of $573.9, $486.1, $458.3 and $416.3, respectively.

The Company also calculates additional liabilities for FIA contracts with guaranteed withdrawal benefits. The additional liability represents the expected value of these benefits in excess of the projected account balance, and is accreted based on assessments over the accumulation period of the contract. The additional liability for FIA guaranteed withdrawal benefits was $91.0 and $19.7, as of December 31, 2015 and 2014, respectively. The additional liability is recorded in Future policy benefits and contract owner account balances on the Balance Sheets.

The net amount at risk for the GMDB, GMAB and GMWB benefits is equal to the guaranteed value of these benefits in excess of the account values.

The net amount at risk for the GMIB and GMWBL benefits is equal to the excess of the present value of the minimum guaranteed annuity payments available to the contract owner over the current account value.

The separate account values, net amount at risk, net of reinsurance, and the weighted average attained age of contract owners by type of minimum guaranteed benefit, were as follows as of the dates indicated.

	In the Event of Death	At Annuitization, Maturity, or Withdrawal		
	GMDB	GMAB/GMWB	GMIB	GMWBL
December 31, 2015				
Separate account value	$ 33,321.3	$ 593.5	$ 11,338.1	$ 13,811.4
Net amount at risk, net of reinsurance	$ 6,073.6	$ 17.2	$ -	$ -
Weighted average attained age	70	72	-	-
December 31, 2014				
Separate account value	$ 38,547.7	$ 728.9	$ 13,618.4	$ 15,444.4
Net amount at risk, net of reinsurance	$ 4,982.0	$ 15.4	$ -	$ -
Weighted average attained age	70	72	-	-

The aggregate fair value of equity securities, including mutual funds, supporting separate accounts with additional insurance benefits and minimum investment return guarantees as of December 31, 2015 and 2014 was $33.3 billion and $38.5 billion, respectively.

8. Reinsurance

The Company has reinsurance treaties with 14 unaffiliated reinsurers covering a portion of the mortality risks and guaranteed death and living benefits under its life and annuity contracts. The Company, as cedant, also has reinsurance treaties with two affiliates, SLD and SLDI, related to GICs, fixed annuities, variable annuities and universal life insurance policies. In addition, the Company assumed reinsurance risk under reinsurance treaties with its affiliates, ReliaStar Life Insurance Company ("RLI") and SLD related to certain life insurance policies and employee benefit group annual term policies. The Company remains liable to the extent its reinsurers do not meet their obligations under the reinsurance agreements. Furthermore, the Company has an agreement with SLD which is accounted for using the deposit method. For additional information regarding these transactions with affiliates, see the *Related Party Transactions* Note for further detail.

Deposits and reinsurance recoverable was comprised of the following as of the dates indicated:

	December 31,	
	2015	2014
Claims recoverable	$ 10.3	$ 8.7
Reserves ceded [(1)]	5,085.5	3,748.0
Deposits [(1)]	155.3	806.7
Reinsurance receivable, net [(1)]	386.7	396.3
Other	8.1	9.3
Total	$ 5,645.9	$ 4,969.0

[(1)] Includes amounts with affiliates - refer to the *Related Party Transactions* Note for further detail.

The following table summarizes the effect of reinsurance on Premiums for the periods indicated:

	December 31,		
	2015	2014	2013
Premiums:			
Direct premiums	$ 482.7	$ 634.2	$ 95.2
Reinsurance assumed [1]	428.5	407.7	454.9
Reinsurance ceded [1]	(405.4)	(504.1)	(113.8)
Net premiums	$ 505.8	$ 537.8	$ 436.3

[1] Includes amounts with affiliates - refer to the *Related Party Transactions* Note for further detail.

9. Capital Contributions, Dividends and Statutory Information

Iowa insurance law imposes restrictions on an Iowa insurance company's ability to pay dividends to its parent. These restrictions are based in part on the prior year's statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval. Dividends in larger amounts, or extraordinary dividends, are subject to approval by the Iowa Insurance Commission.

Under Iowa law, an extraordinary dividend or distribution is defined as a dividend or distribution that, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (1) ten percent (10.0%) of the Company's earned statutory surplus at the prior year end or (2) the Company's prior year statutory net gain from operations. Iowa law also prohibits an Iowa insurer from declaring or paying a dividend except out of its earned surplus unless prior insurance regulatory approval is obtained.

During the year ended December 31, 2015, the Company declared an ordinary dividend to its Parent in the amount of $394.0, which was paid to its Parent on May 20, 2015. During the year ended December 31, 2014, the Company paid an ordinary dividend in the amount of $216.0 to its Parent.

During the year ended December 31, 2015, the Company declared an extraordinary distribution in the amount of $98.0, subject to receipt of approval by the Iowa Insurance Division. The Iowa Insurance Division provided its approval on June 25, 2015, and the Company paid the extraordinary distribution to its Parent on June 26, 2015.

During the years ended December 31, 2015, and 2014, the Company did not receive any capital contributions from its Parent.

The Company is subject to minimum risk-based capital ("RBC") requirements established by the Division. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of total adjusted capital ("TAC"), as defined by the National Association of Insurance Commissioners ("NAIC"), to authorized control level RBC, as defined by the NAIC. The Company exceeded the minimum RBC requirements that would require any regulatory or corrective action for all periods presented herein.

The Company is required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the Division. Such statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities and contract owner account balances using different actuarial assumptions as well as valuing investments and certain assets and accounting for deferred taxes on a different basis. Certain assets that are not admitted under statutory accounting principles are charged directly to surplus. Depending on the regulations of the Division, the entire amount or a portion of an insurance company's asset balance can be non-admitted depending on specific rules regarding admissibility. The most significant non-admitted assets of the Company are typically deferred tax assets.

Statutory net income (loss) was $553.3, $335.6 and $(55.8), for the years ended December 31, 2015, 2014 and 2013, respectively. Statutory capital and surplus was $2.1 billion as of December 31, 2015 and 2014.

10. Accumulated Other Comprehensive Income (Loss)

Shareholder's equity included the following components of AOCI as of the dates indicated:

	December 31,		
	2015	**2014**	**2013**
Fixed maturities, net of OTTI	$ 406.8	$ 1,388.5	$ 827.5
Equity securities, available-for-sale	3.8	3.6	2.3
Derivatives	11.8	7.6	0.4
DAC/VOBA and Sales inducements adjustments on available-for-sale securities	(181.3)	(714.0)	(341.5)
Other	(35.9)	(35.5)	(35.3)
Unrealized capital gains (losses), before tax	205.2	650.2	453.4
Deferred income tax asset (liability)	113.7	(42.0)	26.9
Unrealized capital gains (losses), after tax	318.9	608.2	480.3
Pension and other postretirement benefits liability, net of tax	0.7	0.8	0.9
AOCI	$ 319.6	$ 609.0	$ 481.2

Changes in AOCI, including the reclassification adjustments recognized in the Statements of Operations, were as follows for the periods indicated:

	Year Ended December 31, 2015		
	Before-Tax Amount	**Income Tax**	**After-Tax Amount**
Available-for-sale securities:			
Fixed maturities	$ (1,025.8)	$ 359.0	$ (666.8)
Equity securities	0.2	(0.1)	0.1
Other	(0.4)	0.1	(0.3)
OTTI	6.6	(2.3)	4.3
Adjustments for amounts recognized in Net realized capital gains (losses) in the Statements of Operations	37.5	(13.1)	24.4
DAC/VOBA and Sales inducements	532.7 [1]	(186.4)	346.3
Change in unrealized gains/losses on available-for-sale securities	(449.2)	157.2	(292.0)
Derivatives:			
Derivatives	4.2 [2]	(1.5)	2.7
Adjustments related to effective cash flow hedges for amounts recognized in Net investment income in the Statements of Operations	-	-	-
Change in unrealized gains/losses on derivatives	4.2	(1.5)	2.7
Pension and other postretirement benefits liability:			
Amortization of prior service cost recognized in Operating expenses in the Statements of Operations	(0.2) [3]	0.1	(0.1)
Change in pension and other postretirement benefits liability	(0.2)	0.1	(0.1)
Change in Other comprehensive income (loss)	$ (445.2)	$ 155.8	$ (289.4)

[1] See the *Deferred Policy Acquisition Costs and Value of Business Acquired* Note to these Financial Statements for additional information.
[2] See the *Derivative Financial Instruments* Note to these Financial Statements for additional information.
[3] See the *Benefit Plans* Note to these Financial Statements for amounts reported in Net Periodic (Benefit) Costs.

	Year Ended December 31, 2014		
	Before-Tax Amount	**Income Tax**	**After-Tax Amount**
Available-for-sale securities:			
Fixed maturities	$ 538.0	$ (188.4)	$ 349.6
Equity securities	1.3	(0.5)	0.8
Other	(0.2)	0.1	(0.1)
OTTI	16.7	(5.8)	10.9
Adjustments for amounts recognized in Net realized capital gains (losses) in the Statements of Operations	6.3	(2.2)	4.1
DAC/VOBA and Sales inducements	(372.5) [(1)]	130.4	(242.1)
Change in unrealized gains/losses on available-for-sale securities	189.6	(66.4)	123.2
Derivatives:			
Derivatives	7.2 [(2)]	(2.5)	4.7
Adjustments related to effective cash flow hedges for amounts recognized in Net investment income in the Statements of Operations	-	-	-
Change in unrealized gains/losses on derivatives	7.2	(2.5)	4.7
Pension and other postretirement benefits liability:			
Amortization of prior service cost recognized in Operating expenses in the Statements of Operations	(0.2) [(3)]	0.1	(0.1)
Change in pension and other postretirement benefits liability	(0.2)	0.1	(0.1)
Change in Other comprehensive income (loss)	$ 196.6	$ (68.8)	$ 127.8

[(1)] See the *Deferred Policy Acquisition Costs and Value of Business Acquired* Note to these Financial Statements for additional information.
[(2)] See the *Derivative Financial Instruments* Note to these Financial Statements for additional information.
[(3)] See the *Benefit Plans* Note to these Financial Statements for amounts reported in Net Periodic (Benefit) Costs.

	Year Ended December 31, 2013		
	Before-Tax Amount	Income Tax	After-Tax Amount
Available-for-sale securities:			
Fixed maturities	$ (1,186.1)	$ 415.0	$ (771.1)
Equity securities	(1.1)	0.4	(0.7)
Other	0.1	- *	0.1
OTTI	17.7	(6.2)	11.5
Adjustments for amounts recognized in Net realized capital gains (losses) in the Statements of Operations	(8.6)	3.0	(5.6)
DAC/VOBA and Sales inducements	941.8 (1)	(329.6)	612.2
Change in unrealized gains/losses on available-for-sale securities	(236.2)	82.6	(153.6)
Derivatives:			
Derivatives	1.1 (2)	(0.4)	0.7
Adjustments related to effective cash flow hedges for amounts recognized in Net investment income in the Statements of Operations	-	-	-
Change in unrealized gains/losses on derivatives	1.1	(0.4)	0.7
Pension and other postretirement benefits liability:			
Amortization of prior service cost recognized in Operating expenses in the Statements of Operations	(0.2) (3)	0.1	(0.1)
Change in pension and other postretirement benefits liability	(0.2)	0.1	(0.1)
Change in Other comprehensive income (loss)	$ (235.3)	$ 82.3	$ (153.0)

* Less than $0.1.
[1] See *Deferred Policy Acquisition Costs and Value of Business Acquired* Note to these Financial Statements for additional information.
[2] See *Derivative Financial Instruments* Note to these Financial Statements for additional information.
[3] See *Benefit Plans* Note to these Financial Statements for amounts reported in Net Periodic (Benefit) Costs.

11. Income Taxes

Income tax expense (benefit) consisted of the following for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Current tax expense (benefit):			
Federal	$ (68.5)	$ 69.9	$ 187.4
Total current tax expense (benefit)	(68.5)	69.9	187.4
Deferred tax expense (benefit):			
Federal	14.6	27.4	(1.9)
Total deferred tax expense (benefit)	14.6	27.4	(1.9)
Total income tax expense (benefit)	$ (53.9)	$ 97.3	$ 185.5

Income taxes were different from the amount computed by applying the federal income tax rate to Income (loss) before income taxes for the following reasons for the periods indicated:

	Year Ended December 31,		
	2015	**2014**	**2013**
Income (loss) before income taxes	$ (79.0)	$ 72.4	$ 168.6
Tax rate	35.0%	35.0%	35.0%
Income tax expense (benefit) at federal statutory rate	(27.7)	25.3	59.0
Tax effect of:			
Dividends received deduction	(76.3)	(58.6)	(84.0)
Valuation allowance	47.7	125.8	203.6
Audit settlements	-	2.8	-
Tax credits	2.3	2.0	(0.4)
Prior year tax	-	-	7.2
Non-deductible expense (benefit)	0.1	0.2	-
Other	-	(0.2)	0.1
Income tax expense (benefit)	$ (53.9)	$ 97.3	$ 185.5
Effective tax rate	68.2%	134.4%	110.0%

Temporary Differences

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities as of the dates indicated, are presented below.

	Year Ended December 31,	
	2015	**2014**
Deferred tax assets		
Insurance reserves	$ 759.0	$ 774.9
Investments	867.9	997.7
Compensation and benefits	21.7	48.1
Other assets	21.6	24.2
Total gross assets before valuation allowance	1,670.2	1,844.9
Less: Valuation allowance	597.4	549.7
Assets, net of valuation allowance	1,072.8	1,295.2
Deferred tax liabilities		
Deferred policy acquisition costs	(842.7)	(862.6)
Net unrealized investment (gains) losses	(135.3)	(477.5)
Total gross liabilities	(978.0)	(1,340.1)
Net deferred income tax asset (liability)	$ 94.8	$ (44.9)

Valuation allowances are provided when it is considered unlikely that deferred tax assets will be realized. As of December 31, 2015 and 2014, the Company had total valuation allowances of $597.4 and $549.7, respectively. As of December 31, 2015 and 2014, $783.1 and $735.4, respectively, of these valuation allowances were allocated to continuing operations, and $(185.7) of these valuation allowances were allocated to Other comprehensive income (loss) related to realized and unrealized capital losses.

For the years ended December 31, 2015, 2014 and 2013, the increases in the valuation allowance were $47.7, $125.8 and $203.6, respectively, all of which were allocated to continuing operations.

Tax Sharing Agreement

The Company had a payable to Voya Financial, Inc. of $27.6 as of December 31, 2015 and a payable to Voya Financial, Inc. of $2.1 as of December 31, 2014, for federal income taxes under the intercompany tax sharing agreement.

The results of the Company's operations are included in the consolidated tax return of Voya Financial, Inc. Generally, the Company's financial statements recognize the current and deferred income tax consequences that result from the Company's activities during the current and preceding periods pursuant to the provisions of Income Taxes (ASC Topic 740) as if the Company were a separate taxpayer rather than a member of Voya Financial, Inc.'s consolidated income tax return group with the exception of any net operating loss carryforwards and capital loss carryforwards, which are recorded pursuant to the tax sharing agreement. If the Company instead were to follow a separate taxpayer approach without any exceptions, there would be no impact to income tax expense (benefit) for the periods indicated above. Also, any current tax benefit related to the Company's tax attributes realized by virtue of its inclusion in the consolidated tax return of Voya Financial, Inc. would have been recorded directly to equity rather than income. Under the tax sharing agreement, Voya Financial, Inc. will pay the Company for the tax benefits of ordinary and capital losses only in the event that the consolidated tax group actually uses the tax benefit of losses generated.

Unrecognized Tax Benefits

Reconciliations of the change in the unrecognized income tax benefits for the periods indicated are as follows:

	Year Ended December 31,		
	2015	2014	2013
Balance at beginning of period	$ 5.5	$ 2.7	$ 2.7
Additions for tax positions related to prior years	-	2.8	-
Balance at end of period	$ 5.5	$ 5.5	$ 2.7

The Company had $5.5, $5.5 and $2.7, respectively, of unrecognized tax benefits as of December 31, 2015, 2014 and 2013, which would affect the Company's effective tax rate if recognized.

Interest and Penalties

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in current income taxes and income tax expense on the Balance Sheets and Statement of Operations, respectively. The Company had no accrued interest as of December 31, 2015 and 2014.

Tax Regulatory Matters

During April 2015, the Internal Revenue Service ("IRS") completed its examination of Voya Financial, Inc.'s consolidated return (including the Company) through tax year 2013. The 2013 audit settlement did not have a material impact on the Company. Voya Financial, Inc. (including the Company) is currently under audit by the IRS, and it is expected that the examination of tax year 2014 will be finalized within the next twelve months. Voya Financial, Inc. (including the Company) and the IRS have agreed to participate in the Compliance Assurance Process for the tax years 2014 through 2016.

The IRS issued a Directive dated July 17, 2014 that it should not challenge the qualification of certain hedges and should not challenge certain tax accounting methods. The Company does not expect this Directive to have a material impact on the Company.

The Company does not expect any material changes in the amount of the unrecognized tax benefit of $5.5 within the next twelve months. The timing of a payment (if any) associated with the unrecognized tax benefit cannot be reliably estimated.

12. Benefit Plans

Defined Benefit Plan

Voya Services Company sponsors the Voya Retirement Plan (the "Retirement Plan"). Substantially all employees of Voya Services Company and its affiliates (excluding certain employees) are eligible to participate, including the Company's employees.

The Retirement Plan is a tax qualified defined benefit plan, the benefits of which are guaranteed (within certain specified legal limits) by the Pension Benefit Guaranty Corporation ("PBGC"). Beginning January 1, 2012, the Retirement Plan adopted a cash balance pension formula instead of a final average pay ("FAP") formula, allowing all eligible employees to participate in the Retirement Plan. Participants will earn an annual credit equal to 4% of eligible compensation. Interest is credited monthly based on a 30-year U.S. Treasury securities bond rate published by the Internal Revenue Service in the preceding August of each year. The accrued vested cash pension balance benefit is portable; participants can take it if they leave the Company. For participants in the Retirement Plan as of December 31, 2011, there was a two-year transition period from the Retirement Plan's current FAP formula to the cash balance pension formula which ended December 31, 2013.

The costs allocated to the Company for its employees' participation in the Retirement Plan were $1.7, $2.1 and $2.3, for the years ended December 31, 2015, 2014 and 2013, respectively, and are included in Operating expenses in the Statements of Operations.

Defined Contribution Plan

Voya Services Company sponsors the Voya Savings Plan and ESOP (the "Savings Plan"). Substantially all employees of Voya Services Company and its affiliates (excluding certain employees) are eligible to participate, including the Company's employees other than Company agents. The Savings Plan is a tax qualified defined contribution and stock bonus plan, which includes an employee stock ownership plan component. Savings Plan benefits are not guaranteed by the PBGC. The Savings Plan allows eligible participants to defer into the Savings Plan a specified percentage of eligible compensation on a pretax basis. Voya Services Company matches such pre-tax contributions, up to a maximum of 6.0% of eligible compensation, subject to IRS limits. Matching contributions are subject to a 4-year graded vesting schedule. Contributions made to the Savings Plan are subject to certain limits imposed by applicable law. The cost allocated to the Company for the Savings Plan were $3.0, $3.3 and $3.6, for the years ended December 31, 2015, 2014 and 2013, respectively, and are included in Operating expenses in the Statements of Operations.

Non-Qualified Retirement Plans

Effective December 31, 2001, the Company, in conjunction with Voya Services Company, offers certain eligible employees (other than Career Agents) a Supplemental Executive Retirement Plan and an Excess Plan (collectively, the "SERPs"). Benefits under the SERPs are determined based on an eligible employee's years of service and average annual compensation for the highest five years during the last ten years of employment.

Effective January 1, 2012, the Supplemental Executive Retirement Plan was amended to coordinate with the amendment of the Retirement Plan from its current final average pay formula to a cash balance formula.

The SERPs are non-qualified defined benefit pension plans, which means all the SERPs benefits are payable from the general assets of the Company. These non-qualified defined benefit pension plans are not guaranteed by the PBGC.

Obligations and Funded Status

The following table summarizes the benefit obligations for the SERPs as of December 31, 2015 and 2014:

	Year Ended December 31,	
	2015	2014
Change in benefit obligation:		
Benefit obligation, January 1	$ 23.5	$ 19.9
Interest cost	1.0	1.0
Benefits paid	(1.7)	(1.3)
Actuarial (gains) losses on obligation	(1.2)	3.9
Benefit obligation, December 31	$ 21.6	$ 23.5

Amounts recognized on the Balance Sheets in Other liabilities and in AOCI were as follows as of December 31, 2015 and 2014:

	December 31,	
	2015	2014
Accrued benefit cost	$ (21.6)	$ (23.5)
Accumulated other comprehensive income (loss):		
Prior service cost (credit)	(0.1)	(0.2)
Net amount recognized	$ (21.7)	$ (23.7)

Assumptions

The weighted-average assumptions used in the measurement of the December 31, 2015 and 2014, benefit obligation for the SERPs were as follows:

	December 31,	
	2015	2014
Discount rate	4.81%	4.36%
Rate of compensation increase	4.00%	4.00%

In determining the discount rate assumption, the Company utilizes current market information provided by its plan actuaries, including a discounted cash flow analysis of the Company's pension obligation and general movements in the current market environment. The discount rate modeling process involves selecting a portfolio of high quality, noncallable bonds that will match the cash flows of the SERP. Based upon all available information, it was determined that 4.81% was the appropriate discount rate as of December 31, 2015, to calculate the Company's accrued benefit liability.

The weighted-average assumptions used in calculating the net pension cost were as follows:

	2015	2014	2013
Discount rate	4.36%	4.95%	4.05%
Rate of compensation increase	4.00%	4.00%	4.00%

Since the benefit plans of the Company are unfunded, an assumption for return on plan assets is not required.

Net Periodic Benefit Costs

Net periodic benefit costs for the SERPs were as follows for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,		
	2015	**2014**	**2013**
Interest cost	$ 1.0	$ 1.0	$ 0.9
Amortization of prior service cost (credit)	-	-	-
Net (gain) loss recognition	(1.2)	3.9	(4.6)
Net periodic (benefit) cost	$ (0.2)	$ 4.9	$ (3.7)

Cash Flows

In 2016, the Company is expected to contribute $1.1 to the SERPs. Future expected benefit payments related to the SERPs for the years ended December 31, 2016 through 2020, and thereafter through 2025, are estimated to be $1.1, $1.1, $1.2, $1.2, $1.2 and $6.7, respectively.

Share Based Compensation Plans

Certain employees of the Company participate in the 2013 and 2014 Omnibus Employee Incentive Plans ("the Omnibus Plans") sponsored by Voya Financial, Inc., with respect to awards granted in 2013 through 2015. Certain employees also participate in various ING Group share-based compensation plans with respect to awards granted prior to 2013. Upon closing of the IPO, certain awards granted by ING Group that, upon vesting, would have been issuable in the form of American Depository Receipts ("ADRs") of ING Group were converted into performance shares or restricted stock units ("RSUs") under the Omnibus Plans, that upon vesting, will be issuable in Voya Financial, Inc. common stock.

The Company was allocated compensation expense from Voya Financial, Inc. and ING Group of $12.0, $14.4 and $9.7, for the years ended December 31, 2015, 2014 and 2013, respectively.

The Company recognized tax benefits of $5.6, $5.1 and $1.2 in December 31, 2015, 2014 and 2013, respectively. Excess tax benefits are recognized in Additional paid-in capital and are accounted for in a single pool available to all share-based compensation awards. Excess tax benefits in Additional paid-in capital are not recognized until the benefits result in a reduction in taxes payable. The Company uses tax law ordering when determining when excess tax benefits have been realized.

Other Benefit Plans

In addition to providing retirement plan benefits, the Company, in conjunction with Voya Services Company, provides certain supplemental retirement benefits to eligible employees and health care and life insurance benefits to retired employees and other eligible dependents. The supplemental retirement plan includes a non-qualified defined benefit pension plan and a non-qualified defined contribution plan, which means all benefits are payable from the general assets of the Company. The postretirement health care plan is contributory, with retiree contribution levels adjusted annually and the Company subsidizes a portion of the monthly per-participant premium. Beginning August 1, 2009, the Company moved from self-insuring its supplemental health care costs and began to use a private-fee-for-service Medicare Advantage program for post-Medicare eligible retired participants. In addition, effective October 1, 2009, the Company no longer subsidizes medical premium costs for early retirees. This change does not impact any participant currently retired and receiving coverage under the plan or any employee who is eligible for coverage under the plan and whose employment ended before October 1, 2009. The Company continues to offer access to medical coverage until retirees become eligible for Medicare. The life insurance plan provides a flat amount of noncontributory coverage and optional contributory coverage. The Voya Financial, Inc. Deferred Compensation Savings Plan is a non-qualified deferred compensation plan that includes a 401(k) excess component. The benefits charges allocated to the Company related to all of these plans for the years ended December 31, 2015, 2014 and 2013, were $3.5, $3.6 and $3.8, respectively.

13. Commitments and Contingencies

Leases

The Company leases its office space and certain equipment under operating leases, the longest term of which expires in 2017.

For the years ended December 31, 2015, 2014 and 2013, rent expense for leases was $5.4, $7.1 and $6.8, respectively. The future net minimum payments under non-cancellable leases for the years ended December 31, 2016 and 2017 are estimated to be $7.0 and $5.3, respectively, and none thereafter, totaling $12.3. Lease expenses not paid directly by the Company were paid for by an affiliate and allocated to the Company.

Commitments

Through the normal course of investment operations, the Company commits to either purchase or sell securities, mortgage loans, or money market instruments, at a specified future date and at a specified price or yield. The inability of counterparties to honor these commitments may result in either a higher or lower replacement cost. Also, there is likely to be a change in the value of the securities underlying the commitments.

As of December 31, 2015 and 2014, the Company had off-balance sheet commitments to acquire mortgage loans of $323.6 and $156.6, respectively, and purchase limited partnerships and private placement investments of $285.9 and $57.5, respectively.

Federal Home Loan Bank Funding

The Company is a member of the FHLB of Des Moines and is required to maintain collateral to back funding agreements issued to the FHLB. As of December 31, 2015 and 2014, the Company had $950.4 and $950.1, respectively, in non-putable funding agreements, including accrued interest, issued to the FHLB. These non-putable funding agreements are included in Future policy benefits and contract owner account balances on the Balance Sheets. As of December 31, 2015 and 2014, assets with a market value of $1.1 billion collateralized the funding agreements to the FHLB. Assets pledged to the FHLB are included in Fixed maturities, available-for-sale, on the Balance Sheets.

Restricted Assets

The Company is required to maintain assets on deposit with various regulatory authorities to support its insurance operations. The Company may also post collateral in connection with certain securities lending, repurchase agreements, funding agreements, letter of credit ("LOC") and derivative transactions as described further in this note. The components of the fair value of the restricted assets were as follows as of the dates indicated:

	December 31,	
	2015	2014
Fixed maturity collateral pledged to FHLB	$ 1,096.0	$ 1,119.8
FHLB restricted stock[1]	48.0	48.0
Other fixed maturities-state deposits	11.5	11.4
Securities pledged[2]	672.4	626.8
Total restricted assets	$ 1,827.9	$ 1,806.0

[1] Reported in Other investments on the Balance Sheets.
[2] Includes the fair value of loaned securities of $147.9 and $121.2 as of December 31, 2015 and 2014, respectively. In addition, as of December 31, 2015 and 2014, the Company delivered securities as collateral of $524.5 and $505.6, respectively. Loaned securities and securities delivered as collateral are included in Securities pledged on the Balance Sheets.

Litigation, Regulatory Matters and Loss Contingencies

Litigation, regulatory and other loss contingencies arise in connection with the Company's activities as a diversified financial services firm. The Company is a defendant in a number of litigation matters arising from the conduct of its business, both in the

ordinary course and otherwise. In some of these matters, claimants seek to recover very large or indeterminate amounts, including compensatory, punitive, treble and exemplary damages. Modern pleading practice in the U.S. permits considerable variation in the assertion of monetary damages and other relief. Claimants are not always required to specify the monetary damages they seek or they may be required only to state an amount sufficient to meet a court's jurisdictional requirements. Moreover, some jurisdictions allow claimants to allege monetary damages that far exceed any reasonably possible verdict. The variability in pleading requirements and past experience demonstrates that the monetary and other relief that may be requested in a lawsuit or claim often bears little relevance to the merits or potential value of a claim. Litigation against the Company includes a variety of claims including negligence, breach of contract, fraud, violation of regulation or statute, breach of fiduciary duty, negligent misrepresentation, failure to supervise, elder abuse and other torts.

As with other financial services companies, the Company periodically receives informal and formal requests for information from various state and federal governmental agencies and self-regulatory organizations in connection with inquiries and investigations of the products and practices of the Company or the financial services industry. It is the practice of the Company to cooperate fully in these matters. Regulatory investigations, exams, inquiries and audits could result in regulatory action against the Company. The potential outcome of such action is difficult to predict but could subject the Company to adverse consequences, including, but not limited to, settlement payments, additional payments to beneficiaries and additional escheatment of funds deemed abandoned under state laws. They may also result in fines and penalties and changes to the Company's procedures for the identification and escheatment of abandoned property or the correction of processing errors and other financial liability.

The outcome of a litigation or regulatory matter is difficult to predict and the amount or range of potential losses associated with these or other loss contingencies, requires significant management judgment. It is not possible to predict the ultimate outcome or to provide reasonably possible losses or ranges of losses for all pending regulatory matters, litigation, and other loss contingencies. While it is possible that an adverse outcome in certain cases could have a material adverse effect upon the Company's financial position, based on information currently known, management believes that neither the outcome of pending litigation and regulatory matters, nor potential liabilities associated with other loss contingencies, are likely to have such an effect. However, given the large and indeterminate amounts sought in certain litigation and the inherent unpredictability of all such matters, it is possible that an adverse outcome in certain of the Company's litigation or regulatory matters, or liabilities arising from other loss contingencies, could, from time to time, have a material adverse effect upon the Company's results of operations or cash flows in a particular quarterly or annual period.

For some matters, the Company is able to estimate a possible range of loss. For such matters in which a loss is probable, an accrual has been made. For matters where the Company, however, believes a loss is reasonably possible, but not probable, no accrual is required. For matters for which an accrual has been made, but there remains a reasonably possible range of loss in excess of the amounts accrued or for matters where no accrual is required the Company develops an estimate of the unaccrued amounts of the reasonably possible range of losses. As of December 31, 2015, the Company estimates the aggregate range of reasonably possible losses, in excess of any amounts accrued for these matters as of such date, is not material to the Company.

For other matters, the Company is currently not able to estimate the reasonably possible loss or range of loss. The Company is often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from plaintiffs and other parties, investigation of factual allegations, rulings by a court on motions or appeals, analysis by experts and the progress of settlement discussions. On a quarterly and annual basis, the Company reviews relevant information with respect to litigation and regulatory contingencies and updates the Company's accruals, disclosures and reasonably possible losses or ranges of loss based on such reviews.

14. Related Party Transactions

Operating Agreements

The Company has certain agreements whereby it generates revenues and incurs expenses with affiliated entities. The agreements are as follows:

- Underwriting and distribution agreement with Directed Services LLC ("DSL") (successor by merger to Directed Services, Inc.), an affiliated broker-dealer, whereby DSL serves as the principal underwriter for variable insurance products issued

by the Company. DSL is authorized to enter into agreements with broker-dealers to distribute the Company's variable products and appoint representatives of the broker-dealers as agents. For the years ended December 31, 2015, 2014 and 2013, commissions were incurred in the amounts of $198.3, $217.0 and $218.4, respectively.

- Asset management agreement with Voya Investment Management LLC ("VIM"), an affiliate, in which VIM provides asset management, administration and accounting services for VIAC's general account. The Company records a fee, which is paid quarterly, based on the value of the assets under management. For the years ended December 31, 2015, 2014 and 2013, expenses were incurred in the amounts of $52.8, $48.1 and $50.0, respectively.

- Intercompany agreement with DSL pursuant to which DSL agreed, effective January 1, 2010, to pay the Company, on a monthly basis, a portion of the revenues DSL earns as investment adviser to certain U.S. registered investment companies that are investment options under certain of the Company's variable insurance products. For the years ended December 31, 2015, 2014 and 2013, revenue under the DSL intercompany agreement was $115.5, $139.9 and $147.4, respectively.

- Intercompany agreement with VIM pursuant to which VIM agreed, effective January 1, 2010, to pay the Company, on a monthly basis, a portion of the revenues VIM earns as investment adviser to certain U.S. registered investment companies that are investment options under certain of the Company's variable insurance products. For the years ended December 31, 2015, 2014 and 2013, revenue under the VIM intercompany agreement was $44.3, $41.8 and $34.7, respectively.

- Services agreements with Voya Services Company dated September 1, 2000 and January 1, 2001, respectively, for administrative, management, financial, information technology and finance and treasury services. For the years ended December 31, 2015, 2014 and 2013, expenses were incurred in the amounts of $135.2, $106.9 and $101.9, respectively. Effective October 1, 2010, the services agreement with Voya Services Company dated January 1, 2001, was amended in order for the Company to provide Voya Services Company with use of the corporate office facility at 5780 Powers Ferry Road, N.W., Atlanta, GA (the "Atlanta Office") in exchange for Voya Services Company's payment of the Company's direct and indirect costs for the Atlanta Office.

- Services agreement between the Company and its U.S. insurance company affiliates and other affiliates dated January 1, 2001, amended effective January 1, 2002, December 31, 2007 and October 1, 2008, for administrative, management, professional, advisory, consulting and other services. For the years ended December 31, 2015, 2014 and 2013, expenses related to the agreements were incurred in the amount of $15.0, $13.2 and $12.1, respectively.

- Administrative Services Agreement between the Company, ReliaStar Life Insurance Company of New York ("RLNY"), an affiliate and other U.S. insurance company affiliates dated March 1, 2003, amended effective August 1, 2004, in which the Company and affiliates provide services to RLNY. For the years ended December 31, 2015, 2014 and 2013, revenue related to the agreement was $2.2, $2.3 and $2.2, respectively.

- Variable annuity and fixed insurance products issued by the Company are sold by Voya Financial Advisors, Inc. ("VFA"), an affiliate of the Company. For the years ended December 31, 2015, 2014 and 2013 commission expenses incurred by the Company were $10.6, $10.9 and $10.5, respectively.

Management and service contracts and all cost sharing arrangements with other affiliated companies are allocated in accordance with the Company's expense and cost allocation methods. Revenues and expenses recorded as a result of transactions and agreements with affiliates may not be the same as those incurred if the Company was not a wholly owned subsidiary of its Parent.

Reinsurance Agreements

Reinsurance Ceded

As of December 31, 2015 and 2014, total reserves ceded to affiliates were $5,019.9 and $3,684.4, respectively. For the years ended December 31, 2015, 2014 and 2013, premiums ceded to affiliates were $404.5, $502.5 and $112.2, respectively.

Waiver of Premium - Coinsurance Funds Withheld

Effective October 1, 2010, the Company entered into a coinsurance funds withheld agreement with its affiliate, SLDI. Under the terms of the agreement, the Company ceded to SLDI 100% of the group life waiver of premium liability (except for groups covered under rate credit agreements) assumed from RLI, related to the Group Annual Term Coinsurance Funds Withheld agreement between the Company and RLI described under "Reinsurance Assumed" below.

As of December 31, 2015 and 2014, the value of the funds withheld liability under this agreement was $170.6 and $180.4, respectively, which is included in Funds held under reinsurance treaties with affiliates on the Balance Sheets. In addition, as of December 31, 2015 and 2014, the Company had an embedded derivative under this agreement with a value of $(5.6) and $3.6, respectively, which is recorded in Funds held under reinsurance treaties with affiliates on the Balance Sheets. As of December 31, 2015 and 2014, reserves ceded by the Company under this agreement were $203.6 and $216.7, respectively.

Guaranteed Living Benefit - Coinsurance and Coinsurance Funds Withheld

Effective June 30, 2008, the Company entered into an automatic reinsurance agreement with an affiliate, SLDI, covering 100% of the benefits guaranteed under specific variable annuity guaranteed living benefit riders attached to certain variable annuity contracts issued by the Company on or after January 1, 2000.

Also effective June 30, 2008, the Company entered into a services agreement with SLDI, under which the Company provides certain actuarial risk modeling consulting services to SLDI with respect to hedge positions undertaken by SLDI in connection with the reinsurance agreement. For the years ended December 31, 2015, 2014 and 2013, revenue related to the agreement was $10.9, $12.3, and $12.3, respectively.

Effective July 1, 2009, the reinsurance agreement was amended and restated to change the reinsurance basis from coinsurance to a combined coinsurance and coinsurance funds withheld basis. On July 31, 2009, SLDI transferred assets with a market value of $3.2 billion to the Company and the Company deposited those assets into a funds withheld trust account. As of December 31, 2015 and 2014, the assets on deposit in the trust account were $6.6 billion and $5.5 billion, respectively. The Company also established a corresponding funds withheld liability to SLDI, which is included in Funds held under reinsurance treaties with affiliates on the Balance Sheets. Funds held under reinsurance treaties with affiliates had a balance of $6.6 billion as of December 31, 2015 and $5.3 billion as of December 31, 2014. In addition, as of December 31, 2015 and 2014, the Company had an embedded derivative with a value of $15.8 and $207.4, respectively, which is recorded in Funds held under reinsurance treaties with affiliates on the Balance Sheets.

Also effective July 1, 2009, the Company and SLDI entered into an asset management services agreement, under which SLDI serves as asset manager for the funds withheld account. SLDI has retained its affiliate, VIM, as sub-advisor for the funds withheld account.

Effective October 1, 2011, the Company and SLDI entered into an amended and restated automatic reinsurance agreement in order to provide more flexibility to the Company and SLDI with respect to the collateralization of the reserves related to the variable annuity guaranteed living benefits reinsured under the agreement. As of December 31, 2015 and 2014, reserves ceded by the Company under this agreement were $4.8 billion and $3.4 billion, respectively. In addition, a deferred loss in the amount of $283.3 and $308.1 as of December 31, 2015 and 2014, respectively, is included in Other assets on the Balance Sheets and is amortized over the period of benefit in Other expense in the Statement of Operations.

On May 8, 2013, following the Voya Financial, Inc. IPO, Voya Financial, Inc. made a capital contribution in the amount of $1.8 billion into SLDI, which SLDI deposited into the funds withheld trust account established to provide collateral for the variable

annuity guaranteed living benefit riders ceded to SLDI under the amended and restated automatic reinsurance agreement. Upon deposit of such contributed capital into the funds withheld trust, the Company submitted to ING Bank N.V. ("ING Bank") $1.5 billion of contingent capital LOC issued by ING Bank under the $1.5 billion contingent capital LOC facility between ING Bank and SLDI, and the contingent capital LOCs were canceled and the facility was terminated.

Multi-year Guaranteed Fixed Annuity - Coinsurance

Effective May 1, 2005, the Company entered into a coinsurance agreement with its affiliate, SLD. Under the terms of the agreement, SLD assumed and accepted the responsibility for paying, when due, 100% of the liabilities arising under the multi-year guaranteed fixed annuity contracts issued by the Company between January 1, 2001 and December 31, 2003. The coinsurance agreement was accounted for using the deposit method. In addition, the Company assigned to SLD all future premiums received by the Company attributable to the ceded contracts.

Under the terms of the agreement, the Company ceded $2.5 billion in account balances and transferred a ceding commission and $2.7 billion in assets to SLD, resulting in a realized capital gain of $47.9 to the Company, which reduced the ceding commission.

The coinsurance agreement was accounted for using the deposit method. As such, $2.7 billion of Deposit receivable from affiliate was established on the Balance Sheets. As of December 31, 2014, the deposit receivable was $653.2. On September 25, 2015, the Company recaptured, via a commutation agreement, the multi-year guaranteed fixed annuity contracts ceded under the coinsurance agreement. Under the terms of the agreement, which was effective July 1, 2015, the Company received net assets in the amount of $618.7 in satisfaction of the deposit receivable balance and recognized a pre-tax loss of $4.2 in 2015. The Company incurred amortization expense of the negative ceding commission of $3.2, $6.6 and $4.8, for the years ended December 31, 2015, 2014 and 2013, respectively, which is recorded in Other expense in the Statements of Operations.

Universal Life - Coinsurance

Effective January 1, 2000, the Company entered into a 100% coinsurance agreement with its affiliate, SLD, covering certain universal life policies which had been issued and in force as of, as well as any such policies issued after, the effective date of the agreement. As of December 31, 2015 and 2014, reserves ceded by the Company under this agreement were $20.6 and $20.0, respectively.

Guaranteed Investment Contract - Coinsurance

Effective August 20, 1999, the Company entered into a Facultative Coinsurance Agreement with its affiliate, SLD. Under the terms of the agreement, the Company facultatively cedes, from time to time, certain GICs to SLD on a 100% coinsurance basis. The Company utilizes this reinsurance facility primarily for diversification and asset-liability management purposes in connection with this business. The coinsurance agreement is accounted for using the deposit method. As of December 31, 2015 and 2014, the deposit receivable was $155.3 and $153.5, respectively.

<u>Reinsurance Assumed</u>

As of December 31, 2015 and 2014, total reserves assumed from affiliates were $438.7 and $439.1, respectively. For the years ended December 31, 2015, 2014 and 2013, premiums assumed from affiliates were $428.5, $407.7 and $454.9, respectively.

Level Premium Term Life Insurance - Stop-loss

Effective January 1, 2012, the Company entered into a stop-loss agreement with RLI, which was amended and restated April 1, 2012, under which the Company agreed to indemnify RLI, and RLI agreed to reinsure with the Company, the aggregate mortality risk under the combined blocks of level premium term life insurance policies issued by RLI between January 1, 2009 and December 31, 2009 and also between January 1, 2012 and December 31, 2012. This coverage included certain level premium term life insurance policies assumed by RLI from RLNY under an Automatic Coinsurance Agreement effective March 1, 2008. Under the terms of the agreement, the Company will make benefit payments to RLI equal to the amount of claims in excess of the attachment point (equal to a percentage of net reinsurance premium) up to the maximum fully covered benefit. The stop-loss agreement is

accounted for using the deposit method. A fee receivable from affiliate of $0.4 as of December 31, 2015 and 2014 is included in Other liabilities on the Balance Sheets. The fee is accrued and subsequently settled in cash each quarterly accounting period.

Effective July 1, 2012, the Company entered into a stop-loss agreement with its affiliate, SLD, under which the Company agrees to indemnify SLD, and SLD agrees to reinsure with the Company, aggregate mortality risk under certain level premium term life insurance policies assumed by SLD from RLI and written by either RLI or RLNY with issue dates between January 1, 2007 and March 31, 2008 and between January 1, 2010 and December 31, 2010. Under the terms of the agreement, the Company will make benefit payments to SLD equal to the amount of claims in excess of the attachment point (equal to a percentage of net reinsurance premium) up to the maximum fully covered benefit. The stop-loss agreement was accounted for using the deposit method and, effective October 1, 2014, the agreement was terminated.

Group Annual Term - Coinsurance Funds Withheld

Effective December 31, 2008, the Company entered into a coinsurance funds withheld agreement with RLI for an indefinite duration. Under the terms of the agreement, the Company assumed 100% quota share of RLI's net retained liability under certain Employee Benefits Group Annual Term policies, including disability waiver of premium.

The initial premium of $219.9 was equal to the aggregate reserve assumed by the Company. Thereafter, premiums are equal to the total earned gross premiums collected by RLI from policyholders. RLI will retain all reinsurance premiums payable to the Company as funds withheld, as security for ceded liabilities and against which ceded losses will be offset. Monthly, the Company will receive or pay a net settlement. This agreement was amended and restated October 1, 2010 to better reflect the current investment environment and to modify the treatment of claims under certain policies under which claims are not paid in the form of a single lump sum; the underlying terms described above remained unchanged. (Please see also description of "Waiver of Premium Coinsurance Funds Withheld" agreement between the Company and SLDI under "Reinsurance Ceded" above). As of December 31, 2015 and 2014, reserves assumed by the Company under this agreement were $438.7 and $439.1, respectively.

As of December 31, 2015 and 2014, the value of the funds withheld by ceding companies under this agreement was $464.8 and $467.3, respectively, which is included in Deposit and reinsurance recoverable on the Balance Sheets. In addition, as of December 31, 2015 and 2014, the Company had an embedded derivative under this agreement with a value of $(15.6) and $9.6, respectively.

Reciprocal Loan Agreement

The Company maintains a reciprocal loan agreement with Voya Financial, Inc., an affiliate, to facilitate the handling of unanticipated short-term cash requirements that arise in the ordinary course of business. Under this agreement, which became effective in January 2004, and based upon its renewal on January 14, 2014, expires on January 14, 2024, either party can borrow from the other up to 3.0% of the Company's statutory net admitted assets, excluding Separate Accounts, as of the preceding December 31. For the years ended December 31, 2015 and 2014, interest on any borrowing by either the Company or Voya Financial, Inc. was charged at a rate based on the prevailing market rate for similar third-party borrowings or securities. During the year ended December 31, 2013, interest on any Company borrowing was charged at the rate of Voya Financial, Inc.'s cost of funds for the interest period, plus 0.15%. During the year ended December 31, 2013, interest on any Voya Financial, Inc. borrowing was charged at a rate based on the prevailing interest rate of U.S. commercial paper available for purchase with a similar duration.

Under this agreement, the Company incurred minimal interest expense for the year ended December 31, 2015. The Company did not incur interest expense for the years ended December 31, 2014 and 2013. The Company earned interest income of $0.7, $0.2 and $0.0, for the years ended December 31, 2015, 2014 and 2013, respectively. Interest expense and income are included in Interest expense and Net investment income, respectively, in the Statements of Operations. As of December 31, 2015 and 2014, the Company did not have any outstanding receivable/payable with Voya Financial, Inc. under the reciprocal loan agreement.

Long-Term Debt with Affiliates

The Company issued a 30-year surplus note in the principal amount of $35.0 on December 8, 1999, to its affiliate, SLD, which matures on December 7, 2029. Interest is charged at an annual rate of 7.98%. Payment of the note and related accrued interest is subordinate to payments due to contract owners and claimant and beneficiary claims, as well as debts owed to all other classes of

debtors, other than surplus note holders. Any payment of principal and/or interest made is subject to the prior approval of the Iowa Insurance Commissioner. Interest expense was $2.8 for the years ended December 31, 2015, 2014 and 2013. On December 29, 2004, the Company issued surplus notes in the aggregate principal amount of $400.0 (the "Notes"), scheduled to mature on December 29, 2034, to its affiliates, Voya Retirement Insurance and Annuity Company, RLI and SLDI. The Notes bear interest at a rate of 6.26% per year. Any payment of principal and/or interest is subject to the prior approval of the Iowa Insurance Commissioner. Interest expense was $25.4 for the years ended December 31, 2015, 2014 and 2013.

Derivatives

The Company is party to several derivative contracts with NN Group and ING Bank and one or more of ING Bank's subsidiaries. Each of these contracts was entered into as a result of a competitive bid, which included unaffiliated counterparties. The Company is exposed to various risks relating to its ongoing business operations, including but not limited to interest rate risk, foreign currency risk and equity market risk. To manage these risks, the Company uses various strategies, including derivatives contracts, certain of which are with related parties, such as interest rate swaps, equity options and currency forwards.

As of December 31, 2015, such notional amounts are outstanding with ING Group and NN Group; however, ING Group and NN Group are no longer related parties. As of December 31, 2014, the outstanding notional amount with ING Bank and NN Group was $457.1 (consisting of currency forwards of $178.0 and equity options of $279.1). As of December 31, 2014, the market values for these contracts was $8.8. For the years ended December 31, 2015, 2014 and 2013, the Company recorded Other net realized capital gains (losses) in the Statements of Operations of $17.7, $4.6 and $0.8, respectively, with ING Bank and NN Group.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective in ensuring that material information relating to the Company required to be disclosed in the Company's periodic SEC filings is made known to them in a timely manner.

Management's Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the Company. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements of the Company in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making its assessment, management has used the criteria set forth in "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In the opinion of management, the Company has maintained effective internal control over financial reporting as of December 31, 2015.

Attestation Report of the Company's Registered Public Accounting Firm

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to Title IX, Section 989G of the Dodd-Frank Act, which provides non-accelerated filers such as the Company with an exemption from Section 404(b) of the Sarbanes-Oxley Act, the provision that otherwise requires an issuer to provide an attestation report by its registered public accounting firm on management's assessment of internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

There were no changes in the internal controls over financial reporting of the Company (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended December 31, 2015 that have materially affected or are reasonably likely to materially affect these internal controls over financial reporting.

Item 9B. Other Information

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which was signed into law on August 10, 2012, added a new subsection (r) to Section 13 of the Exchange Act, which requires us to disclose whether the Company or any of its affiliates, including ING Groep N.V ("ING Group" or "ING") or its affiliates, has engaged during the year ended December 31, 2015 in certain Iran-related activities, including any transaction or dealing with the Government of Iran that is not conducted pursuant to a specific authorization of the U.S. Government. For purposes of this disclosure, "affiliates" included ING Group through March 9, 2015.

Neither Voya Financial, Inc. nor any of its subsidiaries, including the Company has knowingly engaged in any transaction or dealing reportable under Section 13(r) of the Exchange Act during the year ended December 31, 2015. The disclosure below relates solely to a limited legacy portfolio of guarantees, accounts, loans and relationships maintained by ING Bank N.V. ("ING Bank"), a subsidiary of ING Group and therefore an affiliate of Voya Financial, Inc. and the Company through March 9, 2015, and does not relate to any activities conducted by Voya Financial, Inc. or its subsidiaries, including the Company or involve the management of Voya Financial, Inc. or its subsidiaries, including the Company, and the information below is based on information provided to the Company by ING Bank.

Other than the transactions described below, at no time during the period in which ING Group continued to be an affiliate of Voya Financial, Inc. and the Company did ING Group or any of its affiliates knowingly conduct or engage in any activities that would require disclosure to the SEC pursuant to Section 13(r) of the Exchange Act. During the period that ING Group continued to be an affiliate of Voya Financial, Inc., ING Bank maintained a limited legacy portfolio of guarantees, accounts, and loans that involved various entities owned by the Government of Iran. ING Bank also had limited legacy relationships with certain persons who were designated under Executive Orders 13224 and 13382. These positions remained on the books, but accounts related thereto may be 'frozen' under applicable laws and procedures. In such cases, any interest or other payments ING Bank was legally required to make in connection with said positions were made into 'frozen' accounts. Funds could only be withdrawn by relevant parties from these 'frozen' accounts after due regulatory consent from the relevant competent authorities. ING Bank had strict controls in place to ensure that no unauthorized account activity took place while the account was 'frozen'. ING Bank may receive loan repayments, but all legacy loan repayments received by ING Bank had been duly authorized by the relevant competent authorities. During the period of 2015 in which ING Group continued to be an affiliate of Voya Financial, Inc. and the Company, ING Bank had gross revenues of approximately $5.8 million related to these activities, which was principally related to legacy loan repayments and commissions on guarantees. ING Bank estimates that it had net profit of approximately $31.5 thousand related to these activities. ING Bank has informed us that it intends to terminate each of the legacy positions as the nature thereof and applicable law permits.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Omitted pursuant to General Instruction I(2) of Form 10-K, except with respect to compliance with Sections 406 and 407 of the Sarbanes-Oxley Act of 2002.

a. Code of Ethics for Financial Professionals
The Company has approved and adopted a Code of Ethics for Financial Professionals (which was filed as Exhibit 14 to the Company's Form 10-K, as filed with the Securities and Exchange Commission on March 29, 2004, File No. 033-87270), pursuant to the requirements of Section 406 of the Sarbanes-Oxley Act of 2002. Any waiver of the Code of Ethics will be disclosed by the Company by way of a Form 8-K filing.

b. Designation of Board Financial Expert
The Company has designated Ewout L. Steenbergen, Director, as its Board Financial Expert, pursuant to the requirements of Section 407 of the Sarbanes-Oxley Act of 2002. Because the Company is not subject to the requirements of Exchange Act Rule 10A-3, it does not have any outside directors sitting on its board.

Item 11. Executive Compensation

Omitted pursuant to General Instruction I(2) of Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Omitted pursuant to General Instruction I(2) of Form 10-K.

Item 13. Certain Relationships, Related Transactions and Director Independence

Omitted pursuant to General Instruction I(2) of Form 10-K.

Item 14. Principal Accounting Fees and Services
(Dollar amounts in millions, unless otherwise stated)

In 2015 and 2014, Ernst & Young LLP ("Ernst & Young") served as the principal external auditing firm for Voya Financial, Inc., including Voya Insurance and Annuity Company ("VIAC" or the "Company", as appropriate). Voya Financial, Inc. subsidiaries, including VIAC, are allocated Ernst & Young fees attributable to services rendered by Ernst & Young to each subsidiary. Ernst & Young fees allocated to the Company along with a description of the services rendered by Ernst & Young to the Company are detailed below for the periods indicated.

	Year Ended December 31,	
	2015	**2014**
Audit fees	$ 2.1	$ 3.4
Audit-related fees	1.0	0.3
Tax fees	- *	- *
All other fees	- *	0.1
	$ 3.1	$ 3.8

* Less than $0.1.

Audit Fees

Audit fees were allocated to VIAC and include fees associated with professional services rendered by the auditors for the audit of the annual financial statements of the Company and review of the Company's interim financial statements.

Audit-related Fees

Audit-related fees were allocated to VIAC for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements and are not reported under the audit fee item above. These services consisted primarily of the audit of financial information supporting the Securities and Exchange Commission ("SEC") product filings.

Tax Fees

There were minimal tax fees allocated to VIAC in 2015 and 2014. Tax fees allocated to VIAC were primarily for tax compliance. These services consisted of tax compliance, including the review of tax disclosures and proper completion of tax forms, assistance with questions regarding tax audits and tax planning and advisory services related to common forms of domestic taxation (i.e., income tax and capital tax).

All Other Fees

There were minimal fees allocated to VIAC in 2015 and 2014 under the category "All other fees." Other fees allocated to VIAC under this category typically include fees paid for products and services other than the audit fees, audit-related fees and tax fees described above and consist primarily of advisory services.

Pre-approval Policies and Procedures

VIAC is subject to the pre-approval policies and procedures of Voya Financial, Inc. Audit, audit-related and non-audit services provided to the Company by the independent registered public accountants of Voya Financial, Inc. (the "External Auditor") are included in the total annual budgeted amounts for Voya Financial, Inc. and pre-approved by the audit committee of Voya Financial, Inc. (the "Voya Financial audit committee"). Pursuant to the pre-approval policies and procedures of Voya Financial, Inc., the Voya Financial audit committee is required to pre-approve all services provided by the External Auditor to Voya Financial, Inc. and its subsidiaries, including the Company. The pre-approval policies and procedures of Voya Financial, Inc. distinguish five types of services: (1) audit services, (2) audit-related services, (3) tax services, (4) other services that are not audit, audit-related, tax, or prohibited services and (5) prohibited services (as described in the Sarbanes-Oxley Act of 2002).

The pre-approval procedures of Voya Financial, Inc. consist of a general pre-approval procedure and a specific pre-approval procedure.

General Pre-approval Procedure

The Voya Financial audit committee pre-approves audit, audit-related, tax and other services to be provided by the External Auditor to Voya Financial, Inc. and its subsidiaries on an annual basis, and sets the maximum annual amount for such pre-approved services. Throughout the year, the Voya Financial audit committee receives from the External Auditor an overview of all services provided, including related fees and supported by sufficiently detailed information. The Voya Financial audit committee evaluates this overview quarterly. Additionally, the Voya Financial, Inc. Corporate Controller monitors the amounts paid versus the pre-approved amounts throughout the year.

Specific Pre-approval Procedure

In addition to the general pre-approval procedure of Voya Financial, Inc., each proposed External Auditor engagement by Voya Financial, Inc. or one of its subsidiaries that is expected to generate fees in excess of the pre-approved amounts, must be approved by the Voya Financial audit committee after recommendation of Voya Financial, Inc. management on a case-by-case basis.

In 2015 and 2014, 100% of each of the audit-related services, tax services and all other services provided to the Company were pre-approved by the audit committee of Voya Financial, Inc. In 2013, 100% of each of the audit-related services, tax services and all other services provided to the Company were pre-approved by the audit committees of Voya Financial, Inc. and ING Groep N.V.

PART IV

Item 15. Exhibits, Financial Statement Schedules

a. The following documents are filed as part of this report:

1. Financial statements. See Item 8. on page 88.
2. Financial statement schedules. See Index to Financial Statement Schedules on page 174.
3. Exhibits. See Exhibit Index on page 179.

Index to Financial Statement Schedules

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Report of Independent Registered Public Accounting Firm	175
I. Summary of Investments - Other than Investments in Affiliates as of December 31, 2015	176
IV. Reinsurance Information as of and for the years ended December 31, 2015, 2014 and 2013	177

Schedules other than those listed above are omitted because they are not required or not applicable.

Report of Independent Registered Public Accounting Firm

The Board of Directors
Voya Insurance and Annuity Company

We have audited the financial statements of Voya Insurance and Annuity Company as of December 31, 2015 and 2014, and for each of the three years in the period ended December 31, 2015, and have issued our report thereon dated March 18, 2016 (included elsewhere in this Annual Report (Form 10-K)). Our audits also included the financial statement schedules, listed in Item 15.a. of this Annual Report (Form 10-K). These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these schedules based on our audits.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Ernst & Young LLP

Boston, Massachusetts

March 18, 2016

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Schedule I

Summary of Investments - Other than Investments in Affiliates
As of December 31, 2015
(In millions)

Type of Investments	Cost	Fair Value	Amount Shown on Balance Sheets
Fixed maturities			
U.S. Treasuries	$ 992.7	$ 1,058.7	$ 1,058.7
U.S. Government agencies and authorities	79.4	81.9	81.9
State, municipalities and political subdivisions	359.1	360.5	360.5
U.S. corporate public securities	10,718.9	10,871.9	10,871.9
U.S. corporate private securities	2,365.0	2,394.4	2,394.4
Foreign corporate public securities and foreign governments [(1)]	2,826.9	2,793.0	2,793.0
Foreign corporate private securities [(1)]	2,592.9	2,626.0	2,626.0
Residential mortgage-backed securities	1,746.8	1,885.1	1,885.1
Commercial mortgage-backed securities	1,311.0	1,343.4	1,343.4
Other asset-backed securities	257.6	263.3	263.3
Total fixed maturities, including securities pledged to creditors	23,250.3	23,678.2	23,678.2
Equity securities, available-for-sale	15.4	19.2	19.2
Mortgage loans on real estate	3,310.9	3,429.8	3,310.9
Policy loans	79.8	79.8	79.8
Other investments	48.6	48.6	48.6
Derivatives	214.0	799.4	799.4
Limited partnerships/corporations	186.3	186.3	186.3
Short-term investments	1,069.4	1,069.4	1,069.4
Total investments	$ 28,174.7	$ 29,310.7	$ 29,191.8

(1) Primarily U.S. dollar denominated.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Schedule IV

Reinsurance
Years Ended December 31, 2015, 2014 and 2013
(In millions)

	Gross	Ceded	Assumed	Net	Percentage of Assumed to Net
Year Ended December 31, 2015					
Life insurance in force	$ 3,367.4	$ 999.2	$ 184,690.0	$ 187,058.2	98.7%
Premiums:					
Life insurance	12.4	30.1	428.5	410.8	104.3%
Accident and health insurance	0.1	0.1	-	-	-%
Annuities	470.2	375.2	-	95.0	-%
Total premiums	$ 482.7	$ 405.4	$ 428.5	$ 505.8	84.7%
Year Ended December 31, 2014					
Life insurance in force	$ 3,709.8	$ 1,056.6	$ 170,970.2	$ 173,623.4	98.5%
Premiums:					
Life insurance	13.8	33.1	407.7	388.4	105.0%
Accident and health insurance	- *	- *	-	-	-%
Annuities	620.4	471.0	-	149.4	-%
Total premiums	$ 634.2	$ 504.1	$ 407.7	$ 537.8	75.8%
Year Ended December 31, 2013					
Life insurance in force	$ 3,973.2	$ 1,113.6	$ 173,638.6	$ 176,498.2	98.4%
Premiums:					
Life insurance	15.9	34.5	454.9	436.3	104.3%
Accident and health insurance	0.1	0.1	-	-	-%
Annuities	79.2	79.2	-	-	-%
Total premiums	$ 95.2	$ 113.8	$ 454.9	$ 436.3	104.3%

* Less than $0.1.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 18, 2016	Voya Insurance and Annuity Company
(Date)	(Registrant)

By: /s/ David P. Wiland

David P. Wiland
Senior Vice President and
Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on or before March 18, 2016.

Signatures	Title
/s/ Rodney O. Martin, Jr. Rodney O. Martin, Jr.	Chairman and Director
/s/ Alain M. Karaoglan Alain M. Karaoglan	Director
/s/ Charles P. Nelson Charles P. Nelson	Director
/s/ Chetlur S. Ragavan Chetlur S. Ragavan	Director
/s/ Ewout L. Steenbergen Ewout L. Steenbergen	Director
/s/ Michael S. Smith Michael S. Smith	Director and President
/s/ C. Landon Cobb, Jr. C. Landon Cobb, Jr.	Senior Vice President and Chief Accounting Officer
/s/ David P. Wiland David P. Wiland	Senior Vice President and Chief Financial Officer

Exhibit Index

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger dated June 25, 2003, by and between USG Annuity & Life Company, United Life & Annuity Insurance Company, Equitable Life Insurance Company of Iowa and Golden American Life Insurance Company, incorporated by reference in Exhibit 99-8 in the Company's Form 8K filed with the SEC on January 2, 2004 (File No. 333-87270).
3.1	Restated Articles of Incorporation Providing for the Redomestication of Golden American Life Insurance Company dated July 2 and 3, 2003, effective January 1, 2004, incorporated by reference to Company's 10-K, as filed with the SEC on March 29, 2004 (File No. 033-87270).
3.2	Amendment to Articles of Incorporation Providing for the Name Change of Golden American Life Insurance Company dated November 20, 2003, effective January 1, 2004, incorporated by reference to the Company's 10-K, as filed with the SEC on March 29, 2004 (File No. 033-87270).
3.3	Amendment to Articles of Incorporation Providing for the Change in Purpose and Powers of ING USA Annuity and Life Insurance Company dated March 3 and 4, 2004, effective March 11, 2004, incorporated by reference to the Company's 10-Q, as filed with the SEC on May 17, 2004 (File No. 033-87270).
3.4	Amended and Restated By-Laws of ING USA Annuity and Life Insurance Company effective January 1, 2005, incorporated by reference to the Company's Form 10-Q, as filed with the SEC on May 13, 2005 (File No. 033-87270).
3.5	Amendment to Articles of Incorporation Providing for the Name Change of ING USA Annuity and Life Insurance Company dated March 6, 2014, effective September 1, 2014, incorporated by reference to the Company's Form 10-Q, as filed with the SEC on November 12, 2014 (File No. 001-32625).
3.6	Amended and Restated Bylaws of Voya Insurance and Annuity Company effective September 1, 2014, incorporated by reference to the Company's Form 10-Q, as filed with the SEC on November 12, 2014 (File No. 001-32625).
4.1	Single Premium Deferred Modified Guaranteed Annuity Contract, Single Premium Deferred modified Guaranteed Annuity Master Contract and Single Premium Deferred Modified Guaranteed Annuity Certificate - Incorporated herein by reference to Pre-Effective Amendment No. 1 to Registration Statement on Form S-1 for Golden American Life Insurance Company as filed with the SEC on February 8, 2002 (File No. 333-67660).
4.2	Single Premium Deferred Modified Guaranteed Annuity Master Contract and Single Premium Deferred Modified guaranteed Annuity Certificate - Incorporated by reference to Post-Effective Amendment No. 1 to Registration Statement on Form S-1 for Golden American Life Insurance Company, as filed with the SEC on September 13, 2000 (File No. 333-40596).
4.3	Individual Retirement Annuity Rider; Roth Individual Retirement Annuity Rider; Simple Retirement Account Rider; and 403(b) Rider - Incorporated herein by reference to Post-Effective Amendment No. 34 to Registration Statement on Form N-4 for Golden American Life Insurance Company Separate Account B, as filed with the SEC on April 15, 2003 (File No. 033-23351).
4.4	403(b) Rider - Incorporated herein by reference to Initial Registration Statement on Form S-2 for Golden American Life Insurance Company, as filed with the SEC on April 15, 2003 (File No. 333-104547).
4.5	Single Premium Deferred Equity Indexed Modified Guaranteed Annuity Contract; Single Premium Deferred Modified Guaranteed Annuity Group Master Contract; and Single Premium Deferred Equity Indexed Modified Guaranteed Annuity Certificate, - Incorporated herein by reference to Pre-Effective Amendment No. 1 to Registration Statement on Form S-2 for ING USA Annuity and Life Insurance Company, as filed with the SEC on August 13, 2004 (File No. 333-116137).
4.6	Flexible Premium Deferred Combination Variable and Fixed Annuity Contract; Individual Retirement Annuity Endorsement; Roth Individual Retirement Annuity Endorsement; SIMPLE Individual Retirement Annuity Endorsement; and Unisex Endorsement - Incorporated by reference to Pre-Effective Amendment No. 1 to Registration Statement on Form S-3 (333-196392), as filed with the SEC on November 24, 2014.
4.7	Interest in Fixed Account I under Variable Annuity Contracts - Incorporated herein by reference to: Post-Effective Amendment No. 12 to Registration Statement on Form N-4 for Golden American Life Insurance Company Separate Account B, as filed with the SEC on April 23, 1999 (File Nos. 033-59261, 811-5626); Incorporated by reference to Post-Effective Amendment No. 3 to Registration Statement on Form N-4 for Golden American life Insurance Company, as filed with the SEC on April 23, 1999 (File Nos. 333-28769, 811-5626); and Incorporated by reference to Pre-Effective Amendment No. 1 to Registration statement on Form N-4 for Golden American Life Insurance Company Separate Account B, as filed with the SEC on June 24, 2000 (File Nos. 333-33914, 811-5626).

Exhibit Index

Exhibit Number	Description of Exhibit
4.8	Interests in Fixed Account II under Variable Annuity Contracts - Incorporated herein by reference to Post-Effective Amendment No. 7 to Registration Statement on Form N-4 for Separate Account B of Golden American Life Insurance Company as filed with the SEC on October 2, 2000 (File No. 333-28679, 811-5626), Incorporated herein by reference to Post- Effective Amendment No. 2 to Registration Statement on Form N-4 for Separate Account B of Golden American Life Insurance Company as filed with the SEC on February 26, 2001 (File Nos. 333-30180, 811-5626), Incorporated herein by reference to Post-Effective Amendment No. 5 to Registration Statement on Form N-4 for Separate Account B of Golden American Life Insurance Company as filed with the SEC on April 23, 1999 (File Nos. 333-28755, 811-5626), Incorporated herein by reference to Post-Effective Amendment No. 1 to Registration Statement on Form N-4 for Separate Account B of Golden American Life Insurance Company as filed with the SEC on April 23, 1999 (File Nos. 333-66757, 811-5626), Incorporated herein by reference to Pre-Effective Amendment No. 1 to Registration Statement on Form N-4 for Separate Account B of Golden American Life Insurance Company as filed with the SEC on October 26, 2001 (File Nos. 333-63692, 811-5626), Incorporated herein by reference to Pre-Effective Amendment No. 1 to Registration Statement on Form N-4 for Separate Account B of Golden American Life Insurance Company as filed with the SEC on December 11, 2001 (File Nos. 333-70600, 811-5626), Incorporated by reference to Post-Effective Amendment No. 1 to Registration Statement on Form N-4 for Golden American Life Insurance Company Separate Account B, as filed with the SEC on April 16, 2003 (File Nos. 333-90516, 811-5626) and Incorporated by reference to Pre-Effective Amendment No. 1 to Registration Statement on Form N-4 for Golden American Life Insurance Company Separate Account B, as filed with the SEC on July 3, 2003 (File Nos. 333-101487, 811-5626).
4.9	Interest in the Guaranteed Account under Variable Annuity Contracts - Incorporated herein by reference to Pre-Effective Amendment No. 1 to Registration Statement on Form S-2 for Golden American Life Insurance Company, as filed with the SEC on June 29, 2001 (File No. 333-57212).
10.1	Asset Management Agreement, dated January 20, 1998, between Golden American and ING Investment Management LLC, incorporated by reference from Exhibit 10(f) to Golden American's Form 10-Q filed with the SEC on August 14, 1998 (File No. 033-87270).
10.2	Reciprocal Loan Agreement dated January 1, 2004, between ING USA Annuity and Life Insurance Company and ING America Insurance Holdings, Inc., incorporated by reference from Exhibit 10.A(a) to ING USA Annuity and Life Insurance Company's Form 10-Q filed with the SEC on or about May 17, 2004 (File No. 333-87270).
10.3	Surplus Note, dated December 8, 1999, between Golden American and First Columbine Life Insurance Company, incorporated by reference from Exhibit 10(g) to Amendment No. 7 to a Registration Statement for Golden American on Form S-1 filed with the SEC on or about January 27, 2000 (File No. 333-28765).
10.4	Services Agreement between Golden American and the affiliated companies listed in Exhibit B to that Agreement, dated as of January 1, 2001, as amended effective January 1, 2002, incorporated by reference from Exhibit 10.A (k) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.5	Services Agreement between Golden American and ING North America Insurance Corporation effective January 1, 2001, incorporated by reference from Exhibit 10.A (g) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.6	Form of Shared Services Center Services Agreement by and among ING North America Insurance Corporation ("Service Provider") and Ameribest Life Insurance Company, a Georgia corporation; Equitable Life Insurance Company of Iowa, an Iowa corporation; USG Annuity & Life Company, an Oklahoma corporation; Golden American, a Delaware corporation; First Columbine Life Insurance Company, a Colorado corporation; Life Insurance Company of Georgia, a Georgia corporation; Southland Life Insurance Company, a Texas corporation; Security Life of Denver Insurance Company, a Colorado corporation; Midwestern United Life Insurance Company, an Indiana corporation; and United Life & Annuity Insurance Company, a Texas corporation, incorporated by reference from Exhibit 10(r) to Pre-Effective Amendment No. 1 to a Registration Statement on Form S-1 filed by Registrant with the SEC on or about December 11, 2001 (File No. 333-70602).
10.7	Tax Sharing Agreement between Golden American, ING America Insurance Holdings, Inc. and affiliated companies, effective January 1, 2001, incorporated by reference from Exhibit 10.A (j) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.8	Administrative Services Agreement between Golden American, ReliaStar Life Insurance Company of New York and affiliated companies listed on Exhibit A to the Agreement, effective March 1, 2003, incorporated by reference from Exhibit 10.A (m) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.9	First Amendment to the Administrative Services Agreement between ING USA Annuity and Life Insurance Company and its affiliates, effective as of August 1, 2004, incorporated by reference from Exhibit 10.(i) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 18, 2005 (File No. 033-87270).

Exhibit Index

Exhibit Number	Description of Exhibit
10.10	Amendments to Asset Management Agreement between Golden American and ING Investment Management LLC, effective January 1, 2003, incorporated by reference from Exhibit 10.A (l) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.11	Third Amendment to the Asset Management Agreement, between Golden American and ING Investment Management LLC, effective August 18, 2003, incorporated by reference from Exhibit 10.A (n) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.12	Lease Agreement, dated as of April 16, 1998, by and between Golden American and Dunwoody Associates, incorporated by reference from Exhibit 10.A (o) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.13	First Amendment to Lease Agreement, dated November 4, 1998, between Golden American and Dunwoody Associates, incorporated by reference from Exhibit 10.A (p) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.14	Second Amendment to Lease Agreement, dated June 1, 2000, between Golden American and Dunwoody Associates, incorporated by reference from Exhibit 10.A (q) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.15	Services Agreement with ING Financial Advisers, LLC ("INGFA"), entered into June 1, 2002 by Equitable Life Insurance Company of Iowa, as subsumed by ING USA pursuant to the January 1, 2004 merger, incorporated by reference from Exhibit 10.(p) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 18, 2005 (File No. 033-87270).
10.16	Surplus Note for $50,000,000 aggregate principal amount, dated December 29, 2004, issued by ING USA Annuity and Life Insurance Company to its affiliate, Security Life of Denver International Limited, incorporated by reference from Exhibit 10.(q) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 18, 2005 (File No. 033-87270).
10.17	Surplus Note for $175,000,000 aggregate principal amount, dated December 29, 2004, issued by ING USA Annuity and Life Insurance Company to its affiliate, ING Life Insurance and Annuity Company, incorporated by reference from Exhibit 10.(r) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 18, 2005 (File No. 033-87270).
10.18	Surplus Note for $175,000,000 aggregate principal amount, dated December 29, 2004, issued by ING USA Annuity and Life Insurance Company to its affiliate, ReliaStar Life Insurance Company, incorporated by reference from Exhibit 10.(s) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 18, 2005 (File No. 033-87270).
10.19	Lease Agreement dated August 31, 1995, between The Graham Group, Inc. and Equitable Life Insurance Company of Iowa, as subsumed by ING USA Annuity and Life Insurance Company pursuant to the January 1, 2004 merger, incorporated by reference from Exhibit 10.(t) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 18, 2005 (File No. 033-87270).
10.20	Coinsurance Agreement, effective May 1, 2005, between ING USA Annuity and Life Insurance Company and Security Life of Denver Insurance Company, incorporated by reference from Exhibit 10. to ING USA Annuity and Life Insurance Company's Form 10-Q filed with the SEC on August 15, 2005 (File No. 033-87270).
10.21	Amendment Number 2006-1, dated as of September 11, 2006, to the Services Agreement between ING USA Annuity and Life Insurance Company and ING North America Insurance Corporation, incorporated by reference from Exhibit 10. to ING USA Annuity and Life Insurance Company's Form 10-Q filed with the SEC on November 14, 2006 (File No. 001-32625).
10.22	Amendment Number 2007-1 to Reciprocal Loan Agreement, dated as of December 31, 2007, between ING USA and ING America Insurance Holdings, Inc., incorporated by reference from Exhibit 10.25 to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 28, 2008 (File No. 001-32625).
10.23	Amendment Number 2007-1 to Services Agreement, dated as of December 31, 2007, between ING USA and the affiliated companies listed on Exhibit B to the Agreement, incorporated by reference from Exhibit 10.26 to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 28, 2008 (File No. 001-32625).
10.24	Amendment Number 2008-1 to Services Agreement, effective October 1, 2008, among ING USA Annuity and Life Insurance Company and the affiliated companies listed on Exhibit B to the Agreement, incorporated by reference from Exhibit 10.28 to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 31, 2009 (File No. 001-32625).
10.25	Amendment Number 4, effective January 1, 2009, to Investment Advisory Agreement, between ING USA Annuity and Life Insurance Company and ING Investment Management LLC, incorporated by reference from Exhibit 10.29 to ING USA Annuity and Life Insurance Company's Form 10-K 2009 filed with the SEC on March 31, 2010 (File No. 001-032625).

Exhibit Index

Exhibit Number	Description of Exhibit
10.26	Third Amendment to Lease, effective February 11, 2010, between ING USA Annuity and Life Insurance Company and Lexington Lion Dunwoody, L.P., incorporated by reference from Exhibit 10 to ING USA Annuity and Life Insurance Company's Form 10-Q filed on May 14, 2010 (File No. 001-032625).
10.27	Amendment 2010-1 to Services Agreement, dated as of October 1, 2010, between ING USA Annuity and Life Insurance Company and ING North America Insurance Corporation, incorporated by reference from Exhibit 10.33 to ING USA Annuity and Life Insurance Company's Form 10-K filed on March 30, 2011 (File No. 001-32625).
10.28	Intercompany Agreement, effective January 1, 2010, between ING USA Annuity and Life Insurance Company and Directed Services LLC, incorporated by reference from Exhibit 10.35 to ING USA Annuity and Life Insurance Company's Form 10-K filed on March 30, 2011 (File No. 001-32625).
10.29	Federal Tax Sharing Agreement, effective January 1, 2013, between lNG U.S., Inc. and each of its undersigned Subsidiaries, including lNG USA Annuity and Life Insurance Company, incorporated by reference from Exhibit 10.1 to ING USA Annuity and Life Insurance Company's Form 10-Q filed on May 14, 2013 (File No. 001-32625).
10.30	First Amendment to Lease Agreement, dated as of October 2, 2000, between The Graham Group, Inc. and Equitable Life Insurance Company of Iowa, as subsumed by lNG USA Annuity and Life Insurance Company pursuant to the January 1, 2004 merger, incorporated by reference from Exhibit 10.2 to lNG USA Annuity and Life Insurance Company's Form 10-Q filed on May 14, 2013 (File No. 001-32625).
10.31	Second Amendment to Lease Agreement, dated as of February 4, 2002, between The Graham Group, Inc. and Equitable Life Insurance Company of Iowa, as subsumed by ING USA Annuity and Life Insurance Company pursuant to the January 1, 2004 merger, incorporated by reference from Exhibit 10.3 to ING USA Annuity and Life Insurance Company's Form 1 0-Q filed on May 14, 2013 (File No. 001-32625).
10.32	Reciprocal Loan Agreement, effective January 14, 2014 between ING USA Annuity and Life Insurance Company and ING America Insurance Holdings, Inc., incorporated by reference from Exhibit 10 to ING USA Annuity and Life Insurance Company's Form 10-Q filed on May 13, 2014 (File No. 001-32625).
10.33	Fourth Amendment to Lease, made May 31, 2012, between ING USA Annuity and Life Insurance Company and Lexington Lion Dunwoody, L.P., incorporated by reference from Exhibit 10 to ING USA Annuity and Life Insurance Company's Form 10-Q filed on August 10, 2012 (File No. 001-32625).
10.34+	Commutation Agreement, made effective on July 1, 2015, by and between Voya Insurance and Annuity Company and Security Life of Denver Insurance Company.
14.	ING Code of Ethics for Financial Professionals, incorporated by reference from Exhibit 14 to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
23.1+	Consent of Ernst & Young LLP
31.1+	Certificate of David P. Wiland pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certificate of Michael S. Smith pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certificate of David P. Wiland pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Certificate of Michael S. Smith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

XBRL Instance Document [1]

XBRL Taxonomy Extension Schema

XBRL Taxonomy Extension Calculation Linkbase

XBRL Taxonomy Extension Definition Linkbase

XBRL Taxonomy Extension Label Linkbase

XBRL Taxonomy Extension Presentation Linkbase

[1]Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Balance Sheets as of December 31, 2015 and 2014; (ii) Statements of Operations for the years ended December 31, 2015, 2014 and 2013; (iii) Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013; (iv) Statements of Changes in Shareholder's Equity for the years ended December 31, 2015, 2014 and 2013; (v) Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013; and (vi) Notes to the Financial Statements.

Users of this data are advised pursuant to Rule 401 of Regulation S-T that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of Voya Insurance and Annuity Company.

+ Filed herewith.

Exhibit 10.34

COMMUTATION AGREEMENT

This Commutation Agreement (this "Agreement") is made effective 12:01 a.m., Local Standard Time, July 1, 2015 (the "Effective Date"), by and between Voya Insurance and Annuity Company, formerly known as ING USA Annuity and Life Insurance Company, an Iowa insurance company (hereinafter "Company"), and Security Life of Denver Insurance Company, a Colorado insurance company (hereinafter "Reinsurer"). Together, Company and Reinsurer are referred to herein as the "Parties" or individually as a "Party".

RECITALS

WHEREAS, Company and Reinsurer are parties to that certain Coinsurance Agreement, effective May 1, 2005, pursuant to which Company ceded to Reinsurer 100% of all liabilities arising under certain specified contracts comprising "Deferred Annuities - MYGA" as defined in the Coinsurance Agreement (the "Reinsurance Agreement"); and

WHEREAS, the Parties contemplate Company recapturing the ceded risks under the Reinsurance Agreement subject to a mutually agreed valuation process, and the Parties have settled on Reinsurer's share of the outstanding obligations with respect to such ceded risks and other good and valuable consideration to support a recapture of such ceded risks; and

WHEREAS, the Parties now desire to fully and finally settle and commute all of their respective past, present, and future obligations and liabilities, known and unknown, pertaining to the losses incurred by Company and ceded to Reinsurer under the Reinsurance Agreement.

NOW, THEREFORE, in consideration of the covenants set forth herein and the payment made pursuant to paragraph 2 below (the sufficiency of which is hereby acknowledged), it is agreed by and between the Parties as follows:

1. On the terms and subject to the conditions of this Agreement, including the payment obligations set forth below, the Reinsurance Agreement is hereby entirely commuted and finally settled. No further premiums are due and no further reinsurance shall be provided under the Reinsurance Agreement after the Effective Date.

2. Reinsurer shall pay, or cause to be paid to Company, an amount equal to (i) the statutory reserves for the ceded liabilities under the Reinsurance Agreement (including contract reserves and interest maintenance reserves) as of June 30, 2015, and (ii) a negative ceding commission in an amount equal to Twenty Million Dollars ($20,000,000.00) (together, the "Commutation Amount"). To satisfy payment of the Commutation Amount, Reinsurer will transfer to Company assets and/or cash in amounts and values as identified on the attached Schedule A (the "Transfer"), and the Transfer will be consummated within thirty (30) calendar days following the full execution of this Agreement.

3. The payment of the Commutation Amount represents a full and final settlement of any and all amounts claimed heretofore and any and all amounts hereafter said to be due under, in respect of or in any way arising from the Reinsurance Agreement.

4. Subject to receipt of the Commutation Amount payment, the Parties hereby irrevocably release, discharge, indemnify and hold harmless each other and their respective predecessors, parents, affiliates, subsidiaries, officers, directors, employees, shareholders, policyholders, successors and assigns from any and all liabilities, including, but not limited to, all obligations, adjustments, executions, offsets, actions, causes of action, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, controversies, agreements, promises, damages, judgments, claims, demands, duties, omissions, costs, expenses and/or losses whatsoever, whether known or unknown, reported or unreported, and whether arising in the past, present or future, which they and their respective predecessors, successors and assigns ever had, now have, or hereafter may have, whether grounded in law or equity, in contract or in tort, against the other by reason of any matter whatsoever arising out of the Reinsurance Agreement, it being the intention of the Parties that this Agreement shall operate as a full and final settlement of each of the past, current and future liabilities of Company and Reinsurer under the Reinsurance Agreement.

5. The Parties absolutely and unconditionally covenant and agree with each other, their respective successors and assigns, that neither Party will hereafter for any reason whatsoever, demand, claim or file suit or initiate arbitration proceedings against the other in respect of any matters arising out of the Reinsurance Agreement, except with respect to enforcement of this Agreement.

6. Miscellaneous Provisions.

6.1 This Agreement is the result of arm's length negotiations, and the terms of this Agreement have been completely read and fully understood after each Party had the opportunity to consult with its attorneys and are voluntarily accepted by both the Parties. In the event of a dispute over this Agreement, there shall be no construction or interpretation against the drafter.

6.2 Each of the Parties represents and warrants to the other that it is a corporation in good standing in its state of domicile; that it is fully authorized and empowered to execute and deliver this Agreement; that the persons executing this Agreement are fully authorized to do so; that it has not assigned, sold or transferred any interest in the Reinsurance Agreement, or claim or right that is affected by this Agreement, to any other person or entity; that no authorization, consent or approval of any governmental entity is required to make this Agreement valid and enforceable; that no other agreement, undertaking, contract, law, or matter exists that might render this Agreement void, voidable, or unenforceable and that this Agreement is enforceable against each in accordance with its terms.

6.3 This Agreement constitutes the entire agreement between the parties as respects its subject matter. Any and all discussions and agreements previously entertained between the Parties concerning the subject matter herein are merged into this Agreement. This Agreement may not be modified or amended, except by written instrument executed by each of the Parties hereto.

6.4 This Agreement is made by and between the Parties, and is not intended to make any other person or entity a third-party beneficiary of this Agreement and such third parties have no rights under this Agreement.

6.5 If any provision of this Agreement should be rendered invalid, illegal or unenforceable by the law, regulations or public policy of any jurisdiction, such provision will be considered void in such jurisdiction, but this will not affect the validity or enforceability of such provision in any other jurisdiction. The parties will renegotiate this Agreement in good faith to cure such invalid, illegal or unenforceable provision. If such negotiations are unsuccessful to resolve the matter, then (a) such invalid, illegal or unenforceable provision will be deleted from the Agreement, (b) to the maximum extent permitted by law, such invalidity, illegality or unenforceability will not affect any other provisions of this Agreement and (c) this Agreement will be construed so as to carry out its original intent.

6.6 The Parties agree that all matters relating to the terms, background discussions, negotiation and implementation of the Agreement, but not the existence of the Agreement itself, shall be confidential, and will not be disclosed by either Party without the written consent of the other except as follows. Either Party may disclose the terms and conditions of the Agreement to its reinsurers, provided such reinsurers are notified of the confidentiality requirements. In addition, the Parties may disclose the terms and conditions to the following: [a] to the parties' directors, officers, employees, attorneys, affiliates, rating agencies, reinsurers, brokers and auditors having a genuine need to know, provided such individuals are notified of the confidentiality requirements; or [b] as required by operation of law, including but not limited to statute, rule, regulation, order or subpoena or any judicial, quasi-judicial, administrative, governmental or regulatory body or agency. Either Party disclosing such terms and conditions pursuant to [b] herein shall give the other Party reasonable advance notice of any subpoena or discovery request from any person other than a regulatory authority having jurisdiction over that Party, in order that the other Party has an opportunity, at its own expense, to take appropriate legal or protective action.

6.7 The failure of any Party to enforce, at any time, any of the provisions of this Agreement shall in no way be construed to be a waiver of such provisions, nor in any way to affect the validity of the Agreement, or any part thereof, or the rights of such Party to thereafter enforce any of such provisions.

6.8 This Agreement may be signed in counterparts**,** each of which shall be an original and all of which taken together shall constitute one and the same agreement. Facsimile signatures shall be sufficient for the execution of this Agreement and shall be binding with the same force as original signatures.

6.9 This Agreement shall be interpreted and enforced in accordance with the law of the State of Iowa (without giving effect to the principles of conflicts of law thereof). In any action arising out of or relating to this Agreement, the Parties hereby consent to the exclusive jurisdiction of any State or Federal Court sitting in the State of Iowa. This Agreement is not subject to the arbitration provisions in the Reinsurance Agreement.

IN WITNESS WHEREOF, each Party has executed this Agreement by a duly authorized officer or attorney duly empowered to sign on its behalf.

VOYA INSURANCE AND ANNUITY COMPANY		SECURITY LIFE OF DENVER INSURANCE COMPANY	
By:	/s/Timothy W. Brown	By:	/s/Spencer T. Shell
Name:	Timothy W. Brown	Name:	Spencer T. Shell
Title:	Assistant Secretary	Title:	VP and Assistant Treasurer
Date:	9-25-15	Date:	9-25-15

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

Form	Registration Number	Prospectus
S-3	333-203648	Voya Fixed Account I
S-3	333-203651	Voya Fixed Account II
S-3	333-203650	Voya Guaranteed Account
S-3	333-203649	Voya GoldenSelect Guarantee Annuity
S-3	333-203647	Voya SmartDesign Multi-Rate Index Annuity
S-3	333-196392	Voya Potential Plus Annuity

of our reports dated March 18, 2016, with respect to the financial statements and schedules of Voya Insurance and Annuity Company included in this Annual Report (Form 10-K) for the year ended December 31, 2015.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 18, 2016

Exhibit 31.1

CERTIFICATION

I, David P. Wiland, certify that:

1. I have reviewed this annual report on Form 10-K of Voya Insurance and Annuity Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 18, 2016

By: /s/ David P. Wiland

David P. Wiland
Senior Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

Exhibit 31.2

CERTIFICATION

I, Michael S. Smith, certify that:

1. I have reviewed this annual report on Form 10-K of Voya Insurance and Annuity Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 18, 2016

By: /s/ Michael S. Smith

Michael S. Smith
President
(Duly Authorized Officer and Principal Officer)

Exhibit 32.1

CERTIFICATION

Pursuant to 18 U.S.C. §1350, the undersigned officer of Voya Insurance and Annuity Company (the "Company") hereby certifies that, to the officer's knowledge, the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (the "Report") fully complies with the requirements of Section 13 or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 18, 2016	By: /s/ David P. Wiland
(Date)	David P. Wiland
	Senior Vice President and
	Chief Financial Officer

Exhibit 32.2

CERTIFICATION

Pursuant to 18 U.S.C. §1350, the undersigned officer of Voya Insurance and Annuity Company (the "Company") hereby certifies that, to the officer's knowledge, the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (the "Report") fully complies with the requirements of Section 13 or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 18, 2016	By:	/s/ Michael S. Smith
(Date)		Michael S. Smith
		President

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2016

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____________ to _____________

Commission File Number: 001-32625

Voya Insurance and Annuity Company

(Exact name of registrant as specified in its charter)

Iowa	**41-0991508**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1475 Dunwoody Drive	
West Chester, Pennsylvania	**19380-1478**
(Address of principal executive offices)	(Zip Code)

(610) 425-3400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒
State the aggregate market value of the voting and non-voting common equity held by non-affiliates: N/A

As of March 13, 2017, 250,000 shares of Common Stock, $10 par value, were outstanding, all of which were directly owned by Voya Holdings Inc.

NOTE: WHEREAS VOYA INSURANCE AND ANNUITY COMPANY MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND (b) OF FORM 10-K, THIS FORM IS BEING FILED WITH THE REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION I(2).

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Form 10-K for the period ended December 31, 2016

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* Item omitted pursuant to General Instruction I(2) of Form 10-K, except as to Part III, Item 10 with respect to compliance with Sections 406 and 407 of the Sarbanes-Oxley Act of 2002.

** Item prepared in accordance with General Instruction I(2) of Form 10-K.

*** Item omitted as registrant is neither an accelerated filer nor a well-known seasoned issuer.

As used in this Annual Report on Form 10-K, "VIAC," the "Company," "we," "our" and "us" refer to Voya Insurance and Annuity Company.

NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This *Annual Report on Form* 10-K, including "Risk Factors," "Management's Narrative Analysis of the Results of Operations and Financial Condition," and "Business" contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements relating to future developments in our business or expectations for our future financial performance and any statement not involving a historical fact. Forward-looking statements use words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," and other words and terms of similar meaning in connection with a discussion of future operating or financial performance. Actual results, performance or events may differ materially from those projected in any forward-looking statement due to, among other things, (i) general economic conditions, particularly economic conditions in our core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels, (v) persistency and lapse levels, (vi) interest rates, (vii) currency exchange rates, (viii) general competitive factors, (ix) changes in laws and regulations; (x) changes in the policies of governments and/or regulatory authorities; and (xi) other factors described in the section "Item 1A. Risk Factors."

The risks included here are not exhaustive. Current reports on Form 8-K and other documents filed with the Securities and Exchange Commission ("SEC") include additional factors that could affect our businesses and financial performance. Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

PART I

Item 1. Business

(Dollar amounts in millions, unless otherwise stated)

Organization of Business

Voya Insurance and Annuity Company ("VIAC" or "the Company") is a stock life insurance company domiciled in the State of Iowa and provides financial products and services in the United States. VIAC is authorized to conduct its insurance business in all states, except New York and in the District of Columbia.

Prior to May 2013, Voya Financial, Inc., together with its subsidiaries, including the Company, was an indirect, wholly owned subsidiary of ING Groep N.V. ("ING Group" or "ING"), a global financial services holding company based in The Netherlands. In May 2013, Voya Financial, Inc. completed its initial public offering of common stock, including the issuance and sale of common stock by Voya Financial, Inc. and the sale of shares of common stock owned indirectly by ING Group. Between October 2013 and March 2015, ING Group completed the sale of its remaining shares of common stock of Voya Financial, Inc. in a series of registered public offerings. ING Group continues to hold certain warrants to purchase up to 26,050,846 shares of Voya Financial, Inc. common stock at an exercise price of $48.75, in each case subject to adjustments.

VIAC is a direct, wholly owned subsidiary of Voya Holdings Inc. ("Parent"), which is a direct, wholly owned subsidiary of Voya Financial, Inc.

Description of Business

We currently offer various insurance products, including fixed and indexed annuities, investment-only products and payout annuities for pre-retirement wealth accumulation and postretirement income management. Our annuity products are distributed by national and regional brokerage and securities firms, independent broker-dealers, banks, life insurance companies with captive agency sales forces, independent insurance agents, independent marketing organizations and affiliated broker-dealers. Our primary annuity customers are individual consumers. We stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010, as part of a global business strategy and risk reduction plan. New amounts will continue to be deposited in VIAC variable annuities as add-on premiums to existing contracts.

In 2009, we made a strategic decision to run-off over time the assets and liabilities related to guaranteed investment contracts and funding agreements previously issued to institutional investors and corporate benefit plans. As such, no guaranteed investment contracts were outstanding during 2016 and 2015. Additionally, all of the previously issued funding agreements will mature or be terminated by the end of 2017. We may issue new funding agreements to support liquidity in the future.

See "-Reserves for Future Policy Benefits and Separate Accounts" below for a discussion of our reserves by product type.

We have one operating segment, which offers the products described below.

Products and Services

Products currently offered by us are designed to address customer needs for tax-advantaged savings, retirement needs and wealth-protection concerns, as well as funding agreements. As mentioned above, the Company stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010. However, because the existing contracts remain in effect, they are described below.

Fixed Annuities: The fixed annuities offered by us are general account products and include single premium immediate, multi-year guaranteed, annual reset and fixed indexed annuities ("FIA"). Under fixed annuity contracts, the principal amount is guaranteed and, for a specified time period, we credit interest to the contract owner accounts at a fixed interest rate. Interest on FIAs is credited based on allocations selected by a customer in one or more of the strategies we offer and upon policy parameters that we set. The FIA strategies include a fixed interest rate option, as well as several options based upon performance of various external financial market indices. Such indices may include equity indices, such as the Standard & Poor's 500 Index ("S&P 500"), or an interest rate benchmark, such as the change in London Interbank Offered Rates ("LIBOR"). For accounting purposes, the index return component of an FIA is considered an embedded derivative. See further discussion under "-Reserves for Future Policy Benefits and Separate Accounts" below. We bear the investment risk on fixed annuities, because, while we credit contract owner accounts with a stated interest rate, we cannot be certain the investment income earned on the general account assets will exceed that rate.

Some FIAs contain guaranteed withdrawal benefit features at an additional cost. These living benefits guarantee a minimum annual withdrawal amount for life. The amount of the guaranteed annual withdrawal may vary by age at first withdrawal.

Our major source of income from fixed annuities is the spread between the investment income earned on the underlying general account assets and the interest rate credited to contract owner accounts.

Funding Agreements: We also have funding agreements issued to institutional customers. We profit from this business by earning income in excess of the amount credited to the customer accounts, less the cost of administering the product. We bear the investment risk because, while we credit customer accounts with an interest rate based on a predetermined index, plus a spread or a fixed rate, we cannot be certain the investment income earned on the general account investments, less expenses will exceed that rate. Funding agreements may also be used to support liquidity.

Variable Annuities: While we stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010, our existing variable annuities are investment vehicles in which contract owner deposits are recorded and primarily maintained in separate accounts established by us and registered with the SEC as a unit investment trust. Unlike fixed annuities, variable annuity contract owners bear the risk of investment gains and losses associated with the selected investment allocation. We, however, issued certain guaranteed death and living benefits (described below) under which we bear specific risks associated with these products.

Separate account assets and liabilities generally represent funds maintained to meet specific investment objectives of contract owners. In general, investment income and investment gains and losses accrue directly to the separate accounts. The assets of the separate account are legally segregated and are not subject to claims that arise out of any of our other business.

Separate account assets supporting variable options under variable annuity contracts are invested, as designated by the contract owner or participant under a contract, in shares of sub-accounts managed by our affiliates or in other selected sub-accounts not managed by our affiliates. Variable annuity deposits are allocated to various sub-accounts established within the separate account. Each sub-account represents a different investment option into which the contract owner may allocate deposits. The account value of a variable annuity contract is equal to the aggregate value of the sub-accounts selected by the contract owner, including the value allocated to any fixed account, less fees and expenses. We offer investment options for our variable annuities covering a wide range of investment styles, including large, mid and small cap equity funds, as well as fixed income alternatives. Many of the variable annuity contracts issued by us are combination contracts, offering both variable and fixed options under which some or all of the deposits may be allocated by the contract owner to a fixed account.

Minimum Guarantees: Variable annuity contracts containing minimum guaranteed death and living benefits expose us to equity risk. A decrease in the equity markets may cause a decrease in the account values, thereby increasing the possibility that we may be required to pay amounts to contract owners due to guaranteed death and living benefits. An increase in the value of the equity markets may increase account values for these contracts, thereby decreasing our risk associated with guaranteed death and living benefits.

We stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010. However, our existing variable annuity block of business contains certain guaranteed death and living benefits made available to contract owners as described in Quantitative and Qualitative Disclosures About Market Risk in Part II, Item 7A. of this Annual Report on Form 10-K.

Other Insurance Products

Historically, we provided interest-sensitive, traditional life insurance and health insurance products. All health insurance has been ceded to other insurers and new policies are no longer written. We ceased the issuance of life insurance policies in 2001, and all life insurance business is currently in run-off. A certain portion of the assets held in the general account is dedicated to funding this block of business.

Fees and Margins

Insurance and expense charges, investment management fees, service fees and other fees earned by us vary by product and depend on, among other factors, the funding option selected by the customer under the product. For annuity products where assets are allocated to variable funding options through a separate account, we may charge the separate account asset-based insurance and expense fees.

In addition, where the customer selects a variable funding option, we may receive compensation from the fund's adviser, administrator, or other affiliated entity, for the performance of certain administrative, recordkeeping or other services. This compensation, which may be deducted from fund assets, may include a share of the management fee, service fees, 12b-1 distribution fees or other revenues based on a percentage of average net assets held in the fund by us. For funds managed by an affiliate, additional compensation may be received in the form of intercompany payments from the fund's investment advisor or the investment advisor's parent in order to allocate revenue and profits across the organization.

For fixed funding options, we earn a margin that is based on the difference between income earned on the investments supporting the liability and interest credited to customers.

We may also receive other fees or charges depending on the nature of the products.

Strategy, Method of Distribution and Principal Markets

We believe longer life expectancies, an aging population and growing concern over the stability and availability of the Social Security system have made retirement planning a priority for many Americans. The target market for our annuity products is primarily individuals.

The principal distribution channels of our fixed annuities, fixed index annuities, and investment-only products include independent broker-dealers, independent marketing organizations, affiliated broker-dealers, captive insurance companies and banks. Products are represented by advisors and agents that would affiliate with one of the above channels.

Our investment-only products' new sales are obtained from either a "rollover" from an existing retirement account, a 1035-exchange or funded through non-qualified after-tax dollars.

Indexed annuities are marketed primarily based on underlying guarantee features coupled with consumer-friendly product designs offering the potential for equity market upside. We also offer fixed annuities offering a guaranteed interest rate or annuity payment suitable for clients seeking a stable return.

We stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010, as part of a business strategy and risk reduction plan. Some new amounts will continue to be deposited on VIAC variable annuities as add-on deposits to existing contracts.

Funding agreements are issued to institutional investors through direct sales by home office personnel. In 2009, we made a strategic decision to run-off over-time the assets and liabilities related to the guaranteed investment contracts and funding agreements previously issued. There are no guaranteed investment contracts remaining and no new guaranteed investment contracts will be issued. All of the previously issued funding agreements will mature or be terminated by the end of 2017. New funding agreements may be issued to support liquidity.

Since December 2013, we have been engaged in a strategic relationship with The Allstate Corporation ("Allstate") under which Allstate offers a full suite of our fixed annuity product offerings to Allstate customers. In addition, during 2015, we engaged in a strategic relationship with Farmers Financial Solutions, a part of the Farmers Insurance Group of Companies, under which we are the exclusive provider of indexed annuity products to Farmers customers.

Assets Under Management

A substantial portion of our fees, other charges and margins, are based on assets under management ("AUM"). AUM represents on-balance sheet assets supporting customer account values/liabilities and surplus. Customer account values reflect the amount of policyholder equity that has accumulated within annuity, funding agreement and other insurance products. AUM includes general account assets in which we bear the investment risk and separate account assets in which the contract owner bears the investment risk. AUM-based revenues increase or decrease with a rise or fall in the amount of AUM, whether caused by changes in capital markets or by net flows.

AUM is principally affected by net deposits (i.e., annuity premiums and funding agreement deposits, less surrenders) and investment performance (i.e., interest credited to contract owner accounts for assets that earn a fixed return or market performance for assets that earn a variable return). The general and separate account AUM were as follows as of the dates indicated:

	December 31,	
	2016	2015
Variable annuities	$ 35,719.8	$ 36,415.8
Fixed annuities	18,349.1	18,132.2
Funding agreements	200.1	950.4
Other products	1,193.3	970.1
Total	$ 55,462.3	$ 56,468.5

Competition

The competitive annuity market faces competition from banks, mutual fund companies and traditional insurance carriers. Increasing competition within the retirement savings business offers consumers many choices. Our annuity products compete in the annuity market principally on the basis of investment performance, product design, brand recognition, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service.

Investment-only products compete with brokerage accounts and other financial service and asset allocation offerings.

Reserves for Future Policy Benefits and Separate Accounts

We establish and carry actuarially-determined reserves that are calculated to meet our future obligations. Reserves also include estimates of unpaid claims as well as claims that we believe have been incurred but have not yet been reported as of the balance sheet date. The principal assumptions used to establish liabilities for future policy benefits are based upon Company experience and periodically reviewed against industry standards. These assumptions include mortality, morbidity, policy lapse, contract renewal, payment of subsequent premiums or deposits by the contract owner, retirement, investment returns, inflation, benefit utilization and expenses. Changes in, or deviations from, the assumptions used can significantly affect our reserve levels and related results of operations.

Reserves for traditional life insurance contracts (term insurance, participating and non-participating whole life insurance and traditional group life insurance) and accident and health insurance represent the present value of future benefits to be paid to or on behalf of contract owners and related expenses, less the present value of future net premiums. Assumptions as to interest rates, mortality, expenses and persistency are based on our estimates of anticipated experience at the period the policy is sold or acquired, including a provision for adverse deviation. Interest rates used to calculate the present value of these reserves ranged from 2.3% to 7.2%.

Reserves for payout contracts with life contingencies are equal to the present value of expected future payments. Assumptions as to interest rates, mortality and expenses are based on our estimates of experience at the period the policy is sold or acquired, including a provision for adverse deviation. Such assumptions generally vary by annuity plan type, year of issue and policy duration. Interest rates used to calculate the present value of future benefits ranged from 1.0% to 7.5%.

The aggregate initial liability for reserves related to FIAs is equal to the deposit received plus a bonus, if applicable, and is split into a host component and an embedded derivative component. Thereafter, the host liability accumulates at a set interest rate and the embedded derivative liability is recognized at fair value, with the change in fair value recorded in Other net realized capital gains (losses) in the Statements of Operations.

Reserves for universal life products are equal to cumulative deposits, less withdrawals and charges, plus credited interest thereon.

The Company calculates additional reserve liabilities for certain variable annuity guaranteed benefits, FIA withdrawal benefits and universal life products with certain patterns of cost of insurance charges and certain other fees. The additional reserve for such products recognizes the portion of contract assessments received in early years used to compensate the insurer for services provided in later years.

We calculate a benefit ratio for each block of business that meets the requirements for additional reserves and calculate an additional reserve by accumulating amounts equal to the benefit ratio multiplied by the assessments for each period, reduced by excess benefits during the period. The additional reserve is accumulated at interest rates consistent with the deferred policy acquisition costs model for the period. The calculated reserve includes a provision for universal life contracts with patterns of cost of insurance charges that produce expected gains from the insurance benefit function followed by losses from that function in later years.

Guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits ("GMWB") without life contingent payouts and guaranteed minimum withdrawal benefits for life ("GMWBL") are considered to be embedded derivatives. The additional reserves for these guarantees are recognized at fair value, with the change in fair value recorded in Other net realized capital gains (losses) in the Statements of Operations.

Reserves for funding agreements are calculated using the amount deposited with us, less withdrawals, plus interest accrued to the ending valuation date. Interest on these contracts is accrued by a predetermined index, plus a spread or a fixed rate, established at the issue date of the contract.

Our life and annuity insurance reserves (general and separate account) and deposit-type funds were comprised of each type of the following products as of the dates indicated:

	December 31,			
	2016		2015	
	Reserves	% of Total	Reserves	% of Total
Variable annuity	$ 39,265.4	65.6%	$ 40,353.9	66.0%
Fixed annuity	18,745.7	31.3%	18,117.8	29.7%
Funding agreements	347.1	0.6%	1,048.2	1.7%
Other products	1,517.1	2.5%	1,585.4	2.6%
Total	$ 59,875.3	100.0%	$ 61,105.3	100.0%

Reinsurance Arrangements

We utilize indemnity reinsurance agreements to reduce our exposure to losses from our annuity and life insurance businesses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge our primary liability as the direct insurer of the risks. Reinsurance treaties are structured as monthly or yearly renewable term, coinsurance, or modified coinsurance. The Company also evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers.

As of December 31, 2016, we have a significant concentration of ceded reinsurance with our affiliates, Security Life of Denver Insurance Company ("SLD") and Roaring River II, Inc. ("RRII"), a subsidiary of Security Life of Denver International Limited ("SLDI"), primarily related to funding agreements and universal life policies with respect to SLD and variable annuities with respect to RRII. The outstanding reinsurance recoverable balances may fluctuate from period to period.

One of the main risks reinsured by us is the guaranteed minimum death benefits ("GMDB") on our variable annuity policies issued prior to January 1, 2000. For contracts issued on or after January 1, 2000, we hedge our exposure due to these products. Other reinsurance contracts coinsure life, accident and health and annuity businesses. We continually monitor and evaluate the financial strength and credit ratings of our reinsurers. Only those reinsurance recoverable balances deemed probable of recovery are reflected as assets on our Balance Sheets.

Prior to July 1, 2016, we had an amended and restated automatic reinsurance agreement with SLDI, on a combined coinsurance and coinsurance funds withheld basis, covering 100% of the benefits guaranteed under specific variable annuity guaranteed living benefit riders attached to certain variable annuity contracts issued by us on or after January 1, 2000.

Effective July 1, 2016, SLDI acquired RRII, a Missouri life reinsurance captive, from its affiliate, ReliaStar Life Insurance Company, and also effective July 1, 2016, RRII redomesticated from the State of Missouri to the State of Arizona. Effective July 1, 2016, we, SLDI and RRII entered into release, consent and novation agreements pursuant to which RRII assumed the variable annuity guaranteed living benefits previously reinsured to SLDI under the automatic reinsurance agreement.

We also currently reinsure risks ceded by our affiliates, ReliaStar Life Insurance Company ("RLI") and SLD, on life insurance policies through a coinsurance funds withheld agreement, a quota share retrocession agreement and stop-loss agreements.

See Liquidity and Capital Resources-Reinsurance Agreements in Part II, Item 7. of this Annual Report on Form 10-K for further discussion of our reinsurance arrangements.

Investment Overview and Strategy

Our investment strategy seeks to achieve sustainable risk-adjusted returns by focusing on principal preservation, disciplined matching of asset characteristics with liability requirements and the diversification of risks. Investment activities are undertaken according to investment policy statements that contain internally established guidelines and risk tolerances and in all cases are required to comply with applicable laws and insurance regulations. Risk tolerances are established for credit risk, credit spread risk, market risk, liquidity risk and concentration risk across issuers, sectors and asset types that seek to mitigate the impact of cash flow variability arising from these risks.

Investments are managed by Voya Investment Management LLC, our affiliate, pursuant to an investment advisory agreement. Portfolios are established for groups of products with similar liability characteristics within us. Our investment portfolio consists largely of high quality fixed maturity securities and short-term investments, investments in commercial mortgage loans, limited partnerships and other instruments, including a small amount of equity holdings. Fixed maturity securities include publicly issued corporate bonds, government bonds, privately placed notes and bonds, mortgage-backed securities and asset-backed securities. We use derivatives for hedging purposes and to replicate exposure to other assets as a more efficient means of assuming credit exposure similar to bonds of the underlying issuer(s).

Employees and Other Shared Services

We had 470 employees as of December 31, 2016, primarily focused on managing new business processing, customer service and product management for us and certain of our affiliates, as well as providing product development and distribution, actuarial and finance services to us and certain of our affiliates. We also utilize services provided by Voya Services Company and other affiliates. These services include underwriting, risk management, human resources, investment management, information technology, legal and compliance services, as well as other new business processing, product distribution, marketing, customer service, product management, actuarial and finance related services. The affiliated companies are reimbursed for our use of various services and facilities under a variety of intercompany agreements.

On June 2, 2014, our affiliate, Voya Services Company entered into an agreement to outsource the actuarial valuation, modeling and hedging functions for our retail variable annuity products for which we ceased sales in 2010 to Milliman, Inc. ("Milliman"). Under this agreement, Milliman performs the calculation of financial reporting and risk metrics, along with the analytics used to determine hedge positions. We will continue to oversee and manage our existing block of variable annuity business and retain full accountability for assumptions and methodologies, as well as the setting of hedge objectives and the execution of hedge positions. This agreement will allow us to create a more variable cost structure for the block of variable annuity business.

REGULATION

Our operations and businesses are subject to a significant number of Federal and state laws, regulations, administrative determinations and similar legal constraints. Such laws and regulations are generally designed to protect our policyholders, contract owners and other customers and not our stockholders. Many of the laws and regulations to which we are subject are regularly re-examined and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations.

Following is a description of certain legal and regulatory frameworks to which we are or may be subject.

Insurance Regulation

Our operations are subject to comprehensive regulation and supervision under U.S. state and federal laws. Each U.S. state, the District of Columbia and U.S. territories and possessions have insurance laws that apply to companies licensed to carry on an insurance business in the jurisdiction. We are subject to the insurance laws of the State of Iowa, where we are domiciled and other jurisdictions in which we transact business. The primary regulator of our insurance operations is the Division of Insurance for the State of Iowa.

State insurance regulators have broad administrative powers with respect to all aspects of the insurance business including: licensing to transact business, licensing agents, admittance of assets to statutory surplus, regulating premium rates for certain insurance products, approving policy forms, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards, establishing credit for reinsurance requirements, fixing maximum interest rates on life insurance policy loans and minimum accumulation or surrender values and other matters. State insurance laws and regulations include numerous provisions governing the marketplace conduct of insurers, including provisions governing the form and content of disclosures to consumers, product illustrations, advertising, product replacement, suitability, sales and underwriting practices, complaint handling and claims handling. State regulators enforce these provisions through periodic market conduct examinations. State insurance laws and regulations regulating affiliate transactions, the payment of dividends, and change of control transactions are discussed in greater detail below.

State insurance laws and regulations require us to file financial statements with state insurance regulators everywhere we are licensed and our operations and accounts are subject to examination by those regulators at any time. We prepare statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these regulators. The National Association of Insurance Commissioners (the “NAIC”) has approved a series of uniform statutory accounting principles ("SAP") that have been adopted, in some cases with minor modifications, by all state insurance regulators.

As a basis of accounting, SAP was developed to monitor and regulate the solvency of insurance companies. In developing SAP, insurance regulators were primarily concerned with assuring an insurer’s ability to pay all its current and future obligations to policyholders. As a result, statutory accounting focuses on conservatively valuing the assets and liabilities of insurers, generally in accordance with standards specified by the insurer’s domiciliary state. The values for assets, liabilities and equity reflected in financial statements prepared in accordance with U.S. GAAP are usually different from those reflected in financial statements prepared under SAP.

State insurance regulators conduct periodic financial examinations of the books, records, accounts and business practices of insurers domiciled in their states, generally every three to five years. Financial examinations are generally carried out in cooperation with the insurance regulators of other states under guidelines promulgated by the NAIC. State and federal insurance and securities regulatory authorities and other state law enforcement agencies and attorneys general also from time to time make inquiries and conduct examinations or investigations regarding the compliance by our company, as well as other companies in our industry, with, among other things, insurance laws and securities laws.

State insurance regulators, the NAIC and other regulatory bodies are also investigating the use of affiliated captive reinsurers or off-shore entities to reinsure insurance risks and the NAIC has made recent advances in captive reform. In June 2014, the NAIC adopted a new regulatory framework for captives assuming business governed by Regulations XXX or AXXX, called the "Rector framework". In December 2014, the NAIC adopted Actuarial Guideline 48 (“AG48”) which established a new regulatory requirement applicable to XXX and AG38 reserves ceded to reinsurers, including affiliated reinsurers, as the first step in implementing the Rector framework. As adopted, AG48 limits the type of assets that may be used as collateral to cover the XXX and AG38 statutory reserves and is applied prospectively to existing reinsurance transactions that reinsure policies issued on or after January 1, 2015 and new reinsurance transactions entered into on or after January 1, 2015. The purpose of AG48 was to implement the substantive requirements of the Rector Framework, effective January 1, 2015, pending development and adoption by the states of the new term and Universal Life Insurance Reserve Financing Model Regulation (the "XXX/AXXX Regulation"). The NAIC charged multiple working groups with the responsibility to prepare the XXX/AXXX Regulation and in December 2016, the NAIC adopted the XXX/AXXX Regulation and amended AG48 to align its provisions with the XXX/AXXX Regulation. In 2014, the NAIC also considered a proposal to require states to apply NAIC accreditation standards, applicable to traditional insurers, to captive reinsurers. In 2015, the NAIC adopted such a proposal, in the form of a revised preamble to the NAIC accreditation standards (the "Standard"), with an effective date of January 1, 2016 for application of the Standard to captives that assume XXX or AXXX business. Under the Standard, a state will be deemed in compliance as it relates to XXX or AXXX captives if the applicable reinsurance transaction satisfies AG 48. In addition, the Standard applies prospectively, so that XXX or AXXX captives will not be subject to the Standard if reinsured policies were issued prior to January 1, 2015 and ceded so that they were part of a reinsurance arrangement as of December 31, 2014. The NAIC left for future action application of the Standard to captives that assume variable annuity business. As drafted, it appears that the Standard would apply to our affiliated Arizona captives, SLDI and its wholly owned subsidiary RRII.

During 2015, The NAIC Financial Conditions (E) Committee (the "E Committee") established the Variable Annuities Issues (E) Working Group ("VAIWG") to oversee the NAIC's efforts to study and address, as appropriate, regulatory issues resulting in variable annuity captive reinsurance transactions. In November 2015, upon recommendation of the VAIWG, the E Committee adopted a Variable Annuities Framework for Change (the "VA Framework for Change") which recommends charges for NAIC working groups to adjust the variable annuity statutory framework applicable to all insurers that have written or are writing variable

annuity business. The VA Framework for Change contemplates a holistic set of reforms that would improve the current reserve and capital framework and address root cause issues that result in the use of captive arrangements but would not mandate recapture by insurers of VA cessions to captives. In November 2015, the VAIWG engaged Oliver Wyman ("OW") to conduct a quantitative impact study involving industry participants including the Company, of various reforms outlined in the VA Framework for Change (the "QIS"). OW completed the QIS in July of 2016 and reported its initial findings to the VAIWG in late August. The OW report proposed certain revisions to the current VA reserve and capital framework and recommended a second quantitative impact study be conducted so that testing can inform the proper calibration for certain conceptual and/or preliminary parameters set out in the OW proposal. Following a public comment period in the fourth quarter of 2016 and several meetings on the OW proposal, the VAIWG determined that a second quantitative impact study (the "QIS2") involving industry participants, including us, will be conducted by OW. The QIS 2 began in February 2017 and is expected to be completed by September 2017, with NAIC deliberations on QIS2 results during the fourth quarter of 2017. Although the QIS timetable indicates the VAIWG expects to complete work in 2017, timing for implementation of changes to the current VA reserve and capital framework remains uncertain.

We cannot predict what revisions, if any, would be made to the XXX/AXXX Regulation or the Standard for application to captives that assume XXX or AXXX business, as states consider their adoption or undertake their implementation, to the VA Framework for Change proposal as a result of QIS2 and ongoing NAIC deliberations, or to the Standard, if adopted for variable annuity captives. It is also unclear whether these or other proposals will be adopted by the NAIC, or what additional actions and regulatory changes will result from the continued captives scrutiny and reform efforts by the NAIC and other regulatory bodies. We utilize affiliated captive insurers to satisfy certain statutory reserve requirements related to certain of our variable annuity contracts. If state insurance regulators determine to restrict our use of affiliated captive reinsurers, it could require us to increase statutory reserves, incur higher operating or tax costs or reduce sales. See "Item 1A. Risk Factors - Risks Related to Regulation - Our businesses are heavily regulated, and changes in regulation in the United States, enforcement actions and regulatory investigations may reduce profitability".

Insurance Holding Company Regulation

Because we are part of an affiliated group of companies, we are subject to the insurance holding company law of the State of Iowa, our state of domicile. State insurance holding company law generally requires each insurance company directly or indirectly owned by the holding company to register with the insurance regulator in the insurance company’s state of domicile and to furnish annually financial and other information about the operations of companies within the holding company system. Generally, all transactions affecting the insurers in the holding company system must be fair and reasonable and, if material, require prior notice and approval or non-disapproval by the state’s insurance regulator.

Change of Control. State insurance holding company regulations, including those of Iowa, generally provide that no person, corporation or other entity may acquire control of an insurance company, or a controlling interest in any parent company of an insurance company, without the prior approval of such insurance company’s domiciliary state insurance regulator. Under Iowa law, any person acquiring, directly or indirectly, 10% or more of the voting securities of an insurance company is presumed to have acquired “control” of the company. This statutory presumption of control may be rebutted by a showing that control does not exist in fact. Our Iowa insurance regulators, however, may find that “control” exists in circumstances in which a person owns or controls less than 10% of voting securities.

To obtain approval of any change in control, any proposed acquirer must file with the Iowa Division of Insurance an application disclosing, among other information, its background, financial condition, the financial condition of its affiliates, the source and amount of funds by which it will effect the acquisition, the criteria used in determining the nature and amount of consideration to be paid for the acquisition, proposed changes in the management and operations of the insurance company and other related matters.

Any purchaser of shares of common stock representing 10% or more of the voting power of our capital stock or that of Voya Financial, Inc. will be presumed to have acquired control of our Company unless, following application by that purchaser with the Iowa Division of Insurance, the Insurance Commissioner determines otherwise.

NAIC Amendments. In 2010, the NAIC adopted significant changes to the insurance holding company model act and regulations (the “NAIC Amendments”). The NAIC Amendments include a requirement that an insurance holding company system’s ultimate controlling person submit annually to its lead state insurance regulator an “enterprise risk report” that identifies activities, circumstances or events involving one or more affiliates of an insurer that, if not remedied properly, are likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole. The NAIC Amendments also include a provision requiring a controlling person to submit prior notice to its domiciliary insurance regulator of a divestiture of control. The NAIC Amendments must be adopted by the individual state legislatures and insurance regulators in order to be effective. Iowa adopted its version of the NAIC Amendments.

In addition, the NAIC has proposed a “Solvency Modernization Initiative” which focuses on: (1) capital requirements; (2) corporate governance and risk management; (3) group supervision; (4) statutory accounting and financial reporting; and (5) reinsurance. This initiative has resulted in the adoption by the NAIC in September 2012 of the Risk Management and Own Risk and Solvency Assessment Model Act ("ORSA"), which has been enacted by the Iowa legislature. ORSA requires that insurers maintain a risk management framework and conduct an internal own risk and solvency assessment of the insurer's material risks in normal and stressed environments. The assessment must be documented in a confidential annual summary report, a copy of which must be made available to regulators as required or upon request. In accordance with statutory requirements, Voya Financial, Inc. has prepared and submitted ORSA summary reports since 2015 on behalf of the consolidated enterprise to the Connecticut Insurance Department, the lead insurance regulator of Voya Financial, Inc.'s consolidated enterprise. This initiative also resulted in the adoption by the NAIC in August 2014 of the Corporate Governance Annual Filing Model Act, which requires insurers to make an annual confidential filing regarding their corporate governance policies. This new model has been enacted by the Iowa legislature and Voya Financial, Inc. submitted its first filing on behalf of the consolidated enterprise to the Connecticut Insurance Department in 2016.

Dividend Payment Restrictions. The insurance law of an insurance company’s state of domicile imposes certain restrictions on a domiciliary insurance company’s ability to pay dividends to its parent. These restrictions are based in part on the prior year’s statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval. Dividends in larger amounts, or extraordinary dividends, are subject to approval by the insurance commissioner of the state of domicile of the insurance subsidiary proposing to pay the dividend. In addition, under Iowa insurance law, no dividend or other distribution exceeding an amount equal to an insurance company's earned surplus may be paid without the domiciliary insurance regulator's prior approval.

Financial Regulation

Policy and Contract Reserve Sufficiency Analysis. Under the laws and regulations of Iowa, we are required to conduct annual analyses of the sufficiency of our life and annuity statutory reserves. Other jurisdictions in which we are licensed may have certain reserve requirements that differ from our state of domicile. In each case, a qualified actuary must submit an opinion that states that the aggregate statutory reserves, when considered in light of the assets held with respect to such reserves, are sufficient to meet the insurer’s contractual obligations and related expenses. If such an opinion cannot be rendered, the affected insurer must set up additional statutory reserves by moving funds from available statutory surplus. We submit these opinions annually to applicable insurance regulatory authorities.

Recent actions by the NAIC. In recent years the NAIC has undertaken a process to redefine the reserve methodology for certain of our insurance liabilities under a framework known as Principles-Based Reserving (“PBR”). Under PBR, an insurer’s reserves are still required to be conservative, since a primary focus of SAP is the protection of policyholders, however, greater credence is given to the insurer’s realized past experience and anticipated future experience as well as to current economic conditions. An important part of the PBR framework was the adoption of AG43 as of December 31, 2009 for variable annuity guaranteed benefits.

Surplus and Capital Requirements. Insurance regulators have the discretionary authority, in connection with the ongoing licensing of insurance companies, to limit or prohibit the ability of an insurer to issue new policies if, in the regulators’ judgment, the insurer is not maintaining a minimum amount of surplus or is in hazardous financial condition. Insurance regulators may also limit the ability of an insurer to issue new life insurance policies and annuity contracts above an amount based upon the face amount and premiums of policies of a similar type issued in the prior year. We do not currently believe that the current or anticipated levels of our statutory surplus present a material risk that any such regulator would limit the amount of new policies that we may issue.

Risk-Based Capital. The NAIC has adopted risk-based capital ("RBC") requirements for life, health and property and casualty insurance companies. The requirements provide a method for analyzing the minimum amount of adjusted capital (statutory capital and surplus plus other adjustments) appropriate for an insurance company to support its overall business operations, taking into account the risk characteristics of the company’s assets, liabilities and certain off-balance sheet items. State insurance regulators use the RBC requirements as an early warning tool to identify possibly inadequately capitalized insurers. An insurance company found to have insufficient statutory capital based on its RBC ratio may be subject to varying levels of additional regulatory oversight depending on the level of capital inadequacy. As of December 31, 2016, our RBC exceeded statutory minimum RBC levels that would require any regulatory or corrective action.

The NAIC is currently working with the American Academy of Actuaries as they consider possible updates to the asset factors that are used to calculate the RBC requirements for the investment portfolio assets. The NAIC review may lead to an expansion in the number of NAIC asset class categories for factor-based RBC requirements and the adoption of new factors, which could

increase capital requirements on some securities and decrease capital requirements on others. We cannot predict what, if any, changes may result from this review or their potential impact on our RBC ratios. We will continue to monitor developments in this area.

IRIS Tests. The NAIC has developed a set of financial relationships or tests known as the Insurance Regulatory Information System ("IRIS") to assist state regulators in monitoring the financial condition of U.S. insurance companies and identifying companies requiring special attention or action. For IRIS ratio purposes, we submit data to the NAIC on an annual basis. The NAIC analyzes this data using prescribed financial data ratios. A ratio falling outside the prescribed "usual range" is not considered a failing result. Rather, unusual values are viewed as part of the regulatory early monitoring system. In many cases, it is not unusual for financially sound companies to have one or more ratios that fall outside the usual range.

Regulators typically investigate or monitor an insurance company if its IRIS ratios fall outside the prescribed usual range for four or more of the ratios, but each state has the right to inquire about any ratios falling outside the usual range. The inquiries made by state insurance regulators into an insurance company's IRIS ratios can take various forms.

Management does not anticipate regulatory action as a result of the 2016 IRIS ratio results. In all instances in prior years, regulators have been satisfied upon follow-up that no regulatory action was required. It is possible that similar results may not occur in the future.

Insurance Guaranty Associations. Each state has insurance guaranty association laws that require insurance companies doing business in the state to participate in various types of guaranty associations or other similar arrangements. The laws are designed to protect policyholders from losses under insurance policies issued by insurance companies that become impaired or insolvent. Typically, these associations levy assessments, up to prescribed limits, on member insurers on the basis of the member insurer's proportionate share of the business in the relevant jurisdiction in the lines of business in which the impaired or insolvent insurer is engaged. Some jurisdictions permit member insurers to recover assessments that they paid through full or partial premium tax offsets, usually over a period of years.

We accrue the cost of future guaranty fund assessments based on estimates of insurance company insolvencies provided by the National Organization of Life and Health Insurance Guaranty Associations and the amount of premiums written in each state. We have estimated this undiscounted liability to be $0.9 million and $1.2 million as of December 31, 2016 and 2015, respectively. We have also recorded an asset of $1.3 million and $1.7 million as of December 31, 2016 and 2015, respectively, for future credits to premium taxes. We estimate our liabilities for future assessments under state insurance guaranty association laws. We believe the reserves established are adequate for future assessments relating to insurance companies that are currently subject to insolvency proceedings.

Marketing and Sales

State insurance regulators have become more active in adopting and enforcing suitability standards with respect to sales of fixed, indexed and variable annuities. In particular, the NAIC has adopted a revised Suitability in Annuity Transactions Model Regulation ("SAT"), which will, if enacted by the states, place new responsibilities upon issuing insurance companies with respect to the suitability of annuity sales, including responsibilities for training agents. Many states have already taken action to adopt provisions based on the SAT.

Cybersecurity Regulatory Activity

The NAIC, other state and federal regulatory bodies and self-regulatory organizations like FINRA are focused on cybersecurity standards for the financial services industry and have issued guidance regarding cybersecurity standards and protocols. During 2017, we expect cybersecurity risk management, prioritization and reporting to continue to be an area of significant regulatory focus by such regulatory bodies and self-regulatory organizations.

Federal Initiatives Affecting Insurance Operations

The U.S. federal government generally does not directly regulate the insurance business. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") established the Federal Stability Oversight Council ("FSOC"), which is authorized to designate non-bank financial companies as systemically significant and accordingly subject such companies to regulation and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve") if the FSOC determines that material financial distress at the company or the scope of the company's activities could pose a threat to the financial

stability of the U.S. See "--Financial Reform Legislation and Initiatives -- Dodd-Frank Wall Street Reform and Consumer Protection Act" below.

The Dodd-Frank Act also established FIO within the United States Department of the Treasury (“Treasury Department”). While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance, including serving as a non-voting member of the FSOC, making recommendations to the FSOC regarding insurers to be designated for more stringent regulation as a nonbank financial entity supervised by the Federal Reserve and representing the U.S. in the negotiation of international insurance agreements with foreign insurance regulators. The Dodd-Frank Act also required the director of FIO to conduct a study on how to modernize and improve the system of insurance regulation in the United States and that report was issued in December 2013. FIO has an ongoing charge to monitor all aspects of the insurance industry and state insurance regulatory developments, including those called for in its modernization report and present options for federal involvement if deemed necessary. There is substantial uncertainty as to whether aspects of the Dodd-Frank Act or regulatory bodies established thereunder will be impacted by regulatory or legislative changes made by the Trump administration or Congress.

Federal legislation and administrative policies in several areas can significantly and adversely affect insurance companies. These areas include federal health care regulation, pension regulation, financial services regulation, federal tax laws relating to life insurance companies and their products and the USA PATRIOT Act of 2001 (the “Patriot Act”) requiring, among other things, the establishment of anti-money laundering monitoring programs.

While too early to meaningfully assess the prospects of specific federal measures, and their application to us, the interplay between the federal legislative agenda advanced by Congressional Republicans and that of the Trump administration may significantly affect the insurance business, including measures that would change the tax treatment of insurance products relative to other financial products, simplify tax-advantaged or tax-exempt savings and retirement vehicles, restructure the corporate income tax provisions, or modify or eliminate the estate tax.

Regulation of Annuity Products

Our annuity products are subject to federal and state tax, securities, fiduciary, insurance and other laws and regulations. The SEC, the Financial Industry Regulatory Authority ("FINRA"), state securities commissions, state insurance departments and the Department of Labor (“DOL”) and the Treasury Department are the principal regulators that regulate these products. The Dodd-Frank Act may also impact our annuity operations. See “Financial Reform Legislation and Initiatives-Dodd-Frank Wall Street Reform and Consumer Protection Act” below.

We sell variable annuities that are registered with the SEC as securities under the Securities Act of 1933, as amended (the “Securities Act”) and are subject to regulation by the SEC and FINRA. In addition, certain fixed and indexed annuities we may offer are registered as securities under the Securities Act. The variable annuity products are issued through separate accounts and some of the separate accounts are registered as investment companies under the Investment Company Act of 1940 (the “Investment Company Act”), and are regulated by state law. Each separate account is generally divided into sub-accounts, each of which invests in an underlying mutual fund which is itself a registered investment company under the Investment Company Act. Such mutual funds, and in certain states, our variable annuity products, are subject to filing and other requirements under state securities laws. Federal and state securities laws and regulations are primarily intended to protect investors and generally grant broad rulemaking and enforcement powers to regulatory agencies. Federal and state securities regulatory authorities and FINRA from time to time make inquiries and conduct examinations regarding compliance by us and our affiliates with securities and other laws and regulations.

Distribution of our annuity products registered as securities are affected by laws and regulations applicable to broker-dealers. Pursuant to the Dodd-Frank Act, the SEC is authorized to establish a standard of conduct applicable to brokers and dealers whereby they would be required to act in the best interest of the customer without regard to the financial or other interest of the broker or dealer when providing personalized investment advice to retail and other customers. A January 2011 SEC study acknowledges that the offering of proprietary products would not be a per se violation of any such standard of care and that broker-dealers selling proprietary or a limited range of products could be permitted to make certain disclosures about their limited product offerings and obtain customer consents or acknowledgments. The SEC has not yet decided whether to propose rules creating a uniform standard of conduct applicable to broker-dealers and investment advisers.

In April 2016, the Department of Labor (“DOL”) issued a final rule that will broaden the definition of “fiduciary” for purposes of Employment Retirement Income Security Act (“ERISA”) and the Internal Revenue Code, as it applies to a person or entity providing investment advice with respect to ERISA plans or IRAs. The rule expands the circumstances in which providers of investment advice to ERISA plan sponsors and plan participants, and IRA investors, are deemed to act in a fiduciary capacity. The rule requires

such providers to act in their clients' "best interests", not influenced by any conflicts of interest, including due to the direct or indirect receipt of compensation that varies based on the fiduciary's investment recommendation. The rule is scheduled to take effect on April 10, 2017, but, as described below, it is currently uncertain whether the rule will be delayed, amended or repealed. If and when the rule takes effect, certain business activities in which we currently engage, such as IRA rollovers and other IRA sales, will become subject to a heightened fiduciary standard. Where VIAC is deemed to act in a fiduciary capacity, we will in certain cases need to either modify our sale and compensation practices or find an applicable exemption.

The DOL concurrently adopted a "best interest contract exemption" ("BIC") intended to enable continuation of certain existing industry practices relating to receipt of commissions and other compensation. We expect this exemption to go into effect only if the rule does. While this exemption would enable us and our distributors to continue many historical practices - subject, among other things, to a heightened best interests standard and a requirement that compensation be "reasonable" - there are practical difficulties with relying on the exemption that we believe will limit its utility in certain markets, particularly the retail annuities market, where many of our current distributors are not able to rely on exemption because they do not do business through regulated financial institutions. While it is too early to predict what impact this would have on our annuities and other businesses, we may experience a material decline in sales of products that can only be practicably sold in reliance on the BIC, such as variable annuities and fixed indexed annuities.

In addition, the rule may make it easier for the DOL in enforcement actions, and for plaintiffs' attorneys in litigation to attempt to extend fiduciary status to, or to claim fiduciary or contractual breach by, advisors who would not be deemed fiduciaries under current regulations. Compliance with the proposed rule could also increase our overall operational costs for providing some of the services we currently provide.

President Trump issued a directive in February 2017 requiring the DOL to take certain actions with respect to the rule, which may result in its revision or a delay in its implementation beyond its April 10, 2017 first applicability date. On March 2, 2017 the DOL published in the Federal Register (i) a proposal to delay applicability of the rule for 60 days beyond April 10, 2017, which is subject to a 15-day notice-and-comment period, and (ii) a request for comments on whether and how the rule should be modified in furtherance of the presidential directive, which is subject to a 45-day notice and comment period. It is unclear whether the DOL will delay applicability of the rule after the close of the 15-day comment period, and whether, or to what extent, the DOL will revise the rule after the close of the 45-day comment period. On March 10, 2017, the DOL announced a temporary policy to not enforce compliance with the rule for a transition period while the DOL considers the proposed delay described above. This policy does not, however, extend to the enforcement of the rule with respect to IRAs or private rights of action, and therefore appears to provide incomplete relief in the event a delay is not finalized prior to April 10, 2017.

Financial Reform Legislation and Initiatives

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Act, which effects comprehensive changes to the regulation of financial services in the United States. The Dodd-Frank Act directs existing and newly-created government agencies and bodies to perform studies and promulgate a multitude of regulations implementing the law, a process that has substantially advanced but is not yet complete. While some studies have already been completed and the rule-making process is well underway, there continues to be uncertainty regarding the results of ongoing studies and the ultimate requirements of regulations that have not yet been adopted. Although the new presidential administration has indicated a desire to revise or reverse some of its provisions, the fate of these proposals is unclear, and we cannot predict with certainty how the Dodd-Frank Act will continue to affect the financial markets generally, or impact our business, ratings, results of operations, cash flows or financial condition.

The Dodd-Frank Act created a new agency, the FSOC, which is authorized to subject nonbank financial companies to the supervision of the Federal Reserve if the FSOC determines that, among other matters, material financial distress at the company or the scope of the company's activities could pose risks to the financial stability of the United States. If we or Voya Financial, Inc. were designated by the FSOC as a systemically significant nonbank financial company subject to supervision by the Federal Reserve, we would become subject to a comprehensive system of prudential regulation, including minimum capital requirements, liquidity standards, credit exposure requirements, overall risk management requirements, management interlock prohibitions, a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress, stress testing, and additional fees and assessments and restrictions on proprietary trading and certain investments. The exact scope and consequences of these standards and requirements are subject to ongoing rulemaking activity by various federal banking regulators and therefore are currently unclear. However, this comprehensive system of prudential regulation, if applied to Voya Financial, Inc. or us, would significantly impact the manner in which we operate and could materially and adversely impact the profitability of one or more of our business lines or the level of capital required to support our activities. In designating non-bank financial companies for heightened prudential

regulation by the Federal Reserve, the FSOC considers, among other matters, the scope, size and potential impact of their activities on the financial stability of the United States.

In addition, the Dodd-Frank Act contains numerous other provisions, some of which may have an impact on us. These include:

- The FSOC may recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices we and other insurers or other financial services companies engage in if the FSOC determines that those activities or practices could create or increase the risk that significant liquidity, credit or other problems spread among financial companies. We cannot predict whether any such recommendations will be made or their effect on our business, results of operations, cash flows or financial condition.

- The Dodd-Frank Act creates a new framework for regulating over-the-counter ("OTC") derivatives, which may increase the costs of hedging and other permitted derivatives trading activity undertaken by us. Under the new regulatory regime and subject to certain exceptions, certain standardized OTC interest rate and credit derivatives must now be cleared through a centralized clearinghouse and executed on a centralized exchange or execution facility, and the CFTC and the SEC may designate additional types of OTC derivatives for mandatory clearing and trade execution requirements in the future. In addition to mandatory central clearing and trade execution of certain OTC derivatives, market participants like us are or will be (directly or indirectly) subject to regulatory requirements which may include reporting and recordkeeping, and capital and margin requirements. Specifically, in October 2015, federal banking regulators issued final rules establishing minimum margin requirements for non-centrally cleared derivatives with swaps entities that they prudentially regulate, which includes many of the swap dealers that transact derivatives with us. Similarly, in December 2015, the CFTC issued final rules establishing nearly identical margin requirements with swap dealers that are not otherwise subject to regulation by the federal banking regulators, which includes many non-bank swap dealers that transact derivatives with us. Both the CFTC and prudential regulator margin rules require the exchange of initial and variation margin for non-centrally cleared derivatives with certain types of counterparties, including financial end users like us. In addition to initial margin on centrally cleared swaps required under Dodd-Frank since 2013, the margin rules for OTC swaps will require posting of initial margin for most non-centrally cleared derivatives transacted by us commencing in 2020 as well as variation margin commencing in 2017. As a result of the transition to central clearing and the new regulatory regime governing OTC derivatives (especially margin requirements for non-centrally cleared derivatives), we will be required to hold more cash and highly liquid securities resulting in lower yields. In addition, increased capital charges imposed by regulators on non-cash collateral held by bank counterparties and central clearinghouses is expected to result in higher hedging costs, causing a reduction in income from investments. These developments present potentially significant business, liquidity and operational risk for us which could materially and adversely impact both the cost and our ability to effectively hedge various risks, including equity, interest rate, currency and duration risks within many of our insurance and annuity products and investment portfolios. In addition, inconsistencies between the Dodd-Frank Act regime and parallel regimes in other jurisdictions, such as the EU, may further increase costs of hedging or inhibit our ability to access market liquidity in those other jurisdictions.

- The Dodd-Frank Act established FIO within the Treasury Department to be headed by a director appointed by the Secretary of the Treasury. See "Insurance Regulation-Federal Initiatives Affecting Insurance Operations" above.

- The Dodd-Frank Act includes various securities law reforms that may affect our business practices and the liabilities and/or exposures associated therewith. See "Regulation of Annuity Products" above.

Until final regulations are promulgated pursuant to the Dodd-Frank Act, the full impact of the Dodd-Frank Act on our businesses, products, results of operation and financial condition will remain unclear. Additionally, there is substantial uncertainty as to whether aspects of the Dodd-Frank Act or regulatory bodies established thereunder will be impacted by regulatory or legislative changes made by the Trump administration or Congress.

Other Laws and Regulations

USA Patriot Act

The Patriot Act contains anti-money laundering and financial transparency laws applicable to broker-dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Anti-money laundering laws outside of the United States contain provisions that may be different, conflicting or more rigorous. Internal practices, procedures and controls are required to meet the increased obligations of financial institutions to identify their customers, watch

for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies and share information with other financial institutions.

We are also required to follow certain economic and trade sanctions programs administered by the Office of Foreign Asset Control that prohibit or restrict transactions with suspected countries, their governments and, in certain circumstances, their nationals. We are also subject to regulations governing bribery and other anti-corruption measures.

Privacy Laws and Regulation

U.S. federal and state laws and regulations require financial institutions, including insurance companies, to protect the security and confidentiality of personal information and to notify consumers about their policies and practices relating to their collection and disclosure of consumer information and the protection of the security and confidentiality of that information. The disclosure and security of protected health information is also governed by federal and state laws. In particular, regulations promulgated by the U.S. Department of Health and Human Services regulate the disclosure and use of protected health information by health insurers and others (including life insurers), the physical and procedural safeguards employed to protect the security of that information and the electronic transmission of such information. Federal and state laws require notice to affected individuals, law enforcement, regulators and others if there is a breach of the security of certain personal information, including social security numbers, and require holders of certain personal information to protect the security of the data. Federal regulations require financial institutions to implement effective programs to detect, prevent and mitigate identity theft. Federal and state laws and regulations regulate the ability of financial institutions to make telemarketing calls and to send unsolicited e-mail or fax messages to consumers and customers. Federal laws and regulations also regulate the permissible uses of certain types of personal information, including consumer report information. Federal and state governments and regulatory bodies may consider additional or more detailed regulation regarding these subjects.

Environmental Considerations

Our ownership and operation of real property and properties within our commercial mortgage loan portfolio is subject to federal, state and local environmental laws and regulations. Risks of hidden environmental liabilities and the costs of any required clean-up are inherent in owning and operating real property. Under the laws of certain states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of clean-up, which could adversely affect the valuation of, and increase the liabilities associated with, the commercial mortgage loans we hold. In several states, this lien has priority over the lien of an existing mortgage against such property. In addition, we may be liable, in certain circumstances, as an “owner” or “operator,” for costs of cleaning-up releases or threatened releases of hazardous substances at a property mortgaged to us under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and the laws of certain states. Application of various other federal and state environmental laws could also result in the imposition of liability on us for costs associated with environmental hazards.

We routinely conduct environmental assessments prior to closing any new commercial mortgage loans or to taking title to real estate. Although unexpected environmental liabilities can always arise, we seek to minimize this risk by undertaking these environmental assessments and complying with our internal environmental policies and procedures.

Item 1A. Risk Factors
(Dollar amounts in millions, unless otherwise stated)

We face a variety of risks that are substantial and inherent in our business, including market, liquidity, credit, operational, legal, regulatory and reputational risks. The following are some of the more important factors that could affect our business.

Risks Related to Our Business - General

Continued difficult conditions in the global capital markets and the economy generally have affected and may continue to affect our business, results of operations and financial condition.

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. Slowing growth rates globally and the uncertain consequences of changing monetary policies among the world's large central banks could create economic disruption, decrease asset prices, increase market volatility and potentially affect the availability and cost of credit.

Although we carry out business almost exclusively in the United States, we are affected by both domestic and international macroeconomic developments. In the short and medium term, the U.S. market faces difficulties that include persistent weakness in economic growth, volatility in asset prices and questions surrounding the monetary policy being pursued by the Federal Open Market Committee ("FOMC") of the Federal Reserve, which has gradually begun to tighten. In the longer term, concerns persist around the long-term sustainability of the nation’s debt profile, especially given expectations regarding future entitlement spending and persistent budget deficits, the effect on the financial system of the significant regulatory changes enacted in the aftermath of the 2008-09 financial crisis, and the consequences of potentially significant changes to Federal legislation, in particular with respect to tax and fiscal policy.

In particular, the results of the November 2016 U.S. presidential and congressional elections could give rise to significant changes in U.S. economic and foreign policy, including with respect to trade, immigration, and military engagements, any or all of which could have a material impact on global financial markets and economic conditions.

Internationally, slowing levels of growth in developing markets, in particular in China, could have significant adverse consequences for the level of global economic activity, and on commodity and other asset markets. To the extent this results in falling commodity and energy prices, significant dislocations in global credit and currency markets may occur, as the consequences of lower prices, revenues and asset prices are felt by borrowers and exporters, and in turn creditors and investors. In addition, the Chinese market faces concerns surrounding the stability of its credit, equity and real estate markets, and any crisis in these markets could have global consequences.

In Europe, concerns regarding the economic and fiscal viability of countries such as Greece continue to contribute to long-term structural headwinds in the Eurozone, and significant concerns persist regarding the sovereign debt of Greece and certain other Eurozone countries. In recent times, political events have increasingly threatened the cohesiveness of the European Union, and are likely to result in the cessation or rollback of the political and economic integration of Europe that has occurred over the past several decades. In particular, the results of the "Brexit" referendum held by the United Kingdom in 2016 and the U.K. government’s declared intention to withdraw from the EU could have substantial adverse consequences for the U.K. and European economies. The financial and political turmoil in Europe continues to be a long-term threat to global capital markets and remains a challenge to global financial stability. If countries, such as Greece, require additional financial support or if their sovereign credit ratings decline further, yields on such sovereign debt may increase, the cost of borrowing may increase and the availability of credit may become more limited. Additionally, the possibility of capital market volatility spreading through a highly integrated and interdependent banking system remains elevated. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses for which they would require additional capital, which may not be available.

In 2015, the FOMC began to tighten U.S. monetary policy as it seeks to gradually reverse programs and policies that have, in recent years, fostered a historically low interest rate environment. The effect of this effort, and the novel mechanism through which the FOMC is implementing it, remains uncertain, and could include increased volatility in debt, equity, currency and commodity markets. As the FOMC moves towards normalizing monetary policy and moving short-term interest rates off of their lower bound, the central bank may adversely affect prospects for continued economic recovery with little headroom for incremental monetary accommodation. Any increase in interest rates resulting from the FOMC's monetary policy would generally result in declining values for fixed income investments, including those we hold in our investment portfolio. A failure to successfully implement a tightening policy, on the other hand, could lead to a continued persistence of low interest rates and an associated adverse effect on

certain of our long-dated liabilities and the reserves we are required to hold against them. Our results of operations, investment portfolio and AUM are exposed to these risks and may be adversely affected as a result.

More generally, the international system has in recent years faced heightened geopolitical risk, most notably in Eastern Europe and the Middle East, but also in Africa and Southeast Asia, and events in any one of these regions could give rise to an increase in market volatility or a decrease in global economic output.

Even in the absence of a market downturn, our annuity, retirement and investment products, as well as our investment returns and our access to and cost of financing, are sensitive to equity, fixed income, real estate and other market fluctuations and general economic and political conditions. These fluctuations and conditions could materially and adversely affect our results of operations, financial condition and liquidity, including in the following respects:

- We provide a number of annuity, retirement and investment products that expose us to risks associated with fluctuations in interest rates, market indices, securities prices, default rates, the value of real estate assets, currency exchange rates and credit spreads. The profitability of many of our annuity, retirement and investment products depends in part on the value of the general accounts and separate accounts supporting them, which may fluctuate substantially depending on the foregoing conditions.
- Volatility or downturns in the equity markets can cause a reduction in fee income on annuity products. Because these products generate fees related primarily to the value of AUM, a decline in the equity markets could reduce our revenues.
- A change in market conditions, including prolonged periods of high or low inflation or interest rates, could cause a change in consumer sentiment and adversely affect sales and could cause the actual persistency of these products to vary from their anticipated persistency (the probability that a product will remain in force from one period to the next) and adversely affect profitability. Changing economic conditions or adverse public perception of financial institutions can influence customer behavior, which can result in, among other things, an increase or decrease in claims, lapses, withdrawals, deposits or surrenders in certain products, any of which could adversely affect profitability.
- An equity market decline, decreases in prevailing interest rates or a prolonged period of low interest rates could result in the value of guaranteed minimum benefits contained in certain of our life insurance, annuity and retirement products being higher than current account values or higher than anticipated in our pricing assumptions, requiring us to materially increase reserves for such products, and may result in a decrease in customer lapses, thereby increasing the cost to us. In addition, such a scenario could lead to increased amortization and/or unfavorable unlocking of our deferred acquisition costs ("DAC") and value of business acquired ("VOBA").
- We have significant investment and derivative portfolios that include, among other investments, corporate securities, asset-backed securities ("ABS"), equities and commercial mortgages. Economic conditions as well as adverse capital market and credit conditions, interest rate changes, changes in mortgage prepayment behavior or declines in the value of underlying collateral will impact the credit quality, liquidity and value of our investment and derivative portfolios, potentially resulting in higher capital charges and unrealized or realized losses and decreased investment income. The value of our investments and derivative portfolios may also be impacted by reductions in price transparency, changes in the assumptions or methodology we use to estimate fair value and changes in investor confidence or preferences, which could potentially result in higher realized or unrealized losses and have a material adverse effect on our results of operations or financial condition. Market volatility may also make it difficult to value certain of our securities if trading becomes less frequent.
- Market conditions determine the availability and cost of the reinsurance protection we purchase and may result in additional expenses for reinsurance or an inability to obtain sufficient reinsurance on acceptable terms, which could adversely affect the profitability of future business and the availability of capital to support new sales.
- Hedging instruments we use to manage product and other risks might not perform as intended or expected, which could result in higher realized losses and unanticipated cash needs to collateralize or settle such transactions. Adverse market conditions can limit the availability and increase the costs of hedging instruments, and such costs may not be recovered in the pricing of the underlying products being hedged. In addition, hedging counterparties may fail to perform their obligations resulting in unhedged exposures and losses on positions that are not collateralized.
- Regardless of market conditions, certain investments we hold, including privately placed fixed income investments, investments in private equity funds and commercial mortgages, are relatively illiquid. If we need to sell these investments, we may have difficulty selling them in a timely manner or at a price equal to what we could otherwise realize by holding the investment to maturity.
- We are exposed to interest rate and equity risk based upon the discount rate and expected long-term rate of return assumptions associated with our pension and other retirement benefit obligations. Sustained declines in long-term interest rates or equity returns could have a negative effect on the funded status of these plans and/or increase our future funding costs.

- Fluctuations in our operating results and realized and unrealized gains and losses on our investment and derivative portfolio may impact our tax profile, our ability to optimally utilize tax attributes and our deferred income tax assets.
- A default by any financial institution or by a sovereign could lead to additional defaults by other market participants. The failure of a sufficiently large and influential institution could disrupt securities markets or clearance and settlement systems and lead to a chain of defaults, because the commercial and financial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of a counterparty may lead to market-wide liquidity problems and losses or defaults by us or by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which we interact on a daily basis. Systemic risk could have a material adverse effect on our ability to raise new funding and on our business, results of operations, financial condition, liquidity and/or business prospects. In addition, such a failure could impact future product sales as a potential result of reduced confidence in the financial services industry. Regulatory changes implemented to address systemic risk could also cause market participants to curtail their participation in certain market activities, which could decrease market liquidity and increase trading and other costs.
- Widening credit spreads, if not offset by equal or greater declines in the risk-free interest rate, would also cause the total interest rate payable on newly issued securities to increase, and thus would have the same effect as an increase in underlying interest rates with respect to the valuation of our current portfolio.

To the extent that any of the foregoing risks were to emerge in a manner that adversely affected general economic conditions, financial markets, or the markets for our products and services, our financial condition, liquidity, and results of operations could be materially adversely affected.

Adverse capital and credit market conditions may impact our ability to access liquidity and capital, as well as the cost of credit and capital.

Adverse capital market conditions may affect the availability and cost of borrowed funds, thereby impacting our ability to support or grow our businesses. We need liquidity to pay our operating expenses, interest on our debt and dividends to our parent, to maintain our securities lending activities and to replace certain maturing liabilities. Without sufficient liquidity, we will be forced to curtail our operations and our business will suffer. Our principal sources of liquidity are insurance premiums and fees, annuity deposits and cash flow from investments and assets.

In the event current resources do not satisfy our needs, we may have to seek additional financing. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry and our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects. Similarly, our access to funds may be limited if regulatory authorities or rating agencies take negative actions against us. If our internal sources of liquidity prove to be insufficient, there is a risk that we may not be able to successfully obtain additional financing on favorable terms, or at all. Any actions we might take to access financing may cause rating agencies to reevaluate our ratings.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital. Such market conditions may in the future limit our ability to raise additional capital to support business growth, or to counter-balance the consequences of losses or increased regulatory reserves and rating agency capital requirements. This would have the potential to decrease both our profitability and our financial flexibility. Our results of operations, financial condition, liquidity, statutory capital and rating agency capital position could be materially and adversely affected by disruptions in the financial markets.

The level of interest rates may adversely affect our profitability, particularly in the event of a continuation of the current low interest rate environment or a period of rapidly increasing interest rates.

During periods of declining interest rates or a prolonged period of low interest rates, life insurance and annuity products may be relatively more attractive to consumers due to minimum guarantees that are frequently mandated by regulators, resulting in increased premium payments on products with flexible premium features and a higher percentage of insurance and annuity contracts remaining in force from year-to-year than we anticipated in our pricing, potentially resulting in greater claims costs than we expected and asset/liability cash flow mismatches. A decrease in interest rates or a prolonged period of low interest rates may also require additional provisions for guarantees included in life insurance and annuity contracts, as the guarantees become more valuable to policyholders. During a period of decreasing interest rates or a prolonged period of low interest rates, our investment earnings may decrease because the interest earnings on our recently purchased fixed income investments will likely have declined in parallel with market interest rates. In addition, a prolonged low interest rate period may result in higher costs for certain derivative instruments that may be used to hedge certain of our product risks. RMBS and callable fixed income securities in our investment

portfolios will be more likely to be prepaid or redeemed as borrowers seek to borrow at lower interest rates. Consequently, we may be required to reinvest the proceeds in securities bearing lower interest rates. Accordingly, during periods of declining interest rates, our profitability may suffer as the result of a decrease in the spread between interest rates credited to policyholders and contract owners and returns on our investment portfolios. An extended period of declining or prolonged low interest rates or a prolonged period of low interest rates may also cause us to change our long-term view of the interest rates that we can earn on our investments. Such a change in our view would cause us to change the long-term interest rate that we assume in our calculation of insurance assets and liabilities under U.S. GAAP. We most recently made such a downward revision in the third quarter of 2016. Any future revision would result in increased reserves, accelerated amortization of DAC and other unfavorable consequences, which would be incremental to those consequences recorded in connection with the most recent revision. In addition, certain statutory capital and reserve requirements are based on formulas or models that consider interest rates, and an extended period of low interest rates may increase the statutory capital we are required to hold and the amount of assets we must maintain to support statutory reserves.

We believe a continuation of the current low interest rate environment would also negatively affect our financial performance. In addition, we expect that a continuation of the current low interest rate environment would reduce our Company's risk-based capital ratio in an amount that could be material.

Conversely, in periods of rapidly increasing interest rates, policy loans, and withdrawals from, and/or surrenders of, life insurance and annuity contracts and certain funding agreements may increase as policyholders choose to seek higher investment returns. Obtaining cash to satisfy these obligations may require us to liquidate fixed income investments at a time when market prices for those assets are depressed because of increases in interest rates. This may result in realized investment losses. Regardless of whether we realize an investment loss, such cash payments would result in a decrease in total invested assets and may decrease our net income and capitalization levels. Premature withdrawals may also cause us to accelerate amortization of DAC, which would also reduce our net income. An increase in market interest rates could also have a material adverse effect on the value of our investment portfolio by, for example, decreasing the estimated fair values of the fixed income securities within our investment portfolio. An increase in market interest rates could also create a significant collateral posting requirement associated with our interest rate hedge programs and Federal Home Loan Bank ("FHLB") funding agreements, which could materially and adversely affect liquidity. In addition, an increase in market interest rates could require us to pay higher interest rates on debt securities we may issue in the financial markets from time to time to finance our operations, which would increase our interest expenses and reduce our results of operations. An increase in interest rates could result in decreased fee income associated with a decline in the value of variable annuity account balances invested in fixed income funds, which also might affect the value of the underlying guarantees within these variable annuities. Lastly, certain statutory reserve requirements are based on formulas or models that consider forward interest rates and an increase in forward interest rates may increase the statutory reserves we are required to hold thereby reducing statutory capital.

Changes in prevailing interest rates may negatively affect our business including the level of net interest margin we earn. In a period of changing interest rates, interest expense may increase and interest credited to policyholders may change at different rates than the interest earned on assets. Accordingly, changes in interest rates could decrease net interest margin. Changes in interest rates may negatively affect the value of our assets and our ability to realize gains or avoid losses from the sale of those assets, all of which also ultimately affect earnings. In addition, our insurance and annuity products and certain of our retirement and investment products are sensitive to inflation rate fluctuations. A sustained increase in the inflation rate in our principal markets may also negatively affect our business, financial condition and results of operation. For example, a sustained increase in the inflation rate may result in an increase in nominal market interest rates. A failure to accurately anticipate higher inflation and factor it into our product pricing assumptions may result in mispricing of our products, which could materially and adversely impact our results of operations.

A downgrade or a potential downgrade in our financial strength or credit ratings could result in a loss of business and adversely affect our results of operations and financial condition.

Ratings are important to our business. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Our credit ratings are important to our ability to raise capital through the issuance of debt and to the cost of such financing. Financial strength ratings, which are sometimes referred to as "claims-paying" ratings, represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Financial strength ratings are important factors affecting public confidence in insurers. Our financial strength ratings are important to our ability to sell our products and services to our customers. Ratings are not recommendations to buy our securities. Each of the rating agencies reviews its ratings periodically, and our current ratings may not be maintained in the future.

Our ratings could be downgraded at any time and without notice by any rating agency. For a description of material rating actions that have occurred from the end of 2015 through the date of this Annual Report on Form 10-K, see "Item 7. Management's Narrative Analysis of the Results of Operations and Financial Condition-Liquidity and Capital Resources-Ratings."

A downgrade of our financial strength rating could affect our competitive position by making it more difficult for us to market our products as potential customers may select companies with higher financial strength ratings and by leading to increased withdrawals by current customers seeking companies with higher financial strength ratings. This could lead to a decrease in AUM and result in lower fee income. Furthermore, sales of assets to meet customer withdrawal demands could also result in losses, depending on market conditions. In addition, a downgrade in either our financial strength or credit ratings could potentially, among other things, increase our borrowing costs and make it more difficult to access financing; adversely affect the availability of LOCs and other financial guarantees; result in additional collateral requirements, or other required payments or termination rights under derivative contracts or other agreements; and/or impair, or cause the termination of, our relationships with creditors, broker-dealers, distributors, reinsurers or trading counterparties, which could potentially negatively affect our profitability, liquidity and/or capital. In addition, we use assumptions of market participants in estimating the fair value of our liabilities, including insurance liabilities that are classified as embedded derivatives under U.S. GAAP. These assumptions include our nonperformance risk (i.e., the risk that the obligations will not be fulfilled). Therefore, changes in our credit or financial strength ratings or the credit or financial strength ratings of Voya Financial, Inc. may affect the fair value of our liabilities.

As rating agencies continue to evaluate the financial services industry, it is possible that rating agencies will heighten the level of scrutiny that they apply to financial institutions, increase the frequency and scope of their credit reviews, request additional information from the companies that they rate and potentially adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. It is possible that the outcome of any such review of us would have additional adverse ratings consequences, which could have a material adverse effect on our results of operations, financial condition and liquidity. We may need to take actions in response to changing standards or capital requirements set by any of the rating agencies which could cause our business and operations to suffer. We cannot predict what additional actions rating agencies may take, or what actions we may take in response to the actions of rating agencies.

Because we operate in highly competitive markets, we may not be able to increase or maintain our market share, which may have an adverse effect on our results of operations and financial condition.

In each of our businesses we face intense competition, including from domestic and foreign insurance companies, broker-dealers, financial advisors, asset managers and diversified financial institutions, banks, technology companies and start-up financial services providers, both for the ultimate customers for our products and for distribution through independent distribution channels. We compete based on a number of factors including brand recognition, reputation, quality of service, quality of investment advice, investment performance of our products, product features, scope of distribution, price, perceived financial strength and credit ratings, scale and level of customer service. A decline in our competitive position as to one or more of these factors could adversely affect our profitability. In addition, we may in the future sacrifice our competitive or market position in order to improve our profitability. Many of our competitors are large and well-established and some have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, or have higher claims-paying or credit ratings than we do. Furthermore, the preferences of the end consumers for our products and services may shift, including as a result of technological innovations affecting the marketplaces in which we operate. To the extent our competitors are more successful than we are at adopting new technology and adapting to the changing preferences of the marketplace, our competitiveness may decline.

In recent years, there has been substantial consolidation among companies in the financial services industry resulting in increased competition from large, well-capitalized financial services firms. Future economic turmoil may accelerate additional consolidation activity. Many of our competitors also have been able to increase their distribution systems through mergers, acquisitions, partnerships or other contractual arrangements. Furthermore, larger competitors may have lower operating costs and have an ability to absorb greater risk, while maintaining financial strength ratings, allowing them to price products more competitively. These competitive pressures could result in increased pressure on the pricing of certain of our products and services, and could harm our ability to maintain or increase profitability. In addition, if our financial strength and credit ratings are lower than our competitors, we may experience increased surrenders and/or a significant decline in sales. The competitive landscape in which we operate may be further affected by the government sponsored programs or regulatory changes in the United States and similar governmental actions outside of the United States. Competitors that receive governmental financing, guarantees or other assistance, or that are not subject to the same regulatory constraints, may have or obtain pricing or other competitive advantages. Due to the competitive nature of the financial services industry, there can be no assurance that we will continue to effectively compete within the industry or that competition will not have a material adverse impact on our business, results of operations and financial condition.

Our risk management policies and procedures, including hedge programs, may prove inadequate for the risks we face, which could negatively affect our business and financial condition or result in losses.

We have developed risk management policies and procedures, including hedge programs that utilize derivative financial instruments, and expect to continue to do so in the future. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective, particularly during extremely turbulent times. Many of our methods of managing risk and exposures are based upon observed historical market behavior or statistics based on historical models. As a result, these methods may not predict future exposures, which could be significantly greater than historical measures indicate. Other risk management methods depend on the evaluation of information regarding markets, customers, catastrophe occurrence or other matters that is publicly available or otherwise accessible to us. This information may not always be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record and verify large numbers of transactions and events. These policies and procedures may not be fully effective.

We employ various strategies, including hedging and reinsurance, with the objective of mitigating risks inherent in our business and operations. These risks include current or future changes in the fair value of our assets and liabilities, current or future changes in cash flows, the effect of interest rates, equity markets and credit spread changes, the occurrence of credit defaults, currency fluctuations and changes in mortality and longevity. We seek to control these risks by, among other things, entering into reinsurance contracts and derivative instruments, such as swaps, options, futures and forward contracts. See "Reinsurance subjects us to the credit risk of reinsurers and may not be available, affordable or adequate to protect us against losses" for a description of risks associated with our use of reinsurance. Developing an effective strategy for dealing with these risks is complex, and no strategy can completely insulate us from such risks. Our hedging strategies also rely on assumptions and projections regarding our assets, liabilities, general market factors and the creditworthiness of our counterparties that may prove to be incorrect or prove to be inadequate. Accordingly, our hedging activities may not have the desired beneficial impact on our results of operations or financial condition. Hedging strategies involve transaction costs and other costs, and if we terminate a hedging arrangement, we may also be required to pay additional costs, such as transaction fees or breakage costs. We may incur losses on transactions after taking into account our hedging strategies. In particular, our hedging strategies focus on the protection of regulatory and rating agency capital, rather than U.S. GAAP earnings. As U.S. GAAP accounting differs from the methods used to determine regulatory reserves and rating agency capital requirements, our hedge program tends to create earnings volatility in our U.S. GAAP financial statements. Further, the nature, timing, design or execution of our hedging transactions could actually increase our risks and losses. Our hedging strategies and the derivatives that we use, or may use in the future, may not adequately mitigate or offset the hedged risk and our hedging transactions may result in losses.

Past or future misconduct by our employees, agents, intermediaries, representatives of our broker-dealer affiliates or employees of our vendors could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm and the precautions we take to prevent and detect this activity may not be effective in all cases. Although we employ controls and procedures designed to monitor associates' business decisions and to prevent us from taking excessive or inappropriate risks, associates may take such risks regardless of such controls and procedures. Our compensation policies and practices are reviewed by us as part of our overall risk management program, but it is possible that such compensation policies and practices could inadvertently incentivize excessive or inappropriate risk taking. If our associates take excessive or inappropriate risks, those risks could harm our reputation and have a material adverse effect on our results of operations and financial condition.

The inability of counterparties to meet their financial obligations could have an adverse effect on our results of operations.

Third parties that owe us money, securities or other assets may not pay or perform under their obligations. These parties include the issuers or guarantors of securities we hold, customers, reinsurers, trading counterparties, securities lending and repurchase counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. Defaults by one or more of these parties on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other factors, or even rumors about potential defaults by one or more of these parties, could have a material adverse effect on our results of operations, financial condition and liquidity.

We routinely execute a high volume of transactions such as unsecured debt instruments, derivative transactions and equity investments with counterparties and customers in the financial services industry, including broker-dealers, commercial and investment banks, mutual and hedge funds, institutional clients, futures clearing merchants, swap dealers, insurance companies and other institutions, resulting in large periodic settlement amounts which may result in our having significant credit exposure to one or more of such counterparties or customers. Many of these transactions comprise derivative instruments with a number of counterparties in order to hedge various risks, including equity and interest rate market risk features within many of our insurance and annuity products. Our obligations under our products are not changed by our hedging activities and we are liable for our obligations even if our derivative counterparties do not pay us. As a result, we face concentration risk with respect to liabilities

or amounts we expect to collect from specific counterparties and customers. A default by, or even concerns about the creditworthiness of, one or more of these counterparties or customers could have an adverse effect on our results of operations or liquidity. There is no assurance that losses on, or impairments to the carrying value of, these assets due to counterparty credit risk would not materially and adversely affect our business, results of operations or financial condition.

We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. The deterioration or perceived deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. Our credit risk may also be exacerbated when the collateral we hold cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due to us, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those experienced during the financial crisis of 2008-09. The termination of contracts and the foreclosure on collateral may subject us to claims for the improper exercise of rights under the contracts. Bankruptcies, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity.

Requirements to post collateral or make payments related to changes in market value of specified assets may adversely affect liquidity.

The amount of collateral we may be required to post under short-term financing agreements, FHLB funding agreements and derivative transactions may increase under certain circumstances. Pursuant to the terms of some transactions, we could be required to make payment to our counterparties related to any change in the market value of the specified collateral assets. Such requirements could have an adverse effect on liquidity. Furthermore, with respect to any such payments, we may have unsecured risk to the counterparty as these amounts may not be required to be segregated from the counterparty's other funds, may not be held in a third-party custodial account and may not be required to be paid to us by the counterparty until the termination of the transaction. Additionally, the implementation of the Dodd-Frank Act and the resultant changes in collateral requirements may increase the need for liquidity and eligible collateral assets in excess of what is already being held.

Our investment portfolio is subject to several risks that may diminish the value of our invested assets and the investment returns credited to customers, which could reduce our sales, revenues, AUM, results of operations and financial condition.

Fixed income securities represent a significant portion of our investment portfolio. We are subject to the risk that the issuers, or guarantors, of fixed income securities we own may default on principal and interest payments they owe us. We are also subject to the risk that the underlying collateral within asset-backed securities, including mortgage-backed securities, may default on principal and interest payments causing an adverse change in cash flows. The occurrence of a major economic downturn, acts of corporate malfeasance, widening mortgage or credit spreads, or other events that adversely affect the issuers, guarantors or underlying collateral of these securities could cause the estimated fair value of our fixed income securities portfolio and our earnings to decline and the default rate of the fixed income securities in our investment portfolio to increase. A ratings downgrade affecting issuers or guarantors of securities in our investment portfolio, or similar trends that could worsen the credit quality of such issuers, or guarantors could also have a similar effect. Similarly, a ratings downgrade affecting a security we hold could indicate the credit quality of that security has deteriorated and could increase the capital we must hold to support that security to maintain our RBC ratio. See -"A decrease in our RBC ratio (as a result of a reduction in statutory surplus and/or increase in RBC requirements) could result in increased scrutiny by insurance regulators and rating agencies and have a material adverse effect on our business, results of operations and financial condition." We are also subject to the risk that cash flows resulting from the payments on pools of mortgages that serve as collateral underlying the mortgage-backed securities we own may differ from our expectations in timing or size. Cash flow variability arising from an unexpected acceleration in mortgage prepayment behavior can be significant, and could cause a decline in the estimated fair value of certain "interest-only" securities within our mortgage-backed securities portfolio. Any event reducing the estimated fair value of these securities, other than on a temporary basis, could have a material adverse effect on our business, results of operations and financial condition.

From time to time we invest our capital to seed a particular investment strategy or investment portfolio. We may also co-invest in funds or take an equity ownership interest in certain structured finance/investment vehicles that are managed by our affiliates. In some cases, these interests may be leveraged by third-party debt financing. Any decrease in the value of such investments could negatively affect our revenues and income or subject us to losses.

Some of our investments are relatively illiquid and in some cases are in asset classes that have been experiencing significant market valuation fluctuations.

We hold certain assets that may lack liquidity, such as privately placed fixed income securities, commercial mortgage loans, policy loans and limited partnership interests. These asset classes represented 33.1% of the carrying value of our total cash and invested assets as of December 31, 2016. If we require significant amounts of cash on short notice in excess of normal cash requirements or are required to post or return collateral in connection with our investment portfolio, derivatives transactions or securities lending activities, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

The reported values of our relatively illiquid types of investments do not necessarily reflect the current market price for the asset. If we were forced to sell certain of our assets in the current market, there can be no assurance that we would be able to sell them for the prices at which we have recorded them and we might be forced to sell them at significantly lower prices.

We invest a portion of our invested assets in investment funds, many of which make private equity investments. The amount and timing of income from such investment funds tends to be uneven as a result of the performance of the underlying investments, including private equity investments. The timing of distributions from the funds, which depends on particular events relating to the underlying investments, as well as the funds' schedules for making distributions and their needs for cash, can be difficult to predict. As a result, the amount of income that we record from these investments can vary substantially from quarter to quarter. Recent equity and credit market volatility may reduce investment income for these types of investments.

Defaults or delinquencies in our commercial mortgage loan portfolio may adversely affect our profitability and financial condition.

The commercial mortgage loans we hold face both default and delinquency risk. We establish loan specific estimated impairments at the balance sheet date. These impairments are based on the excess carrying value of the loan over the present value of expected future cash flows discounted at the loan's original effective interest rate, the estimated fair value of the loan's collateral if the loan is in the process of foreclosure or otherwise collateral dependent, or the loan's observable market price. We also establish valuation allowances for loan losses when, based on past experience, it is probable that a credit event has occurred and the amount of the loss can be reasonably estimated. These valuation allowances are based on loan risk characteristics, historical default rates and loss severities, real estate market fundamentals and outlook as well as other relevant factors. The performance of our commercial mortgage loan investments may fluctuate in the future. In addition, legislative proposals that would allow or require modifications to the terms of commercial mortgage loans could be enacted. We cannot predict whether these proposals will be adopted, or what impact, if any, such laws, if enacted, could have on our business or investments. An increase in the delinquency and default rate of our commercial mortgage loan portfolio could adversely impact our results of operations and financial condition.

Further, any geographic or sector concentration of our commercial mortgage loans may have adverse effects on our investment portfolios and consequently on our results of operations or financial condition. While we generally seek to mitigate the risk of sector concentration by having a broadly diversified portfolio, events or developments that have a negative effect on any particular geographic region or sector may have a greater adverse effect on the investment portfolios to the extent that the portfolios are concentrated, which could affect our results of operations and financial condition.

In addition, liability under environmental protection laws resulting from our commercial mortgage loan portfolio and real estate investments could affect our results of operations or financial condition. Under the laws of several states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of cleanup. In some states, such a lien has priority over the lien of an existing mortgage against the property, which would impair our ability to foreclose on that property should the related loan be in default. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, we may be liable for costs of addressing releases or threatened releases of hazardous substances that require remedy at a property securing a mortgage loan held by us, regardless of whether or not the environmental damage or threat was caused by the obligor, which could harm our results of operations and financial condition. We also may face this liability after foreclosing on a property securing a mortgage loan held by us.

Our operations are complex and a failure to properly perform services could have an adverse effect on our revenues and income.

Our operations include annuity contract administration, portfolio management, shareholder services, contract and sales and servicing, underwriting, distribution, and other services. In order to be competitive, we must properly perform our administrative and related responsibilities, including recordkeeping and accounting, regulatory compliance, security pricing, corporate actions,

compliance with investment restrictions, daily net asset value computations, account reconciliations and required distributions. If we fail to properly perform and monitor our operations, our business could suffer and our revenues and income could be adversely affected.

Our products and services are complex and are frequently sold through intermediaries, and a failure to properly perform services or the misrepresentation of our products or services could have an adverse effect on our revenues, income and financial condition.

Many of our products and services are complex and are frequently sold through intermediaries. In particular, we are reliant on intermediaries to describe and explain our products to potential customers. The intentional or unintentional misrepresentation of our products and services in advertising materials or other external communications, or inappropriate activities by our personnel or an intermediary, could adversely affect our reputation and business prospects, as well as lead to potential regulatory actions or litigation.

The valuation of many of our financial instruments includes methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially and adversely affect our results of operations and financial condition.

The following financial instruments are carried at fair value in our financial statements: fixed income securities, equity securities, derivatives, embedded derivatives and separate account assets. We have categorized these instruments into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3), while quoted prices in markets that are not active or valuation techniques requiring inputs that are observable for substantially the full term of the asset or liability are Level 2.

Factors considered in estimating fair values of securities, and derivatives and embedded derivatives related to our securities include coupon rate, maturity, principal paydown including prepayments, estimated duration, call provisions, sinking fund requirements, credit rating, industry sector of the issuer and quoted market prices of comparable securities. Factors considered in estimating the fair values of embedded derivatives and derivatives related to product guarantees and index-crediting features (collectively, "guaranteed benefit derivatives") include risk-free interest rates, long-term equity implied volatility, interest rate implied volatility, correlations among mutual funds associated with variable annuity contracts, correlations between interest rates and equity funds and actuarial assumptions such as mortality rates, lapse rates and benefit utilization, as well as the amount and timing of policyholder deposits and partial withdrawals. The impact of our risk of nonperformance is also reflected in the estimated fair value of guaranteed benefit derivatives. In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, we will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value.

The determinations of fair values are made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

During periods of market disruption, including periods of rapidly changing credit spreads or illiquidity, it has been and will likely continue to be difficult to value certain of our securities, such as certain mortgage-backed securities, if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that could become illiquid in a difficult financial environment. In such cases, more securities may fall to Level 3 and thus require more subjectivity and management judgment in determining fair value. As such, valuations may include inputs and assumptions that are less observable or require greater estimation, thereby resulting in values that may differ materially from the value at which the investments may be ultimately sold. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within the financial statements, and the period-to-period changes in value could vary significantly. Decreases in value could have a material adverse effect on our results of operations and financial condition.

The determination of the amount of allowances and impairments taken on our investments is subjective and could materially and adversely impact our results of operations or financial condition. Gross unrealized losses may be realized or result in future impairments, resulting in a reduction in our net income.

We evaluate investment securities held by us for impairment on a quarterly basis. This review is subjective and requires a high degree of judgment. For fixed income securities held, an impairment loss is recognized if the fair value of the debt security is less than the carrying value and we no longer have the intent to hold the debt security; if it is more likely than not that we will be required to sell the debt security before recovery of the amortized cost basis; or if a credit loss has occurred.

When we do not intend to sell a security in an unrealized loss position, potential credit related other-than-temporary impairments ("OTTI") are considered using a variety of factors, including the length of time and extent to which the fair value has been less than cost, adverse conditions specifically related to the industry, geographic area in which the issuer conducts business, financial condition of the issuer or underlying collateral of a security, payment structure of the security, changes in credit rating of the security by the rating agencies, volatility of the fair value changes and other events that adversely affect the issuer. In addition, we take into account relevant broad market and economic data in making impairment decisions.

As part of the impairment review process, we utilize a variety of assumptions and estimates to make a judgment on how fixed income securities will perform in the future. It is possible that securities in our fixed income portfolio will perform worse than our expectations. There is an ongoing risk that further declines in fair value may occur and additional OTTI may be recorded in future periods, which could materially and adversely affect our results of operations and financial condition. Furthermore, historical trends may not be indicative of future impairments or allowances.

Fixed income and equity securities classified as available-for-sale are reported at their estimated fair value. Unrealized gains or losses on available-for-sale securities are recognized as a component of other comprehensive income (loss) and are therefore excluded from net income (loss). The accumulated change in estimated fair value of these available-for-sale securities is recognized in net income (loss) when the gain or loss is realized upon the sale of the security or in the event that the decline in estimated fair value is determined to be other-than-temporary and an impairment charge to earnings is taken. Such realized losses or impairments may have a material adverse effect on our net income (loss) in a particular quarterly or annual period.

Our participation in a securities lending program and a repurchase program subjects us to potential liquidity and other risks.

We engage in a securities lending program whereby certain securities, are loaned to other institutions for short periods of time. Initial collateral, primarily cash, is required at 102% of the market value of the loaned securities. The lending agent retains the cash collateral and invests it in liquid assets on our behalf. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loan security fluctuates.

We also participate in a repurchase agreement program for our general account whereby we sell fixed income securities to a third-party, primarily major brokerage firms or commercial banks, with a concurrent agreement to repurchase those same securities at a determined future date. During the term of the repurchase agreements, cash or other types of permitted collateral provided to us is sufficient to allow us to fund substantially all of the cost of purchasing replacement assets in the event of counterparty default (i.e., the sold securities are not returned to us on the scheduled repurchase date). Cash proceeds received by us under the repurchase program are typically invested in fixed income securities but may in certain circumstances be available to us for liquidity or other purposes prior to the scheduled repurchase date. The repurchase of securities or our inability to enter into new repurchase agreements would reduce the amount of such cash collateral available to us. Market conditions on or after the repurchase date may limit our ability to enter into new agreements at a time when we need access to additional cash collateral for investment or liquidity purposes.

For both securities lending and repurchase transactions, in some cases, the maturity of the securities held as invested collateral (i.e., securities that we have purchased with cash collateral received) may exceed the term of the related securities on loan and the estimated fair value may fall below the amount of cash received as collateral and invested. If we are required to return significant amounts of cash collateral on short notice and we are forced to sell securities to meet the return obligation, we may have difficulty selling such collateral that is invested in securities in a timely manner, be forced to sell securities in a volatile or illiquid market for less than we otherwise would have been able to realize under normal market conditions, or both. In addition, under adverse capital market and economic conditions, liquidity may broadly deteriorate, which would further restrict our ability to sell securities. If we decrease the amount of our securities lending and repurchase activities over time, the amount of net investment income generated by these activities will also likely decline. See "Item 7. Management's Narrative Analysis of the Results of Operations and Financial Condition-Liquidity and Capital Resources-Securities Lending."

Differences between actual claims experience and reserving assumptions may adversely affect our results of operations or financial condition.

We establish and hold reserves to pay future policy benefits and claims. Our reserves do not represent an exact calculation of liability, but rather are actuarial or statistical estimates based on data and models that include many assumptions and projections, which are inherently uncertain and involve the exercise of significant judgment, including assumptions as to the levels and/or timing of receipt or payment of premiums, benefits, claims, expenses, interest credits, investment results (including equity market returns), retirement, mortality, morbidity and persistency. We periodically review the adequacy of reserves and the underlying assumptions. We cannot, however, determine with precision the amounts that we will pay for, or the timing of payment of, actual benefits, claims and expenses or whether the assets supporting our policy liabilities, together with future premiums, will grow to the level assumed prior to payment of benefits or claims. If actual experience differs significantly from assumptions or estimates, reserves may not be adequate. If we conclude that our reserves, together with future premiums, are insufficient to cover future policy benefits and claims, we would be required to increase our reserves and incur income statement charges for the period in which we make the determination, which could materially and adversely affect our results of operations and financial condition.

We may face significant losses if mortality rates, morbidity rates, persistency rates or other underwriting assumptions differ significantly from our pricing expectations.

We set prices for many of our annuity products based upon expected claims and payment patterns, using assumptions for mortality rates or likelihood of death and morbidity rates, or likelihood of sickness, of our policyholders. In addition to the potential effect of natural or man-made disasters, significant changes in mortality or morbidity could emerge gradually over time due to changes in the natural environment, the health habits of the insured population, technologies and treatments for disease or disability, the economic environment, or other factors. The long-term profitability of our annuity products depends upon how our actual mortality rates, and to a lesser extent actual morbidity rates, compare to our pricing assumptions. In addition, prolonged or severe adverse mortality or morbidity experience could result in increased reinsurance costs, and ultimately, reinsurers might not offer coverage at all. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient, we would have to accept an increase in our net risk exposures, revise our pricing to reflect higher reinsurance premiums, or otherwise modify our product offering.

Pricing of our annuity products is also based in part upon expected persistency of these products, which is the probability that a policy will remain in force from one period to the next. Persistency of our annuity products may be significantly and adversely impacted by the increasing value of guaranteed minimum benefits contained in many of our variable annuity products due to poor equity market performance or extended periods of low interest rates as well as other factors. The minimum interest rate guarantees in our fixed annuities may also be more valuable in extended periods of low interest rates. Persistency could be adversely affected generally by developments adversely affecting customer perception of us. Results may also vary based on differences between actual and expected premium deposits and withdrawals for these products. Many of our deferred annuity products also contain optional benefits that may be exercised at certain points within a contract. We set prices for such products using assumptions for the rate of election of deferred annuity living benefits and other optional benefits offered to our contract owners. The profitability of our deferred annuity products may be less than expected, depending upon how actual contract owner decisions to elect or delay the utilization of such benefits compare to our pricing assumptions. The potential development of third-party investor strategies in the annuities business could also adversely affect the profitability of existing business and our pricing assumptions for new business. Actual persistency that is lower than our persistency assumptions could have an adverse effect on profitability, especially in the early years of a policy, primarily because we would be required to accelerate the amortization of expenses we defer in connection with the acquisition of the policy. Actual persistency that is higher than our persistency assumptions could have an adverse effect on profitability in the later years of a block of business because the anticipated claims experience is higher in these later years. If actual persistency is significantly different from that assumed in our current reserving assumptions, our reserves for future policy benefits may prove to be inadequate. Although some of our products permit us to increase premiums or adjust other charges and credits during the life of the policy, the adjustments permitted under the terms of the policies may not be sufficient to maintain profitability. Many of our products, however, do not permit us to increase premiums or adjust charges and credits during the life of the policy or during the initial guarantee term of the policy. Even if permitted under the policy, we may not be able or willing to raise premiums or adjust other charges for regulatory or competitive reasons.

Pricing of our products is also based on long-term assumptions regarding interest rates, investment returns and operating costs. Management establishes target returns for each product based upon these factors, the other underwriting assumptions noted above and the average amount of regulatory and rating agency capital that we must hold to support in-force contracts. We monitor and manage pricing and sales to achieve target returns. Profitability from new business emerges over a period of years, depending on the nature and life of the product, and is subject to variability as actual results may differ from pricing assumptions. Our profitability depends on multiple factors, including the comparison of actual mortality, morbidity and persistency rates and policyholder behavior

to our assumptions; the adequacy of investment margins; our management of market and credit risks associated with investments; our ability to maintain premiums and contract charges at a level adequate to cover mortality, benefits and contract administration expenses; the adequacy of contract charges and availability of revenue from providers of investment options offered in variable contracts to cover the cost of product features and other expenses; and management of operating costs and expenses.

We may be required to accelerate the amortization of DAC, deferred sales inducements ("DSI") and/or VOBA, any of which could adversely affect our results of operations or financial condition.

DAC represents policy acquisition costs that have been capitalized. DSI represents benefits paid to contract owners for a specified period that are incremental to the amounts we credit on similar contracts without sales inducements and are higher than the contract's expected ongoing crediting rates for periods after the inducement. VOBA represents outstanding value of in-force business acquired. Capitalized costs associated with DAC, DSI and VOBA are amortized in proportion to actual and estimated gross profits or gross premiums depending on the type of contract. On an ongoing basis, we test the DAC, DSI and VOBA recorded on our balance sheets to determine if these amounts are recoverable under current assumptions. In addition, we regularly review the estimates and assumptions underlying DAC, DSI and VOBA. The projection of estimated gross profits or gross premiums requires the use of certain assumptions, principally related to separate account fund returns in excess of amounts credited to policyholders, policyholder behavior such as surrender, lapse and annuitization rates, interest margin, expense margin, mortality, future impairments and hedging costs. Estimating future gross profits or gross premiums is a complex process requiring considerable judgment and the forecasting of events well into the future. If these assumptions prove to be inaccurate, if an estimation technique used to estimate future gross profits or gross premiums is changed, or if significant or sustained equity market declines occur and/or persist, we could be required to accelerate the amortization of DAC, DSI and VOBA, which would result in a charge to earnings. Such adjustments could have a material adverse effect on our results of operations and financial condition.

Reinsurance subjects us to the credit risk of reinsurers and may not be available, affordable or adequate to protect us against losses.

We cede life insurance policies and annuity contracts or certain risks related to life insurance policies and annuity contracts to other insurance companies using various forms of reinsurance including coinsurance, modified coinsurance, funds withheld, monthly renewable term and yearly renewable term. However, we remain liable to the underlying policyholders, even if the reinsurer defaults on its obligations with respect to the ceded business. If a reinsurer fails to meet its obligations under the reinsurance contract, we will be forced to bear the entire liability for claims on the reinsured policies. In addition, a reinsurer insolvency may cause us to lose our reserve credits on the ceded business, in which case we would be required to establish additional statutory reserves.

In addition, if a reinsurer does not have accredited reinsurer status or if a currently accredited reinsurer loses that status, in any state where we are licensed to do business, we are not entitled to take credit for reinsurance in that state if the reinsurer does not post sufficient qualifying collateral (either qualifying assets in a qualifying trust or qualifying LOCs). In this event, we would be required to establish additional statutory reserves. Similarly, the credit for reinsurance taken by us under reinsurance agreements with affiliated and unaffiliated non-accredited reinsurers is, under certain conditions, dependent upon the non-accredited reinsurer's ability to obtain and provide sufficient qualifying assets in a qualifying trust or qualifying LOCs issued by qualifying lending banks. In order to control expenses associated with LOCs, some of our affiliated reinsurers have established and will continue to pursue alternative sources for qualifying reinsurance collateral. If these steps are unsuccessful, or if unaffiliated non-accredited reinsurers that have reinsured business with us are unsuccessful in obtaining sources of qualifying reinsurance collateral, we might not be able to obtain full statutory reserve credit. Loss of reserve credit would require us to establish additional statutory reserves and would result in a decrease in the level of our capital, which could have a material adverse effect on our profitability, results of operations and financial condition.

Our reinsurance recoverable balances are periodically assessed for uncollectability and there were no significant allowances for uncollectible reinsurance as of December 31, 2016 and December 31, 2015. The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including whether the insured losses meet the qualifying conditions of the reinsurance contract, whether reinsurers or their affiliates have the financial capacity and willingness to make payments under the terms of the reinsurance contract, and the degree to which our reinsurance balances are secured by sufficient qualifying assets in qualifying trusts or qualifying LOCs issued by qualifying lender banks. Although a substantial portion of our reinsurance exposure is secured by assets held in trusts or LOCs, the inability to collect a material recovery from a reinsurer could have a material adverse effect on our profitability, results of operations and financial condition.

The premium rates and other fees that we charge are based, in part, on the assumption that reinsurance will be available at a certain cost. Some of our reinsurance contracts contain provisions that limit the reinsurer's ability to increase rates on in-force business;

however, some do not. If a reinsurer raises the rates that it charges on a block of in-force business, in some instances, we will not be able to pass the increased costs onto our customers and our profitability will be negatively impacted. Additionally, such a rate increase could result in our recapturing of the business, which may result in a need to maintain additional reserves, reduce reinsurance receivables and expose us to greater risks. While in prior years, we faced rate increase actions on in-force business, our management of those actions has not had a material effect on our results of operations or financial condition. However, there can be no assurance that the outcome of future rate increase actions would similarly result in no material effect. In addition, if reinsurers raise the rates that they charge on new business, we may be forced to raise our premiums, which could have a negative impact on our competitive position.

We reinsure most of our living benefit guarantee riders to RRII, an affiliated reinsurer, to mitigate the risk produced by such benefits. The reinsurance agreement covers all of the guaranteed minimum income benefits ("GMIB"), as well as the GMWBs with lifetime guarantees. The GMABs and the GMWBs without lifetime guarantees are not covered by this reinsurance.

A decrease in our RBC ratio (as a result of a reduction in statutory surplus and/or increase in RBC requirements) could result in increased scrutiny by insurance regulators and rating agencies and have a material adverse effect on our business, results of operations and financial condition.

The NAIC has established regulations that provide minimum capitalization requirements based on RBC formulas for insurance companies. The RBC formula for life insurance companies establishes capital requirements relating to asset, insurance, interest rate and business risks, including equity, interest rate and expense recovery risks associated with variable annuities and group annuities that contain guaranteed minimum death and living benefits. We are subject to RBC standards and/or other minimum statutory capital and surplus requirements imposed under the laws of Iowa, our state of domicile. (For additional discussion of possible updates to how the NAIC calculates RBC ratios, see “Item 1. Business-Regulation-Insurance Regulation-Financial Regulation-Risk -Based Capital.”)

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, including the amount of statutory income or losses (which are sensitive to equity market and credit market conditions), the amount of additional capital we must hold to support business growth, changes in equity market levels, the value and credit ratings of certain fixed-income and equity securities in our investment portfolio, the value of certain derivative instruments that do not receive hedge accounting and changes in interest rates, as well as changes to the RBC formulas and the interpretation of the NAIC's instructions with respect to RBC calculation methodologies. Many of these factors are outside of our control. Our financial strength and credit ratings are significantly influenced by statutory surplus amounts and RBC ratios. In addition, rating agencies may implement changes to their own internal models, which differ from the RBC capital model that have the effect of increasing or decreasing the amount of statutory capital we should hold relative to the rating agencies' expectations. In extreme scenarios of equity market declines, sustained periods of low interest rates, rapidly rising interest rates or credit spread widening, the amount of additional statutory reserves that we are required to hold for certain types of funding agreements and variable annuity guarantees may increase at a greater than linear rate. This increase in reserves would decrease the statutory surplus available for use in calculating the subsidiary's RBC ratios. To the extent that our RBC ratios are deemed to be insufficient, we may seek to take actions either to increase our capitalization or to reduce our capitalization requirements. If we were unable to accomplish such actions, the rating agencies may view this as a reason for a ratings downgrade.

Our failure to meet RBC requirements or minimum capital and surplus requirements could subject us to further examination or corrective action imposed by insurance regulators, including limitations on our ability to write additional business, supervision by regulators or seizure or liquidation. Any corrective action imposed could have a material adverse effect on our business, results of operations and financial condition. A decline in RBC ratios limits our ability to make dividends or distributions to our Parent, could result in a loss of customers or new business, and could be a factor in causing ratings agencies to downgrade our financial strength ratings, each of which could have a material adverse effect on our business, results of operations and financial condition.

A significant portion of our institutional funding originates from a Federal Home Loan Bank, which subjects us to liquidity risks associated with sourcing a large concentration of our funding from one counterparty.

A significant portion of our institutional funding originates from the Federal Home Loan Bank of Des Moines ("FHLB"). We have issued non-putable funding agreements in exchange for eligible collateral in the form of cash, mortgage-backed securities and U.S. Treasury securities. Should the FHLB choose to change its definition of eligible collateral, or if the market value of the pledged collateral decreases in value due to changes in interest rates or credit ratings, we may be required to post additional amounts of collateral in the form of cash or other eligible collateral. Additionally, we may be required to find other sources to replace this funding if we lose access to FHLB funding. This could occur if our creditworthiness falls below either of the FHLB's requirements

or if legislative or other political actions cause changes to the FHLBs' mandate or to the eligibility of life insurance companies to be members of the FHLB system.

Any failure to protect the confidentiality of customer information could adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operation.

Our businesses and relationships with customers are dependent upon our ability to maintain the confidentiality of our and our customers' trade secrets, personal information, and other confidential information (including customer transactional data and personal information about our customers, the employees and customers of our customers, and our own employees). We are also subject to numerous federal and state laws regarding the privacy and security of personal information, which laws vary significantly from jurisdiction to jurisdiction. Many of our employees and contractors and the representatives of our broker-dealer affiliates have access to and routinely process personal information in computerized, paper and other forms. We rely on various internal policies, procedures and controls to protect the confidentiality of personal information that is accessible to, or in the possession of, us, our employees, contractors and representatives. It is possible that an employee, contractor or representative could, intentionally or unintentionally, disclose or misappropriate personal information or other confidential information. If we fail to maintain adequate internal controls, including any failure to implement newly-required additional controls, or if our employees, contractors or representatives fail to comply with our policies and procedures, misappropriation or intentional or unintentional inappropriate disclosure or misuse of personal information or confidential customer information could occur. Such internal control inadequacies or non-compliance could materially damage our reputation, result in regulatory action or lead to civil or criminal penalties, which, in turn, could have a material adverse effect on our business, reputation, results of operations and financial condition. For additional risks related to our potential failure to protect confidential information, see "-Interruption or other operational failures in telecommunication, information technology, and other operational systems, including as a result of human error, could harm our business," and "-A failure to maintain the security, integrity, confidentiality or privacy of our telecommunication, information technology or other operational systems, or the sensitive data residing on such systems, could harm our business."

Interruption or other operational failures in telecommunication, information technology and other operational systems, including as a result of human error, could harm our business.

We are highly dependent on automated and information technology systems to record and process both our internal transactions and transactions involving our customers, as well as to calculate reserves, value invested assets and complete certain other components of our U.S. GAAP and statutory financial statements. We could experience a failure of one of these systems, our employees or agents could fail to monitor and implement enhancements or other modifications to a system in a timely and effective manner, or our employees or agents could fail to complete all necessary data reconciliation or other conversion controls when implementing a new software system or implementing modifications to an existing system. Despite the implementation of security and back-up measures, our information technology systems may remain vulnerable to disruptions. We may also be subject to disruptions of any of these systems arising from events that are wholly or partially beyond our control (for example, natural disasters, acts of terrorism, epidemics, computer viruses and electrical/telecommunications outages). All of these risks are also applicable where we rely on outside vendors to provide services to us and our customers and third party service providers, including those to whom we outsource certain of our functions. The failure of any one of these systems for any reason, or errors made by our employees or agents, could in each case cause significant interruptions to our operations, which could harm our reputation, adversely affect our internal control over financial reporting, or have a material adverse effect on our business, results of operations and financial condition.

Central banks in Europe and Japan have in recent years begun to pursue negative interest rate policies, and the FOMC has not ruled out the possibility that the Federal Reserve would adopt a negative interest rate policy for the United States, at some point in the future, if circumstances so warranted. Because negative interest rates are largely unprecedented, there is uncertainty as to whether the technology used by financial institutions, including us, could operate correctly in such a scenario. Should negative interest rates emerge, our hardware or software, or the hardware or software used by our contractual counterparties and financial services providers, may not function as expected or at all. In such a case, our financial results and our operations could be adversely affected.

A failure to maintain the security, integrity, confidentiality or privacy of our telecommunication, information technology or other operational systems, or the sensitive data residing on such systems, could harm our business.

We are highly dependent on automated telecommunications, information technology and other operational systems to record and process our internal transactions and transactions involving our customers. Despite the implementation of security and back-up measures, our information technology systems may be vulnerable to physical or electronic intrusions, viruses or other attacks,

programming errors, and similar disruptions. Businesses in the United States and in other countries have increasingly become the targets of "cyberattacks", "hacking" or similar illegal or unauthorized intrusions into computer systems and networks. Such events are often highly publicized, result in the theft of significant amounts of information, and cause extensive damage to the reputation of the targeted business, in addition to leading to significant expenses associated with investigation, remediation and customer protection measures. Like others in our industry, we are subject to cyber incidents in the ordinary course of our business. Although we seek to limit our vulnerability to such events through technological and other means, it is not possible to anticipate or prevent all potential forms of cyberattack or to guarantee our ability to fully defend against all such attacks. In addition, due to the sensitive nature of much of the financial and other personal information we maintain, we may be at particular risk for targeting.

We retain confidential information in our information technology systems, and we rely on industry standard commercial technologies to maintain the security of those systems. Anyone who is able to circumvent our security measures and penetrate our information technology systems could access, view, misappropriate, alter, or delete information in the systems, including personal information and proprietary business information. Information security risks also exist with respect to the use of portable electronic devices, such as laptops, which are particularly vulnerable to loss and theft. The laws of most states require that individuals be notified if a security breach compromises the security or confidentiality of their personal information. Any attack or other breach of the security of our information technology systems that compromises personal information or that otherwise results in unauthorized disclosure or use of personal information could damage our reputation in the marketplace, deter purchases of our products, subject us to heightened regulatory scrutiny, sanctions, significant civil and criminal liability or other adverse legal consequences and require us to incur significant technical, legal and other expenses.

Our third party service providers, including third parties to whom we outsource certain of our functions are also subject to the risks outlined above, any one of which could result in our incurring substantial costs and other negative consequences, including a material adverse effect on our business, results of operations and financial condition.

Changes in accounting standards could adversely impact our reported results of operations and our reported financial condition.

Our financial statements are subject to the application of U.S. GAAP, which is periodically revised or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board ("FASB"). It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our financial statements and that such changes could have a material adverse effect on our results of operations and financial condition.

FASB is working on several projects, which could result in significant changes in U.S. GAAP, including how we account for our life insurance contracts and financial instruments and how our financial statements are presented. The changes to U.S. GAAP could affect the way we account for and report significant areas of our business, could impose special demands on us in the areas of governance, employee training, internal controls and disclosure and will likely affect how we manage our business.

Under the tax sharing agreement, a change in control could affect availability of cash payments.

Our federal tax sharing agreement with Voya Financial, Inc. provides that Voya Financial, Inc. will pay us for the tax benefits of ordinary and capital losses only in the event that the consolidated tax group actually uses the tax benefit of losses generated. Accordingly, in years we incur losses and the associated tax benefits cannot be used by the consolidated tax group we may establish tax valuation allowances, reduce statutory-based admitted assets and may no longer be entitled to receive net cash payments to/(from) Voya Financial, Inc. During the years ended December 31, 2016 and 2015, we have additional net cash payments to/(receipts) from Voya Financial, Inc. under the tax sharing agreement of $98.7 million and $(93.9) million, respectively.

One such instance where the associated tax benefits may not be used by the consolidated tax group could occur if there is a change in control which would trigger the imposition of certain limitations pursuant to Section 382 and Section 383 of the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). These sections operate as anti-abuse rules, the general purpose of which is to prevent trafficking in tax losses and credits, but which can apply without regard to whether a "loss trafficking" transaction occurs or is intended. These rules are triggered when an "ownership change" (generally defined as when the ownership of a company changes by more than 50% (measured by value) on a cumulative basis in any three year period) occurs ("Section 382 event").

During March 2014, ING Group divested a portion of its shareholding in Voya Financial, Inc., our indirect parent company, which caused Voya Financial, Inc. to experience a Section 382 event. Using an estimated Section 382 value of Voya Financial, Inc., our deferred tax asset, tax valuation allowance, admitted deferred tax asset and tax sharing agreement payments did not materially change as a result of the Section 382 event with respect to Voya Financial, Inc.

Although Voya Financial, Inc. entered into an Issue Resolution Agreement in this regard with the IRS in December, 2014, as with such an agreement, the matters addressed may be revisited by the IRS in connection with a tax audit or other examination or inquiry of Voya Financial, Inc.'s tax position. If the IRS were to revisit and successfully challenge the IRC Section 382 calculations of Voya Financial, Inc., this could impact our ability to obtain tax benefits from existing and future losses and deductions could be adversely affected.

We may be required to reduce the carrying value of our deferred income tax asset or establish an additional valuation allowance against the deferred income tax asset if: (i) there are significant changes to federal tax policy or rates, (ii) our business does not generate sufficient taxable income; (iii) there is a significant decline in the fair market value of our investment portfolio; or (iv) our tax planning strategies are modified. Reductions in the carrying value of our deferred income tax asset or increases in the deferred tax valuation allowance could have a material adverse effect on our results of operations and financial condition.

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets represent the tax benefit of future deductible temporary differences, operating loss carryforwards and tax credits carryforward. We periodically evaluate and test our ability to realize our deferred tax assets. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. In assessing the more likely than not criteria, we consider future taxable income as well as prudent tax planning strategies. Future facts, circumstances, tax law changes, including a reduction in federal corporate tax rates or the elimination of the dividends received deduction, and FASB developments may result in a reduction in the carrying value of our deferred income tax asset or an increase in the valuation allowance. An increase in the valuation allowance or a reduction in the carrying value of our deferred income tax asset could have a material adverse effect on our results of operations and financial condition.

As of December 31, 2016, we have recognized certain deferred tax assets based on tax planning related to unrealized gains on investment assets. To the extent these unrealized gains decrease, the tax benefit may be reduced by increasing the tax valuation allowance. For example, if interest rates increase, the amount of the unrealized gains will, most likely, decrease, with all other things constant. The decrease in the deferred tax asset may be recorded as a tax expense in tax on continuing operations based on the intra period tax allocation rules described in ASC Topic 740, "Income Taxes."

Our business may be negatively affected by adverse publicity or increased governmental and regulatory actions with respect to us, other well-known companies or the financial services industry in general.

Governmental scrutiny with respect to matters relating to compensation, compliance with regulatory and tax requirements and other business practices in the financial services industry has increased dramatically in the past several years and has resulted in more aggressive and intense regulatory supervision and the application and enforcement of more stringent standards. The financial crisis of 2008-09 and current political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators and elected officials. Press coverage and other public statements that assert some form of wrongdoing, regardless of the factual basis for the assertions being made, could result in some type of inquiry or investigation by regulators, legislators and/or law enforcement officials or in lawsuits. Responding to these inquiries, investigations and lawsuits, regardless of the ultimate outcome of the proceeding, is time-consuming and expensive and can divert the time and effort of our senior management from its business. Future legislation or regulation or governmental views on compensation may result in us altering compensation practices in ways that could adversely affect our ability to attract and retain talented employees. Adverse publicity, governmental scrutiny, pending or future investigations by regulators or law enforcement agencies and/or legal proceedings involving us or our affiliates could also have a negative impact on our reputation and on the morale and performance of employees, and on business retention and new sales, which could adversely affect our businesses and results of operations.

Litigation may adversely affect our profitability and financial condition.

We are, and may be in the future, subject to legal actions in the ordinary course of our business operations. Some of these legal proceedings may be brought on behalf of a class. Plaintiffs may seek large or indeterminate amounts of damage, including compensatory, liquidated, treble and/or punitive damages. Our reserves for litigation may prove to be inadequate. It is possible that our results of operations or cash flows in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation depending, in part, upon the results of operations or cash flows for such period. Given the large or indeterminate amounts sometimes sought, and the inherent unpredictability of litigation, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation matters could have a material adverse effect on our financial condition.

A loss of, or significant change in, key product distribution relationships could materially affect sales.

We distribute certain products under agreements with affiliated distributors and other members of the financial services industry that are not affiliated with us. We compete with other financial institutions to attract and retain commercial relationships in each of these channels, and our success in competing for sales through these distribution intermediaries depends upon factors such as the amount of sales commissions and fees we pay, the breadth of our product offerings, the strength of our brand, our perceived stability and financial strength ratings, and the marketing and services we provide to, and the strength of the relationships we maintain with, individual distributors. An interruption or significant change in certain key relationships could materially affect our ability to market our products and could have a material adverse effect on our business, operating results and financial condition. Distributors may elect to alter, reduce or terminate their distribution relationships with us, including for such reasons as changes in our distribution strategy, adverse developments in our business, adverse rating agency actions or concerns about market-related risks. Alternatively, we may terminate one or more distribution agreements due to, for example, a loss of confidence in, or a change in control of, one of the distributors, which could reduce sales.

We are also at risk that key distribution partners may merge or change their business models in ways that affect how our products are sold, either in response to changing business priorities or as a result of shifts in regulatory supervision or potential changes in state and federal laws and regulations regarding standards of conduct applicable to distributors when providing investment advice to retail and other customers.

The occurrence of natural or man-made disasters may adversely affect our results of operations and financial condition.

We are exposed to various risks arising from natural disasters, including hurricanes, climate change, floods, earthquakes, tornadoes and pandemic disease, as well as man-made disasters and core infrastructure failures, including acts of terrorism, military actions, power grid and telephone/internet infrastructure failures, which may adversely affect AUM, results of operations and financial condition by causing, among other things:

- losses in our investment portfolio due to significant volatility in global financial markets or the failure of counterparties to perform;
- changes in the rate of mortality, claims, withdrawals, lapses and surrenders of existing policies and contracts, as well as sales of new policies and contracts; and
- disruption of our normal business operations due to catastrophic property damage, loss of life, or disruption of public and private infrastructure, including communications and financial services.

There can be no assurance that our business continuation and crisis management plan or insurance coverages would be effective in mitigating any negative effects on operations or profitability in the event of a disaster, nor can we provide assurance that the business continuation and crisis management plans of the independent distributors and outside vendors on whom we rely for certain services and products would be effective in mitigating any negative effects on the provision of such services and products in the event of a disaster.

Claims resulting from a catastrophic event could also materially harm the financial condition of our reinsurers, which would increase the probability of default on reinsurance recoveries. Our ability to write new business could also be adversely affected.

In addition, the jurisdictions in which we are admitted to transact business require life insurers doing business within the jurisdiction to participate in guaranty associations, which raise funds to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. It is possible that a catastrophic event could require extraordinary assessments on us, which may have a material adverse effect on our business, results of operations and financial condition.

The loss of key personnel could negatively affect our financial results and impair our ability to implement our business strategy.

Our success depends in large part on our ability to attract and retain key people. Intense competition exists for key employees with demonstrated ability, and we may be unable to hire or retain such employees. Our key employees include investment professionals, such as portfolio managers, sales and distribution professionals, actuarial and finance professionals and information technology professionals. While we do not believe that the departure of any particular individual would cause a material adverse effect on our operations, the unexpected loss of several of our senior management, portfolio managers or other key employees could have a material adverse effect on our operations due to the loss of their skills, knowledge of our business, and their years of industry experience as well as the potential difficulty of promptly finding qualified replacement employees. We also rely upon the knowledge and experience of employees involved in functions that require technical expertise in order to provide for sound operational controls

for our overall enterprise, including the accurate and timely preparation of required regulatory filings and U.S. GAAP and statutory financial statements and operation of internal controls. A loss of such employees could adversely impact our ability to execute key operational functions and could adversely affect our operational controls, including internal controls over financial reporting.

If we experience difficulties arising from outsourcing relationships, our ability to conduct business could be compromised, which may have an adverse effect on our business and results of operations.

As we continue to focus on reducing the expense necessary to support our operations, we have increasingly used outsourcing strategies for a significant portion of our technology and business functions. If third-party providers experience disruptions or do not perform as anticipated, or we experience problems with a transition, we may experience operational difficulties, an inability to meet obligations, including, but not limited to, policyholder obligations, increased costs and a loss of business and such events may have a material adverse effect on our business and results of operations. For other risks associated with our outsourcing of certain functions, see “-Interruption or other operational failures in telecommunication, information technology and other operational systems, including as a result of human error, could harm our business,” and "-A failure to maintain the security, integrity, confidentiality or privacy of our telecommunication, information technology or other operational systems, or the sensitive data residing on such systems, could harm our business."

We may not be able to protect our intellectual property and may be subject to infringement claims.

We rely on a combination of contracts and copyright, trademark, patent and trade secret laws to protect our intellectual property. Although we endeavor to protect our rights, third parties may infringe upon or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents and trade secrets or to determine their scope, validity or enforceability. This would represent a diversion of resources that may be significant and our efforts may not prove successful. The inability to secure or protect our intellectual property could have a material adverse effect on our business and our ability to compete.

We may also be subject to claims by third parties for (i) patent, trademark or copyright infringement, (ii) breach of contractual patent, trademark or copyright license rights, or (iii) misappropriation of trade secrets. Any such claims and any resulting litigation could result in significant expense and liability for damages. If we were found to have infringed or misappropriated a third-party patent or other intellectual property right, we could in some circumstances be enjoined from providing certain products or services to our customers or from utilizing and benefiting from certain methods, processes, technology copyrights, trademarks, trade secrets or licenses. Alternatively, we could be required to enter into costly licensing arrangements with third parties or implement a costly work around. Any of these scenarios could have a material adverse effect on our business and results of operations.

Risks Related to Our Closed Block of Variable Annuities

Although we no longer actively market retail variable annuities with substantial guarantee features, our business, results of operations, financial condition and liquidity will continue to be affected by our closed block of variable annuity products for the foreseeable future.

Our closed block of retail variable annuities were sold primarily from 2001 to early 2010 when the block entered run-off. These products offered long-term savings vehicles in which customers (policyholders) made deposits that were invested, largely at the customer's direction, in a variety of U.S. and international equity, fixed income, real estate and other investment options. In addition, these products provided customers with the option to purchase living benefit riders, including GMWBL, GMIB, GMAB and GMWB. All retail variable annuity products include ("GMDB"). In 2009, we decided to cease sales of retail variable annuity products with substantial guarantee features. In early 2010, we ceased all new sales of these products with substantial guarantees, although we continue to accept new deposits in accordance with, and subject to the limitations of, the provisions of existing contracts. In some cases, these additional deposits may increase the guarantee available to the policyholder.

Market movements and actuarial assumption changes (including, with respect to policyholder behavior and mortality) can result in material adverse impacts to our results of operations, financial condition and liquidity. Because policyholders have various contractual rights to defer withdrawals, annuitization and/or maturity of their contracts, the nature and period of contract maturity is subject to policyholder behavior and is therefore indeterminate. Future market movements and changes in actuarial assumptions can result in significant earnings and liquidity impacts, as well as increases in regulatory reserve and capital requirements for this closed block.

Our closed block of variable annuities is subject to market risks.

Our closed block of variable annuities is subject to a number of market risks, primarily associated with U.S. and other global equity market values and interest rates. For example, declining equity market values, increasing equity market volatility, declining interest rates or a prolonged period of low interest rates can result in an increase in the valuation of future policy benefits, reducing our net income or resulting in net losses. Declining market values for bonds and equities also reduce the account balances of our variable annuity contracts, and since we collect fees and risk charges based on these account balances, our net income may be further reduced.

Declining interest rates, a prolonged period of low interest rates, increased equity market volatility or declining equity market values may also subject us to increased hedging costs. Market events can cause an increase in the amount of statutory reserves that we are required to hold for variable annuity guarantees, lowering our statutory surplus. An increase in interest rates could result in decreased fee income associated with a decline in the value of variable annuity account balances invested in fixed income funds, which also might affect the value of the underlying guarantees within these variable annuities.

We hedge some, but not all, of the market risk to which our closed block of variable annuities is exposed. To the extent that market conditions develop for which we do not have adequate hedge protection, our results of operations and financial condition could be materially and adversely affected.

The performance of our closed block of variable annuity products depends on assumptions that may not be accurate.

Our in-force closed block of variable annuity products is subject to risks associated with the future behavior of policyholders and future claims payment patterns, using assumptions for mortality experience, lapse rates, GMIB annuitization rates and GMWBL withdrawal rates. We are required to make assumptions about these behaviors and patterns, which may not reflect the actual behaviors and patterns we experience in the future. It is possible that future assumption changes could produce reserve changes that could be material, before considering the impact of reinsurance with RRII.

In particular, we have only minimal experience regarding the long-term implications of policyholder behavior for our GMIB products and as a result, future experience could lead to significant changes in our assumptions. Our GMIB contracts, most of which were issued during the period from 2004 to 2006, have a ten-year waiting period before annuitization is available. These contracts first became eligible to annuitize during the period from 2014 through 2016, but contain significant incentives to delay annuitization beyond the first eligibility date. In recent years, we have made several income enhancement offers to holders of particular series of GMIB contracts, under which policyholders were offered an incentive to annuitize prior to the end of the waiting period, and we have waived the remaining waiting period on these GMIB contracts. As a result, although we have increased experience on policyholder behavior for the first opportunity to annuitize, including from the acceptance rates of the income enhancement offers, we continue to have only a statistically small sample of experience used to set annuitization rates beyond the maximum rollup period. Therefore, we anticipate that observable experience data will become statistically credible later in this decade, when a large volume of GMIB benefits begin to reach their maximum rollup period over the period from 2019 to 2022.

Similarly, most of our GMWBL contracts were issued during the period from 2006 to 2009, so our assumptions for withdrawal from contracts with GMWBL benefits may change as experience emerges. In addition, many of our GMWBL contracts contain significant incentives to delay withdrawal with the GMWBL benefits reaching their maximum rollup over the period from 2016 to 2019. Our experience for GMWBL contracts has recently become more credible, however it is possible that policyholders may choose to withdraw sooner or later than our current best estimate assumes. We expect customer decisions on withdrawal will be influenced by their financial plans and needs as well as by market conditions over time and by the availability and features of competing products.

We also make estimates of expected lapse rates, which represent the probability that a policy will not remain in force from one period to the next, for our in-force closed block of variable annuity products. Lapse rates of our variable annuity contracts may be significantly impacted by the value of guaranteed minimum benefits relative to the value of the underlying separate accounts (account value or account balance). In general, policies with guarantees that are “in the money” are assumed to be less likely to lapse. Conversely, “out of the money” guarantees are assumed to be more likely to lapse as the policyholder has less incentive to retain the policy. Lapse rates could also be adversely affected generally by developments that affect customer perception of us.

Our variable annuity lapse rate experience has varied significantly over the period from 2006 to the present, reflecting among other factors, both pre-and post-financial crisis experience. Relative to our current expectations, actual lapse rates have generally demonstrated a declining trend over the period from 2006 to the present. We analyze actual experience over that entire period, as we believe that over the duration of the variable annuity policies we may experience the full range of policyholder behavior and

market conditions. However, management's current best estimate of variable annuity policyholder lapse behavior is weighted more heavily toward more recent experience, as the last three years of data have shown a more consistent trend of lapse behavior.

Actual lapse rates that are lower than our lapse rate assumptions could have an adverse effect on profitability in the later years of a block of business because the anticipated claims experience may be higher than expected in these later years, and, as discussed above, future reserve increases in connection with experience updates could be material and adverse to the results of operations or financial condition of the Company.

We make estimates regarding mortality, which refers to the ceasing of life contingent benefit payments due to the death of the annuitant. Mortality also refers to the incidence of death amongst policyholders triggering the payment of Guaranteed Minimum Death Benefits. We use a combination of actual and industry experience when setting our mortality assumptions.

We review overall policyholder experience at least annually (including lapse, annuitization, withdrawal and mortality), and update these assumptions when deemed necessary based on additional information that becomes available. As customer experience continues to materialize, we may adjust our assumptions. The magnitude of any required changes could be material and adverse to the results of operations or financial condition of the Company if RRII, the reinsurer of our guaranteed living benefits, fails to meet its obligations under the reinsurance contract.

Our variable annuity hedge program may not be effective and may be more costly than anticipated.

We periodically re-evaluate our variable annuity hedge program to respond to changing market conditions and balance the trade-offs among several important factors, including regulatory reserves, rating agency capital, underlying economics, earnings and other factors. While our variable annuity hedge program is intended to balance numerous critical metrics, we are subject to the risk that our strategies and other management decisions may prove ineffective or that unexpected policyholder experience, alone or in combination with unfavorable market events, may produce losses or unanticipated cash needs beyond the scope of the risk management strategies employed. The variable annuity hedge program assumes that hedge positions can be rebalanced during a market shock and that the performance of the derivative contracts reasonably matches the performance of the contract owners' variable fund returns. In addition, our variable annuity hedge program does not hedge certain non-market risks inherent in this segment, including business, credit, insurance and operational risks; any of these risks could cause us to experience unanticipated losses or cash needs. For example, hedging counterparties may fail to perform their obligations resulting in unhedged exposures and losses on positions that are not collateralized. Finally, the cost of the variable annuity hedge program itself may be greater than anticipated as adverse market conditions can limit the availability and increase the costs of the hedging instruments we employ, and such costs may not be recovered in the pricing of the underlying products being hedged. For example, the cost of hedging guaranteed minimum benefits increases as market volatilities increase and/or interest rates decrease, resulting in a reduction to net income.

Risks Related to Regulation

Our businesses and those of our affiliates are heavily regulated and changes in regulation or the application of regulation may reduce our profitability.

We are subject to detailed insurance, securities and other financial services laws and government regulation. In addition to the insurance, securities and other regulations and laws specific to the industries in which we operate, regulatory agencies have broad administrative power over many aspects of our business, which may include ethical issues, money laundering, privacy, recordkeeping and marketing and sales practices. Also, bank regulators and other supervisory authorities in the United States and elsewhere continue to scrutinize payment processing and other transactions under regulations governing such matters as money-laundering, prohibited transactions with countries subject to sanctions, and bribery or other anti-corruption measures.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in laws and regulations may materially increase the cost of compliance and other expenses of doing business. There are a number of risks that may arise where applicable regulations may be unclear, subject to multiple interpretations or under development or where regulations may conflict with one another, where regulators revise their previous guidance or courts overturn previous rulings, which could result in our failure to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which could result, among other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm our results of operations and financial condition. If we fail to address, or appear to fail to address, appropriately any of these matters, our reputation could be harmed and we could be subject to additional legal risk, which could increase the size and number of claims and damages asserted

against us or subject us to enforcement actions, fines and penalties. See "Item 1. Business - Regulation" for further discussion on the impact of regulations on our businesses.

Our businesses are heavily regulated, and changes in regulation in the United States, enforcement actions and regulatory investigations may reduce profitability.

Our operations are subject to comprehensive regulation and supervision throughout the United States. State insurance laws regulate most aspects of our insurance business and we are regulated by the insurance department of our state of domicile, Iowa. The primary purpose of state regulation is to protect policyholders, and not necessarily to protect creditors and investors. See "Item 1. Business - Regulation-Insurance Regulation".

State insurance guaranty associations have the right to assess insurance companies doing business in their state in order to help pay the obligations of insolvent insurance companies to policyholders and claimants. Because the amount and timing of an assessment is beyond our control, liabilities we have currently established for these potential assessments may not be adequate.

State insurance regulators, the NAIC and other regulatory bodies regularly reexamine existing laws and regulations applicable to insurance companies and their products and their affiliated transactions. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and could materially and adversely affect our business, results of operations or financial condition. We currently use our affiliated Arizona captive, RRII to reinsure certain of our variable annuities. Uncertainties associated with continued use of our affiliated Arizona captive company are primarily related to potential regulatory changes. In June 2014, the NAIC adopted a new regulatory framework for captives assuming business governed by Regulators XXX or AXXX, called the "Rector framework". In December 2014, the NAIC adopted Actuarial Guideline 48 (“AG48”) which established a new regulatory requirement applicable to XXX and AG38 reserves ceded to reinsurers, including affiliated reinsurers, as the first step in implementing the Rector framework. As adopted, AG48 limits the type of assets that may be used as collateral to cover the XXX and AG38 statutory reserves and is applied prospectively to existing reinsurance transactions that reinsure policies issued on or after January 1, 2015 and new reinsurance transactions entered into on or after January 1, 2015. The purpose of AG48 was to implement the substantive requirements of the Rector Framework, effective January 1, 2015, pending development and adoption by the states of the new XXX/AXXX Regulation. The NAIC charged multiple working groups with the responsibility to prepare the XXX/AXXX Regulation and in December 2016, the NAIC adopted the XXX/AXXX Regulation and amended AG48 to align its provisions with the XXX/AXXX Regulation. In 2014, the NAIC also considered a proposal to require states to apply NAIC accreditation standards, applicable to traditional insurers, to captive reinsurers. In 2015, the NAIC adopted such a proposal, in the form of a revised preamble to the NAIC accreditation standards (the “Standard”), with an effective date of January 1, 2016 for application of the Standard to captives that assume XXX or AXXX business. Under the Standard, a state will be deemed in compliance as it relates to XXX or AXXX captives if the applicable reinsurance transaction satisfies AG48. In addition, the Standard applies prospectively, so that XXX or AXXX captives will not be subject to the Standard if reinsured policies were issued prior to January 1, 2015 and ceded so that they were part of a reinsurance arrangement as of December 31, 2014. The NAIC left for future action application of the Standard to captives that assume variable annuity business. As drafted, it appears that the Standard would apply to our affiliated Arizona captives.

During 2015, The NAIC Financial Conditions (E) Committee (the “E Committee”) established the Variable Annuities Issues (E) Working Group (“VAIWG”) to oversee the NAIC’s efforts to study and address, as appropriate, regulatory issues resulting in variable annuity captive reinsurance transactions. In November 2015, upon recommendation of the VAIWG, the E Committee adopted a Variable Annuities Framework for Change (the “VA Framework for Change”) which recommends charges for NAIC working groups to adjust the variable annuity statutory framework applicable to all insurers that have written or are writing variable annuity business. The VA Framework for Change contemplates a holistic set of reforms that would improve the current reserve and capital framework and address root cause issues that result in the use of captive arrangements but would not mandate recapture by insurers of VA cessions to captives. In November 2015, VAIWG engaged Oliver Wyman ("OW") to conduct a quantitative impact study involving industry participants including the Company, of various reforms outlined in the VA Framework for Change (the “QIS”). OW completed the QIS in July of 2016 and reported its initial findings to the VAIWG in late August. The OW report proposed certain revisions to the current VA reserve and capital framework and recommended a second quantitative impact study be conducted so that testing can inform the proper calibration for certain conceptual and/or preliminary parameters set out in the OW proposal. Following a fourth quarter 2016 public comment period and several meetings on the OW proposal, the VAIWG determined that a second quantitative impact study (the "QIS2") involving industry participants including us, will be conducted by OW. The QIS2 began in February 2017 and is expected to be completed by September 2017, with NAIC deliberations on QIS2 results during the fourth quarter of 2017. Although the QIS2 timetable indicates the VAIWG expects to complete its work in 2017, timing for implementation of changes to the current VA reserve and capital framework remains uncertain.

We cannot predict what revisions, if any, would be made to the XXX/AXXX Regulation or the Standard for application to captives that assume XXX or AXXX business, as states consider their adoption or undertake their implementation, to the VA Framework for Change proposal as a result of QIS2 and ongoing NAIC deliberations, or to the Standard, if adopted for variable annuity captives. It is also unclear whether these or other proposals will be adopted by the NAIC, or what additional actions and regulatory changes will result from the continued captives scrutiny and reform efforts by the NAIC and other regulatory bodies. Any regulatory action that limits our ability to achieve desired benefits from the use of or materially increases our cost of using captive reinsurance companies, either retroactively or prospectively, including, if adopted as proposed, without grandfathering provisions for existing captive variable annuity reinsurance entities, the Standard, could have a material adverse effect on our financial condition or results of operations.

Insurance regulators have implemented, or begun to implement significant changes in the way in which insurers must determine statutory reserves and capital, particularly for products with contractual guarantees such as variable annuities and universal life policies, and are considering further potentially significant changes in these requirements.

In addition, state insurance regulators have become more active in adopting and enforcing suitability standards with respect to sales of fixed and indexed annuities. In particular, the NAIC has adopted a revised SAT, which will, if enacted by the states, place new responsibilities upon issuing insurance companies with respect to the suitability of annuity sales, including responsibilities for training agents. Many states have already taken action to adopt provisions based on the SAT.

In addition to the foregoing risks, the financial services industry is the focus of increased regulatory scrutiny as various state and federal governmental agencies and self-regulatory organizations conduct inquiries and investigations into the products and practices of the financial services industries. For a description of certain regulatory inquiries affecting the Company, see the Litigation and Regulatory Matters section of the *Commitments and Contingencies* Note in our Financial Statements in Part II, Item 8. in this Annual Report on Form 10-K. It is possible that future regulatory inquiries or investigations involving the insurance industry generally, or the Company specifically, could materially and adversely affect our business, results of operations or financial condition.

In some cases, this regulatory scrutiny has led to legislation and regulation, or proposed legislation and regulation that could significantly affect the financial services industry, or has resulted in regulatory penalties, settlements and litigation. New laws, regulations and other regulatory actions aimed at the business practices under scrutiny could materially and adversely affect our business, results of operations or financial condition. The adoption of new laws and regulations, enforcement actions, or litigation, whether or not involving us, could influence the manner in which we distribute our products, result in negative coverage of the industry by the media, cause significant harm to our reputation and materially and adversely affect our business, results of operations or financial condition.

Our products are subject to extensive regulation and failure to meet any of the complex product requirements may reduce profitability.

Our annuity, retirement and investment products are subject to a complex and extensive array of state and federal tax, securities, insurance and employee benefit plan laws and regulations, which are administered and enforced by a number of different governmental and self-regulatory authorities, including state insurance regulators, state securities administrators, state banking authorities, the SEC, the Financial Industry Regulatory Authority ("FINRA"), the DOL, and the IRS.

For example, U.S. federal income tax law imposes requirements relating to insurance and annuity product design, administration and investments that are conditions for beneficial tax treatment of such products under the Internal Revenue Code. Additionally, state and federal securities and insurance laws impose requirements relating to insurance and annuity product design, offering and distribution and administration. Failure to administer product features in accordance with contract provisions or applicable law, or to meet any of these complex tax, securities, or insurance requirements could subject us to administrative penalties imposed by a particular governmental or self-regulatory authority, unanticipated costs associated with remedying such failure or other claims, harm to our reputation, interruption of our operations or adversely impact profitability.

The Dodd-Frank Act, its implementing regulations and other financial regulatory reform initiatives could have adverse consequences for the financial services industry, including us and/or materially affect our results of operations, financial condition or liquidity.

On July 21, 2010, the Dodd-Frank Act was signed into law. It effects comprehensive changes to the regulation of financial services in the United States. The Dodd-Frank Act directs existing and newly-created government agencies and bodies to perform studies and promulgate a multitude of regulations implementing the law, a process that has substantially advanced but is not yet complete.

While some studies have already been completed and the rule-making process is well underway, there continues to be uncertainty regarding the results of ongoing studies and the ultimate requirements of regulations that have not yet been adopted. Although the new presidential administration has indicated a desire to revise or reverse some of its provisions, the fate of these proposals is unclear, and we cannot predict with certainty how the Dodd-Frank Act will continue to affect the financial markets generally, or impact our business, ratings, results of operations, financial condition or liquidity. The Dodd-Frank Act's potential effects could include:

- If designated by the FSOC as a nonbank financial company subject to supervision by the Federal Reserve, we would become subject to a comprehensive system of prudential regulation, including, among other matters, minimum capital requirements, liquidity standards, credit exposure requirements, overall risk management requirements, management interlock prohibitions, a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress, stress testing, additional fees and assessments and restrictions on proprietary trading and certain investments. The exact scope and consequences of these standards are subject to ongoing rulemaking activity by various federal banking regulators and therefore are currently unclear. However, this comprehensive system of prudential regulation, if applied to us, would significantly impact the manner in which we operate and could materially and adversely impact the profitability of one or more of our business lines or the level of capital required to support our activities. In designating non-bank financial companies for heightened prudential regulation by the Federal Reserve, the FSOC considers, among other matters, their scope, size and potential impact of their activities on the financial stability of the United States.

- Title VII of the Dodd-Frank Act creates a new framework for regulation of the over-the-counter ("OTC") derivatives markets. As a result of the adoption of final rules by federal banking regulators and the CFTC in 2015 establishing margin requirements for non-centrally cleared derivatives, the amount of collateral we may be required to pledge in support of such transactions may increase under certain circumstances and will increase as a result of the requirement to pledge initial margin on non-centrally cleared derivatives commencing in 2020. Notwithstanding the broad categories of non-cash collateral permitted under the rules, higher capital charges on non-cash collateral applicable to our bank counterparties may significantly increase pricing of derivatives and restrict or eliminate certain types of eligible collateral that we have available to pledge, which could significantly increase our hedging costs, adversely affect the liquidity and yield of our investments, affect the profitability of our products or their attractiveness to our customers, or cause us to alter our hedging strategy or change the composition of the risks we do not hedge.

- The Dodd-Frank Act establishes the FIO within the Treasury Department. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance, including participating in the FSOC's decisions regarding insurers to be designated for stricter regulation by the Federal Reserve. The Dodd-Frank Act also required the director of FIO to conduct a study on how to modernize and improve the system of insurance regulation in the United States and that report was issued in December 2013. FIO has an ongoing charge to monitor all aspects of the insurance industry and state regulatory developments, including those called for in its report and present options for federal involvement if deemed necessary.

The Dodd-Frank Act also includes various securities law reforms that may affect our business practices. See “Changes in U.S. federal and state securities laws and regulations may affect our operations and our profitability” below.

Although the full impact of the Dodd-Frank Act cannot be determined until the various studies mandated by the law are conducted and implementing regulations are adopted, many of the legislation's requirements could have profound and/or adverse consequences for the financial services industry, including for us. The Dodd-Frank Act could make it more expensive for us to conduct business, require us to make changes to our business model or satisfy increased capital requirements, subject us to greater regulatory scrutiny or to potential increases in whistleblower claims in light of the increased awards available to whistleblowers under the Act and have a material adverse effect on our results of operations or financial condition. Additionally, there is substantial uncertainty as to whether aspects of the Dodd-Frank Act or regulatory bodies established thereunder will be impacted by regulatory or legislative changes made by the Trump administration or Congress.

See "Item 1. Business - Regulation" for further discussion of the impact of the Dodd-Frank Act on our businesses.

Changes in U.S. federal and state securities laws and regulations may affect our operations and our profitability.

U.S. federal and state securities laws apply to sales of our variable annuity products (which are considered to be both insurance products and securities). In addition, certain fixed and indexed annuities we may offer may be registered as securities under the Securities Act. As a result, these products are subject to regulation by the SEC and FINRA. Our variable annuity products are

issued through separate accounts and the separate accounts are registered as investment companies under the Investment Company Act. Distribution of our annuity products registered as securities is affected by laws and regulations applicable to broker-dealers.

Securities laws and regulations are primarily intended to ensure the integrity of the financial markets and to protect investors in the securities markets or investment advisory or brokerage clients. These laws and regulations generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with those laws and regulations. A number of changes have recently been proposed to the laws and regulations that govern the conduct of our registered insurance products business and our distributors that could have a material adverse effect on our results of operations and financial condition. For example, the Dodd-Frank Act authorizes the SEC to establish a standard of conduct applicable to brokers and dealers when providing personalized investment advice to retail customers. This standard of conduct would be to act in the best interest of the customer without regard to the financial or other interest of the broker or dealer providing the advice. The SEC has not yet decided whether to propose rules creating a uniform standard of conduct applicable to broker-dealers and investment advisers. Further, proposals have been made that the SEC establish a self-regulatory organization with respect to registered investment advisers, which could increase the level of regulatory oversight over them. Changes to these laws or regulations that restrict the conduct of our business could have an adverse effect on our results of operations and financial condition.

Changes to federal regulations could adversely affect our distribution model by restricting our ability to provide customers with advice.

In April 2016, the Department of Labor ("DOL") issued a final rule that will broaden the definition of "fiduciary" for purposes of Employment Retirement Income Security Act ("ERISA") and the Internal Revenue Code, as it applies to a person or entity providing investment advice with respect to ERISA plans or IRAs. The rule expands the circumstances in which providers of investment advice to ERISA plan sponsors and plan participants, and IRA investors, are deemed to act in a fiduciary capacity. The rule requires such providers to act in their clients' "best interests", not influenced by any conflicts of interest, including due to the direct or indirect receipt of compensation that varies based on the fiduciary’s investment recommendation. The rule is scheduled to take effect on April 10, 2017, but, as described below, it is currently uncertain whether the rule will be delayed, amended or repealed. If and when the rule takes effect, certain business activities in which we currently engage, such as IRA rollovers and other IRA sales, will become subject to a heightened fiduciary standard. Where VIAC is deemed to act in a fiduciary capacity, we will in certain cases need to either modify our sales and compensation practices or find an applicable exemption.

The DOL concurrently adopted a "best interest contract exemption" (“BIC”) intended to enable continuation of certain existing industry practices relating to receipt of commissions and other compensation. We expect this exemption to go into effect only if the rule does. While this exemption would enable us and our distributors to continue many historical practices - subject, among other things, to a heightened best interests standard and a requirement that compensation be “reasonable” - there are practical difficulties with relying on the exemption that we believe will limit its utility in certain markets, particularly the retail annuities market, where many of our current distributors are not able to rely on the exemption because they do not do business through regulated financial institutions. While it is too early to predict what impact this would have on our annuities and other businesses, we may experience a material decline in sales of products that can only be practicably sold in reliance on the BIC, such as variable annuities and fixed indexed annuities.

In addition, the rule may make it easier for the DOL in enforcement actions, and for plaintiffs' attorneys in litigation, to attempt to extend fiduciary status to, or to claim fiduciary or contractual breach by, advisors who would not be deemed fiduciaries under current regulations. Compliance with the proposed rule could also increase our overall operational costs for providing some of the services we currently provide.

President Trump issued a directive in February 2017 requiring the DOL to take certain actions with respect to the rule, which may result in its revision or a delay in its implementation beyond its April 10, 2017 first applicability date. On March 2, 2017 the DOL published in the Federal Register (i) a proposal to delay applicability of the rule for 60 days beyond April 10, 2017, which is subject to a 15-day notice-and-comment period, and (ii) a request for comments on whether and how the rule should be modified in furtherance of the presidential directive, which is subject to a 45-day notice and comment period. It is unclear whether the DOL will delay applicability of the rule after the close of the 15-day comment period, and whether, or to what extent, the DOL will revise the rule after the close of the 45-day comment period. On March 10, 2017, the DOL announced a temporary policy to not enforce compliance with the rule for a transition period while the DOL considers the proposed delay described above. This policy does not, however, extend to the enforcement of the rule with respect to IRAs or private rights of action, and therefore appears to provide incomplete relief in the event a delay is not finalized prior to April 10, 2017.

Changes in tax laws and interpretations of existing tax law could increase our tax costs, impact our ability to make distributions to Voya Financial, Inc. or make our insurance, annuity and investment products less attractive to customers.

While too early to meaningfully assess the prospects of specific provisions and their application to us, the interplay between the legislative agenda advanced by Congressional Republicans and that of the new presidential administration will likely impact our taxes and possibly make some of our insurance, annuity and investment products less attractive to customers. Additionally, the House has signaled interest in pursuing international tax reform, including a "cash flow regime" of border adjustments aimed at incentivizing U.S. jobs and helping to pay for (along with broadening the taxable income base) reducing overall corporate tax rates. Also viewed as possible revenue raisers are certain proposals uniquely affecting the industry such as those dealing with our dividend received deduction, benefit reserve deduction, and acquisition cost deduction. Moreover, states that stand to lose tax revenue as a consequence of such federal reform will be under pressure to enact additional measures of their own which could result in raising revenue from us and possibly make our products less attractive to our customers.

Proposals uniquely affecting the industry include modifying the dividends received deduction for life insurance company separate accounts which could significantly reduce or eliminate the dividends received deduction that we are able to claim for dividends received in separate accounts. As such, the dividend received deduction is a significant component of the difference between our actual tax expense and the expected tax expense currently determined using the federal statutory income tax rate of 35%. Also, interpretation and enforcement of existing tax law could change and could be applied to us as part of an IRS examination and increase our tax costs. In the course of such examinations, we have entered into agreements with the IRS to resolve issues related to: (1) the application of the Section 382 limitation, (2) whether certain derivative transactions qualify for hedge treatment, (3) the proper treatment of valid tax hedge gains and losses and (4) “other than temporary impairment” losses. These agreements may be superseded by future enacted laws, regulations or public guidance that increase our taxes and our effective tax rates.

Further, changes in tax rates as a consequence of tax reform could affect the amount of our deferred tax assets and deferred tax liabilities. A reduction in the top federal tax rate would result in lower deferred tax liabilities. Moreover, a reduction in the statutory deferred tax asset may impact the ability of the affected insurance subsidiaries to make distributions to us and consequently could negatively impact our ability to pay dividends to our stockholders and to service our debt.

Current U.S. federal income tax law permits tax-deferred accumulation of income earned under life insurance and annuity products, and permits exclusion from taxation of death benefits paid under life insurance contracts. Changes in tax laws that restrict these tax benefits could make some of our products less attractive to customers. Reductions in individual income tax rates or estate tax rates could also make some of our products less advantageous to customers. Changes in federal tax laws that reduce the amount an individual can contribute on a pre-tax basis to an employer-provided, tax-deferred product (either directly by reducing current limits or indirectly by changing the tax treatment of such contributions from exclusions to deductions) or changes that would limit an individual’s aggregate amount of tax-deferred savings could make our retirement products less attractive to customers.

Item 1B. Unresolved Staff Comments

Omitted as registrant is neither an accelerated filer nor a well-known seasoned issuer.

Item 2. Properties

Our principal office is located at 1475 Dunwoody Drive, West Chester, Pennsylvania, 19380-1478. Our annuity operations and customer service center are currently located at 909 Locust Street, Des Moines, Iowa 50309, and effective January 1, 2018 will be relocated to 699 Walnut Street, Des Moines, Iowa 50309. Our funding agreement business activities are located at 5780 Powers Ferry Road, N.W., Atlanta, Georgia 30327-4390. Our office space is leased or subleased by us or our other affiliates except for our location at 5780 Powers Ferry Road, N.W., Atlanta, Georgia.

Item 3. Legal Proceedings

See the Litigation and Regulatory Matters section of the *Commitments and Contingencies* Note in our Financial Statements in Part II, Item 8. in this Annual Report on Form 10-K for a description of our material legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
(Dollar amounts in millions, unless otherwise stated)

There is no public trading market for the common stock of VIAC. All of our outstanding common stock is owned by our parent, Voya Holdings Inc. ("Parent"), a direct, wholly owned subsidiary of Voya Financial, Inc.

Iowa insurance law imposes restrictions on an Iowa insurance company's ability to pay dividends to its parent. These restrictions are based in part on the prior year's statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval. Dividends in larger amounts, or extraordinary dividends, are subject to approval by the Iowa Insurance Commission.

Under Iowa law, an extraordinary dividend or distribution is defined as a dividend or distribution that, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (1) ten percent (10.0%) of our earned statutory surplus at the prior year end or (2) our prior year statutory net gain from operations. Iowa law also prohibits an Iowa insurer from declaring or paying a dividend except out of its earned surplus unless prior insurance regulatory approval is obtained.

During the year ended December 31, 2016, we declared an ordinary dividend to our Parent in the amount of $373.0 million, which was paid to our Parent on June 27, 2016. During the year ended December 31, 2015, we paid an ordinary dividend of $394.0 million to our Parent.

During the year ended December 31, 2016, we did not pay an extraordinary distribution to our Parent. During the year ended December 31, 2015, we paid an extraordinary distribution in the amount of $98.0 million to our Parent.

During the years ended December 31, 2016, and 2015, we did not receive any capital contributions from our Parent.

Item 6. Selected Financial Data

Omitted pursuant to General Instruction I(2)(a) of Form 10-K.

Item 7. Management's Narrative Analysis of the Results of Operations and Financial Condition
(Dollar amounts in millions, unless otherwise stated)

For the purposes of the discussion in this Annual Report on Form 10-K, the terms "Company," "we," "our," "us" and "VIAC" refer to Voya Insurance and Annuity Company. We are a direct, wholly owned subsidiary of Voya Holdings Inc. ("Parent"), which is a direct, wholly owned subsidiary of Voya Financial, Inc.

The following discussion and analysis presents a review of our results of operations for the years ended December 31, 2016, 2015 and 2014 and financial condition as of December 31, 2016 and 2015. This item should be read in its entirety and in conjunction with the Financial Statements and related notes contained in Part II, Item 8. of this Annual Report on Form 10-K.

In addition to historical data, this discussion contains forward-looking statements about our business, operations and financial performance based on current expectations that involve risks, uncertainties and assumptions. Actual results may differ materially from those discussed in the forward-looking statements as a result of various factors. See "Note Concerning Forward-Looking Statements."

Overview

VIAC is a stock life insurance company domiciled in the State of Iowa and provides financial products and services in the United States. VIAC is authorized to conduct its insurance business in all states, except New York, and in the District of Columbia.

Products currently offered by us include fixed and indexed annuities, investment-only and payout annuities, designed to address customer needs for tax-advantaged savings, retirement needs and wealth-protection concerns. We also offer funding agreements. We stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010.

We derive our revenue mainly from (a) investment income earned on investments primarily related to annuity products with fixed investment options and funding agreements, (b) Fee income generated from separate account assets supporting variable options under variable annuity contract investments, as designated by contract owners, (c) Premiums, (d) realized capital gains (losses) on investments and product guarantees and (e) certain other management fees included in Other revenue. Our Benefits and expenses primarily consist of (a) Interest credited and other benefits to contract owners/policyholders, (b) amortization of DAC and VOBA and (c) Operating expenses which consist of expenses related to the selling and servicing of the various products offered by us and other general business expenses.

We have one operating segment.

The focus in managing our closed block of variable annuity products continues to be on protecting regulatory and rating agency capital, and our hedging program is primarily designed to mitigate the impacts of market movements on capital resources, rather than mitigating earnings volatility. We seek opportunities to accelerate the run-off of the block, where possible. For example, in recent years we have made several income enhancement offers to holders of a particular series of GMIB contracts, under which policy holders were offered an incentive to annuitize prior to the end of the waiting period, and we have waived the remaining waiting period on these GMIB contracts. In addition, in the first quarter of 2017 we launched our first GMIB enhanced surrender value offer, which provides certain GMIB policyholders an option to surrender their contracts in exchange for an enhancement to their contract's surrender value.

Critical Accounting Judgments and Estimates

General

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Critical estimates and assumptions are evaluated on an on-going basis based on historical developments, market conditions, industry trends and other information that is reasonable under the circumstances. There can be no assurance that actual results will conform to estimates and assumptions and that reported results of operations will not be materially affected by the need to make future accounting adjustments to reflect changes in these estimates and assumptions from time to time.

We have identified the following accounting judgments and estimates as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability:

- Reserves for future policy benefits;
- Deferred policy acquisition costs ("DAC"), value of business acquired ("VOBA") and deferred sales inducements ("DSI");
- Valuation of investments and derivatives;
- Impairments;
- Income taxes; and
- Contingencies.

In developing these accounting estimates, we make subjective and complex judgments that are inherently uncertain and subject to material changes as facts and circumstances develop. Although variability is inherent in these estimates, we believe the amounts provided are appropriate based on the facts available upon preparation of the Financial Statements.

The above critical accounting estimates are described in the *Business, Basis of Presentation and Significant Accounting Policies* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K.

Reserves for Future Policy Benefits

The determination of future policy benefit reserves is dependent on actuarial assumptions. The principal assumptions used to establish liabilities for future policy benefits are based on our experience and periodically reviewed against industry standards. These assumptions include mortality, morbidity, policy lapse, contract renewal, payment of subsequent premiums or deposits by the contract owner, retirement, investment returns, inflation, benefit utilization and expenses. The assumptions used require considerable judgments. Changes in, or deviations from, the assumptions used can significantly affect our reserve levels and related results of operations.

- Mortality is the incidence of death among policyholders triggering the payment of underlying insurance coverage by the insurer. In addition, mortality also refers to the ceasing of payments on life-contingent annuities due to the death of the annuitant. We utilize a combination of actual and industry experience when setting our mortality assumptions.
- A lapse rate is the percentage of in-force policies surrendered by the policyholder or canceled by us due to non-payment of premiums. For certain of our variable products, the lapse rate assumption varies according to the current account value relative to guarantees associated with the product and applicable surrender charges. In general, policies with guarantees that are considered "in the money" (i.e., where the notional benefit amount is in excess of the account value) are assumed to be less likely to lapse or surrender. Conversely, "out of the money" guarantees may be assumed to be more likely to lapse or surrender as the policyholder has less incentive to retain the policy.

See the *Guaranteed Benefit Features* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for further information on our reserves for future policy benefits, contract owner account balances and product guarantees.

Insurance and Other Reserves

Reserves for traditional life insurance contracts (term insurance, participating and non-participating whole life insurance and traditional group life insurance) and accident and health insurance represent the present value of future benefits to be paid to or on behalf of contract owners and related expenses, less the present value of future net premiums. Assumptions as to interest rates, mortality, expenses and persistency are based on our estimates of anticipated experience at the period the policy is sold or acquired, including a provision for adverse deviation. Interest rates used to calculate the present value of these reserves ranged from 2.3% to 7.2%.

Reserves for payout contracts with life contingencies are equal to the present value of expected future payments. Assumptions as to interest rates, mortality and expenses are based on our estimates of experience at the period the policy is sold or acquired, including a provision for adverse deviation. Such assumptions generally vary by annuity plan type, year of issue and policy duration. Interest rates used to calculate the present value of future benefits ranged from 1.0% to 7.5%.

Although assumptions are "locked-in" upon the issuance of traditional life insurance contracts, certain accident and health insurance contracts and payout contracts with life contingencies, significant changes in experience or assumptions may require us to provide for expected future losses on a product by establishing premium deficiency reserves. Premium deficiency reserves are determined based on best estimate assumptions that exist at the time the premium deficiency reserve is established and do not include a provision for adverse deviation. During the years ended December 31, 2016 and 2015, we established premium deficiency reserves

of $36.3 million and $126.0 million, respectively, before income taxes, related to certain payout annuity contracts. These premium deficiency reserves were recorded as increases in Future policy benefits and contract owner account balances with corresponding increases in Deposits, premiums receivable and reinsurance recoverable, as the reserves are ceded to an affiliate on a 100% coinsurance and coinsurance funds withheld basis. The establishment of these premium deficiency reserves had no impact in the Statements of Operations for the years ended December 31, 2016 and 2015. We did not establish any premium deficiency reserves during the year ended December 31, 2014.

Product Guarantees and Index-crediting Features

The assumptions used to establish the liabilities for our product guarantees require considerable judgment and are established as management's best estimate of future outcomes. We periodically review these assumptions and, if necessary, update them based on additional information that becomes available. Changes in, or deviations from, the assumptions used can significantly affect our reserve levels and related results of operations.

GMDB and GMIB: Reserves for annuity guaranteed minimum death benefits ("GMDB") and guaranteed minimum income benefits ("GMIB") are determined by estimating the value of expected benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. Expected experience is based on a range of scenarios. Assumptions used, such as the long-term equity market return, lapse rate and mortality, are consistent with assumptions used in estimating gross profits for the purpose of amortizing DAC. In addition, the reserve for the GMIB incorporates assumptions for the likelihood and timing of the potential annuitizations that may be elected by the contract owner. In general, we assume that GMIB annuitization rates will be higher for policies with more valuable ("in the money") guarantees.

GMAB, GMWB, GMWBL and FIA: We also issue certain products that contain embedded derivatives that are measured at estimated fair value separately from the host contract. These embedded derivatives include annuity guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits without life contingencies ("GMWB"), guaranteed minimum withdrawal benefits with life payouts ("GMWBL") and fixed indexed annuities ("FIAs").

At inception of the GMAB, GMWB and GMWBL contracts, we project a fee to be attributed to the embedded derivative portion of the guarantee equal to the present value of projected future guaranteed benefits. After inception, the estimated fair value of the GMAB, GMWB and GMWBL contracts is determined based on the present value of projected future guaranteed benefits, minus the present value of projected attributed fees. A risk neutral valuation methodology is used under which the cash flows from the guarantees are projected under multiple capital market scenarios using observable risk free rates. The projection of future guaranteed benefits and future attributed fees require the use of assumptions for capital markets (e.g., implied volatilities, correlation among indices, risk-free swap curve, etc.) and policyholder behavior (e.g., lapse, benefit utilization, mortality, etc.).

The estimated fair value of the embedded derivative in the FIA contracts is based on the present value of the excess of interest payments to the contract owners over the growth in the minimum guaranteed contract value. The excess interest payments are determined as the excess of projected index driven benefits over the projected guaranteed benefits. The projection horizon is over the anticipated life of the related contracts, which takes into account best estimate actuarial assumptions, such as partial withdrawals, full surrenders, deaths, annuitizations and maturities.

Certain FIA contracts contain guaranteed withdrawal benefit provisions. Reserves for these benefits are calculated by estimating the value of expected benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments.

The liabilities for the GMAB, GMWB, GMWBL and FIA embedded derivatives include a risk margin to capture uncertainties related to policyholder behavior assumptions. The margin represents additional compensation a market participant would require to assume these risks.

The discount rate used to determine the fair value of the liabilities for our GMAB, GMWB, GMWBL and FIA embedded derivatives includes an adjustment to reflect the risk that these obligations will not be fulfilled (“nonperformance risk”). Our nonperformance risk adjustment is based on a blend of observable, similarly rated peer holding company credit default swap ("CDS") spreads, adjusted to reflect the credit quality of VIAC, the issuer of the guarantee, as well as an adjustment to reflect the priority of policyholder claims. The table below presents the increase (decrease) to the fair value of these liabilities due to the nonperformance risk adjustment and the gain (loss) due to nonperformance risk as of and for the periods indicated:

($ in millions)

Nonperformance Risk Adjustment			Gain (Loss) due to Nonperformance Risk		
As of December 31,			For the year ended December 31,		
2016[1]	2015[1]	2014[1]	2016	2015	2014
$ (933.3)	$ (791.3)	$ (754.5)	$ 142.0	$ 36.8	$ 382.6

[1] Represents reduction to liabilities.

The favorable change of $142.0 million from $791.3 million as of December 31, 2015 to $933.3 million as of December 31, 2016 is primarily due to favorable changes in observable credit spreads, partially offset by decreases in associated reserves due to model changes and changes in capital markets. The favorable change of $36.8 million from $754.5 million as of December 31, 2014 to $791.3 million as of December 31, 2015 is primarily due to the increases in observable credit spreads and an increase in the associated reserves. The favorable change of $382.6 million from $371.9 million as of January 1, 2014 to $754.5 million as of December 31, 2014 is primarily due to the increases in observable credit spreads and an increase in the associated reserves.

Assumptions and Periodic Review

We review overall policyholder experience at least annually (including lapse, annuitization, withdrawal and mortality) and update these assumptions when deemed necessary, based on additional information that becomes available. If policyholder experience is significantly different from that assumed, this could have a significant effect on our reserve levels and related results of operations.

See the *Quantitative and Qualitative Disclosures About Market Risk* Section in Part II, Item 7A. of this Annual Report on Form 10-K for additional information regarding the specific hedging strategies and reinsurance we utilize to mitigate risk for the product guarantees, as well as sensitivities of the embedded derivative liabilities to changes in certain capital markets assumptions.

Deferred Policy Acquisition Costs, Value of Business Acquired and Deferred Sales Inducements

DAC represents policy acquisition costs that have been capitalized and are subject to amortization and interest. VOBA represents the outstanding value of in-force business acquired and is subject to amortization and interest. DSI represents benefits paid to contract owners for a specified period that are incremental to the amounts we credit on similar contracts without sales inducements and are higher than the contract's expected ongoing crediting rates for periods after the inducement.

See the *Deferred Policy Acquisition Costs and Value of Business Acquired* Note and the *Sales Inducements* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for additional information on DAC, VOBA and DSI.

Amortization Methodologies

We amortize DAC and VOBA related to universal life ("UL") and variable universal life ("VUL") contracts and fixed and variable deferred annuity contracts over the estimated lives of the contracts in relation to the emergence of estimated gross profits. Assumptions as to mortality, persistency, interest crediting rates, fee income, returns associated with separate account performance, impact of hedge performance, expenses to administer the business and certain economic variables, such as inflation, are based on our experience and overall capital markets. At each valuation date, estimated gross profits are updated with actual gross profits, and the assumptions underlying future estimated gross profits are evaluated for continued reasonableness. Adjustments to estimated gross profits require that amortization rates be revised retroactively to the date of the contract issuance ("unlocking"). If the update of assumptions causes estimated gross profits to increase, DAC and VOBA amortization will decrease, resulting in a current period increase to earnings. The opposite result occurs when the assumption update causes estimated gross profits to decrease. We amortize DSI over the estimated lives of the related contracts using the same methodology and assumptions used to amortize DAC.

Recoverability testing is performed for current issue year products to determine if gross profits are sufficient to cover DAC, VOBA and DSI, estimated benefits and related expenses. In subsequent periods, we perform testing to assess the recoverability of DAC, VOBA and DSI on an annual basis, or more frequently if circumstances indicate a potential loss recognition issue exists. If DAC,

VOBA or DSI are not deemed recoverable from future gross profits, charges will be applied against the DAC, VOBA or DSI balances before an additional reserve is established.

During the year ended December 31, 2016, our reviews resulted in loss recognition of $170.0 million before income taxes, of which $137.7 million and $32.3 million was recorded to Net amortization of DAC and VOBA and Interest credited and other benefits to contract owners, respectively, in the Statements of Operations, with a corresponding decrease on the Balance Sheets to Deferred policy acquisition costs, Value of business acquired, and Sales inducements to contract owners.

During the year ended December 31, 2015, our reviews resulted in loss recognition of $342.0 million before income taxes, of which $276.9 million and $65.1 million was recorded to Net amortization of DAC and VOBA and Interest credited and other benefits to contract owners, respectively, in the Statements of Operations, with a corresponding decrease on the Balance Sheets to Deferred policy acquisition costs, Value of business acquired, and Sales inducements to contract owners.

During the year ended December 31, 2014, our reviews resulted in no loss recognition.

Assumptions and Periodic Review

Changes in assumptions can have a significant impact on DAC, VOBA, and DSI, amortization rates, reserve levels, and results of operations. Assumptions are management's best estimate of future outcome. We periodically review these assumptions against actual experience and, based on additional information that becomes available, update our assumptions. Deviation of emerging experience from our assumptions could have a significant effect on our DAC, VOBA and DSI, reserves, and the related results of operations.

- One significant assumption is the assumed return associated with the variable account performance, which has historically had a greater impact on variable annuity than VUL products. To reflect the volatility in the equity markets, this assumption involves a combination of near-term expectations and long-term assumptions regarding market performance. The overall return on the variable account is dependent on multiple factors, including the relative mix of the underlying sub-accounts among bond funds and equity funds, as well as equity sector weightings. We use a reversion to the mean approach, which assumes that the market returns over the entire mean reversion period are consistent with a long-term level of equity market appreciation. We monitor market events and only change the assumption when sustained deviations are expected. This methodology incorporates a 9% long-term equity return assumption, a 14% cap and a five-year look-forward period.
- Another significant assumption used in the estimation of gross profits for certain products is mortality. We utilize a combination of actual and industry experience when setting our mortality assumptions, which are consistent with the assumptions used to calculate reserves for future policy benefits.
- Assumptions related to interest rate spreads and credit losses also impact estimated gross profits for all applicable products with credited rates. These assumptions are based on the current investment portfolio yields and credit quality, estimated future crediting rates, capital markets, and estimates of future interest rates and defaults.
- Other significant assumptions include estimated policyholder behavior assumptions, such as surrender, lapse, and annuitization rates. We use a combination of actual and industry experience when setting and updating our policyholder behavior assumptions, and such assumptions require considerable judgment. Estimated gross profits for our variable annuity contracts are particularly sensitive to these assumptions.

We include the impact of the change in value of the embedded derivatives associated with the GMAB, GMWB, GMWBL and FIA contracts in gross profits for purposes of determining DAC amortization.

During the third quarter of 2016, 2015 and 2014, we conducted our annual review of assumptions, including projection model inputs. As a result of these reviews, we made a number of changes, which resulted in favorable (unfavorable) impacts on Income (loss) before income taxes of $102.7 million, $(34.3) million, and $231.7 million in 2016, 2015, and 2014, respectively, of which $34.7 million, $(83.0) million, and $108.4 million, respectively, was related to DAC, VOBA and DSI unlocking.

Sensitivity

We perform sensitivity analyses to assess the impact that certain assumptions have on DAC, VOBA and DSI, as well as certain reserves. The following table presents the estimated instantaneous net impact to income before income taxes of various assumption changes on our DAC, VOBA and DSI balances and the impact on related reserves for future policy benefits and reinsurance. The effects are not representative of the aggregate impacts that could result if a combination of such changes to equity markets, interest rates and other assumptions occurred. (Assumptions regarding shifts in market factors may be overly simplistic and not indicative of actual market behavior in stress scenarios.)

($ in millions)	As of December 31, 2016	
Decrease in long-term equity rate of return assumption by 100 basis points	$	54.4 [1]
A change to the long-term interest rate assumption of -50 basis points		102.9 [2]
A change to the long-term interest rate assumption of +50 basis points		(53.6)
An assumed increase in future mortality by 1%		(5.5)

[1] Additionally the assumption changes would result in loss recognition of approximately $25 million to $125 million.
[2] Additionally the assumption changes would result in loss recognition of approximately $75 million to $175 million.

Valuation of Investments and Derivatives

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities, short-term investments, other invested assets and derivative financial instruments. We enter into interest rate, equity market, credit default and currency contracts, including swaps, futures, forwards, caps, floors and options, to reduce and manage various risks associated with changes in value, yield, price, cash flow or exchange rates of assets or liabilities held or intended to be held, or to assume or reduce credit exposure associated with a referenced asset, index or pool. We also utilize options and futures on equity indices to reduce and manage risks associated with our annuity products.

See the *Investments* Note and the *Derivative Financial Instruments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for further information.

Investments

We measure the fair value of our financial assets and liabilities based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset, or nonperformance risk, including our own credit risk. The estimate of fair value is the price that would be received to sell an asset or transfer a liability ("exit price") in an orderly transaction between market participants in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability. We use a number of valuation sources to determine the fair values of our financial assets and liabilities, including quoted market prices, third-party commercial pricing services, third-party brokers, industry-standard, vendor-provided software that models the value based on market observable inputs, and other internal modeling techniques based on projected cash flows.

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

When available, the estimated fair value of securities is based on quoted prices in active markets that are readily and regularly obtainable. When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, including discounted cash flows, matrix pricing or other similar techniques. Inputs to these methodologies include, but are not limited to, market observable inputs such as benchmark yields, credit quality, issuer spreads, bids, offers and cash flow characteristics of the security. For privately placed bonds, we also consider such factors as the net worth

of the borrower, value of the collateral, the capital structure of the borrower, the presence of guarantees, and the borrower's ability to compete in its relevant market. Valuations are reviewed and validated monthly by an internal valuation committee using price variance reports, comparisons to internal pricing models, back testing of recent trades, and monitoring of trading volumes, as appropriate.

The valuation of financial assets and liabilities involves considerable judgment, is subject to considerable variability, is established using management's best estimate, and is revised as additional information becomes available. As such, changes in, or deviations from, the assumptions used in such valuations can significantly affect our results of operations. Financial markets are subject to significant movements in valuation and liquidity, which can impact our ability to liquidate and the selling price that can be realized for our securities.

Derivatives

Derivatives are carried at fair value, which is determined by using observable key financial data, such as yield curves, exchange rates, S&P 500 prices, London Interbank Offered Rates ("LIBOR") and Overnight Index Swap Rates ("OIS") or through values established by third-party sources, such as brokers. Valuations for our futures contracts are based on unadjusted quoted prices from an active exchange. Counterparty credit risk is considered and incorporated in our valuation process through counterparty credit rating requirements and monitoring of overall exposure. Our own credit risk is also considered and incorporated in our valuation process.

We have certain CDS and options that are priced using models that primarily use market observable inputs, but contain inputs that are not observable to market participants.

We also have investments in certain fixed maturities and have issued certain annuity products that contain embedded derivatives for which fair value is at least partially determined by levels of or changes in domestic and/or foreign interest rates (short-term or long-term), exchange rates, prepayment rates, equity markets, or credit ratings/spreads. The fair values of these embedded derivatives are determined using prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. For additional information regarding the valuation of and significant assumptions associated with embedded derivatives associated with certain annuity contracts, see the "Reserves for Future Policy Benefits" section.

In addition, we have entered into coinsurance with funds withheld reinsurance arrangements that contain embedded derivatives. The fair value of the embedded derivatives is based on the change in the fair value of the underlying assets held in the trust using the valuation methods and assumptions described for our investments held.

The valuation of derivatives involves considerable judgment, is subject to considerable variability, is established using management's best estimate and is revised as additional information becomes available. As such, changes in, or deviations from, these assumptions used in such valuations can have a significant effect on our results of operations.

For additional information regarding the fair value of our investments and derivatives, see the *Fair Value Measurements* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K.

Impairments

We evaluate our available-for-sale general account investments quarterly to determine whether there has been an other-than-temporary decline in fair value below the amortized cost basis. This evaluation process entails considerable judgment and estimation. Factors considered in this analysis include, but are not limited to, the length of time and the extent to which the fair value has been less than amortized cost, the issuer's financial condition and near-term prospects, future economic conditions and market forecasts, interest rate changes and changes in ratings of the security. An extended and severe unrealized loss position on a fixed maturity may not have any impact on: (a) the ability of the issuer to service all scheduled interest and principal payments and (b) the evaluation of recoverability of all contractual cash flows or the ability to recover an amount at least equal to its amortized cost based on the present value of the expected future cash flows to be collected. In contrast, for certain equity securities, we give greater weight and consideration to a decline in market value and the likelihood such market value decline will recover.

When assessing our intent to sell a security, or if it is more likely than not we will be required to sell a security before recovery of its amortized cost basis, we evaluate facts and circumstances such as, but not limited to, decisions to rebalance the investment portfolio and sales of investments to meet cash flow or capital needs.

We use the following methodology and significant inputs to determine the amount of the OTTI credit loss:

- When determining collectability and the period over which the value is expected to recover for U.S. and foreign corporate securities, foreign government securities and state and political subdivision securities, we apply the same considerations utilized in our overall impairment evaluation process, which incorporates information regarding the specific security, the industry and geographic area in which the issuer operates and overall macroeconomic conditions. Projected future cash flows are estimated using assumptions derived from our best estimates of likely scenario-based outcomes, after giving consideration to a variety of variables that includes, but is not limited to: general payment terms of the security; the likelihood that the issuer can service the scheduled interest and principal payments; the quality and amount of any credit enhancements; the security's position within the capital structure of the issuer; possible corporate restructurings or asset sales by the issuer; and changes to the rating of the security or the issuer by rating agencies.
- Additional considerations are made when assessing the unique features that apply to certain structured securities, such as subprime, Alt-A, non-agency RMBS, CMBS and ABS. These additional factors for structured securities include, but are not limited to: the quality of underlying collateral; expected prepayment speeds; loan-to-value ratio; debt service coverage ratios; current and forecasted loss severity; consideration of the payment terms of the underlying assets backing a particular security; and the payment priority within the tranche structure of the security.
- When determining the amount of the credit loss for U.S. and foreign corporate securities, foreign government securities and state and political subdivision securities, we consider the estimated fair value as the recovery value when available information does not indicate that another value is more appropriate. When information is identified that indicates a recovery value other than estimated fair value, we consider in the determination of recovery value the same considerations utilized in its overall impairment evaluation process, which incorporates available information and our best estimate of scenario-based outcomes regarding the specific security and issuer; possible corporate restructurings or asset sales by the issuer; the quality and amount of any credit enhancements; the security's position within the capital structure of the issuer; fundamentals of the industry and geographic area in which the security issuer operates; and the overall macroeconomic conditions.
- We perform a discounted cash flow analysis comparing the current amortized cost of a security to the present value of future cash flows expected to be received, including estimated defaults and prepayments. The discount rate is generally the effective interest rate of the fixed maturity prior to impairment.

Mortgage loans on real estate are all commercial mortgage loans. If a mortgage loan is determined to be impaired (i.e., when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement), the carrying value of the mortgage loan is reduced to the lower of either the present value of expected cash flows from the loan, discounted at the loan's original purchase yield, or the fair value of the collateral. For those mortgages that are determined to require foreclosure, the carrying value is reduced to the fair value of the underlying collateral, net of estimated costs to obtain and sell at the point of foreclosure.

Impairment analysis of the investment portfolio involves considerable judgment, is subject to considerable variability, is established using management's best estimate and is revised as additional information becomes available. As such, changes in, or deviations from, the assumptions used in such analysis can have a significant effect on the results of operations.

For additional information regarding the evaluation process for impairments, see the *Investments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K.

Income Taxes

The results of our operations are included in the consolidated tax return of Voya Financial, Inc. Generally, our Financial Statements recognize the current and deferred income tax consequences that result from our activities during the current and preceding periods pursuant to the provisions of ASC Topic 740, "Income Taxes" as if we were a separate taxpayer rather than a member of Voya Financial, Inc.'s consolidated income tax return group, with the exception of any net operating loss carryforwards and capital loss carryforwards, which are recorded pursuant to the tax sharing agreement.

Under our tax sharing agreement, Voya Financial, Inc. will pay us for the tax benefits of ordinary and capital losses only in the event that the consolidated tax group actually uses the tax benefit of losses generated.

Valuation Allowances

We use certain assumptions and estimates in determining the income taxes payable or refundable to/from Voya Financial, Inc. for the current year, the deferred income tax liabilities and assets for items recognized differently in our Financial Statements from amounts shown on our income tax returns and the federal income tax expense. Determining these amounts requires analysis and interpretation of current tax laws and regulations, including the loss limitation rules associated with change in control. We exercise considerable judgment in evaluating the amount and timing of recognition of the resulting income tax liabilities and assets. These judgments and estimates are reevaluated on a periodic basis. We will continue to evaluate as regulatory and business factors change.

Deferred tax assets represent the tax benefit of future deductible temporary differences, net operating loss carryforwards, and tax credit carryforwards. We evaluate and test the recoverability of deferred tax assets. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. Considerable judgment and the use of estimates are required in determining whether a valuation allowance is necessary and, if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance, we consider many factors, including:

- The nature, frequency and severity of book income or losses in recent years;
- The nature and character of the deferred tax assets and liabilities;
- The recent cumulative book income (loss) position after adjustment for permanent differences;
- Taxable income in prior carryback years;
- Projected future taxable income, exclusive of reversing temporary differences and carryforwards;
- Projected future reversals of existing temporary differences;
- The length of time carryforwards can be utilized;
- Prudent and feasible tax planning strategies we would employ to avoid a tax benefit from expiring unused; and
- Tax rules that would impact the utilization of the deferred tax assets.

As of December 31, 2016, we have recognized $112.7 million of deferred tax assets based on tax planning strategies related to unrealized gains on investment assets. These tax planning strategies support the recognition of deferred tax assets, which have been provided on deductible temporary differences, and may be adversely impacted by decreases in unrealized gains.

We recorded the following valuation allowances:

	As of December 31,	
($ in millions)	**2016**	**2015**
Deferred tax assets	$ 733.5 [1]	$ 597.4 [2]

[1] Includes $728.4 million and $5.1 million related to ordinary deferred tax assets and foreign tax credits, respectively.

[2] Includes $590.6 million and $6.8 million related to ordinary deferred tax assets and foreign tax credits, respectively.

Tax Contingencies

In establishing unrecognized tax benefits, we determine whether a tax position is more likely than not to be sustained under examination by the appropriate taxing authority. We also consider positions that have been reviewed and agreed to as part of an examination by the appropriate taxing authority. Tax positions that do not meet the more likely than not standard are not recognized. Tax positions that meet this standard are recognized in our Financial Statements. We measure the tax position as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate resolution with the taxing authority that has full knowledge of all relevant information.

Changes in Law

Certain changes or future events, such as changes in tax legislation, completion of tax audits, planning opportunities and expectations about future outcomes could have an impact on our estimates of valuation allowances, deferred taxes, tax provisions and effective tax rates.

For example, a reduction in the corporate tax rate would most likely result in a tax benefit based on the fact that, as of December 31, 2016, we have a deferred tax liability. Conversely, an increase in the corporate tax rate would most likely result in an additional tax expense.

Contingencies

A loss contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. Examples of loss contingencies include pending or threatened adverse litigation, threat of expropriation of assets and actual or possible claims and assessments. Amounts related to loss contingencies involve considerable judgments and are accrued if it is probable that a loss has been incurred and the amount can be reasonably estimated, based on our best estimate of the ultimate outcome. Reserves are established reflecting management's best estimate, reviewed on a quarterly basis and revised as additional information becomes available. When a loss contingency is reasonably possible, but not probable, disclosure is made of our best estimate of possible loss, or the range of possible loss, or a statement is made that such an estimate cannot be made.

We are involved in threatened or pending lawsuits/arbitrations arising from the normal conduct of business. Due to the climate in insurance and business litigation/arbitration, suits against us sometimes include claims for substantial compensatory, consequential or punitive damages and other types of relief. Moreover, certain claims are asserted as class actions, purporting to represent a group of similarly situated individuals. It is not always possible to accurately estimate the outcome of such lawsuits/arbitrations. Therefore, changes to such estimates could be material. As facts and circumstances change, our estimates are revised accordingly. Our reserves reflect management's best estimate of the ultimate resolution.

Impact of New Accounting Pronouncements

For information regarding the impact of new accounting pronouncements, see the *Business, Basis of Presentation and Significant Accounting Policies* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K.

Results of Operations

($ in millions)	Year Ended December 31, 2016	2015	2014
Revenues:			
Net investment income	$ 1,362.5	$ 1,305.5	$ 1,264.7
Fee income	627.3	718.7	824.8
Premiums	496.5	505.8	537.8
Net realized capital losses:			
Total other-than-temporary impairments	(8.5)	(30.3)	(6.0)
Less: Portion of other-than-temporary impairments recognized in Other comprehensive income (loss)	1.5	2.5	(0.3)
Net other-than-temporary impairments recognized in earnings	(10.0)	(32.8)	(5.7)
Other net realized capital losses	(874.9)	(98.8)	(768.4)
Total net realized capital losses	(884.9)	(131.6)	(774.1)
Other revenue	16.9	19.7	29.8
Total revenues	1,618.3	2,418.1	1,883.0
Benefits and expenses:			
Interest credited and other benefits to contract owners/policyholders	557.6	1,290.6	1,391.9
Operating expenses	463.0	486.2	489.6
Net amortization of deferred policy acquisition costs and value of business acquired	423.0	667.0	(116.0)
Interest expense	28.3	28.2	28.2
Other expense	11.2	25.1	16.9
Total benefits and expenses	1,483.1	2,497.1	1,810.6
Income (loss) before income taxes	135.2	(79.0)	72.4
Income tax expense (benefit)	115.9	(53.9)	97.3
Net income (loss)	$ 19.3	$ (25.1)	$ (24.9)

Year Ended December 31, 2016 compared to Year Ended December 31, 2015

Our Net income (loss) for the year ended December 31, 2016 changed $44.4 million from a loss of $25.1 million to income of $19.3 million due to lower Interest credited and other benefits to contract owners/policyholders, Net amortization of DAC and VOBA, Operating expenses and Other expense as well as higher Net investment income, partially offset by higher Total net realized capital losses, an unfavorable change in Income tax expense (benefit) and lower Fee income and Premiums.

Revenues

Total revenues decreased $799.8 million from $2,418.1 million to $1,618.3 million primarily due to higher Total net realized capital losses, lower Fee income and Premiums, partially offset by higher Net investment income.

Net investment income increased $57.0 million from $1,305.5 million to $1,362.5 million primarily due to growth in the general account assets driven by positive net flows, higher alternative investment income and higher prepayment fee income, partially offset by the impact of the continued low interest rate environment on reinvestment rates.

Fee income decreased $91.4 million from $718.7 million to $627.3 million primarily due to lower average separate account assets under management resulting from the continued runoff of our closed block of variable annuity business.

Premiums decreased $9.3 million from $505.8 million to $496.5 million primarily due to lower payout annuities with life contingencies, which corresponds to a decrease in Interest credited and other benefits to contract owners/policyholders.

Total net realized capital losses increased $753.3 million from $131.6 million to $884.9 million primarily due to an unfavorable change in annuity hedging derivatives of $1,011.9 million, partially offset by a favorable change in the fair value of embedded derivatives on product guarantees of $228.4 million. Under the variable annuity and fixed indexed annuity hedge programs, changes in equity markets and interest rates during the current period resulted in net unfavorable changes in equity, interest and foreign exchange derivatives from a net loss of $72.9 million in the prior period to a net loss of $1,084.8 million in the current period. A portion of these derivative losses were ceded to an affiliate under the combined coinsurance and coinsurance funds withheld agreement (from a gain of $54.5 million in the prior period to a loss of $1,023.3 million in the current period), and an offset was recorded to Interest credited and other benefits to contract owners/policyholders. See the *Related Party Transactions* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for further information on the combined coinsurance and coinsurance funds withheld agreement. The favorable change in the fair value of embedded derivatives on product guarantees from a gain of $95.8 million to a gain of $324.2 million was primarily due to favorable impacts resulting from annual assumptions updates and nonperformance risk, partially offset by unfavorable changes in implied volatility and from equity market movements. See *Critical Accounting Judgments and Estimates* for further detail on nonperformance risk.

Benefits and Expenses

Total benefits and expenses decreased $1,014.0 million from $2,497.1 million to $1,483.1 million primarily due to lower Interest credited and other benefits to contract owners/policyholders, Net amortization of DAC and VOBA, Operating expenses and Other expense.

Interest credited and other benefits to contract owners/policyholders decreased $733.0 million from $1,290.6 million to $557.6 million primarily due to the change in the amount of equity and interest rate derivative gains transferred under the combined coinsurance and coinsurance funds withheld agreement with an affiliate (the corresponding offsetting amount is reported in Total net realized capital losses), lower unfavorable impacts due to the annual assumptions updates and lower loss recognition on sales inducements. These decreases were partially offset by the change in the embedded derivative on the coinsurance funds withheld arrangements resulting from interest rate movements and the acceleration of deferred interest costs associated with early terminations of FHLB funding agreements.

Operating expenses decreased $23.2 million from $486.2 million to $463.0 million primarily due to lower commission expense on lower average separate account assets under management and the continued runoff of our closed block of variable annuity business.

Net amortization of DAC and VOBA decreased $244.0 million from $667.0 million to $423.0 million primarily due to favorable impacts from the annual assumption updates due to lower loss recognition in the current period. See *Critical Accounting Judgments and Estimates* for further detail on loss recognition on DAC and VOBA.

Other expense decreased $13.9 million from $25.1 million to $11.2 million primarily due to lower amortization of deferred reinsurance losses resulting from prospective assumption changes, and expenses incurred in the prior period related to the multi-year guaranteed fixed annuity contracts coinsurance agreement that did not reoccur in the current period due to the recapture of this agreement in the third quarter of 2015. See the *Related Party Transactions* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for further detail on the recapture of the multi-year guaranteed fixed annuity contracts coinsurance agreement.

Income Taxes

Income tax expense (benefit) changed by $169.8 million from a benefit of $53.9 million to an expense of $115.9 million primarily due to a higher increase in the valuation allowance in the current period compared to the prior period, an increase in Income before income taxes and a decrease in the dividends received deduction.

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

Our Net income (loss) for the year ended December 31, 2015 reflected a slightly higher loss than the prior period due to unfavorable changes in Net amortization of DAC and VOBA and decreases in Fee income and Premiums, mostly offset by favorable changes in Total net realized capital gains (losses), Income tax expense (benefit), Interest credited and other benefits to contract owners/policyholders and an increase in Net investment income.

Revenues

Total revenues increased $535.1 million from $1,883.0 million to $2,418.1 million primarily due to favorable changes in Total net realized capital gains (losses) and an increase in Net investment income, partially offset by decreases in Fee income and Premiums.

Net investment income increased $40.8 million from $1,264.7 million to $1,305.5 million primarily due to growth in the general account assets and higher prepayment income, partially offset by lower alternative investment income and the impact of the continued low interest rate environment on reinvestment rates.

Fee income decreased $106.1 million from $824.8 million to $718.7 million primarily due to lower average separate account assets under management resulting from the continued runoff of our closed block of variable annuity business.

Premiums decreased $32.0 million from $537.8 million to $505.8 million primarily due to lower payout annuities with life contingencies, which corresponds to a decrease in Interest credited and other benefits to contract owners/policyholders, partially offset by an increase in assumed premiums from an affiliate due to favorable persistency.

Total net realized capital losses decreased $642.5 million from $774.1 million to $131.6 million primarily due to favorable changes in the fair value of embedded derivatives on product guarantees, partially offset by unfavorable changes in annuity hedging and the fair value of fixed maturities using the fair value option. The favorable changes of $804.2 million in the fair value of embedded derivatives on variable annuity and fixed indexed annuity product guarantees (from a loss of $708.4 million in the prior period to a gain of $95.8 million in the current period) were due to favorable impacts resulting from interest rate movements and implied volatility, partially offset by unfavorable impacts resulting from equity market movements and nonperformance risk. Under the variable annuity and fixed indexed annuity hedge programs, changes in interest rates and equity markets during the year ended December 31, 2015 resulted in net unfavorable changes in equity, interest and foreign exchange derivatives of $69.2 million compared to prior period (losses of $72.9 million in the current period and losses of $3.7 million in the prior period). A portion of these derivative losses was ceded to SLDI under the combined coinsurance and coinsurance funds withheld agreement (gains of $54.5 million in the current period and losses of $50.0 million in the prior period) and an offset was recorded to Interest credited and other benefits to contract owners/policyholders. Unfavorable changes of $48.0 million in the fair value of fixed maturities using fair value option as a result of interest rate changes in the current period compared to the prior period also contributed to the change in Total net realized capital gains (losses).

Benefits and Expenses

Total benefits and expenses increased $686.5 million from $1,810.6 million to $2,497.1 million primarily due to unfavorable changes in Net amortization of DAC and VOBA, partially offset by favorable changes in Interest credited and other benefits to contract owners/policyholders.

Interest credited and other benefits to contract owners/policyholders decreased $101.3 million from $1,391.9 million to $1,290.6 million primarily due to net favorable changes in the embedded derivatives on the coinsurance funds withheld arrangements resulting from interest rate movements. This decrease was partially offset by the change in the amount of equity and interest rate derivative gains/losses transferred under the combined coinsurance and coinsurance funds withheld agreement with SLDI (the corresponding offsetting amount is reported in Total net realized capital gains (losses)), unfavorable impacts due to the annual assumptions review and loss recognition on sales inducements.

Net amortization of DAC and VOBA changed $783.0 million from a benefit of $116.0 million to an expense of $667.0 million primarily due to loss recognition on DAC and VOBA, unfavorable impacts due to the annual assumptions review in the current period compared to favorable unlocking in the prior period and higher amortization as a result of higher gross profits. See *Critical Accounting Judgments and Estimates* for further detail on loss recognition on DAC and VOBA.

Income Taxes

Income tax expense (benefit) changed by $151.2 million from an expense of $97.3 million to a benefit of $53.9 million primarily due to a lower increase in the valuation allowance in the current period compared to the prior period, a decrease in income before income taxes, and an increase in the dividends received deduction.

Financial Condition

Investments

Investment Strategy

Our investment strategy seeks to achieve sustainable risk-adjusted returns by focusing on principal preservation, disciplined matching of asset characteristics with liability requirements and the diversification of risks. Investment activities are undertaken according to investment policy statements that contain internally established guidelines and risk tolerances and are required to comply with applicable laws and insurance regulations. Risk tolerances are established for credit risk, credit spread risk, market risk, liquidity risk and concentration risk across issuers, sectors and asset types that seek to mitigate the impact of cash flow variability arising from these risks.

Segmented portfolios are established for groups of products with similar liability characteristics. Our investment portfolio consists largely of high quality fixed maturities and short-term investments, investments in commercial mortgage loans, alternative investments and other instruments, including a small amount of equity holdings. Fixed maturities include publicly issued corporate bonds, government bonds, privately placed notes and bonds, bonds issued by states and municipalities, Other asset-backed securities ("ABS"), and traditional Mortgage-backed securities ("MBS").

We use derivatives for hedging purposes to reduce our exposure to the cash flow variability of assets and liabilities, interest rate risk, credit risk and market risk. In addition, we use credit derivatives to replicate exposure to individual securities or pools of securities as a means of achieving credit exposure similar to bonds of the underlying issuer(s) more efficiently.

See the *Investments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K.

Portfolio Composition

The following table presents the investment portfolio as of the dates indicated:

	December 31, 2016		December 31, 2015	
($ in millions)	Carrying Value	% of Total	Carrying Value	% of Total
Fixed maturities, available-for-sale, excluding securities pledged	$ 21,873.8	75.6%	$ 22,458.4	76.9%
Fixed maturities, at fair value using the fair value option	647.5	2.2%	547.4	1.9%
Equity securities, available-for-sale	18.7	0.1%	19.2	0.1%
Short-term investments[1]	429.7	1.5%	1,069.4	3.7%
Mortgage loans on real estate	3,881.5	13.4%	3,310.9	11.3%
Policy loans	74.7	0.3%	79.8	0.3%
Limited partnerships/corporations	227.4	0.8%	186.3	0.6%
Derivatives	978.8	3.4%	799.4	2.7%
Other investments	18.6	0.1%	48.6	0.2%
Securities pledged	748.2	2.6%	672.4	2.3%
Total investments	$ 28,898.9	100.0%	$ 29,191.8	100.0%

[1] Short-term investments include investments with remaining maturities of one year or less, but greater than 3 months, at the time of purchase.

Fixed Maturities

Total fixed maturities by market sector, including securities pledged, were as presented below as of the dates indicated:

	December 31, 2016			
($ in millions)	**Amortized Cost**	**% of Total**	**Fair Value**	**% of Total**
Fixed maturities:				
U.S. Treasuries	$ 946.4	4.2%	$ 982.9	4.2%
U.S. Government agencies and authorities	29.4	0.1%	33.0	0.1%
State, municipalities and political subdivisions	500.1	2.2%	497.4	2.1%
U.S. corporate public securities	9,992.8	44.5%	10,444.7	44.9%
U.S. corporate private securities	2,753.6	12.2%	2,777.6	12.0%
Foreign corporate public securities and foreign governments[1]	2,620.2	11.7%	2,689.1	11.6%
Foreign corporate private securities[1]	2,734.6	12.2%	2,815.4	12.1%
Residential mortgage-backed securities	1,647.0	7.3%	1,749.7	7.5%
Commercial mortgage-backed securities	951.2	4.2%	957.1	4.1%
Other asset-backed securities	317.8	1.4%	322.6	1.4%
Total fixed maturities, including securities pledged	$ 22,493.1	100.0%	$ 23,269.5	100.0%

[1] Primarily U.S. dollar denominated.

	December 31, 2015			
($ in millions)	**Amortized Cost**	**% of Total**	**Fair Value**	**% of Total**
Fixed maturities:				
U.S. Treasuries	$ 992.7	4.3%	$ 1,058.7	4.5%
U.S. Government agencies and authorities	79.4	0.3%	81.9	0.3%
State, municipalities and political subdivisions	359.1	1.5%	360.5	1.5%
U.S. corporate public securities	10,718.9	46.1%	10,871.9	45.9%
U.S. corporate private securities	2,365.0	10.2%	2,394.4	10.1%
Foreign corporate public securities and foreign governments[1]	2,826.9	12.2%	2,793.0	11.8%
Foreign corporate private securities[1]	2,592.9	11.2%	2,626.0	11.1%
Residential mortgage-backed securities	1,746.8	7.5%	1,885.1	8.0%
Commercial mortgage-backed securities	1,311.0	5.6%	1,343.4	5.7%
Other asset-backed securities	257.6	1.1%	263.3	1.1%
Total fixed maturities, including securities pledged	$ 23,250.3	100.0%	$ 23,678.2	100.0%

[1] Primarily U.S. dollar denominated.

As of December 31, 2016, the average duration of our fixed maturities portfolio, including securities pledged, is between 6.5 and 7.0 years.

Fixed Maturities Credit Quality - Ratings

The Securities Valuation Office ("SVO") of the NAIC evaluates the fixed maturity security investments of insurers for regulatory reporting and capital assessment purposes and assigns securities to one of six credit quality categories called "NAIC designations." An internally developed rating is used as permitted by the NAIC if no rating is available. These designations are generally similar to the credit quality designations of the NAIC acceptable rating organizations ("ARO") for marketable fixed maturity securities, called rating agency designations except for certain structured securities as described below. NAIC designations of "1," highest quality and "2," high quality, include fixed maturity securities generally considered investment grade by such rating organizations. NAIC designations 3 through 6 include fixed maturity securities generally considered below investment grade by such rating organizations.

The NAIC designations for structured securities, including subprime and Alt-A RMBS, are based upon a comparison of the bond's amortized cost to the NAIC's loss expectation for each security. Securities where modeling results in no expected loss in each scenario are considered to have the highest designation of NAIC 1. A large percentage of our RMBS securities carry the NAIC 1 designation while the ARO rating indicates below investment grade. This is primarily due to the credit and intent impairments recorded by us that reduced the amortized cost on these securities to a level resulting in no expected loss in any scenario, which corresponds to the NAIC 1 designation. The methodology reduces regulatory reliance on rating agencies and allows for greater regulatory input into the assumptions used to estimate expected losses from such structured securities. In the tables below, we present the rating of structured securities based on ratings from the NAIC methodologies described above (which may not correspond to rating agency designations). NAIC designations (e.g., NAIC 1-6) are based on the NAIC methodologies.

As a result of time lags between the funding of investments, the finalization of legal documents and the completion of the SVO filing process, the fixed maturity portfolio generally includes securities that have not yet been rated by the SVO as of each balance sheet date, such as private placements. Pending receipt of SVO ratings, the categorization of these securities by NAIC designation is based on the expected ratings indicated by internal analysis.

Information about certain of our fixed maturity securities holdings by the NAIC designation is set forth in the following tables. Corresponding rating agency designation does not directly translate into NAIC designation, but represents our best estimate of comparable ratings from rating agencies, including Moody's, S&P and Fitch. If no rating is available from a rating agency, then an internally developed rating is used. As of December 31, 2016 and 2015, the weighted average NAIC quality rating of our fixed maturities portfolio was 1.5.

The fixed maturities in our portfolio are generally rated by external rating agencies and, if not externally rated, are rated by us on a basis similar to that used by the rating agencies. As of December 31, 2016 and 2015, the weighted average quality rating of our fixed maturities portfolio was A. Ratings are derived from three ARO ratings and are applied as follows, based on the number of agency ratings received:

- when three ratings are received then the middle rating is applied;
- when two ratings are received then the lower rating is applied;
- when a single rating is received, the ARO rating is applied; and
- when ratings are unavailable then an internal rating is applied.

The following tables present credit quality of fixed maturities, including securities pledged, using NAIC designations as of the dates indicated:

($ in millions)	December 31, 2016						
NAIC Quality Designation	**1**	**2**	**3**	**4**	**5**	**6**	**Total Fair Value**
U.S. Treasuries	$ 982.9	$ -	$ -	$ -	$ -	$ -	$ 982.9
U.S. Government agencies and authorities	33.0	-	-	-	-	-	33.0
State, municipalities and political subdivisions	463.7	33.4	0.3	-	-	-	497.4
U.S. corporate public securities	5,683.5	4,375.9	311.4	53.4	12.5	8.0	10,444.7
U.S. corporate private securities	1,299.0	1,358.8	80.5	36.8	-	2.5	2,777.6
Foreign corporate public securities and foreign governments[(1)]	1,438.7	1,049.6	179.8	18.3	2.3	0.4	2,689.1
Foreign corporate private securities[(1)]	399.7	2,219.1	180.1	9.3	1.3	5.9	2,815.4
Residential mortgage-backed securities	1,690.6	9.7	6.0	7.4	14.9	21.1	1,749.7
Commercial mortgage-backed securities	956.2	-	-	0.9	-	-	957.1
Other asset-backed securities	269.4	36.3	12.8	0.6	-	3.5	322.6
Total fixed maturities	$ 13,216.7	$ 9,082.8	$ 770.9	$ 126.7	$ 31.0	$ 41.4	$ 23,269.5
% of Fair Value	56.9%	39.0%	3.3%	0.5%	0.1%	0.2%	100.0%

[(1)] Primarily U.S. dollar denominated.

($ in millions)	December 31, 2015						
NAIC Quality Designation	**1**	**2**	**3**	**4**	**5**	**6**	**Total Fair Value**
U.S. Treasuries	$ 1,058.7	$ -	$ -	$ -	$ -	$ -	$ 1,058.7
U.S. Government agencies and authorities	81.9	-	-	-	-	-	81.9
State, municipalities and political subdivisions	340.3	19.9	0.3	-	-	-	360.5
U.S. corporate public securities	5,854.3	4,568.0	346.1	93.9	-	9.6	10,871.9
U.S. corporate private securities	1,118.2	1,160.5	98.0	17.7	-	-	2,394.4
Foreign corporate public securities and foreign governments[(1)]	1,528.0	1,086.2	168.2	8.4	1.0	1.2	2,793.0
Foreign corporate private securities[(1)]	319.3	2,205.5	86.5	14.2	-	0.5	2,626.0
Residential mortgage-backed securities	1,812.3	7.0	3.8	15.8	18.0	28.2	1,885.1
Commercial mortgage-backed securities	1,339.7	-	1.1	2.6	-	-	1,343.4
Other asset-backed securities	237.1	8.3	5.4	11.3	1.2	-	263.3
Total fixed maturities	$ 13,689.8	$ 9,055.4	$ 709.4	$ 163.9	$ 20.2	$ 39.5	$ 23,678.2
% of Fair Value	57.8%	38.2%	3.0%	0.7%	0.1%	0.2%	100.0%

[(1)] Primarily U.S. dollar denominated.

The following tables present credit quality of fixed maturities, including securities pledged, using ARO ratings as of the dates indicated:

($ in millions)	December 31, 2016					
ARO Quality Ratings	**AAA**	**AA**	**A**	**BBB**	**BB and Below**	**Total Fair Value**
U.S. Treasuries	$ 982.9	$ -	$ -	$ -	$ -	$ 982.9
U.S. Government agencies and authorities	33.0	-	-	-	-	33.0
State, municipalities and political subdivisions	53.7	301.3	108.7	33.4	0.3	497.4
U.S. corporate public securities	202.0	852.0	4,629.6	4,360.1	401.0	10,444.7
U.S. corporate private securities	117.6	107.4	962.7	1,442.5	147.4	2,777.6
Foreign corporate public securities and foreign governments[1]	35.2	342.3	1,070.6	1,040.2	200.8	2,689.1
Foreign corporate private securities[1]	-	-	479.5	2,239.9	96.0	2,815.4
Residential mortgage-backed securities	1,426.3	1.7	2.1	21.2	298.4	1,749.7
Commercial mortgage-backed securities	687.5	-	131.3	20.0	118.3	957.1
Other asset-backed securities	167.4	29.0	29.2	53.8	43.2	322.6
Total fixed maturities	$ 3,705.6	$ 1,633.7	$ 7,413.7	$ 9,211.1	$ 1,305.4	$ 23,269.5
% of Fair Value	15.9%	7.0%	31.9%	39.6%	5.6%	100.0%

[1] Primarily U.S. dollar denominated.

($ in millions)	December 31, 2015					
ARO Quality Ratings	**AAA**	**AA**	**A**	**BBB**	**BB and Below**	**Total Fair Value**
U.S. Treasuries	$ 1,058.7	$ -	$ -	$ -	$ -	$ 1,058.7
U.S. Government agencies and authorities	81.9	-	-	-	-	81.9
State, municipalities and political subdivisions	40.0	221.1	79.2	19.9	0.3	360.5
U.S. corporate public securities	224.4	775.3	4,834.3	4,568.0	469.9	10,871.9
U.S. corporate private securities	116.2	50.9	867.9	1,280.1	79.3	2,394.4
Foreign corporate public securities and foreign governments[1]	36.6	456.8	1,046.1	1,074.6	178.9	2,793.0
Foreign corporate private securities[1]	-	9.8	411.7	2,095.6	108.9	2,626.0
Residential mortgage-backed securities	1,604.1	6.6	2.9	17.9	253.6	1,885.1
Commercial mortgage-backed securities	853.0	148.8	99.3	52.0	190.3	1,343.4
Other asset-backed securities	115.6	6.5	18.3	23.0	99.9	263.3
Total fixed maturities	$ 4,130.5	$ 1,675.8	$ 7,359.7	$ 9,131.1	$ 1,381.1	$ 23,678.2
% of Fair Value	17.4%	7.1%	31.1%	38.6%	5.8%	100.0%

[1] Primarily U.S. dollar denominated.

Fixed maturities rated BB and below may have speculative characteristics and changes in economic conditions or other circumstances that are more likely to lead to a weakened capacity of the issuer to make principal and interest payments than is the case with higher rated fixed maturities.

Unrealized Capital Losses

Gross unrealized capital losses on fixed maturities, including securities pledged, decreased $263.6 million from $470.8 million to $207.2 million for the year ended December 31, 2016. The decrease in gross unrealized capital losses was primarily due to narrowing credit spreads. Gross unrealized losses on fixed maturities, including securities pledged, increased $377.4 million from $93.4 million to $470.8 million for the year ended December 31, 2015. The increase in gross unrealized capital losses was primarily due to rising interest rates and widening credit spreads.

As of December 31, 2016 and 2015 , we did not have any fixed maturities with an unrealized capital loss in excess of $10.0 million.

As of December 31, 2016 and 2015, we had $1.9 billion and $2.2 billion, fair value of energy sector fixed maturity securities, constituting 8.1% and 9.3%, of total fixed maturities portfolio, with gross unrealized capital losses of $20.5 million and $175.9 million, respectively. See the *Investments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for further information on unrealized capital losses.

Subprime and Alt-A Mortgage Exposure

Pre-2008 vintage subprime and Alt-A mortgage collateral continues to distance itself from the credit crisis and payment performance reflects a housing market firmly entrenched in recovery. While collateral losses continue to be realized, the pace and magnitude at which losses are being realized are steadily decreasing. Serious delinquencies and other measures of performance, like prepayments and loan defaults, have also displayed sustained periods of improvement. Reflecting these fundamental improvements, related bond prices and sector liquidity have increased substantially since the credit crisis. More broadly, home prices have moved steadily higher, further supporting bond payment performance. Year-over-year home price measures, while at a lower magnitude than experienced in the years following the trough in home prices, appear to have stabilized at sustainable levels, when measured on a nationwide basis. This backdrop remains supportive of continued improvement in overall borrower payment behavior. Reflecting these fundamental improvements, related bond prices and sector liquidity have increased substantially since the credit crisis. In managing our risk exposure to subprime and Alt-A mortgages, we take into account collateral performance and structural characteristics associated with our various positions.

We do not originate or purchase subprime or Alt-A whole-loan mortgages. Subprime lending is the origination of loans to customers with weaker credit profiles. We define Alt-A mortgages to include the following: residential mortgage loans to customers who have strong credit profiles but lack some element(s), such as documentation to substantiate income; residential mortgage loans to borrowers that would otherwise be classified as prime but for which loan structure provides repayment options to the borrower that increase the risk of default; and any securities backed by residential mortgage collateral not clearly identifiable as prime or subprime.

We have exposure to RMBS, CMBS and ABS. Our exposure to subprime mortgage-backed securities is primarily in the form of ABS structures collateralized by subprime residential mortgages and the majority of these holdings were included in Other ABS under "Fixed Maturities" above. As of December 31, 2016, the fair value, amortized cost, and gross unrealized losses related to our exposure to subprime mortgage-backed securities totaled $56.5 million, $53.7 million and $2.5 million, respectively, representing 0.2% of total fixed maturities, including securities pledged, based on fair value. As of December 31, 2015, the fair value, amortized cost, and gross unrealized losses related to our exposure to subprime mortgage-backed securities totaled $118.9 million, $116.3 million and $5.6 million, respectively, representing 0.5% of total fixed maturities, including securities pledged, based on fair value.

The following table presents our exposure to subprime mortgage-backed securities by credit quality using NAIC designations, ARO ratings and vintage year as of the dates indicated:

	% of Total Subprime Mortgage-backed Securities					
	NAIC Quality Designation		ARO Quality Ratings		Vintage	
December 31, 2016						
	1	94.7%	AAA	1.1%	2007	6.5%
	2	-%	AA	0.9%	2006	2.4%
	3	4.4%	A	30.9%	2005 and prior	91.1%
	4	0.9%	BBB	1.4%		100.0%
	5	-%	BB and below	65.7%		
	6	-%		100.0%		
		100.0%				
December 31, 2015						
	1	89.5%	AAA	-%	2007	15.3%
	2	3.8%	AA	3.7%	2006	2.0%
	3	3.2%	A	11.7%	2005 and prior	82.7%
	4	2.5%	BBB	8.1%		100.0%
	5	1.0%	BB and below	76.5%		
	6	-%		100.0%		
		100.0%				

Our exposure to Alt-A mortgages is included in the "RMBS" line item in the "Fixed Maturities" table under "Fixed Maturities" above. As of December 31, 2016, the fair value, amortized cost and gross unrealized losses related to our exposure to Alt-A RMBS totaled $57.9 million, $50.2 million and $1.6 million, respectively, representing 0.2% of total fixed maturities, including securities pledged, based on fair value. As of December 31, 2015, the fair value, amortized cost, and gross unrealized losses related to our exposure to Alt-A RMBS totaled $87.0 million, $76.0 million and $1.5 million, respectively, representing 0.4% of total fixed maturities, including securities pledged, based on fair value.

The following table presents our exposure to Alt-A RMBS by credit quality using NAIC designations, ARO ratings and vintage year as of the dates indicated:

	% of Total Alt-A Mortgage-backed Securities					
	NAIC Quality Designation		ARO Quality Ratings		Vintage	
December 31, 2016						
	1	93.4%	AAA	0.1%	2007	26.9%
	2	0.3%	AA	0.1%	2006	26.0%
	3	6.3%	A	0.5%	2005 and prior	47.1%
	4	-%	BBB	3.5%		100.0%
	5	-%	BB and below	95.8%		
	6	-%		100.0%		
		100.0%				
December 31, 2015						
	1	97.2%	AAA	-	2007	33.8%
	2	1.4%	AA	0.1%	2006	19.6%
	3	1.0%	A	0.5%	2005 and prior	46.6%
	4	-%	BBB	2.9%		100.0%
	5	0.4%	BB and below	96.5%		
	6	-%		100.0%		
		100.0%				

Commercial Mortgage-backed and Other Asset-backed Securities

CMBS investments represent pools of commercial mortgages that are broadly diversified across property types and geographical areas. Delinquency rates on commercial mortgages increased over the course of 2009 through mid-2012. Since then, the steep pace of increases observed in the early years following the credit crisis has ceased, and the percentage of delinquent loans declined through February 2016 (although certain months did post marginal increases). Since then, the delinquency rate has increased slowly. Other performance metrics like vacancies, property values and rent levels have posted sustained improvement trends, although these metrics are not observed uniformly, differing by dimensions such as geographic location and property type. These improvements have been buoyed by some of the same macro-economic tailwinds alluded to in regards to our subprime and Alt-A mortgage exposure. A robust environment for property refinancing was particularly supportive of improving credit performance metrics throughout much of the post-credit crisis period. In the first quarter of 2016, however, this virtuous lending cycle was disrupted as the dislocation in corporate credit markets negatively impacted liquidity conditions in CMBS. As a result, the new issuance market for CMBS slowed considerably during the first half of this year. This dynamic, should it resurface, is a risk for the overall performance health of the sectors and is being monitored closely for potential negative impacts. Spread performance in the first half of 2016 was volatile, although signs of increased liquidity and more general stability in credit spreads was observed over the course of the third quarter and into year end.

For non-student loan consumer ABS, delinquency and loss rates have been maintained at levels considered low by historical standards and indicative of high credit quality. Relative strength in various credit metrics across multiple types of asset-backed loans have been observed on a sustained basis.

The following table presents our exposure to CMBS holdings by credit quality using NAIC designations, ARO ratings and vintage year as of the dates indicated:

	% of Total CMBS					
	NAIC Quality Designation		ARO Quality Ratings		Vintage	
December 31, 2016						
	1	99.9%	AAA	71.8%	2016	9.9%
	2	-%	AA	-%	2015	26.9%
	3	-%	A	13.7%	2014	16.4%
	4	0.1%	BBB	2.1%	2013	11.0%
	5	-%	BB and below	12.4%	2012	0.9%
	6	-%		100.0%	2011	1.2%
		100.0%			2010 and prior	33.7%
						100.0%
December 31, 2015						
	1	99.7%	AAA	63.5%	2015	17.7%
	2	-%	AA	11.1%	2014	16.3%
	3	0.1%	A	7.4%	2013	7.3%
	4	0.2%	BBB	3.9%	2012	0.4%
	5	-%	BB and below	14.1%	2011	0.6%
	6	-%		100.0%	2010	-%
		100.0%			2009 and prior	57.7%
						100.0%

As of December 31, 2016, the fair value, amortized cost and gross unrealized loss related to our exposure to Other ABS, excluding subprime exposure, totaled $267.6 million,$265.1 million, and $0.5 million respectively. As of December 31, 2015, the fair value and amortized cost of our exposure to Other ABS, excluding subprime exposure, totaled $147.0 million and $142.8 million, respectively. There were no gross unrealized losses related to Other ABS.

As of December 31, 2016, Other ABS was broadly diversified both by type and issuer with credit card receivables and nonconsolidated collateralized loan obligations ("CLOs") comprising 15.3% and 53.9%, respectively, of total Other ABS, excluding

subprime exposure. There were no automobile receivables related to Other ABS. As of December 31, 2015, Other ABS was broadly diversified both by type and issuer with credit card receivables comprising 55.3% of total Other ABS, excluding subprime exposure. There were no automobile receivables and nonconsolidated collateralized loan obligations ("CLOs") related to Other ABS.

The following table presents our exposure to Other ABS holdings, excluding subprime exposure, by credit quality using NAIC designations, ARO ratings and vintage year as of the dates indicated:

	% of Total Other ABS					
	NAIC Quality Designation		ARO Quality Ratings		Vintage	
December 31, 2016						
	1	81.3%	AAA	62.3%	2016	66.0%
	2	13.5%	AA	10.7%	2015	3.7%
	3	3.9%	A	4.4%	2014	-%
	4	-%	BBB	19.8%	2013	-%
	5	-%	BB and below	2.8%	2012	-%
	6	1.3%		100.0%	2011	-%
		100.0%			2010 and prior	30.3%
						100.0%
December 31, 2015						
	1	90.6%	AAA	78.6%	2015	7.7%
	2	2.6%	AA	1.4%	2014	19.4%
	3	1.1%	A	3.0%	2013	-%
	4	5.7%	BBB	9.1%	2012	-%
	5	-%	BB and below	7.9%	2011	-%
	6	-%		100.0%	2010	1.8%
		100.0%			2009 and prior	71.1%
						100.0%

Mortgage Loans on Real Estate

We rate commercial mortgages to quantify the level of risk. We place those loans with higher risk on a watch list and closely monitor these loans for collateral deficiency or other credit events that may lead to a potential loss of principal and/or interest. If we determine the value of any mortgage loan to be OTTI (i.e., when it is probable that we will be unable to collect on amounts due according to the contractual terms of the loan agreement), the carrying value of the mortgage loan is reduced to either the present value of expected cash flows from the loan, discounted at the loan's effective interest rate, or fair value of the collateral. For those mortgages that are determined to require foreclosure, the carrying value is reduced to the fair value of the underlying collateral, net of estimated costs to obtain and sell at the point of foreclosure. The carrying value of the impaired loans is reduced by establishing an other-than-temporary write-down recorded in Net realized capital gains (losses) in the Statements of Operations.

Loan-to-value ("LTV") and debt service coverage ("DSC") ratios are measures commonly used to assess the risk and quality of commercial mortgage loans. The LTV ratio, calculated at time of origination, is expressed as a percentage of the amount of the loan relative to the value of the underlying property. An LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of a property's Net income (loss) to its debt service payments. A DSC ratio of less than 1.0 indicates that property's operations do not generate sufficient income to cover debt payments. These ratios are utilized as part of the review process described above.

As of December 31, 2016 and 2015, our mortgage loans on real estate portfolio had a weighted average DSC of 2.2 times, and a weighted average LTV ratio of 61.1% and 60.4%, respectively. See the *Investments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for further information on mortgage loans on real estate.

($ in millions)	Recorded Investment						
	Debt Service Coverage Ratios						
	> 1.5x	>1.25x - 1.5x	>1.0x - 1.25x	< 1.0x	Commercial mortgage loans secured by land or construction loans	Total	% of Total
December 31, 2016							
Loan-to-Value Ratios:							
0% - 50%	$ 390.5	$ 29.8	$ 5.0	$ 3.4	$ -	$ 428.7	11.1%
>50% - 60%	846.8	93.5	32.6	27.4	10.5	1,010.8	26.0%
>60% - 70%	1,597.7	225.1	235.0	41.5	4.8	2,104.1	54.2%
>70% - 80%	178.6	90.5	34.7	2.2	28.7	334.7	8.6%
>80% and above	-	-	0.9	2.7	0.6	4.2	0.1%
Total	$ 3,013.6	$ 438.9	$ 308.2	$ 77.2	$ 44.6	$ 3,882.5	100.0%

($ in millions)	Recorded Investment						
	Debt Service Coverage Ratios						
	> 1.5x	>1.25x - 1.5x	>1.0x - 1.25x	< 1.0x	Commercial mortgage loans secured by land or construction loans	Total	% of Total
December 31, 2015							
Loan-to-Value Ratios:							
0% - 50%	$ 373.3	$ 17.6	$ 6.4	$ 2.6	$ -	$ 399.9	12.1%
>50% - 60%	762.5	97.8	24.2	18.4	25.0	927.9	28.0%
>60% - 70%	1,345.9	325.1	74.5	11.5	15.0	1,772.0	53.5%
>70% - 80%	87.6	64.8	39.5	3.8	11.3	207.0	6.3%
>80% and above	-	-	1.0	4.1	-	5.1	0.1%
Total	$ 2,569.3	$ 505.3	$ 145.6	$ 40.4	$ 51.3	$ 3,311.9	100.0%

Other-Than-Temporary Impairments

We evaluate available-for-sale fixed maturities and equity securities for impairment on a regular basis. The assessment of whether impairments have occurred is based on a case-by-case evaluation of the underlying reasons for the decline in estimated fair value. See the *Business, Basis of Presentation and Significant Accounting Policies* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for the policy used to evaluate whether the investments are other-than-temporarily impaired.

For the year ended December 31, 2016, we recorded $5.3 million of credit related OTTI of which the primary contributor was $1.5 million of write-downs recorded in the Foreign Private sector. For the year ended December 31, 2016, we recorded $4.7 million of intent related OTTI, which were primarily related to the intent to sell positions in energy sector public corporate credits either because of a commitment to sell or an expectation that we may be required to sell as a result of our investment guidelines. See the *Investments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for further information on OTTI.

European Exposures

We closely monitor our exposures to European sovereign debt in general, with a primary focus on the sovereign debt of Greece, Ireland, Italy, Portugal and Spain (which we refer to as "peripheral Europe"), as these countries have applied for support from the European Financial Stability Facility or received support from the European Central Bank via government bond purchases in the secondary market.

The financial turmoil in Europe continues to be a potential threat to global capital markets and remains a challenge to global financial stability. Additionally, the possibility of capital market volatility spreading through a highly integrated and interdependent banking system remains. Despite signs of continuous improvement in the region, it is our view that the risk among European sovereigns and financial institutions still warrants scrutiny, in addition to our customary surveillance and risk monitoring, given how highly correlated these sectors of the region have become.

The United States and European Union continue to maintain sanctions against select Russian businesses in response to the ongoing conflict in eastern Ukraine. We remain comfortable with our aggregate Russian exposure of $41.2 million, given its relatively small allocation in our total investment portfolio.

We quantify and allocate our exposure to the region, as described in the table below, by attempting to identify aspects of the region or country risk to which we are exposed. Among the factors we consider are the nationality of the issuer, the nationality of the issuer's ultimate parent, the corporate and economic relationship between the issuer and its parent, as well as the political, legal and economic environment in which each functions. By undertaking this assessment, we believe that we develop a more accurate assessment of the actual geographic risk, with a more integrated understanding of contributing factors to the full risk profile of the issuer.

In the normal course of our ongoing risk and portfolio management process, we closely monitor compliance with a credit limit hierarchy designed to minimize overly concentrated risk exposures by geography, sector and issuer. This framework takes into account various factors such as internal and external ratings, capital efficiency and liquidity and is overseen by a combination of Investment and Corporate Risk Management, as well as insurance portfolio managers focused specifically on managing the investment risk embedded in our portfolio.

The following table presents our European exposures, for selected countries based on risk, at fair value and amortized cost as of December 31, 2016:

Selected Countries Fixed Maturities and Equity Securities

($ in millions)	Sovereign	Financial Institutions	Non-Financial Institutions	Total (Fair Value)	Total (Amortized Cost)
Ireland	$ -	$ -	$ 57.9 [1]	$ 57.9 [1]	$ 53.6
Italy	-	-	64.5	64.5	61.7
Spain	-	-	69.5	69.5	64.0
Total Peripheral Europe	$ -	$ -	$ 191.9	$ 191.9	$ 179.3

[1] Includes $0.4 million derivative assets.

We did not have any exposure to Greece or Portugal. Among the remaining $2.8 billion of total non-peripheral European exposure, we had a portfolio of credit-related assets similarly diversified by country and sector across developed and developing Europe. As of December 31, 2016, our sovereign exposure was $79.5 million, which consisted of fixed maturities. We also had $441.6 million in net exposure to non-peripheral financial institutions with a concentration in France of $87.1 million, The Netherlands of $78.3 million, Switzerland of $117.2 million and the United Kingdom of $128.5 million. The balance of $2.2 billion was invested across non-peripheral, non-financial institutions.

In addition to aggregate concentration in the United Kingdom of $1,052.1 million, we had significant non-peripheral European total country exposures in The Netherlands of $396.6 million, in France of $303.5 million, in Germany of $261.2 million and in Switzerland of $285.7 million. We place additional scrutiny on our financial exposure in the United Kingdom, France, Switzerland and The Netherlands given our concern for the potential for volatility to spread through the European banking system. We believe the primary risk results from market value fluctuations resulting from spread volatility and the secondary risk is default risk, dependent upon the strength of the recovery of economic conditions in Europe.

Liquidity and Capital Resources

Liquidity is our ability to generate sufficient cash flows to meet the cash requirements of operating, investing and financing activities. Capital refers to our long-term financial resources available to support the business operations and contribute to future growth. Our ability to generate and maintain sufficient liquidity and capital depends on the profitability of the businesses, timing of cash flows on investments and products, general economic conditions and access to the capital markets and the alternate sources of liquidity and capital described herein.

Liquidity Management

Our principal available sources of liquidity are annuity product charges, funding agreements and fixed annuity deposits, investment income, proceeds from the maturity and sale of investments, proceeds from debt issuance and borrowing facilities, repurchase agreements, securities lending, reinsurance and capital contributions. Primary uses of these funds are payments of commissions and operating expenses, interest and premium credits, payments under guaranteed death and living benefits, investment purchases, repayment of debt and contract maturities, withdrawals and surrenders and payment of dividends.

Our liquidity position is managed by maintaining adequate levels of liquid assets, such as cash, cash equivalents and short-term investments. As part of the liquidity management process, different scenarios are modeled to determine whether existing assets are adequate to meet projected cash flows. Key variables in the modeling process include interest rates, equity market movements, quantity and type of interest and equity market hedges, anticipated contract owner behavior, market value of the general account assets, variable separate account performance and implications of rating agency actions.

The fixed account liabilities are supported by a general account portfolio, principally composed of fixed rate investments with matching duration characteristics that can generate predictable, steady rates of return. The portfolio management strategy for the fixed account considers the assets available-for-sale.This strategy enables us to respond to changes in market interest rates, prepayment risk, relative values of asset sectors and individual securities and loans, credit quality outlook and other relevant factors. The objective of portfolio management is to maximize returns, taking into account interest rate and credit risk, as well as other risks. Our asset/liability management discipline includes strategies to minimize exposure to loss as interest rates and economic and market conditions change. In executing this strategy, we use derivative instruments to manage these risks. Our derivative counterparties are of high credit quality.

Liquidity and Capital Resources

Additional sources of liquidity include borrowing facilities to meet short-term cash requirements that arise in the ordinary course of business. We maintain the following agreements:

- A reciprocal loan agreement with Voya Financial, Inc., an affiliate, whereby either party can borrow from the other up to 3.0% of our statutory net admitted assets, excluding Separate Accounts, as of the preceding December 31. As of December 31, 2016 and 2015, we did not have any outstanding receivable/payable with Voya Financial, Inc. under the reciprocal loan agreement. We and Voya Financial, Inc. continue to maintain the reciprocal loan agreement and future borrowings by either party will be subject to the reciprocal loan terms summarized above. Effective January 2014, interest on any borrowing by either us or Voya Financial, Inc. is charged at a rate based on the prevailing market rate for similar third-party borrowings or securities.

- We hold approximately 45.4% of our assets in marketable securities. These assets include cash, U.S. Treasuries, Agencies, Corporate Bonds, ABS, CMBS and collateralized mortgage obligations ("CMO") and Equity securities. In the event of a temporary liquidity need, cash may be raised by entering into repurchase agreements, dollar rolls and/or security lending agreements by temporarily lending securities and receiving cash collateral. Under our Liquidity Plan, up to 12% of our general account statutory admitted assets may be allocated to repurchase, dollar roll and securities lending programs. At the time a temporary cash need arises, the actual percentage of admitted assets available for repurchase transactions will depend upon outstanding allocations to the three programs. As of December 31, 2016 and 2015, we had securities lending obligations of $111.0 million and $153.6 million respectively, which, for both years, represents approximately 0.2% of our general account statutory admitted assets.

Management believes that our sources of liquidity are adequate to meet our short-term cash obligations.

Capital Contributions and Dividends

During the years ended December 31, 2016 and 2015, we did not receive any capital contributions from our Parent.

During the year ended December 31, 2016, we declared an ordinary dividend to our parent in the amount of $373.0 million, which was paid to our Parent on June 27, 2016. During the year ended December 31, 2015, we paid an ordinary dividend in the amount of $394.0 million to our Parent.

During the year ended December 31, 2015, we declared and paid an extraordinary distribution in the amount of $98.0 million to our parent.

Collateral

Under the terms of our Over-The-Counter ("OTC") Derivative International Swaps and Derivatives Association, Inc. ("ISDA") agreements, we may receive from, or deliver to, counterparties collateral to assure that all terms of the ISDA agreements will be met with regard to the Credit Support Annex ("CSA"). The terms of the CSA call for us to pay interest on any cash received equal to the Federal Funds rate. To the extent cash collateral is received and delivered, it is included in Payables under securities loan agreements, including collateral held and Short-term investments under securities loan agreements, including collateral delivered, respectively, on the Balance Sheets and is reinvested in short-term investments. Collateral held is used in accordance with the CSA to satisfy any obligations. Investment grade bonds owned by us are the source of non-cash collateral posted, which is reported in Securities pledged on the Balance Sheets. As of December 31, 2016, we held $654.8 million and $23.0 million of net cash collateral related to OTC derivative contracts and cleared derivative contracts, respectively. As of December 31, 2015, we held $423.0 million and $0.4 million of net cash collateral related to OTC derivative contracts and cleared derivative contracts, respectively. In addition, as of December 31, 2016, we delivered $477.3 million of securities and held $52.1 million of securities as collateral. As of December 31, 2015, we delivered $524.5 million of securities and held $12.9 million of securities as collateral.

Reinsurance Agreements

Reinsurance Ceded

As of December 31, 2016 and 2015, total reserves ceded to affiliates were $6.8 billion and $5.0 billion, respectively. For the years ended December 31, 2016, 2015 and 2014, premiums ceded to affiliates were $670.2 million, $404.5 million and $502.5 million, respectively.

Waiver of Premium - Coinsurance Funds Withheld

Effective October 1, 2010, we entered into a coinsurance funds withheld agreement with an affiliate, SLDI. Under the terms of the agreement, we ceded to SLDI 100% of the group life waiver of premium liability (except for groups covered under rate credit agreements) assumed from ReliaStar Life Insurance Company ("RLI"), an affiliate, related to the Group Annual Term Coinsurance Funds Withheld agreement between us and RLI described under "Reinsurance Assumed" below.

As of December 31, 2016 and 2015, the value of the funds withheld liability under this agreement was $154.9 million and $170.6 million, respectively, which is included in Funds held under reinsurance treaties with affiliates on the Balance Sheets. In addition, as of December 31, 2016 and 2015, we had an embedded derivative under this agreement with a value of $(2.1) million and $(5.6) million, respectively, which is recorded in Funds held under reinsurance treaties with affiliates on the Balance Sheets. As of December 31, 2016 and 2015, reserves ceded under this agreement were $183.9 million and $203.6 million, respectively.

Guaranteed Living Benefit - Coinsurance and Coinsurance Funds Withheld

Prior to July 1, 2016, we had an amended and restated automatic reinsurance agreement with an affiliate, SLDI, on a combined coinsurance and coinsurance funds withheld basis, covering 100% of the benefits guaranteed under specific variable annuity guaranteed living benefit riders attached to certain variable annuity contracts issued by us on or after January 1, 2000. Also, prior to July 1, 2016, we had a services agreement with SLDI, under which we provided certain actuarial risk modeling consulting services to SLDI with respect to hedge positions undertaken by SLDI in connection with the reinsurance agreement. Additionally, prior to July 1, 2016, we and SLDI had an asset management services agreement, under which SLDI served as asset manager for the funds withheld account. SLDI retained its affiliate, VIM, as Sub-advisor for the funds withheld account.

Effective July 1, 2016, SLDI acquired Roaring River II, Inc. ("RRII"), a Missouri life reinsurance captive, from its affiliate, RLI, and also effective July 1, 2016, RRII redomesticated from the State of Missouri to the State of Arizona. Effective July 1, 2016, we, SLDI and RRII entered into release, consent and novation agreements pursuant to which RRII assumed the variable annuity guaranteed living benefits previously reinsured to SLDI under the automatic reinsurance agreement; the services agreement from SLDI under which the we provide certain actuarial risk modeling consulting services to SLDI with respect to hedge positions undertaken by SLDI in connection with the automatic reinsurance agreement; and SLDI's obligation to serve as asset manager for the funds withheld account under the asset management services agreement.

For the years ended December 31, 2016, 2015 and 2014, revenue related to the aforementioned services agreement was $9.6 million, $10.9 million, and $12.3 million, respectively.

The impacts of these agreements on the Balance Sheets as of the dates indicated are as follows:

	December 31,	
($ in millions)	2016	2015
Assets on deposit in trust	$ 6,504.5	$ 6,632.1
Funds withheld liability[1]	6,356.8	6,616.3
Embedded derivative[1]	147.6	15.8
Reserves ceded[2]	6,545.9	4,795.7
Deferred loss[3]	269.1	283.3

[1] Included in Funds held under reinsurance treaties with affiliates on the Balance Sheets.
[2] Included in Deposits, premiums receivable and reinsurance recoverable on the Balance Sheets.
[3] Included in Other assets on the Balance Sheets.

Multi-year Guaranteed Fixed Annuity - Coinsurance

Effective May 1, 2005, we entered into a coinsurance agreement with our affiliate, Security Life of Denver Insurance Company ("SLD"). Under the terms of the agreement, SLD assumed and accepted the responsibility for paying, when due, 100% of the liabilities arising under the multi-year guaranteed fixed annuity contracts issued by us between January 1, 2001 and December 31, 2003. In addition, we assigned SLD all future premiums received by us attributable to the ceding contracts.

Under the terms of the agreement, the Company ceded $2.5 billion in account balances and transferred a ceding commission and $2.7 billion in assets to SLD, resulting in a realized capital gain of $47.9 million to the Company, which reduced the ceding commission.

The coinsurance agreement was accounted for using the deposit method. As such, $2.7 billion of Deposit receivable from affiliate was established on the Balance Sheets. On September 25, 2015, we recaptured, via a commutation agreement, the multi-year guaranteed fixed annuity contracts ceded under the coinsurance agreement. Under the terms of the agreement, which was effective July 1, 2015, the Company received net assets in the amount of $618.7 million in satisfaction of the deposit receivable balance and recognized a pre-tax loss of $4.2 million. We incurred amortization expense of the negative ceding commission of $3.2 million and $6.6 million for the years ended December 31, 2015 and 2014, respectively, which is recorded in Other expense in the Statements of Operations.

Universal Life - Coinsurance

Effective January 1, 2000, we entered into a 100% coinsurance agreement with our affiliate, SLD, covering certain universal life policies which had been issued and in force as of, as well as any such policies issued after, the effective date of the agreement. As of December 31, 2016 and 2015, reserves ceded by us under this agreement were $21.0 million and $20.6 million, respectively.

Guaranteed Investment Contract - Coinsurance

Effective August 20, 1999, we entered into a Facultative Coinsurance Agreement with an affiliate, SLD. Under the terms of the agreement, we facultatively cede, from time to time, certain guaranteed investment contracts and funding agreements to SLD on a 100% coinsurance basis. We utilize this reinsurance facility primarily for diversification and asset-liability management purposes in connection with this business. The coinsurance agreement is accounted for using the deposit method.

Our senior management has established a current maximum of $4.0 billion for guaranteed investment contracts and funding agreements reserves covered under this agreement. As of December 31, 2016 and 2015 the deposit receivable was $157.8 million and $155.3 million, respectively.

Reinsurance Assumed

As of December 31, 2016 and 2015, total reserves assumed from affiliates were $418.7 million and $438.7 million, respectively. For the years ended December 31, 2016, 2015 and 2014, premiums assumed from affiliates were $436.1 million, $428.5 million and $407.7 million, respectively.

Level Premium Term Life Insurance - Stop-loss

Effective January 1, 2012, we entered into a stop-loss agreement with RLI, which was amended and restated April 1, 2012, under which we agreed to indemnify RLI, and RLI agreed to reinsure with us, the aggregate mortality risk under the combined blocks of level premium term life insurance policies issued by RLI between January 1, 2009 and December 31, 2009 and also between January 1, 2012 and December 31, 2012. This coverage included certain level premium term life insurance policies assumed by RLI from RLNY under an Automatic Coinsurance Agreement effective March 1, 2008. Under the terms of the agreement, we will make benefit payments to RLI equal to the amount of claims in excess of the attachment point (equal to a percentage of net reinsurance premium) up to the maximum fully covered benefit. The stop-loss agreement is accounted for using the deposit method. A fee receivable from affiliate of $0.4 million as of December 31, 2016 and 2015 is included in Other liabilities on the Balance Sheets. The fee is accrued and subsequently settled in cash each quarterly accounting period.

Group Annual Term - Coinsurance Funds Withheld

Effective December 31, 2008, we entered into a coinsurance funds withheld agreement with RLI for an indefinite duration. Under the terms of the agreement, we assumed 100% quota share of RLI's net retained liability under certain Employee Benefits Group Annual Term policies, including disability waiver of premium.

The initial premium of $219.9 million was equal to the aggregate reserve assumed by us. Thereafter, premiums are equal to the total earned gross premiums collected by RLI from policyholders. RLI will retain all reinsurance premiums payable to us as funds withheld, as security for ceded liabilities and against which ceded losses will be offset. Monthly, we will receive or pay a net settlement. This agreement was amended and restated on October 1, 2010 to better reflect the current investment environment and to modify the treatment of claims under certain policies under which claims are not paid in the form of a single lump sum; the underlying terms described above remained unchanged. (Please see also description of "Waiver of Premium Coinsurance Funds Withheld" agreement between us and SLDI under "Reinsurance Ceded" above). As of December 31, 2016 and 2015, reserves assumed by us under this agreement were $418.7 million and $438.7 million, respectively.

As of December 31, 2016 and 2015, the value of the funds withheld by ceding companies under this agreement was $437.4 million and $464.8 million, respectively, which is included in Deposits, premiums receivable and reinsurance recoverable on the Balance Sheets. In addition, as of December 31, 2016 and 2015, we had an embedded derivative under this agreement with a value of $(5.9) million and $(15.6) million, respectively.

Separate Accounts

Separate account assets and liabilities generally represent funds maintained to meet specific investment objectives of contract owners or participants who bear the investment risk, subject, in limited cases, to certain minimum guaranteed rates. Investment income and investment gains and losses generally accrue directly to such contract owners. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company.

Separate account assets supporting variable options under variable annuity contracts are invested, as designated by the contract owner or participant under a contract, in shares of mutual funds that are managed by the Company, or in other selected mutual funds not managed by us or our affiliates.

The Company reports separately, as assets and liabilities, investments held in separate accounts and liabilities of separate accounts if:

- Such separate accounts are legally recognized;
- Assets supporting the contract liabilities are legally insulated from the Company's general account liabilities;

- Investments are directed by the contract owner or participant; and
- All investment performance, net of contract fees and assessments, is passed through to the contract owner.

The Company reports separate account assets that meet the above criteria at fair value on the Balance Sheets based on the fair value of the underlying investments. Separate account liabilities equal separate account assets. Investment income and net realized and unrealized capital gains (losses) of the separate accounts, however, are not reflected in the Statements of Operations, and the Statements of Cash Flows do not reflect investment activity of the separate accounts.

FHLB

We are currently a member of the FHLB of Des Moines and are required to pledge collateral to back any funding agreements issued to the FHLB. We have the ability to obtain funding from the FHLB based on a percentage of the value of our assets and subject to the availability of eligible collateral. The program capacity is limited to 20% of the total assets of our general and separate accounts. Furthermore, collateral is pledged based on the outstanding balances of the FHLB funding agreement. The amount varies based on type, rating and maturity of the collateral posted to the FHLB. Generally, mortgage securities, commercial real estate and U.S. treasury securities are pledged to the FHLB. Market value fluctuations resulting from changes in interest rates, spreads and other risk factors for each type of assets are monitored and additional collateral is either pledged or released as needed.

Our maximum borrowing capacity under this credit facility was $13.0 billion as of December 31, 2016 and 2015 and does not have an expiration date as long as we maintain a satisfactory level of creditworthiness based on the FHLB credit assessment. As of December 31, 2016 and 2015, we had $200.1 million and $950.4 million, respectively, in non-putable funding agreements, including accrued interest, issued to the FHLB. These non-putable funding agreements are included in Future policy benefits and contract owner account balances on the Balance Sheets. As of December 31, 2016 and 2015, assets with a market value of $235.7 million and $1,096.0 million, respectively, collateralized the funding agreements to the FHLB.

Ratings

Our access to funding and our related cost of borrowing, requirements for derivatives collateral posting and the attractiveness of certain of our products to customers are affected by our credit ratings and insurance financial strength ratings, which are periodically reviewed by the rating agencies. Financial strength ratings and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products. The credit ratings are also important for the ability to raise capital through the issuance of debt and for the cost of such financing.

A downgrade in our credit or financial strength ratings or the credit or financial strength ratings of our Parent or rated affiliates could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees or LOCs, cause additional collateral requirements or other required payments under certain agreements, allow counterparties to terminate derivative agreements and/or impair our relationships with creditors, distributors or trading counterparties thereby potentially negatively affecting our profitability, liquidity and/or capital. In addition, we consider nonperformance risk in determining the fair value of our liabilities. Therefore, changes in our credit or financial strength ratings or the credit or financial strength ratings of our Parent or rated affiliates may affect the fair value of our liabilities.

Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. These ratings are not a recommendation to buy or hold any of our securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

Our financial strength and credit ratings as of the date of this Annual Report on Form 10-K are summarized in the following table. In parentheses, following the initial occurrence in the table of each rating, is an indication of that rating's relative rank within the agency's rating categories. That ranking refers only to the generic or major rating category and not to the modifiers appended to the rating by the rating agencies to denote relative position within such generic or major category. For each rating, the relative position of the rating within the relevant rating agency's ratings scale is presented, with "1" representing the highest rating in the scale.

Company	A.M. Best	Fitch	Moody's	S&P
Voya Insurance and Annuity Company				
Financial Strength Rating	A (3 of 16)	A (3 of 9)	A2 (3 of 9)	A (3 of 9)

Rating Agency	Financial Strength Rating Scale
A.M. Best[1]	"A++" to "S"
Fitch[2]	"AAA" to "C"
Moody's[3]	"Aaa" to "C"
S&P[4]	"AAA" to "R"

(1) A.M. Best's financial strength rating is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. It is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

(2) Fitch's financial strength ratings provide an assessment of the financial strength of an insurance organization. The National Insurer Financial Strength ("IFS") Rating is assigned to the insurance company's policyholder obligations, including assumed reinsurance obligations and contract holder obligations, such as funding agreements.

(3) Moody's financial strength ratings are opinions of the ability of insurance companies to repay punctually senior policyholder claims and obligations. Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

(4) S&P's insurer financial strength rating is a forward-looking opinion about the financial security characteristics of an insurance organization with respect to its ability to pay under its insurance policies and contracts in accordance with their terms. A "+" or "-" indicates relative strength within a category.

Our ratings by A.M. Best Company, Inc. ("A.M. Best"), Fitch, Moody's and S&P reflect a broader view of how the financial services industry is being challenged by the current economic environment, but also are based on the rating agencies' specific views of our financial strength. In making their ratings decisions, the agencies consider past and expected future capital and earnings, asset quality and risk, profitability and risk of existing liabilities and current products, market share and product distribution capabilities and direct or implied support from parent companies.

Rating agencies use an "outlook" statement for both industry sectors and individual companies. For an industry sector, a stable outlook generally implies that over the next 12 to 18 months the rating agency expects ratings to remain unchanged among companies in the sector. On November 15, 2016, Moody's revised its outlook for the US life insurance industry to negative from stable. The outlook change reflects Moody's expectation for fundamental business conditions in the industry over the next 12 to 18 months including increasing pressures on life insurers' profits, due to low interest rates, coupled with key shifts in their regulatory and business environments. For a particular company, an outlook generally indicates a medium- or long-term trend in credit fundamentals, which if continued, may lead to a rating change.

Ratings actions affirmation and outlook changes by S&P, Moody's, Fitch and A.M. Best from December 31, 2015 through December 31, 2016 and subsequently through the date of this Annual Report on Form 10-K are as follows:

- On November 17, 2016, A.M. Best affirmed the financial strength rating of A of the key life insurance entities of Voya Financial, Inc., including us, with a Stable outlook. Concurrently, A.M. Best upgraded Voya's Long-Term Issuer Credit Rating to bbb+ from bbb as well as its Senior Unsecured Debt rating. Voya Financial, Inc.'s junior subordinated debt rating was also upgraded to bbb- from bb+. The outlook of these Credit Ratings were revised to Stable from Positive.

- On September 20, 2016, Fitch affirmed Voya Financial, Inc.'s long-term issuer credit rating, senior debt ratings and junior subordinated debt rating. Fitch also affirmed the financial strength ratings of the U.S. operating entities, including us. The rating outlook for all ratings is Stable.
- On June 29, 2016, S&P affirmed Voya Financial, Inc.'s long-term issuer credit and senior debt ratings at "BBB" and its junior subordinated debt rating at 'BB+'. The financial strength ratings of the U.S. operating entities, including us, were also affirmed at "A". The rating outlook for all ratings is Stable.
- On April 8, 2016, Fitch affirmed Voya's long-term issuer credit rating at 'BBB+', its senior debt rating at 'BBB' and its junior subordinated debt rating at 'BB+'. The financial strength ratings of the U.S. operating entities, including us, were also affirmed at "A". The rating outlook for all ratings is Stable.

Other Insurance Products

Historically, we provided interest-sensitive, traditional life insurance and health insurance products. All health insurance has been ceded to other insurers and new policies are no longer written. We ceased the issuance of life insurance policies in 2001, and all life insurance business is currently in run-off. A certain portion of the assets held in the general account are dedicated to funding this block of business.

Derivatives

Our use of derivatives is limited mainly to economic hedging to reduce our exposure to cash flow variability of assets and liabilities, interest rate risk, credit risk, exchange rate risk and market risk. It is our policy not to offset amounts recognized for derivative instruments and amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

We enter into interest rate, equity market, credit default and currency contracts, including swaps, futures, forwards, caps, floors and options, to reduce and manage various risks associated with changes in value, yield, price, cash flow, or exchange rates of assets or liabilities held or intended to be held, or to assume or reduce credit exposure associated with a referenced asset, index, or pool. We also utilize options and futures on equity indices to reduce and manage risks associated with our annuity products. Open derivative contracts are reported as Derivatives assets or liabilities on the Balance Sheets at fair value. Changes in the fair value of derivatives are recorded in Other net realized capital gains (losses) in the Statements of Operations.

We also have investments in certain fixed maturities and have issued certain annuity products that contain embedded derivatives for which fair value is at least partially determined by levels of or changes in domestic and/or foreign interest rates (short-term or long-term), exchange rates, prepayment rates, equity markets, or credit ratings/spreads. Embedded derivatives within fixed maturities are included with the host contract on the Balance Sheets and changes in fair value of the embedded derivatives are recorded in Other net realized capital gains (losses) in the Statements of Operations. Embedded derivatives within certain annuity products are included in Future policy benefits and contract owner account balances on the Balance Sheets and changes in the fair value of the embedded derivatives are recorded in Other net realized capital gains (losses) in the Statements of Operations.

In addition, we have entered into coinsurance with funds withheld arrangements that contain embedded derivatives, the fair value of which is based on the change in the fair value of the underlying assets held in trust. Embedded derivatives within coinsurance with funds withheld arrangements are reported with the host contract in Deposits and reinsurance recoverable (assumed reinsurance) or Funds held under reinsurance treaties with affiliates (ceded reinsurance) on the Balance Sheets, and changes in the fair value of the embedded derivatives are recorded in Interest credited and other benefits to contract owners/policyholders in the Statements of Operations.

Deposits and Reinsurance Recoverable

We utilize reinsurance agreements to reduce our exposure to large losses in most aspects of our insurance business. Such reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge our primary liability as direct insurer of the risks reinsured. We evaluate the financial strength of potential reinsurers and continually monitor the financial condition of reinsurers. Only those reinsurance recoverable balances deemed probable of recovery are reflected as assets on our Balance Sheets.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Through the normal course of investment operations, we commit to either purchase or sell securities, mortgage loans, or money market instruments, at a specified future date and at a specified price or yield. The inability of counterparties to honor these commitments may result in either a higher or lower replacement cost. Also, there is likely to be a change in the value of the securities

underlying the commitments. As of December 31, 2016 and 2015, we had off-balance sheet commitments to acquire mortgage loans of $261.3 million and $323.6 million, respectively, and purchase limited partnerships and private placement investments of $366.2 million and $285.9 million, respectively.

We have obligations for the return of non-cash collateral under an amendment to our securities lending program. Non-cash collateral received in connection with the securities lending program may not be sold or re-pledged by our lending agent, except in the event of default, and is not reflected on our Balance Sheets. For information regarding obligations under this program, see the Investments Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K. As of December 31, 2016, the fair value of securities retained as collateral by the lending agent on our behalf was $168.2 million. As of December 31, 2015, the Company did not retain any securities as collateral.

As of December 31, 2016, we had certain contractual obligations due over a period of time as summarized in the following table.

($ in millions)	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Purchase obligations[1]	$ 627.5	$ 569.7	$ 40.3	$ 17.5	$ -
Reserves for insurance obligations[2]	36,907.3	3,216.0	5,520.0	5,009.5	23,161.8
Retirement and other plans[3]	22.8	1.9	4.6	4.5	11.8
Long-term debt[4]	928.2	28.2	56.3	56.4	787.3
Operating lease obligations[5]	5.3	5.3	-	-	-
Securities lending and repurchase agreements[6]	279.2	279.2	-	-	-
Total[7]	$ 38,770.3	$ 4,100.3	$ 5,621.2	$ 5,087.9	$ 23,960.9

[1] Purchase obligations consist primarily of outstanding commitments under limited partnerships that may occur any time within the terms of the partnership and private loans. The exact timing, however, of funding these commitments related to partnerships and private loans cannot be estimated. Therefore, the total amount of the commitments related to partnerships and private loans is included in the category "Less than 1 Year."

[2] Reserves for insurance obligations consist of amounts required to meet our future obligations for future policy benefits and contract owner account balances. Amounts presented in the table represent estimated cash payments under such contracts, including significant assumptions related to the receipt of future premiums, mortality, morbidity, lapse, renewal, retirement, disability and annuitization comparable with actual experience. These assumptions also include market growth and interest crediting consistent with assumptions used in amortizing DAC. All estimated cash payments are undiscounted for the time value of money.

[3] Includes estimated benefit payments under our non-qualified pension plans, estimated benefit payments under our other postretirement benefit plans and estimated payments of deferred compensation based on participant elections and an average retirement age.

[4] Long-term debt, including interest, consists of the following:

- A surplus note in the principal amount of $35.0 million and the related interest payable with our affiliate, SLD. As of December 31, 2016, the outstanding principal, interest rate and maturity date, of the surplus note were $35.0 million, 7.98% and December 7, 2029, respectively.
- Surplus notes in the aggregate principal amount of $400.0 million and the related interest payable, with our affiliates, Voya Retirement Insurance and Annuity Company, RLI and SLDI. As of December 31, 2016, the aggregate amount of outstanding principal, interest rate and maturity date of these surplus notes were $400.0 million, 6.26% and December 29, 2034, respectively.

[5] Operating lease obligations relate to the rental of office space under various non-cancellable operating lease agreements, the longest term of which expires in 2017.

[6] Payables under securities loan agreements including collateral held represent the liability to return collateral received from counterparties under securities lending agreements. Securities lending agreements include provisions which permit us to call back securities with minimal notice and accordingly, the payable is classified as having a term of less than 1 year. Additionally, Securities lending agreements include non-cash collateral of $168.2 million. See the *Investments* Note in our Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K for additional information concerning Securities lending agreements.

[7] Unrecognized tax benefits are excluded from the table due to immateriality.

Repurchase Agreements

We engage in dollar repurchase agreements with mortgage-backed securities ("dollar rolls") and repurchase agreements with other collateral types to increase our return on investments and improve liquidity. Such arrangements meet the requirements to be accounted for as financing arrangements. We enter into dollar roll transactions by selling existing mortgage-backed securities ("MBS") and concurrently entering into an agreement to repurchase similar securities within a short time frame at a lower price. Under repurchase agreements, we borrow cash from a counterparty at an agreed upon interest rate for an agreed upon time frame and pledge collateral in the form of securities. At the end of the agreement, the counterparty returns the collateral to us and we, in turn, repay the loan amount along with the additional agreed upon interest. We require that at all times during the term of the dollar roll and repurchase agreements, cash or other collateral types obtained is sufficient to allow us to fund substantially all of the cost of purchasing replacement assets. Cash received is invested in short-term investments, with the offsetting obligation to repay the loan included within Other liabilities on the Balance Sheets. As per the terms of the agreements, the market value of the

loaned securities is monitored with additional collateral obtained or refunded as the market value of the loaned securities fluctuates due to changes in interest rates, spreads and other risk factors.

The carrying value of the securities pledged in dollar rolls and repurchase agreement transactions and the related repurchase obligation are included in Securities pledged and Short-term debt, respectively, on the Balance Sheets. As of December 31, 2016 and 2015, we did not have any securities pledged in dollar rolls, or repurchase agreement transactions.

We also enter into reverse repurchase agreements. These transactions involve a purchase of securities and an agreement to sell substantially the same securities as those purchased. We require that, at all times during the term of the reverse repurchase agreements, cash or other collateral types provided is sufficient to allow the counterparty to fund substantially all of the cost of purchasing the replacement assets. As of December 31, 2016 and 2015, we did not have any securities pledged under reverse repurchase agreements.

The primary risk associated with short-term collateralized borrowings is that the counterparty will be unable to perform under the terms of the contract. Our exposure is limited to the excess of the net replacement cost of the securities over the value of the short-term investments. We believe the counterparties to the dollar rolls, repurchase and reverse repurchase agreements are financially responsible and that the counterparty risk is minimal.

Securities Lending

We engage in securities lending whereby certain securities from our portfolio are loaned to other institutions through a lending agent for short periods of time. We have the right to approve any institution with whom the lending agent transacts on our behalf. Initial collateral is required at a rate of 102% of the market value of the loaned securities. The lending agent retains the collateral and invests it in high quality liquid assets on our behalf. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. The lending agent indemnifies us against losses resulting from the failure of a counterparty to return securities pledged where collateral is insufficient to cover the loss. As of December 31, 2016 and 2015, the fair value of loaned securities was $270.9 million and $147.9 million, respectively, and is included in Securities pledged on the Balance Sheets.

If cash is received as collateral, the lending agent retains the cash collateral and invests it in short-term liquid assets on behalf of us. As of December 31, 2016 and 2015, cash collateral retained by the lending agent and invested in short-term liquid assets on our behalf was $111.0 million and $153.6 million, respectively, and is recorded in Short-term investments under securities loan agreements, including collateral delivered on the Balance Sheets. As of December 31, 2016 and 2015, liabilities to return collateral of $111.0 million and $153.6 million, respectively, were included in Payables under securities loan agreements, including collateral held, on the Balance Sheets.

During the first quarter of 2016 under an amendment to the securities lending program, we began accepting non-cash collateral in the form of securities. The securities retained as collateral by the lending agent may not be sold or re-pledged, except in the event of default, and are not reflected on the Balance Sheets. This collateral generally consists of U.S. Treasury, U.S. Government agency securities and MBS pools. As of December 31, 2016, the fair value of securities retained as collateral by the lending agent on our behalf was $168.2 million. As of December 31, 2015, we did not retain any securities as collateral.

Statutory Capital and Risk-Based Capital

Our primary regulator, the State of Iowa Insurance Division (the "Division") recognizes only statutory accounting practices prescribed or permitted by the State of Iowa for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Iowa Insurance Law. The NAIC Accounting Practices and Procedures Manual has been adopted as a component of prescribed or permitted practices by the State of Iowa.

We are subject to minimum RBC requirements established by the Division. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of total adjusted capital ("TAC"), as defined by the NAIC, to authorized control level RBC, as defined by the NAIC. We exceeded the minimum RBC requirements that would require any regulatory or corrective action for all periods presented herein.

We are required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the Division. Such statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities and contract owner account balances using different actuarial

assumptions as well as valuing investments and certain assets and accounting for deferred taxes on a different basis. Certain assets that are not admitted under statutory accounting principles are charged directly to surplus. Depending on the regulations of the Division, the entire amount or a portion of an insurance company's asset balance can be non-admitted based on the specific rules regarding admissibility. The most significant non-admitted assets are typically deferred tax assets.

The sensitivity of our statutory reserves and surplus established for variable annuity contracts and guaranteed benefit riders to changes in the equity markets will vary depending on the magnitude of the decline. The sensitivity will be affected by the level of account values relative to the level of guaranteed amounts, product design and reinsurance. Statutory reserves for variable annuities depend upon the cumulative equity market impacts on the business in force and therefore result in non-linear relationships with respect to the level of equity market performance within any reporting period.

The statutory reserves and surplus for certain long-dated floating rate funding agreements are sensitive to changes in forward interest rates. The statutory reserves are based on the present value of the future contract payments, including interest credited, discounted at prescribed statutory rates. Increases in forward interest rates will increase the reserves and decreases in forward interest rates will decrease the reserves.

RBC is also affected by the product mix of the in force book of business (i.e., the amount of business without guarantees is not subject to the same level of reserves as the business with guarantees). RBC is an important factor in the determination of the credit and financial strength ratings of us. Declines in the market value of our separate account assets can increase the reserves for certain guaranteed benefits, even though we reinsure many of our guaranteed living benefits. Future declines in the market values of our separate account assets could cause future reductions in our surplus, which may also impact RBC.

Further, our statutory credit for reinsurance taken under the reinsurance agreement with RRII covering our guaranteed living benefits is subject to uncertainty arising from RRII's access to letters of credit from lending banks under adverse market conditions.

The Iowa Insurance Division recognizes as capital and surplus those amounts determined in conformity with statutory accounting practices prescribed or permitted by the Division. Our statutory capital and surplus was $1.9 billion and $2.1 billion as of December 31, 2016 and 2015, respectively.

See also "Reinsurance Agreements" above and "Minimum Guarantees" in Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Contingencies

For information regarding other contingencies related to legal proceedings, regulatory matters and other contingencies involving us, see the *Commitments and Contingencies* Note in our Financial Statements in Part II, Item 8. in this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk
(Dollar amounts in millions, unless otherwise stated)

Market risk is the risk that our financial position and results of operations will be affected by fluctuations in the value of financial instruments. We have significant holdings in financial instruments and are naturally exposed to a variety of market risks. The main market risks we are exposed to include interest rate risk, equity market price risk and credit risk. We do not have material market risk exposure to "trading" activities in our Financial Statements.

Risk Management

As a financial services company offering immediate and deferred fixed annuities, and with existing blocks of funding agreements , variable annuities and other income liabilities, taking measured risks is part of our business. As part of our effort to ensure measured risk taking, we have integrated risk management in our daily business activities and strategic planning.

We place a high priority on risk management and risk control. We have comprehensive risk management and control procedures in place, which are integrated with our affiliates. We have established an integrated risk management function together with our affiliates with responsibility for the formulation of our risk appetite, strategies, policies and limits. The risk management function is also responsible for monitoring our overall market risk exposures and provides review, oversight and support functions on risk-related issues.

Our risk appetite is aligned with how our business is managed and anticipates future regulatory developments. In particular, our risk appetite is aligned with regulatory capital requirements as well as metrics that are aligned with various ratings agency models.

Our risk governance and control systems enable us to identify, control, monitor and aggregate risks and provide assurance that risks are being measured, monitored and reported adequately and effectively. To promote measured risk taking, we have integrated risk management with our business activities and strategic planning.

We have implemented several limit structures to manage risk. Examples include, but are not limited to, the following:

- At-risk limits on sensitivities of earnings and regulatory capital;
- Duration and convexity mismatch limits;
- Credit risk limits;
- Liquidity limits;
- Mortality concentration limits;
- Catastrophe and mortality exposure retention limits for our insurance risk; and
- Investment and derivative guidelines.

We are also subject to cash flow stress testing pursuant to regulatory requirements. This analysis measures the effect of changes in interest rate assumptions on asset and liability cash flows. The analysis includes the effects of:

- the timing and amount of redemptions and prepayments in our asset portfolio;
- our derivative portfolio;
- death benefits and other claims payable under the terms of our insurance products;
- lapses and surrenders in our insurance products;
- minimum interest guarantees in our insurance products; and
- book value guarantees in our insurance products.

We evaluate any shortfalls that our cash flow testing reveals and if needed increase statutory reserves or adjust portfolio management strategies.

Derivatives are financial instruments for which values are derived from interest rates, foreign currency exchange rates, financial indices, or other prices of securities or commodities. Derivatives include swaps, futures, options and forward contracts. Under U.S. insurance statutes, we may use derivatives to hedge market values or cash flows of assets or liabilities; to replicate cash market instruments; and for certain limited income generating activities. We are generally prohibited from using derivatives for speculative purposes. References below to hedging and hedge programs refer to our process of reducing exposure to various risks. This does not mean that the process necessarily results in hedge accounting treatment for the respective derivative instruments. To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item and meet

other specific requirements. Effectiveness of the hedge is assessed at inception and throughout the life of the hedging relationship. Even if a derivative qualifies for hedge accounting treatment, there may be an element of ineffectiveness of the hedge. The ineffective portion of a hedging relationship subject to hedge accounting is recognized in Net realized capital gains (losses) in the Statements of Operations.

Market Risk Related to Interest Rates

We define interest rate risk as the risk of an economic loss due to adverse changes in interest rates. This risk arises from our holdings in interest sensitive assets and liabilities, primarily as a result of investing life insurance premiums, fixed annuity and funding agreement deposits received in interest-sensitive assets and carrying these funds as interest-sensitive liabilities. We are also subject to interest rate risk on our variable annuity business. A sustained decline in interest rates or a prolonged period of low interest rates may subject us to higher cost of guaranteed benefits and increased hedging costs. In a rising interest rate environment, we are exposed to the risk of disintermediation through a potential increase in book value withdrawals from certain annuity products. Conversely, a steady increase in interest rates would tend to improve financial results due to reduced hedging costs, lower costs of guaranteed benefits and improvement to fixed margins.

We use product design, pricing and asset/liability management ("ALM") strategies to reduce the adverse effects of interest rate movement. Product design and pricing strategies can include the use of surrender charges, withdrawal restrictions and the ability to reset credited interest rates. ALM strategies can include the use of derivatives and duration and convexity mismatch limits. See *Risk Factors-Risks Related to Our Business-General - The level of interest rates may adversely affect our profitability, particularly in the event of a continuation of the current low interest rate environment or a period of rapidly increasing interest rates* in Part I, Item 1A. of this Annual Report on Form 10-K.

Derivatives strategies include the following:

- *Interest Risk Related to Variable Annuity Guaranteed Living Benefits*. For Variable Annuity contracts with Guaranteed Living benefits, the contract holder may elect to receive income benefits over the remainder of their lifetime. We use derivatives such as interest rate swaps and interest rate options to hedge the interest rate risk associated with this type of guarantee.
- *Other Market Value and Cash Flow Hedges*. We also use derivatives in general to hedge present or future changes in cash flows or market value changes in our assets and liabilities. We use derivatives such as interest rate swaps to specifically hedge interest rate risks associated with certain asset classes in our portfolio.

We assess interest rate exposures for financial assets, liabilities and derivatives using hypothetical test scenarios that assume either increasing or decreasing 100 basis point parallel shifts in the yield curve. The following tables summarize the net estimated potential change in fair value from hypothetical 100 basis point upward and downward shifts in interest rates as of December 31, 2016 and 2015. In calculating these amounts, we exclude gains and losses on separate account fixed income securities related to products for which the investment risk is borne primarily by the separate account contract holder rather than by us. While the test scenarios are for illustrative purposes only and do not reflect our expectations regarding future interest rates or the performance of fixed-income markets, they are a near-term, reasonably possible hypothetical change that illustrates the potential impact of such events. These tests do not measure the change in value that could result from non-parallel shifts in the yield curve. As a result, the actual change in fair value from a 100 basis point change in interest rates could be different from that indicated by these calculations.

	As of December 31, 2016			
			Hypothetical Change in Fair Value[2]	
($ in millions)	Notional	Fair Value[1]	+ 100 Basis Points Yield Curve Shift	- 100 Basis Points Yield Curve Shift
Financial assets with interest rate risk:				
Fixed maturities, including securities pledged	$ -	$ 23,269.5	$ (1,519.7)	$ 1,665.7
Mortgage loans on real estate	-	3,940.3	(206.7)	226.0
Derivatives:				
Interest rate contracts	38,858.1	417.9	(640.4)	866.7
Deposits from affiliates	-	158.0	(0.4)	0.4
Embedded derivative on reinsurance	-	(5.9)	(41.5)	35.3
Financial liabilities with interest rate risk:				
Investment contract liabilities:				
Deferred annuities[3]	-	19,193.3	(1,440.9)	1,780.6
Funding agreements with fixed maturities	-	355.0	(6.8)	7.1
Supplementary contracts, immediate annuities and other	-	2,956.3	(203.2)	227.5
Long-term debt	-	543.2	(57.5)	66.8
Embedded derivative on reinsurance	-	145.5	(491.3)	556.2
Guaranteed benefit derivatives[3]:				
FIA	-	1,987.5	164.3	(177.5)
GMAB/GMWB/GMWBL	-	1,512.5	(603.9)	769.3

[1] Separate account assets and liabilities which are interest sensitive are not included herein as any interest rate risk is borne by the holder of the separate account.
[2] (Decreases) in assets or (decreases) in liabilities are presented in parentheses. Increases in assets or increases in liabilities are presented without parentheses.
[3] Certain amounts included in the Deferred annuities line are also reflected within the Guaranteed benefit derivatives lines of the table above.

	As of December 31, 2015			
			Hypothetical Change in Fair Value[2]	
($ in millions)	Notional	Fair Value[1]	+ 100 Basis Points Yield Curve Shift	- 100 Basis Points Yield Curve Shift
Financial assets with interest rate risk:				
Fixed maturities, including securities pledged	$ -	$ 23,678.2	$ (1,463.7)	$ 1,585.7
Mortgage loans on real estate	-	3,429.8	(179.8)	196.2
Derivatives:				
Interest rate contracts	27,452.3	410.0	(527.6)	677.1
Deposits from affiliates	-	156.3	(1.9)	2.0
Embedded derivative on reinsurance	-	(15.6)	(34.3)	39.4
Financial liabilities with interest rate risk:				
Investment contract liabilities:				
Deferred annuities[3]	-	19,367.9	(1,409.6)	1,748.6
Funding agreements with fixed maturities	-	1,083.1	(32.9)	34.3
Supplementary contracts, immediate annuities and other	-	1,955.3	(128.2)	143.4
Long-term debt	-	524.7	(66.7)	66.7
Embedded derivative on reinsurance	-	10.2	(436.7)	494.2
Guaranteed benefit derivatives[3]:				
FIA	-	1,779.1	142.7	(143.1)
GMAB/GMWB/GMWBL	-	1,849.0	(703.8)	903.6

[1] Separate account assets and liabilities which are interest sensitive are not included herein as any interest rate risk is borne by the holder of the separate account.
[2] (Decreases) in assets or (decreases) in liabilities are presented in parentheses. Increases in assets or increases in liabilities are presented without parentheses.
[3] Certain amounts included in the Deferred annuities line are also reflected within the Guaranteed benefit derivatives lines of the table above.

Market Risk Related to Equity Market Prices

Our variable products, fixed indexed annuity ("FIA") products and general account equity securities are significantly influenced by global equity markets. Increases or decreases in equity markets impact certain assets and liabilities related to our variable products and our earnings derived from those products. Our variable products include variable annuity contracts and variable life insurance.

We assess equity risk exposures for financial assets, liabilities and derivatives using hypothetical test scenarios that assume either an increase or decrease of 10% in all equity market benchmark levels. The following tables summarize the net estimated potential change in fair value from an instantaneous increase and decrease in all equity market benchmark levels of 10% as of December 31, 2016 and 2015. In calculating these amounts, we exclude gains and losses on separate account equity securities related to products for which the investment risk is borne primarily by the separate account contract holder rather than by us. While the test scenarios are for illustrative purposes only and do not reflect our expectations regarding the future performance of equity markets, they are near-term, reasonably possible hypothetical changes that illustrate the potential impact of such events. These scenarios consider only the direct effect on fair value of declines in equity benchmark market levels and not changes in asset-based fees recognized as revenue, changes in our estimates of total gross profits used as a basis for amortizing DAC, VOBA and DSI and other costs, or changes in any other assumptions such as market volatility or mortality, utilization or persistency rates in variable contracts that could also impact the fair value of our living benefits features. In addition, these scenarios do not reflect the effect of basis risk, such as potential differences in the performance of the investment funds underlying the variable annuity products relative to the equity market benchmark we use as a basis for developing our hedging strategy. The impact of basis risk could result in larger differences between the change in fair value of the equity-based derivatives and the related living benefit features, in comparison to the hypothetical test scenarios.

	As of December 31, 2016			
			Hypothetical Change in Fair Value[1]	
($ in millions)	Notional	Fair Value	+ 10% Equity Shock	-10% Equity Shock
Financial assets with equity market risk:				
Equity securities, available-for-sale	$ -	$ 18.7	$ 1.9	$ (1.9)
Limited partnerships/corporations	-	227.4	13.6	(13.6)
Derivatives:				
Equity futures and total return swaps[2]	11,266.0	4.2	(826.0)	839.9
Equity options	16,776.9	345.0	234.3	(187.6)
Financial liabilities with equity market risk:				
Guaranteed benefit derivatives:				
FIA	-	1,987.5	114.4	(134.3)
GMAB / GMWB/ GMWBL	-	1,512.5	(193.7)	231.7

[1] (Decreases) in assets or (decreases) in liabilities are presented in parentheses. Increases in assets or increases in liabilities are presented without parentheses.
[2] Primarily related to the variable annuity hedge program.

	As of December 31, 2015			
			Hypothetical Change in Fair Value[1]	
($ in millions)	Notional	Fair Value	+ 10% Equity Shock	-10% Equity Shock
Financial assets with equity market risk:				
Equity securities, available-for-sale	$ -	$ 19.2	$ 1.9	$ (1.9)
Limited partnerships/corporations	-	186.3	11.2	(11.2)
Derivatives:				
Equity futures and total return swaps[2]	10,666.4	41.6	(661.7)	664.6
Equity options	8,396.0	116.5	(16.1)	52.9
Financial liabilities with equity market risk:				
Guaranteed benefit derivatives:				
FIA	-	1,779.1	127.4	(107.1)
GMAB / GMWB/ GMWBL	-	1,849.0	(237.2)	282.3

[1] (Decreases) in assets or (decreases) in liabilities are presented in parentheses. Increases in assets or increases in liabilities are presented without parentheses.
[2] Primarily related to the variable annuity hedge program.

Net Amount at Risk ("NAR")

Minimum Guarantees

Variable annuity contracts containing minimum guaranteed death and living benefits expose us to equity risk. A decrease in the equity markets may cause a decrease in the account values, thereby increasing the possibility that we may be required to pay amounts to contract owners due to guaranteed death and living benefits. An increase in the value of the equity markets may increase account values for these contracts, thereby decreasing our risk associated with guaranteed death and living benefits.

We stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010. However, our existing variable annuity block of business contains certain guaranteed death and living benefits made available to contract owners as described below:

Guaranteed Minimum Death Benefits ("GMDB"):

- Standard - Guarantees that, upon death of the individual specified in the policy, the death benefit will be no less than the premiums paid by the contract owner, adjusted for withdrawals.
- Ratchet - Guarantees that, upon death of the individual specified in the policy, the death benefit will be no less than the greater of (1) Standard or (2) the maximum policy anniversary (or quarterly) value of the variable annuity, adjusted for withdrawals.
- Rollup - Guarantees that, upon death of the individual specified in the policy, the death benefit will be no less than the aggregate premiums paid by the contract owner, with interest at the contractual rate per annum, adjusted for withdrawals. The Rollup may be subject to a maximum cap on the total benefit.
- Combo - Guarantees that, upon death of the individual specified in the policy, the death benefit will be no less than the greater of (1) Ratchet or (2) Rollup.

A number of other versions of death benefits were offered previously but sales were discontinued. For contracts issued prior to January 1, 2000, most contracts with enhanced death benefit guarantees were reinsured to third party reinsurers to mitigate the risk produced by such guaranteed death benefits. For contracts issued on or after January 1, 2000, we instituted a hedge program in lieu of reinsurance. The hedging program is based on us entering into derivative positions to offset exposures to guaranteed minimum death benefits due to adverse changes in the equity markets.

As of the dates indicated, the guaranteed value of these death benefits in excess of account values was estimated to be as follows:

($ in millions)		December 31, 2016
Net amount at risk, before reinsurance	$	5,817
Net amount at risk, net of reinsurance		5,504

($ in millions)		December 31, 2015
Net amount at risk, before reinsurance	$	6,458
Net amount at risk, net of reinsurance		6,074

The decrease in the guaranteed value of these death benefits was primarily driven by an increase in equity markets which resulted in favorable fund performance net of deductions for fees during the year ended December 31, 2016.

The additional liabilities recognized related to GMDB, as of the periods indicated, were as follows:

($ in millions)		December 31, 2016
Separate account liability	$	30,838.9
Additional liability balance		509.9

($ in millions)		December 31, 2015
Separate account liability	$	33,321.3
Additional liability balance		517.2

The above additional liability recorded by us, net of reinsurance, represented the estimated net present value of our future obligation for guaranteed minimum death benefits in excess of account values. The decrease in additional separate account liability is mainly

due to decrements and fees offsetting favorable fund performance and the decrease in additional liability balance is mainly due to fees offsetting the favorable fund performance.

Guaranteed Minimum Living Benefits

Guaranteed Minimum Income Benefit (GMIB). Guarantees a minimum income payout, exercisable only on a contract anniversary on or after a specified date, in most cases 10 years after purchase of the GMIB rider. The income payout is determined based on contractually established annuity factors multiplied by the benefit base. The benefit base equals the premium paid at the time of product issue and may increase over time based on a number of factors, including a rollup percentage (mainly 7% or 6% depending on the version of the benefit) and ratchet frequency subject to maximum caps which vary by product version (200%, 250% or 300% of initial premium).

Guaranteed Minimum Withdrawal Benefit and Guaranteed Minimum Withdrawal Benefit for Life (GMWB/GMWBL). Guarantees an annual withdrawal amount for a specified period of time (GMWB) or life (GMWBL) that is calculated as a percentage of the benefit base that equals the premium paid at the time of product issue and may increase over time based on a number of factors, including a rollup percentage (mainly 7%, 6% or 0%, depending on versions of the benefit) and ratchet frequency (primarily annually or quarterly, depending on versions). The rollup ceases 10 years after purchase of the rider, or in the year when withdrawals occur. The percentage used to determine the guaranteed annual withdrawal amount may vary by age at first withdrawal and depends on versions of the benefit. A joint life-time withdrawal benefit option was available to include coverage for spouses. Most versions of the withdrawal benefit included reset and/or step-up features that may increase the guaranteed withdrawal amount in certain conditions. Earlier versions of the withdrawal benefit guarantee that annual withdrawals of up to 7.0% of eligible premiums may be made until eligible premiums previously paid by the contract owner are returned, regardless of account value performance. Asset allocation requirements apply at all times where withdrawals are guaranteed for life.

Guaranteed Minimum Accumulation Benefit (GMAB). Guarantees that the account value will be at least 100% of the eligible premiums paid by the customer after 10 years, adjusted for withdrawals. We offered an alternative design that guaranteed the account value to be at least 200% of the eligible premiums paid by contract owners after 20 years.

We reinsured most of our living benefit guarantee riders to RRII to mitigate the risk produced by such benefits. This reinsurance agreement covers all of the GMIBs, as well as the GMWBs with lifetime guarantees (the "Reinsured living benefits"). The GMABs and the GMWBs without lifetime guarantees (the "Non-reinsured living benefits") are not covered by this reinsurance. The Non-reinsured living benefits are still covered by our variable annuity guarantee hedging program.

The following guaranteed living benefits information is as of the dates indicated:

($ in millions)	Non-reinsured Living Benefits (GMAB/GMWB)	Reinsured Living Benefits (GMIB/GMWBL)
	December 31, 2016	
Net amount at risk, before reinsurance	$ 14	$ 5,087
Net amount at risk, net of reinsurance	14	-
($ in millions)	December 31, 2015	
Net amount at risk, before reinsurance	$ 17	$ 5,087
Net amount at risk, net of reinsurance	17	-

The net amount at risk for the reinsured living benefits is equal to the excess of the present value of the minimum guaranteed annuity payments available to the contract holder over the current account value. The methodology used to calculate the net amount at risk partially reflects the current interest rate environment and also includes a provision for the expected mortality of the clients covered by these living benefits. The net amount at risk of these living benefits (GMIB/GMWBL) from December 31, 2015 to December 31, 2016 remained neutral. The favorable interest and equity markets were mainly offset by higher living benefit guarantees.

The net amount at risk for the non-reinsured living benefits is equal to the guaranteed value of these benefits in excess of the account values, which is reflected in the table above.

The separate account liabilities subject to the requirements for additional reserve liabilities under ASC Topic 944 for minimum guaranteed benefits and the additional liabilities recognized related to minimum guarantees, by type, as of the dates indicated, were as follows:

($ in millions)	Non-reinsured Living Benefits (GMAB/GMWB)	Reinsured Living Benefits (GMIB/GMWBL)
	December 31, 2016	
Separate account liability	$ 534.0	$ 23,118.1
Additional liability balance, net of reinsurance	22.1	892.2
	December 31, 2015	
Separate account liability	$ 593.5	$ 25,149.5
Additional liability balance, net of reinsurance	29.1	1,246.0

As of December 31, 2016 and 2015, the above additional liabilities for non-reinsured living benefits recorded by us, net of reinsurance, represent the estimated net present value of our future obligations for these benefits. The above additional liabilities for reinsured living benefits recorded by us, net of reinsurance, represent the present value of future claims less the present value of future attributed fees (GMWBLs) or the benefits ratio approach (GMIBs), less the reinsurance ceded reserve calculated under Accounting Standards Codification Topic 944. The additional liability for GMIBs was zero. The decrease in the additional liability balance for reinsured living benefits corresponds to the decrease in the GMWBL liability, which decreased mainly due to increase in the equity markets during the year ended December 31, 2016.

Variable Annuity Hedge Program

We primarily mitigate variable annuity market risk exposures through a hedging program referred to as our "Variable Annuity Hedge Program". Market risk arises primarily from the minimum guarantees within the variable annuity products, whose economic costs are primarily dependent on future equity market returns, interest rate levels, equity volatility levels and policyholder behavior. The objective of the Variable Annuity Hedge Program is to protect regulatory and rating agency capital from immediate market movements. The hedge program is executed through the purchase and sale of various instruments (described below), and is designed to limit the reserve and rating agency capital increases and certain rebalancing costs resulting from an immediate change in equity markets, interest rates, volatility, credit spread and foreign exchange rates to an amount we believe prudent for a company of our size and scale. The hedge targets may change over time with market movements, changes in regulatory and rating agency capital, available collateral and our risk tolerance. While the Variable Annuity Hedge Program does not explicitly hedge statutory or U.S. GAAP reserves, as markets move up or down, in aggregate the returns generated by the Variable Annuity Hedge Program will significantly offset the statutory and U.S. GAAP reserve changes due to market movements.

The types of instruments employed in the execution of our Variable Annuity Hedge Program to mitigate market impacts on policyholder-directed investments are as follows:

- Equity index futures, options and total return swaps are used to mitigate the risk of equity market changes;
- Interest rate swaps and options are used to mitigate the risk of changes in interest rates;
- Credit default swaps and total return swaps are used to mitigate the risk of credit spread changes;
- Variance swaps and equity options are used to mitigate the risk of changes in volatility; and
- Foreign exchange forwards are used to mitigate the impact of policyholder-directed investments in international funds with exposure to fluctuations in exchange rates of certain foreign currencies.

Hedging of FIA Benefits

We mitigate FIA market risk exposures through a combination of capital market hedging and product design. For FIAs, these risks stem from the minimum guaranteed contract value offered and the additional interest credits (Equity Participation or Interest Rate Participation) based on exposure to various stock market indices or the interest rate benchmark. The minimum guarantees, interest rate and equity market exposures, are strongly dependent on capital markets and, to a lesser degree, policyholder behavior.

These hedge programs are limited to the current policy term of the liabilities, based on current participation rates and index caps. Future returns, which may be reflected in FIA credited rates beyond the current policy term, are not hedged until such time that policyholder selections of future crediting strategies have been made.

Equity options are used to hedge against an increase in various equity indices. An increase in various equity indices may result in increased payments to contract holders of FIA contracts. The equity options offset this increased expense.

Interest rate options are used to hedge against an increase in the interest rate benchmark. An increase in the interest rate benchmark may result in increased payments to contract holders of FIA contracts. The interest rate options offset this increased expense.

Market Risk Related to Credit Risk

Credit risk is primarily embedded in the general account portfolio. The carrying value of our fixed maturity, including securities pledged, and equity portfolio totaled $23.3 billion and $23.7 billion as of December 31, 2016 and 2015, respectively. Our credit risk materializes primarily as impairment losses and/or credit risk related trading losses. We are exposed to occasional cyclical economic downturns, during which impairment losses may be significantly higher than the long-term historical average. This is offset by years where we expect the actual impairment losses to be substantially lower than the long-term average.

Credit risk in the portfolio can also materialize as increased capital requirements caused by rating down-grades. The effect of rating migration on our capital requirements is also dependent on the economic cycle and increased asset impairment levels may go hand in hand with increased asset related capital requirements.

We manage the risk of default and rating migration by applying disciplined credit evaluation and underwriting standards and prudently limiting allocations to lower quality, higher risk investments. In addition, we diversify our exposure by issuer and country, using rating based issuer and country limits, as well as by industry segment, using specific investment constraints. Limit compliance is monitored on a daily, monthly, or quarterly basis. Limit violations are reported to senior management and we are actively involved in decisions around curing such limit violations.

We also have credit risk related to the ability of our derivatives counterparties to honor their obligations to pay the contract amounts under various agreements. In order to minimize the risk of credit loss on such contracts, we diversify our exposures among several counterparties and limit the amount of exposure to each based on credit rating. For most counterparties, we have collateral agreements in place that would substantially limit our credit losses in case of a counterparty default. We also generally limit our selection of counterparties that we do new transactions with to those with an "A-" credit rating or above. When exceptions are made to that principle, we ensure that we obtain collateral to mitigate our risk of loss. For derivatives counterparty risk exposures (which includes reverse repurchase and securities lending transactions), we measure and monitor our risks on a market value basis daily.

Credit risk also arises to the extent that the separate account investments underlying our variable annuity contracts hold credit sensitive assets. This risk is offset by the use of credit default swaps as described in our Variable Annuity Hedge Program.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Voya Insurance and Annuity Company

We have audited the accompanying balance sheets of Voya Insurance and Annuity Company as of December 31, 2016 and 2015, and the related statements of operations, comprehensive income, changes in shareholder's equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Voya Insurance and Annuity Company at December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts

March 16, 2017

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Balance Sheets
December 31, 2016 and 2015
(In millions, except share and per share data)

	As of December 31,	
	2016	**2015**
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of $21,123.0 as of 2016 and $22,069.6 as of 2015)	$ 21,873.8	$ 22,458.4
Fixed maturities, at fair value using the fair value option	647.5	547.4
Equity securities, available-for-sale, at fair value (cost of $15.2 as of 2016 and $15.4 as of 2015)	18.7	19.2
Short-term investments	429.7	1,069.4
Mortgage loans on real estate, net of valuation allowance of $1.0 as of 2016 and 2015	3,881.5	3,310.9
Policy loans	74.7	79.8
Limited partnerships/corporations	227.4	186.3
Derivatives	978.8	799.4
Other investments	18.6	48.6
Securities pledged (amortized cost of $722.6 as of 2016 and $633.3 as of 2015)	748.2	672.4
Total investments	28,898.9	29,191.8
Cash and cash equivalents	763.5	646.5
Short-term investments under securities loan agreements, including collateral delivered	187.3	232.7
Accrued investment income	232.4	239.3
Deposits, premiums receivable and reinsurance recoverable	7,417.5	5,645.9
Deferred policy acquisition costs, Value of business acquired and Sales inducements to contract owners	2,028.6	2,576.4
Due from affiliates	31.7	27.5
Current income tax recoverable from Parent	4.1	-
Deferred income taxes	-	94.8
Other assets	303.6	337.5
Assets held in separate accounts	30,933.7	33,355.5
Total assets	$ 70,801.3	$ 72,347.9

The accompanying notes are an integral part of these Financial Statements.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Balance Sheets
December 31, 2016 and 2015
(In millions, except share and per share data)

	As of December 31,	
	2016	**2015**
Liabilities and Shareholder's Equity		
Future policy benefits and contract owner account balances	$ 28,941.6	$ 27,749.8
Payable for securities purchased	15.5	108.1
Payables under securities loan agreements, including collateral held	865.2	656.1
Long-term debt	435.0	435.0
Due to affiliates	44.1	44.4
Funds held under reinsurance treaties with affiliates	6,657.3	6,797.1
Derivatives	179.4	204.6
Current income tax payable to Parent	-	27.6
Deferred income taxes	10.8	-
Other liabilities	150.0	153.4
Liabilities related to separate accounts	30,933.7	33,355.5
Total liabilities	68,232.6	69,531.6
Commitments and Contingencies (Note 13)		
Shareholder's equity:		
Common stock (250,000 shares authorized, issued and outstanding as of 2016 and 2015; $10 par value per share)	2.5	2.5
Additional paid-in capital	4,448.8	4,821.2
Accumulated other comprehensive income (loss)	425.1	319.6
Retained earnings (deficit)	(2,307.7)	(2,327.0)
Total shareholder's equity	2,568.7	2,816.3
Total liabilities and shareholder's equity	$ 70,801.3	$ 72,347.9

The accompanying notes are an integral part of these Financial Statements.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Statements of Operations
For the Years Ended December 31, 2016, 2015 and 2014
(In millions)

	Year Ended December 31,		
	2016	**2015**	**2014**
Revenues:			
Net investment income	$ 1,362.5	$ 1,305.5	$ 1,264.7
Fee income	627.3	718.7	824.8
Premiums	496.5	505.8	537.8
Net realized capital gains (losses):			
Total other-than-temporary impairments	(8.5)	(30.3)	(6.0)
Less: Portion of other-than-temporary impairments recognized in Other comprehensive income (loss)	1.5	2.5	(0.3)
Net other-than-temporary impairments recognized in earnings	(10.0)	(32.8)	(5.7)
Other net realized capital gains (losses)	(874.9)	(98.8)	(768.4)
Total net realized capital gains (losses)	(884.9)	(131.6)	(774.1)
Other revenue	16.9	19.7	29.8
Total revenues	1,618.3	2,418.1	1,883.0
Benefits and expenses:			
Interest credited and other benefits to contract owners/policyholders	557.6	1,290.6	1,391.9
Operating expenses	463.0	486.2	489.6
Net amortization of Deferred policy acquisition costs and Value of business acquired	423.0	667.0	(116.0)
Interest expense	28.3	28.2	28.2
Other expense	11.2	25.1	16.9
Total benefits and expenses	1,483.1	2,497.1	1,810.6
Income (loss) before income taxes	135.2	(79.0)	72.4
Income tax expense (benefit)	115.9	(53.9)	97.3
Net income (loss)	$ 19.3	$ (25.1)	$ (24.9)

The accompanying notes are an integral part of these Financial Statements.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Statements of Comprehensive Income
For the Years Ended December 31, 2016, 2015 and 2014
(In millions)

	Year Ended December 31,		
	2016	**2015**	**2014**
Net income (loss)	$ 19.3	$ (25.1)	$ (24.9)
Other comprehensive income (loss), before tax:			
Unrealized gains/losses on securities	153.4	(451.6)	180.1
Other-than-temporary impairments	9.0	6.6	16.7
Pension and other postretirement benefits liability	(0.1)	(0.2)	(0.2)
Other comprehensive income (loss), before tax	162.3	(445.2)	196.6
Income tax expense (benefit) related to items of other comprehensive income (loss)	56.8	(155.8)	68.8
Other comprehensive income (loss), after tax	105.5	(289.4)	127.8
Comprehensive income (loss)	$ 124.8	$ (314.5)	$ 102.9

The accompanying notes are an integral part of these Financial Statements.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Statements of Changes in Shareholder's Equity
For the Years Ended December 31, 2016, 2015 and 2014
(In millions)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Shareholder's Equity
Balance at January 1, 2014	$ 2.5	$ 5,525.6	$ 481.2	$ (2,277.0)	$ 3,732.3
Comprehensive income (loss):					
Net income (loss)	-	-	-	(24.9)	(24.9)
Other comprehensive income (loss), after tax	-	-	127.8	-	127.8
Total comprehensive income (loss)					102.9
Dividends paid and distributions of capital	-	(216.0)	-	-	(216.0)
Employee related benefits	-	1.0	-	-	1.0
Balance as of December 31, 2014	2.5	5,310.6	609.0	(2,301.9)	3,620.2
Comprehensive income (loss):					
Net income (loss)	-	-	-	(25.1)	(25.1)
Other comprehensive income (loss), after tax	-	-	(289.4)	-	(289.4)
Total comprehensive income (loss)					(314.5)
Dividends paid and distributions of capital	-	(492.0)	-	-	(492.0)
Employee related benefits	-	2.6	-	-	2.6
Balance as of December 31, 2015	2.5	4,821.2	319.6	(2,327.0)	2,816.3
Comprehensive income (loss):					
Net income (loss)	-	-	-	19.3	19.3
Other comprehensive income (loss), after tax	-	-	105.5	-	105.5
Total comprehensive income (loss)					124.8
Dividends paid and distributions of capital	-	(373.0)	-	-	(373.0)
Employee related benefits	-	0.6	-	-	0.6
Balance as of December 31, 2016	$ 2.5	$ 4,448.8	$ 425.1	$ (2,307.7)	$ 2,568.7

The accompanying notes are an integral part of these Financial Statements.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Statements of Cash Flows
For the Years Ended December 31, 2016, 2015 and 2014
(In millions)

	Year Ended December 31,		
	2016	**2015**	**2014**
Cash Flows from Operating Activities:			
Net income (loss)	$ 19.3	$ (25.1)	$ (24.9)
Adjustments to reconcile Net income (loss) to Net cash provided by operating activities:			
Capitalization of deferred policy acquisition costs, value of business acquired and sales inducements	(151.7)	(137.4)	(146.6)
Net amortization of deferred policy acquisition costs, value of business acquired and sales inducements	549.3	776.9	(96.7)
Net accretion/amortization of discount/premium	8.4	10.8	16.0
Future policy benefits, claims reserves and interest credited	1,327.0	1,452.8	1,145.3
Deferred income tax expense (benefit)	48.9	14.6	27.4
Net realized capital losses	884.9	131.6	774.1
Employee related benefits	0.5	2.2	(0.3)
Change in:			
Accrued investment income	6.9	(15.2)	(3.8)
Premiums receivable and reinsurance recoverable	(1,742.6)	(1,328.3)	(1,195.1)
Other receivables and asset accruals	(2.2)	18.5	(3.9)
Other reinsurance asset	14.1	24.8	7.6
Due to/from affiliates	(4.5)	(10.2)	-
Income tax recoverable	(31.7)	25.5	24.7
Funds held under reinsurance treaties with affiliates	(201.3)	1,046.1	1,924.4
Other payables and accruals	(3.8)	(19.1)	4.8
Other, net	(6.4)	7.5	(10.6)
Net cash provided by operating activities	$ 715.1	$ 1,976.0	$ 2,442.4

The accompanying notes are an integral part of these Financial Statements.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Statements of Cash Flows
For the Years Ended December 31, 2016, 2015 and 2014
(In millions)

	Year Ended December 31,		
	2016	**2015**	**2014**
Cash Flows from Investing Activities:			
Proceeds from the sale, maturity, disposal or redemption of:			
Fixed maturities	$ 4,693.6	$ 3,752.5	$ 4,169.4
Equity securities, available-for-sale	0.3	-	0.4
Mortgage loans on real estate	420.8	463.7	562.0
Limited partnerships/corporations	44.4	33.2	33.9
Acquisition of:			
Fixed maturities	(4,104.6)	(4,553.0)	(4,531.7)
Equity securities, available-for-sale	-	(7.4)	-
Mortgage loans on real estate	(991.7)	(833.1)	(578.8)
Limited partnerships/corporations	(77.9)	(54.6)	(63.2)
Derivatives, net	(1,284.4)	(128.6)	(969.4)
Short-term investments, net	639.7	(322.5)	(179.8)
Policy loans, net	5.1	7.6	7.5
Collateral received (delivered), net	254.5	160.7	215.2
Other investments, net	28.5	0.7	25.0
Net cash used in investing activities	(371.7)	(1,480.8)	(1,309.5)
Cash Flows from Financing Activities:			
Deposits received for investment contracts	3,165.3	2,597.1	3,363.0
Maturities and withdrawals from investment contracts	(3,016.2)	(2,349.3)	(4,484.5)
(Settlements) receipts on deposit contracts	(2.5)	32.7	167.7
Excess tax benefits on share-based compensation	-	0.4	1.3
Dividends paid and distributions of capital	(373.0)	(492.0)	(216.0)
Net cash used in financing activities	(226.4)	(211.1)	(1,168.5)
Net increase (decrease) in cash and cash equivalents	117.0	284.1	(35.6)
Cash and cash equivalents, beginning of period	646.5	362.4	398.0
Cash and cash equivalents, end of period	$ 763.5	$ 646.5	$ 362.4
Supplemental cash flow information:			
Income taxes paid (received), net	$ 98.7	$ (93.9)	$ 44.3
Interest paid	28.2	28.2	28.2
Non-cash investing and financing activities:			
Securities received from affiliate under reinsurance agreements	$ 61.5	$ 716.6	$ -

The accompanying notes are an integral part of these Financial Statements.

1. Business, Basis of Presentation and Significant Accounting Policies

Business

Voya Insurance and Annuity Company ("VIAC" or "the Company") is a stock life insurance company domiciled in the State of Iowa and provides financial products and services in the United States. VIAC is authorized to conduct its insurance business in all states, except New York, and in the District of Columbia.

Prior to May 2013, Voya Financial, Inc., together with its subsidiaries, including the Company, was an indirect, wholly owned subsidiary of ING Groep N.V. ("ING Group" or "ING"), a global financial services holding company based in The Netherlands. In May 2013, Voya Financial, Inc. completed its initial public offering of common stock, including the issuance and sale of common stock by Voya Financial, Inc. and the sale of shares of common stock owned indirectly by ING Group. Between October 2013 and March 2015, ING Group completed the sale of its remaining shares of common stock of Voya Financial, Inc. in a series of registered public offerings. ING Group continues to hold certain warrants to purchase up to 26,050,846 shares of Voya Financial, Inc. common stock at an exercise price of $48.75, in each case subject to adjustments.

VIAC is a direct, wholly owned subsidiary of Voya Holdings Inc. ("Parent"), which is a direct, wholly owned subsidiary of Voya Financial, Inc.

The Company offers various insurance products, including fixed and indexed annuities, investment-only products and payout annuities for pre-retirement wealth accumulation and postretirement income management. The Company's annuity products are distributed by national and regional brokerage and securities firms, independent broker-dealers, banks, life insurance companies with captive agency sales forces, independent insurance agents, independent marketing organizations and affiliated broker-dealers. The Company's primary annuity customers are individual consumers. The Company stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010, as part of a global business strategy and risk reduction plan. New amounts will continue to be deposited in VIAC variable annuities as add-on premiums to existing contracts.

In 2009, the Company made a strategic decision to run-off the assets and liabilities related to guaranteed investment contracts and funding agreements previously issued to institutional investors and corporate benefit plans. As such, no guaranteed investment contracts were outstanding during 2016 and 2015. Additionally, all of the previously issued funding agreements will mature or be terminated by the end of 2017. We may issue new funding agreements to support liquidity in the future.

The Company has one operating segment.

Basis of Presentation

The accompanying Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

Certain immaterial reclassifications have been made to prior year financial information to conform to the current year classifications.

Significant Accounting Policies

Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates.

The Company has identified the following accounts and policies as the most significant in that they involve a higher degree of judgment, are subject to a significant degree of variability and/or contain significant accounting estimates:

- Reserves for future policy benefits;
- Deferred policy acquisition costs ("DAC"), value of business acquired ("VOBA") and deferred sales inducements ("DSI");
- Valuation of investments and derivatives;
- Impairments;
- Income taxes; and
- Contingencies.

Fair Value Measurement

The Company measures the fair value of its financial assets and liabilities based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset, or nonperformance risk, including the Company's own credit risk. The estimate of fair value is the price that would be received to sell an asset or transfer a liability ("exit price") in an orderly transaction between market participants in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability. The Company uses a number of valuation sources to determine the fair values of its financial assets and liabilities, including quoted market prices, third-party commercial pricing services, third-party brokers, industry-standard, vendor-provided software that models the value based on market observable inputs, and other internal modeling techniques based on projected cash flows.

Investments

The accounting policies for the Company's principal investments are as follows:

Fixed Maturities and Equity Securities: The Company's fixed maturities and equity securities are currently designated as available-for-sale, except those accounted for using the fair value option ("FVO"). Available-for-sale securities are reported at fair value and unrealized capital gains (losses) on these securities are recorded directly in Accumulated other comprehensive income (loss) ("AOCI") and presented net of related changes in DAC, VOBA, DSI and Deferred income taxes. In addition, certain fixed maturities have embedded derivatives, which are reported with the host contract on the Balance Sheets.

The Company has elected the FVO for certain of its fixed maturities to better match the measurement of assets and liabilities in the Statements of Operations. Certain collateralized mortgage obligations ("CMOs"), primarily interest-only and principal-only strips, are accounted for as hybrid instruments and valued at fair value with changes in the fair value recorded in Other net realized capital gains (losses) in the Statements of Operations.

Purchases and sales of fixed maturities and equity securities, excluding private placements, are recorded on the trade date. Purchases and sales of private placements and mortgage loans are recorded on the closing date. Investment gains and losses on sales of securities are generally determined on a first-in-first-out ("FIFO") basis.

Interest income on fixed maturities is recorded when earned using an effective yield method, giving effect to amortization of premiums and accretion of discounts. Dividends on equity securities are recorded when declared. Such dividends and interest income are recorded in Net investment income in the Statements of Operations.

Included within fixed maturities are loan-backed securities, including residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") and asset-backed securities ("ABS"). Amortization of the premium or discount from the purchase of these securities considers the estimated timing and amount of prepayments of the underlying loans. Actual prepayment experience is periodically reviewed and effective yields are recalculated when differences arise between the prepayments originally anticipated and the actual prepayments received and currently anticipated. Prepayment assumptions for single-class and multi-class mortgage-backed securities ("MBS") and ABS are estimated by management using inputs obtained from third-party specialists, including broker-dealers, and based on management's knowledge of the current market. For prepayment-sensitive securities such as interest-only and principal-only strips, inverse floaters and credit-sensitive MBS and ABS securities, which represent beneficial interests in securitized financial assets that are not of high credit quality or that have

been credit impaired, the effective yield is recalculated on a prospective basis. For all other MBS and ABS, the effective yield is recalculated on a retrospective basis.

Short-term Investments: Short-term investments include investments with remaining maturities of one year or less, but greater than three months, at the time of purchase. These investments are stated at fair value.

Assets Held in Separate Accounts: Assets held in separate accounts are reported at the fair values of the underlying investments in the separate accounts. The underlying investments include mutual funds, short-term investments, cash and fixed maturities.

Mortgage Loans on Real Estate: The Company's mortgage loans on real estate are all commercial mortgage loans, which are reported at amortized cost, less impairment write-downs and allowance for losses. If a mortgage loan is determined to be impaired (i.e., when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement), the carrying value of the mortgage loan is reduced to the lower of either the present value of expected cash flows from the loan, discounted at the loan's original purchase yield, or fair value of the collateral. For those mortgages that are determined to require foreclosure, the carrying value is reduced to the fair value of the underlying collateral, net of estimated costs to obtain and sell at the point of foreclosure. The carrying value of the impaired loans is reduced by establishing a permanent write-down recorded in Other net realized capital gains (losses) in the Statements of Operations. Property obtained from foreclosed mortgage loans is recorded in Other investments on the Balance Sheets.

Mortgage loans are evaluated by the Company's investment professionals, including an appraisal of loan-specific credit quality, property characteristics and market trends. Loan performance is continuously monitored on a loan-specific basis throughout the year. The Company's review includes submitted appraisals, operating statements, rent revenues and annual inspection reports, among other items. This review evaluates whether the properties are performing at a consistent and acceptable level to secure the debt.

Mortgages are rated for the purpose of quantifying the level of risk. Those loans with higher risk are placed on a watch list and are closely monitored for collateral deficiency or other credit events that may lead to a potential loss of principal or interest. The Company defines delinquent mortgage loans consistent with industry practice as 60 days past due.

Commercial loans are placed on non-accrual status when 90 days in arrears if the Company has concerns regarding the collectability of future payments, or if a loan has matured without being paid off or extended. Factors considered may include conversations with the borrower, loss of major tenant, bankruptcy of borrower or major tenant, decreased property cash flow, number of days past due, or various other circumstances. Based on an assessment as to the collectability of the principal, a determination is made either to apply against the book value or apply according to the contractual terms of the loan. Funds recovered in excess of book value would then be applied to recover expenses, impairments, and then interest. Accrual of interest resumes after factors resulting in doubts about collectability have improved.

The Company records an allowance for probable losses incurred on non-impaired loans on an aggregate basis, rather than specifically identified probable losses incurred by individual loan.

Policy Loans: Policy loans are carried at an amount equal to the unpaid balance. Interest income on such loans is recorded as earned in Net investment income using the contractually agreed upon interest rate. Generally, interest is capitalized on the policy's anniversary date. Valuation allowances are not established for policy loans, as these loans are collateralized by the cash surrender value of the associated insurance contracts. Any unpaid principal or interest on the loan is deducted from the account value or the death benefit prior to settlement of the policy.

Limited Partnerships/Corporations: The Company uses the equity method of accounting for investments in limited partnership interests, which consists primarily of private equities and hedge funds. Generally, the Company records its share of earnings using a lag methodology, relying on the most recent financial information available, generally not to exceed three months. The Company's earnings from limited partnership interests accounted for under the equity method are recorded in Net investment income.

Other Investments: Other investments are comprised primarily of Federal Home Loan Bank ("FHLB") stock and property obtained from foreclosed mortgage loans, as well as other miscellaneous investments. The Company is a member of the FHLB system

and is required to own a certain amount of FHLB stock based on the level of borrowings and other factors. FHLB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value.

Securities Lending: The Company engages in securities lending whereby certain securities from its portfolio are loaned to other institutions, through a lending agent, for short periods of time. The Company has the right to approve any institution with whom the lending agent transacts on its behalf. Initial collateral, primarily cash, is required at a rate of 102% of the market value of the loaned securities. The lending agent retains the cash collateral and invests it in short-term liquid assets on behalf of the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. The lending agent indemnifies the Company against losses resulting from the failure of a counterparty to return securities pledged where collateral is insufficient to cover the loss.

Impairments

The Company evaluates its available-for-sale general account investments quarterly to determine whether there has been an other-than-temporary decline in fair value below the amortized cost basis.This evaluation process entails considerable judgment and estimation. Factors considered in this analysis include, but are not limited to, the length of time and the extent to which the fair value has been less than amortized cost, the issuer's financial condition and near-term prospects, future economic conditions and market forecasts, interest rate changes and changes in ratings of the security. An extended and severe unrealized loss position on a fixed maturity may not have any impact on: (a) the ability of the issuer to service all scheduled interest and principal payments and (b) the evaluation of recoverability of all contractual cash flows or the ability to recover an amount at least equal to its amortized cost based on the present value of the expected future cash flows to be collected. In contrast, for certain equity securities, the Company gives greater weight and consideration to a decline in market value and the likelihood such market value decline will recover.

When assessing the Company's intent to sell a security, or if it is more likely than not it will be required to sell a security before recovery of its amortized cost basis, management evaluates facts and circumstances such as, but not limited to, decisions to rebalance the investment portfolio and sales of investments to meet cash flow or capital needs.

When the Company has determined it has the intent to sell, or if it is more likely than not that the Company will be required to sell a security before recovery of its amortized cost basis, and the fair value has declined below amortized cost ("intent impairment"), the individual security is written down from amortized cost to fair value, and a corresponding charge is recorded in Net realized capital gains (losses) in the Statements of Operations as an other-than-temporary impairment ("OTTI"). If the Company does not intend to sell the security, and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, but the Company has determined that there has been an other-than-temporary decline in fair value below the amortized cost basis, the OTTI is bifurcated into the amount representing the present value of the decrease in cash flows expected to be collected ("credit impairment") and the amount related to other factors ("noncredit impairment"). The credit impairment is recorded in Net realized capital gains (losses) in the Statements of Operations. The noncredit impairment is recorded in Other comprehensive income (loss).

The Company uses the following methodology and significant inputs to determine the amount of the OTTI credit loss:

- When determining collectability and the period over which the value is expected to recover for U.S. and foreign corporate securities, foreign government securities and state and political subdivision securities, the Company applies the same considerations utilized in its overall impairment evaluation process, which incorporates information regarding the specific security, the industry and geographic area in which the issuer operates and overall macroeconomic conditions. Projected future cash flows are estimated using assumptions derived from the Company's best estimates of likely scenario-based outcomes, after giving consideration to a variety of variables that includes, but is not limited to: general payment terms of the security; the likelihood that the issuer can service the scheduled interest and principal payments; the quality and amount of any credit enhancements; the security's position within the capital structure of the issuer; possible corporate restructurings or asset sales by the issuer; and changes to the rating of the security or the issuer by rating agencies.
- Additional considerations are made when assessing the unique features that apply to certain structured securities, such as subprime, Alt-A, non-agency RMBS, CMBS and ABS. These additional factors for structured securities include, but are not limited to: the quality of underlying collateral; expected prepayment speeds; loan-to-value ratios; debt service

coverage ratios; current and forecasted loss severity; consideration of the payment terms of the underlying assets backing a particular security; and the payment priority within the tranche structure of the security.

- When determining the amount of the credit loss for U.S. and foreign corporate securities, foreign government securities and state and political subdivision securities, the Company considers the estimated fair value as the recovery value when available information does not indicate that another value is more appropriate. When information is identified that indicates a recovery value other than estimated fair value, the Company considers in the determination of recovery value the same considerations utilized in its overall impairment evaluation process, which incorporates available information and the Company's best estimate of scenario-based outcomes regarding the specific security and issuer; possible corporate restructurings or asset sales by the issuer; the quality and amount of any credit enhancements; the security's position within the capital structure of the issuer; fundamentals of the industry and geographic area in which the security issuer operates; and the overall macroeconomic conditions.
- The Company performs a discounted cash flow analysis comparing the current amortized cost of a security to the present value of future cash flows expected to be received, including estimated defaults and prepayments. The discount rate is generally the effective interest rate of the fixed maturity prior to impairment.

In periods subsequent to the recognition of the credit related impairment components of OTTI on a fixed maturity, the Company accounts for the impaired security as if it had been purchased on the measurement date of the impairment. Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into Net investment income over the remaining term of the fixed maturity in a prospective manner based on the amount and timing of estimated future cash flows.

Derivatives

The Company's use of derivatives is limited mainly to economic hedging to reduce the Company's exposure to cash flow variability of assets and liabilities, interest rate risk, credit risk, exchange rate risk and market risk. It is the Company's policy not to offset amounts recognized for derivative instruments and amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

The Company enters into interest rate, equity market, credit default and currency contracts, including swaps, futures, forwards, caps, floors and options, to reduce and manage various risks associated with changes in value, yield, price, cash flow or exchange rates of assets or liabilities held or intended to be held, or to assume or reduce credit exposure associated with a referenced asset, index or pool. The Company also utilizes options and futures on equity indices to reduce and manage risks associated with its annuity products. Derivative contracts are reported as Derivatives assets or liabilities on the Balance Sheets at fair value. Changes in the fair value of derivatives are recorded in Other net realized capital gains (losses) in the Statements of Operations.

To qualify for hedge accounting, at the inception of the hedging relationship, the Company formally documents its risk management objective and strategy for undertaking the hedging transaction, as well as its designation of the hedge as either (a) a hedge of the exposure to changes in the estimated fair value of a recognized asset or liability or an identified portion thereof that is attributable to a particular risk ("fair value hedge") or (b) a hedge of a forecasted transaction or of the variability of cash flows that is attributable to interest rate risk to be received or paid related to a recognized asset or liability ("cash flow hedge"). In this documentation, the Company sets forth how the hedging instrument is expected to hedge the designated risks related to the hedged item and sets forth the method that will be used to retrospectively and prospectively assess the hedging instrument's effectiveness and the method that will be used to measure ineffectiveness. A derivative designated as a hedging instrument must be assessed as being highly effective in offsetting the designated risk of the hedged item. Hedge effectiveness is formally assessed at inception and periodically throughout the life of the designated hedging relationship.

- *Fair Value Hedge*: For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument, as well as the hedged item, to the extent of the risk being hedged, are recognized in Other net realized capital gains (losses) in the Statements of Operations.
- *Cash Flow Hedge*: For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of AOCI and reclassified into earnings in the same periods during which the hedged transaction impacts earnings in the same line item associated with the forecasted transaction. The ineffective portion of the derivative's change in value, if any, along with any of the derivative's change

in value that is excluded from the assessment of hedge effectiveness, are recorded in Other net realized capital gains (losses) in the Statements of Operations.

When hedge accounting is discontinued because it is determined that the derivative is no longer expected to be highly effective in offsetting changes in the estimated fair value or cash flows of a hedged item, the derivative continues to be carried on the Balance Sheets at its estimated fair value, with subsequent changes in estimated fair value recognized currently in Other net realized capital gains (losses). The carrying value of the hedged asset or liability under a fair value hedge is no longer adjusted for changes in its estimated fair value due to the hedged risk, and the cumulative adjustment to its carrying value is amortized into income over the remaining life of the hedged item. Provided the hedged forecasted transaction is still probable of occurrence, the changes in estimated fair value of derivatives recorded in Other comprehensive income (loss) related to discontinued cash flow hedges are released into the Statements of Operations when the Company's earnings are affected by the variability in cash flows of the hedged item.

When hedge accounting is discontinued because it is no longer probable that the forecasted transactions will occur on the anticipated date or within two months of that date, the derivative continues to be carried on the Balance Sheets at its estimated fair value, with changes in estimated fair value recognized currently in Other net realized capital gains (losses). Derivative gains and losses recorded in Other comprehensive income (loss) pursuant to the discontinued cash flow hedge of a forecasted transaction that is no longer probable are recognized immediately in Other net realized capital gains (losses).

The Company also has investments in certain fixed maturities and has issued certain annuity products that contain embedded derivatives for which fair value is at least partially determined by levels of or changes in domestic and/or foreign interest rates (short-term or long-term), exchange rates, prepayment rates, equity markets or credit ratings/spreads. Embedded derivatives within fixed maturities are included with the host contract on the Balance Sheets, and changes in the fair value of the embedded derivatives are recorded in Other net realized capital gains (losses) in the Statements of Operations. Embedded derivatives within certain annuity products are included in Future policy benefits and contract owner account balances on the Balance Sheets, and changes in the fair value of the embedded derivatives are recorded in Other net realized capital gains (losses) in the Statements of Operations.

In addition, the Company has entered into coinsurance with funds withheld reinsurance arrangements that contain embedded derivatives, the fair value of which is based on the change in the fair value of the underlying assets held in trust. The embedded derivatives within coinsurance with funds withheld arrangements are reported with the host contract in Deposits and reinsurance recoverable or Funds held under reinsurance treaties with affiliates on the Balance Sheets, and changes in the fair value of the embedded derivatives are recorded in Interest credited and other benefits to contract owners/policyholders in the Statements of Operations.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks and other highly liquid investments, such as money market instruments and debt instruments with maturities of three months or less at the time of purchase. Cash and cash equivalents are stated at fair value.

Deferred Policy Acquisition Costs, Value of Business Acquired and Deferred Sales Inducements

DAC represents policy acquisition costs that have been capitalized and are subject to amortization and interest. Capitalized costs are incremental, direct costs of contract acquisition and certain other costs related directly to successful acquisition activities. Such costs consist principally of commissions, underwriting, sales and contract issuance and processing expenses directly related to the successful acquisition of new and renewal business. Indirect or unsuccessful acquisition costs, maintenance, product development and overhead expenses are charged to expense as incurred. VOBA represents the outstanding value of in-force business acquired and is subject to amortization and interest. The value is based on the present value of estimated net cash flows embedded in the insurance contracts at the time of the acquisition and increased for subsequent deferrable expenses on purchased policies. (See "Sales Inducements" below.) DAC, VOBA and DSI are adjusted for the impact of unrealized capital gains (losses) on investments, as if such gains (losses) have been realized, with corresponding adjustments included in AOCI.

Amortization Methodologies

The Company amortizes DAC and VOBA related to universal life ("UL") and variable universal life ("VUL") contracts and fixed and variable deferred annuity contracts over the estimated lives of the contracts in relation to the emergence of estimated gross profits. Assumptions as to mortality, persistency, interest crediting rates, fee income, returns associated with separate account performance, impact of hedge performance, expenses to administer the business and certain economic variables, such as inflation, are based on the Company's experience and overall capital markets. At each valuation date, estimated gross profits are updated with actual gross profits, and the assumptions underlying future estimated gross profits are evaluated for continued reasonableness. Adjustments to estimated gross profits require that amortization rates be revised retroactively to the date of the contract issuance ("unlocking").

Recoverability testing is performed for current issue year products to determine if gross profits are sufficient to cover DAC, VOBA, DSI, estimated benefits and related expenses. In subsequent years, the Company performs testing to assess the recoverability of DAC, VOBA and DSI on an annual basis, or more frequently if circumstances indicate a potential loss recognition issue exists. If DAC, VOBA or DSI are not deemed recoverable from future gross profits, charges will be applied against the DAC, VOBA or DSI balances before an additional reserve is established.

During the year ended December 31, 2016, the Company's reviews resulted in loss recognition of $170.0 before income taxes, of which $137.7 and $32.3 was recorded to Net amortization of DAC and VOBA and Interest credited and other benefits to contract owners, respectively, in the Statements of Operations, with a corresponding decrease on the Balance Sheets to Deferred policy acquisition costs, Value of business acquired, and Sales inducements to contract owners.

During the year ended December 31, 2015, the Company's reviews resulted in loss recognition of $342.0 before income taxes, of which $276.9 and $65.1 was recorded to Net amortization of DAC and VOBA and Interest credited and other benefits to contract owners, respectively, in the Statements of Operations, with a corresponding decrease on the Balance Sheets to Deferred policy acquisition costs, Value of business acquired, and Sales inducements to contract owners.

The Company did not have any loss recognition for the year ended December 31, 2014.

Internal Replacements

Contract owners may periodically exchange one contract for another, or make modifications to an existing contract. These transactions are identified as internal replacements. Internal replacements that are determined to result in substantially unchanged contracts are accounted for as continuations of the replaced contracts. Any costs associated with the issuance of the new contracts are considered maintenance costs and expensed as incurred. Unamortized DAC, VOBA and DSI related to the replaced contracts continue to be deferred and amortized in connection with the new contracts. Internal replacements that are determined to result in contracts that are substantially changed are accounted for as extinguishments of the replaced contracts, and any unamortized DAC, VOBA and DSI related to the replaced contracts are written off to the same account in which amortization is reported in the Statements of Operations.

Assumptions

Changes in assumptions can have a significant impact on DAC, VOBA and DSI balances, amortization rates, reserve levels, and results of operations. Assumptions are management's best estimate of future outcome.

Several assumptions are considered significant in the estimation of gross profits associated with the Company's variable products. One significant assumption is the assumed return associated with the variable account performance. To reflect the volatility in the equity markets, this assumption involves a combination of near-term expectations and long-term assumptions regarding market performance. The overall return on the variable account is dependent on multiple factors, including the relative mix of the underlying sub-accounts among bond funds and equity funds, as well as equity sector weightings. The Company uses a reversion to the mean approach, which assumes that the market returns over the entire mean reversion period are consistent with a long-term level of equity market appreciation. The Company monitors market events and only changes the assumption when sustained deviations are expected. This methodology incorporates a 9% long-term equity return assumption, a 14% cap and a five-year look-forward period.

Other significant assumptions used in the estimation of gross profits include mortality, and for products with credited rates include interest rate spreads and credit losses. Estimated gross profits of variable annuity contracts are sensitive to mortality and estimated policyholder behavior assumptions, such as surrender, lapse and annuitization rates.

Sales Inducements

DSI represent benefits paid to contract owners for a specified period that are incremental to the amounts the Company credits on similar contracts without sales inducements and are higher than the contract's expected ongoing crediting rates for periods after the inducement. The Company defers sales inducements and amortizes DSI over the estimated lives of the related contracts using the same methodology and assumptions used to amortize DAC. The amortization of DSI is included in Interest credited and other benefits to contract owners in the Statements of Operations. Each year, or more frequently if circumstances indicate a potentially significant recoverability issue exists, the Company reviews DSI to determine the recoverability of these balances.

Future Policy Benefits and Contract Owner Accounts

Future Policy Benefits
The Company establishes and carries actuarially-determined reserves that are calculated to meet its future obligations, including estimates of unpaid claims and claims that the Company believes have been incurred but have not yet been reported as of the balance sheet date. The principal assumptions used to establish liabilities for future policy benefits are based on Company experience and periodically reviewed against industry standards. These assumptions include mortality, morbidity, policy lapse, contract renewal, payment of subsequent premiums or deposits by the contract owner, retirement, investment returns, inflation, benefit utilization and expenses. Changes in, or deviations from, the assumptions used can significantly affect the Company's reserve levels and related results of operations.

- Reserves for traditional life insurance contracts (term insurance, participating and non-participating whole life insurance and traditional group life insurance) and accident and health insurance represent the present value of future benefits to be paid to or on behalf of contract owners and related expenses, less the present value of future net premiums. Assumptions as to interest rates, mortality, expenses and persistency are based on the Company's estimates of anticipated experience at the period the policy is sold or acquired, including a provision for adverse deviation. Interest rates used to calculate the present value of these reserves ranged from 2.3% to 7.2%.
- Reserves for payout contracts with life contingencies are equal to the present value of expected future payments. Assumptions as to interest rates, mortality and expenses are based on the Company's estimates of anticipated experience at the period the policy is sold or acquired, including a provision for adverse deviation. Such assumptions generally vary by annuity plan type, year of issue and policy duration. Interest rates used to calculate the present value of future benefits ranged from 1.0% to 7.5%.

Although assumptions are "locked-in" upon the issuance of traditional life insurance contracts, certain accident and health insurance contracts and payout contracts with life contingencies, significant changes in experience or assumptions may require the Company to provide for expected future losses on a product by establishing premium deficiency reserves. Premium deficiency reserves are determined based on best estimate assumptions that exist at the time the premium deficiency reserve is established and do not include a provision for adverse deviation. During the years ended December 31, 2016 and 2015, the Company established premium deficiency reserves of $36.3 and $126.0, respectively, before tax related to certain payout annuity contracts, which were recorded as increases in Policyholder benefits and contract owner balances with a corresponding increase in Deposits and reinsurance recoverable, as the reserves are ceded to an affiliate on a 100% coinsurance and coinsurance funds withheld basis. The establishment of these premium deficiency reserve had no impact in the Statements of Operations for the years ended December 31, 2016 and 2015. The Company did not establish any premium deficiency reserves during the year ended December 31, 2014.

Contract Owner Account Balances
Contract owner account balances relate to universal life-type and investment-type contracts, as follows:

- Account balances for funding agreements are calculated using the amount deposited with the Company, less withdrawals, plus interest accrued to the ending valuation date. Interest on these contracts is accrued by a predetermined index, plus a spread or a fixed rate, established at the issue date of the contract.

- Account balances for universal life-type contracts, including VUL, are equal to cumulative deposits, less charges, withdrawals and account values released upon death, plus credited interest thereon.
- Account balances for fixed annuities and payout contracts without life contingencies are equal to cumulative deposits, less charges and withdrawals, plus credited interest thereon. Credited interest rates vary by product and ranged up to 7.5% for the years 2016, 2015 and 2014. Account balances for group immediate annuities without life contingent payouts are equal to the discounted value of the payment at the implied break-even rate.
- For fixed-indexed annuity contracts ("FIAs"), the aggregate initial liability is equal to the deposit received, plus a bonus, if applicable, and is split into a host component and an embedded derivative component. Thereafter, the host liability accumulates at a set interest rate, and the embedded derivative liability is recognized at fair value.

Product Guarantees and Additional Reserves
The Company calculates additional reserve liabilities for certain universal life-type products and certain variable annuity guaranteed benefits. The Company periodically evaluates its estimates and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. Changes in, or deviations from, the assumptions used can significantly affect the Company's reserve levels and related results of operations.

Universal and Variable Life: Reserves for UL and VUL secondary guarantees and paid-up guarantees are calculated by estimating the expected value of death benefits payable and recognizing those benefits ratably over the accumulation period based on total expected assessments. The reserve for such products recognizes the portion of contract assessments received in early years used to compensate the Company for benefits provided in later years. Assumptions used, such as the interest rate, lapse rate and mortality, are consistent with assumptions used in estimating gross profits for purposes of amortizing DAC. Reserves for UL and VUL secondary guarantees and paid-up guarantees are recorded in Future policy benefits and contract owner account balances on the Balance Sheets.

The Company also calculates a benefit ratio for each block of business that meets the requirements for additional reserves and calculates an additional reserve by accumulating amounts equal to the benefit ratio multiplied by the assessments for each period, reduced by excess benefits during the period. The additional reserve is accumulated at interest rates consistent with the DAC model for the period. The calculated reserve includes provisions for UL contracts that produce expected gains from the insurance benefit function followed by losses from that function in later years. Additional reserves are recorded in Future policy benefits and contract owner account balances on the Balance Sheets.

GMDB and GMIB: Reserves for annuity guaranteed minimum death benefits ("GMDB") and guaranteed minimum income benefits ("GMIB") are determined by estimating the value of expected benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. Expected experience is based on a range of scenarios. Assumptions used, such as the long-term equity market return, lapse rate and mortality, are consistent with assumptions used in estimating gross profits for the purpose of amortizing DAC. The assumptions of investment performance and volatility are consistent with the historical experience of the appropriate underlying equity index, such as the Standard & Poor's ("S&P") 500 Index. In addition, the reserve for the GMIB incorporates assumptions for the likelihood and timing of the potential annuitizations that may be elected by the contract owner. In general, the Company assumes that GMIB annuitization rates will be higher for policies with more valuable ("in the money") guarantees, where the notional benefit amount is in excess of the account value. Reserves for GMDB and GMIB are recorded in Future policy benefits and contract owner account balances on the Balance Sheets. Changes in reserves for GMDB and GMIB are reported in Interest credited and other benefits to contract owners/policyholders in the Statements of Operations.

GMAB, GMWB, GMWBL and FIA: The Company issues certain products that contain embedded derivatives that are measured at estimated fair value separately from the host contracts. These products include annuity guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits without life contingencies ("GMWB"), guaranteed minimum withdrawal benefits with life contingent payouts ("GMWBL") and FIAs. Such embedded derivatives are recorded in Future policy benefits and contract owner account balances on the Balance Sheets, with changes in estimated fair value, that are not related to attributed fees or premiums collected or payments made, reported in Other net realized capital gains (losses) in the Statements of Operations.

At inception of the GMAB, GMWB and GMWBL contracts, the Company projects a fee to be attributed to the embedded derivative portion of the guarantee equal to the present value of projected future guaranteed benefits. After inception, the estimated fair value of the GMAB, GMWB and GMWBL contracts is determined based on the present value of projected future guaranteed benefits, minus the present value of projected attributed fees. A risk neutral valuation methodology is used under which the cash flows from the guarantees are projected under multiple capital market scenarios using observable risk free rates. The projection of future guaranteed benefits and future attributed fees require the use of assumptions for capital markets (e.g., implied volatilities, correlation among indices, risk-free swap curve, etc.) and policyholder behavior (e.g., lapse, benefit utilization, mortality, etc.).

The estimated fair value of the embedded derivative in the FIA contracts is based on the present value of the excess of interest payments to the contract owners over the growth in the minimum guaranteed contract value. The excess interest payments are determined as the excess of projected index driven benefits over the projected guaranteed benefits. The projection horizon is over the anticipated life of the related contracts, which takes into account best estimate actuarial assumptions, such as partial withdrawals, full surrenders, deaths, annuitizations and maturities.

The liabilities for the GMAB, GMWB, GMWBL and FIA embedded derivatives include a risk margin to capture uncertainties related to policyholder behavior assumptions. The margin represents additional compensation a market participant would require to assume these risks.

The discount rate used to determine the fair value of the liabilities for the GMAB, GMWB, GMWBL and FIA embedded derivatives includes an adjustment to reflect the risk that these obligations will not be fulfilled ("nonperformance risk").

Separate Accounts

Separate account assets and liabilities generally represent funds maintained to meet specific investment objectives of contract owners or participants who bear the investment risk, subject, in limited cases, to minimum guaranteed rates. Investment income and investment gains and losses generally accrue directly to such contract owners. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company or its affiliates.

Separate account assets supporting variable options under variable annuity contracts are invested, as designated by the contract owner or participant under a contract, in shares of mutual funds that are managed by the Company, or its affiliates, or in other selected mutual funds not managed by the Company, or its affiliates.

The Company reports separately, as assets and liabilities, investments held in the separate accounts and liabilities of separate accounts if:

- Such separate accounts are legally recognized;
- Assets supporting the contract liabilities are legally insulated from the Company's general account liabilities;
- Investments are directed by the contract owner or participant; and
- All investment performance, net of contract fees and assessments, is passed through to the contract owner.

The Company reports separate account assets that meet the above criteria at fair value on the Balance Sheets based on the fair value of the underlying investments. Separate account liabilities equal separate account assets. Investment income and net realized and unrealized capital gains (losses) of the separate accounts, however, are not reflected in the Statements of Operations, and the Statements of Cash Flows do not reflect investment activity of the separate accounts.

Long-term Debt

Long-term debt is on the Balance Sheets carried at an amount equal to the unpaid principal balance, net of any remaining unamortized discount or premium and direct and any incremental costs attributable to issuance. Direct and incremental costs to issue the debt are recorded in Other assets on the Balance Sheets. Discounts, premiums and direct and incremental costs are amortized as a component of Interest expense in the Statements of Operations over the life of the debt using the effective interest method of amortization.

Repurchase Agreements

The Company engages in dollar repurchase agreements with MBS ("dollar rolls") and repurchase agreements with other collateral types to increase its return on investments and improve liquidity. Such arrangements meet the requirements to be accounted for as financing arrangements.

The Company enters into dollar roll transactions by selling existing MBS and concurrently entering into an agreement to repurchase similar securities within a short time frame at a lower price. Under repurchase agreements, the Company borrows cash from a counterparty at an agreed upon interest rate for an agreed upon time frame and pledges collateral in the form of securities. At the end of the agreement, the counterparty returns the collateral to the Company, and the Company, in turn, repays the loan amount along with the additional agreed upon interest.

The Company's policy requires that at all times during the term of the dollar roll and repurchase agreements that cash or other collateral types obtained is sufficient to allow the Company to fund substantially all of the cost of purchasing replacement assets. Cash received is invested in Short-term investments, with the offsetting obligation to repay the loan included within Other liabilities on the Balance Sheets. The carrying value of the securities pledged in dollar rolls and repurchase agreement transactions and the related repurchase obligation are included in Securities pledged and Short-term debt, respectively, on the Balance Sheets.

The primary risk associated with short-term collateralized borrowings is that the counterparty will be unable to perform under the terms of the contract. The Company's exposure is limited to the excess of the net replacement cost of the securities over the value of the short-term investments. The Company believes the counterparties to the dollar rolls and repurchase agreements are financially responsible and that the counterparty risk is minimal.

Recognition of Insurance Revenue and Related Benefits

Premiums related to traditional life insurance contracts and payout contracts with life contingencies are recognized in Premiums in the Statements of Operations when due from the contract owner. When premiums are due over a significantly shorter period than the period over which benefits are provided, any gross premium in excess of the net premium (i.e., the portion of the gross premium required to provide for all expected future benefits and expenses) is deferred and recognized into revenue in a constant relationship to insurance in force. Benefits are recorded in Interest credited and other benefits to contract owners/policyholders in the Statements of Operations when incurred.

Amounts received as payment for investment-type, universal life-type, fixed annuities, payout contracts without life contingencies and FIA contracts are reported as deposits to contract owner account balances. Revenues from these contracts consist primarily of fees assessed against the contract owner account balance for mortality and policy administration charges and are reported in Fee income. Surrender charges are reported in Other revenue. In addition, the Company earns investment income from the investment of contract deposits in the Company's general account portfolio, which is reported in Net investment income in the Statements of Operations. Fees assessed that represent compensation to the Company for services to be provided in future periods and certain other fees are deferred and amortized into revenue over the expected life of the related contracts in proportion to estimated gross profits in a manner consistent with DAC for these contracts. Benefits and expenses for these products include claims in excess of related account balances, expenses of contract administration and interest credited to contract owner account balances.

Income Taxes

The Company uses certain assumptions and estimates in determining (a) the income taxes payable or refundable to/from Voya Financial, Inc. for the current year, (b) the deferred income tax liabilities and assets for items recognized differently in its Financial Statements from amounts shown on its income tax returns and (c) the federal income tax expense. Determining these amounts requires analysis and interpretation of current tax laws and regulations, including the loss limitation rules associated with change in control. Management exercises considerable judgment in evaluating the amount and timing of recognition of the resulting income tax liabilities and assets. These judgments and estimates are reevaluated on a periodic basis. The Company will continue to evaluate as regulatory and business factors change.

Items required by tax regulations to be included in the tax return may differ from the items reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements may be different than the actual rate applied on the tax return. Some of these differences are permanent, such as the dividends received deduction which is estimated using information from the prior period and current year results. Other differences are temporary, reversing over time, such as the valuation of insurance reserves, and create deferred tax assets and liabilities.

The Company's deferred tax assets and liabilities resulting from temporary differences between financial reporting and tax bases of assets and liabilities are measured at the balance sheet date using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse.

Deferred tax assets represent the tax benefit of future deductible temporary differences, net operating loss carryforwards and tax credit carryforwards. The Company evaluates and tests the recoverability of its deferred tax assets. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. Considerable judgment and the use of estimates are required in determining whether a valuation allowance is necessary and, if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance, the Company considers many factors, including:

- The nature, frequency and severity of book income or losses in recent years;
- The nature and character of the deferred tax assets and liabilities;
- The recent cumulative book income (loss) position after adjustment for permanent differences;
- Taxable income in prior carryback years;
- Projected future taxable income, exclusive of reversing temporary differences and carryforwards;
- Projected future reversals of existing temporary differences;
- The length of time carryforwards can be utilized;
- Prudent and feasible tax planning strategies the Company would employ to avoid a tax benefit from expiring unused; and
- Tax rules that would impact the utilization of the deferred tax assets.

In establishing unrecognized tax benefits, the Company determines whether a tax position is more likely than not to be sustained under examination by the appropriate taxing authority. The Company also considers positions that have been reviewed and agreed to as part of an examination by the appropriate taxing authority. Tax positions that do not meet the more likely than not standard are not recognized in the Financial Statements. Tax positions that meet this standard are recognized in the Financial Statements. The Company measures the tax position as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate resolution with the tax authority that has full knowledge of all relevant information.

Reinsurance

The Company utilizes reinsurance agreements in most aspects of its insurance business to reduce its exposure to large losses. Such reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Company as direct insurer of the risks reinsured.

For each of its reinsurance agreements, the Company determines whether the agreement provides indemnification against loss or liability relating to insurance risk. The Company reviews contractual features, particularly those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims. The assumptions used to account for both long and short-duration reinsurance agreements are consistent with those used for the underlying contracts. Ceded Future policy benefits and contract owner account balances are reported gross on the Balance Sheets.

Long-duration: For reinsurance of long-duration contracts that transfer significant insurance risk, the difference, if any, between the amounts paid and benefits received related to the underlying contracts is included in the expected net cost of reinsurance, which is recorded as a component of the reinsurance asset or liability. Any difference between actual and expected net cost of reinsurance is recognized in the current period and included as a component of profits used to amortize DAC.

Short-duration: For prospective reinsurance of short-duration contacts that meet the criteria for reinsurance accounting, amounts paid are recorded as ceded premiums and ceded unearned premiums and are reflected as a component of Premiums in the Statements

of Operations and Other assets on the Balance Sheets, respectively. Ceded unearned premiums are amortized through premiums over the remaining contract period in proportion to the amount of protection provided.

If the Company determines that a reinsurance agreement does not expose the reinsurer to a reasonable possibility of a significant loss from insurance risk, the Company records the agreement using the deposit method of accounting. Deposits received are included in Other liabilities, and deposits made are included in Deposits, premiums receivable and reinsurance recoverable on the Balance Sheets. As amounts are paid or received, consistent with the underlying contracts, the deposit assets or liabilities are adjusted. Interest on such deposits is recorded as Other revenues or Other expenses in the Statements of Operations, as appropriate. Periodically, the Company evaluates the adequacy of the expected payments or recoveries and adjusts the deposit asset or liability through Other revenues or Other expenses, as appropriate.

Accounting for reinsurance requires use of assumptions and estimates, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish assets and liabilities relating to ceded and assumed reinsurance. The Company also evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers.

Only those reinsurance recoverable balances deemed probable of recovery are recognized as assets on the Company's Balance Sheets and are stated net of allowances for uncollectible reinsurance. Amounts currently recoverable and payable under reinsurance agreements are included in Reinsurance recoverable and Other liabilities, respectively. Such assets and liabilities relating to reinsurance agreements with the same reinsurer are recorded net on the Balance Sheets if a right of offset exists within the reinsurance agreement. Premiums, Fee income and Interest credited and other benefits to contract owners/policyholders are reported net of reinsurance ceded. Amounts received from reinsurers for policy administration are reported in Other revenue.

The Company has entered into combined coinsurance and coinsurance funds withheld reinsurance arrangements that contain embedded derivatives for which carrying value is estimated based on the change in the fair value of the assets supporting the funds withheld payable under the agreements.

The Company currently has significant concentrations of ceded reinsurance with its affiliates, Security Life of Denver Insurance Company ("SLD") and Roaring River II, Inc. ("RRII"), primarily related to funding agreements and UL policies with respect to SLD and variable annuities with respect to RRII.

Participating Insurance

Participating business approximates 14.4% of the Company's ordinary life insurance in force and 30.0% of life insurance premium income. The amount of dividends to be paid is determined annually by the Board of Directors. Amounts allocable to participating contract owners are based on published dividend projections or expected dividend scales. Dividends to participating policyholders of $8.1 were incurred during the year ended December 31, 2016. Dividends to participating policyholders of $8.6, were incurred during the years ended December 31, 2015 and 2014.

Contingencies

A loss contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. Examples of loss contingencies include pending or threatened adverse litigation, threat of expropriation of assets and actual or possible claims and assessments. Amounts related to loss contingencies are accrued and recorded in Other liabilities on the Balance Sheets if it is probable that a loss has been incurred and the amount can be reasonably estimated, based on the Company's best estimate of the ultimate outcome.

Adoption of New Pronouncements

Short-Duration Contracts
In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-09, "Financial Services - Insurance (Accounting Standards Codification ("ASC") Topic 944): Disclosures about Short-Duration Contracts" ("ASU 2015-09"), which requires insurance entities to disclose, for annual reporting periods, information about the liability for unpaid claims and claim adjustment expenses and about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claims adjustment expenses. The standard also requires entities to disclose, for annual and interim reporting periods, a rollforward of the liability for unpaid claims and claim adjustment expenses.

The provisions of ASU 2015-09 were adopted, retrospectively, by the Company on December 15, 2016. The adoption had no effect on the Company's disclosures, as the Company's liabilities to which this guidance relates are not significant.

Derivative Contract Novations
In March 2016, the FASB issued ASU 2016-05, "Derivatives and Hedging (ASC Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships" ("ASU 2016-05"), which clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under ASC Topic 815 does not, in and of itself, require dedesignation of that hedging relationship.

The provisions of ASU 2016-05 are effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016 with early adoption permitted, using either a prospective or modified retrospective approach. The Company elected to early adopt ASU 2016-05 as of January 1, 2016 on a prospective basis. The adoption had no effect on the Company's financial condition, results of operations or cash flows.

Consolidation
In February 2015, the FASB issued ASU 2015-02, "Consolidation (ASC Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02"), which:

- Modifies the evaluation of whether limited partnerships and similar legal entities are Variable Interest Entities ("VIEs") or Voting Interest Entities ("VOEs"), including the requirement to consider the rights of all equity holders at risk to determine if they have the power to direct the entity's most significant activities.
- Eliminates the presumption that a general partner should consolidate a limited partnership. Limited partnerships and similar entities will be VIEs unless the limited partners hold substantive kick-out rights in the participating rights.
- Affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships.
- Provides a new scope exception for registered money market funds and similar unregistered money market funds, and ends the deferral granted to investment companies from applying the VIE guidance.

The Company adopted the provisions of ASU 2015-02 on January 1, 2016 using a modified retrospective approach. The adoption had no effect on the Company's financial condition or results of operations, but impacted disclosures only. Investments in limited partnerships previously accounted for as VOEs became VIEs under the new guidance as the limited partners do not hold substantive kick-out rights or participating rights. See *Variable Interest Entities* section of the *Investments* Note to these Financial Statements for additional information.

Hybrid Financial Instruments
In November 2014, the FASB issued ASU 2014-16, "Derivatives and Hedging (ASC Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity" ("ASU 2014-16"), which requires an entity to determine the nature of the host contract by considering the economic characteristics and risks of the entire hybrid financial instrument, including all embedded derivative features.

The provisions of ASU 2014-16 were adopted by the Company on January 1, 2016. The adoption had no effect on the Company's financial condition, results of operations or cash flows.

Future Adoption of Accounting Pronouncements

Statement of Cash Flows
In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (ASC Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), which addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on eight specific cash flow issues.

The provisions of ASU 2016-15 are effective retrospectively for fiscal years beginning after December 15, 2017, including interim periods, with early adoption permitted. The Company is currently in the process of determining the impact of adoption of the provisions of ASU 2016-15.

Financial Instruments - Credit Losses
In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (ASC Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which:

- Introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments,
- Modifies the impairment model for available-for-sale debt securities, and
- Provides a simplified accounting model for purchased financial assets with credit deterioration since their origination.

The provisions of ASU 2016-13 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. Initial adoption of ASU 2016-13 is required to be reported on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, except for certain provisions that are required to be applied prospectively. The Company is currently in the process of determining the impact of adoption of the provisions of ASU 2016-13.

Debt Instruments
In March 2016, the FASB issued ASU 2016-06, "Derivatives and Hedging (ASC Topic 815): Contingent Put and Call Options in Debt Instruments" ("ASU 2016-06"), which clarifies that an entity is only required to follow the four-step decision sequence when assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts for purposes of bifurcating an embedded derivative. The entity does not need to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks.

The provisions of ASU 2016-06 are effective on a modified retrospective basis for fiscal years beginning after December 15, 2016, including interim periods, with early adoption permitted. The Company is currently in the process of determining the impact of adoption of the provisions of ASU 2016-06.

Financial Instruments - Recognition and Measurement
In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (ASC Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"), which requires:

- Equity investments (except those consolidated or accounted for under the equity method) to be measured at fair value with changes in fair value recognized in net income.
- Elimination of the disclosure of methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost.
- The use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
- Separate presentation in other comprehensive income of the portion of the total change in fair value of a liability resulting from a change in own credit risk if the liability is measured at fair value under the fair value option.
- Separate presentation on the balance sheet or financial statement notes of financial assets and financial liabilities by measurement category and form of financial asset.

The provisions of ASU 2016-01 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption only permitted for certain provisions. Initial adoption of ASU 2016-01 is required to be reported on a modified retrospective basis, with a cumulative-effect adjustment to the balance sheet as of the beginning of the year of adoption, except for certain provisions that are required to be applied prospectively. The Company is currently in the process of determining the impact of adoption of the provisions of ASU 2016-01.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (ASC Topic 606)" ("ASU 2014-09"), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the entity satisfies a performance obligation under the contract. ASU 2014-09 also updated the accounting for certain costs associated with obtaining and fulfilling contracts with customers and requires disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In addition, the FASB issued various amendments during 2016 to clarify the provisions and implementation guidance of ASU 2014-09. Revenue recognition for insurance contracts and financial instruments is explicitly scoped out of the guidance.

The provisions of ASU 2014-09 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted as of January 1, 2017. Initial adoption of ASU 2014-09 is required to be reported using either a retrospective or modified retrospective approach.

The Company plans to adopt ASU 2014-09 on January 1, 2018. As the scope of ASU 2014-09 excludes insurance contracts and financial instruments, the guidance does not apply to a significant portion of the Company’s business. Consequently, the Company does not currently expect the adoption of this guidance to have a material impact; however, implementation efforts, including assessment of transition approach, are ongoing.

2. Investments

Fixed Maturities and Equity Securities

Available-for-sale and FVO fixed maturities and equity securities were as follows as of December 31, 2016:

	Amortized Cost	Gross Unrealized Capital Gains	Gross Unrealized Capital Losses	Embedded Derivatives[2]	Fair Value	OTTI[3][4]
Fixed maturities:						
U.S. Treasuries	$ 946.4	$ 45.0	$ 8.5	$ -	$ 982.9	$ -
U.S. Government agencies and authorities	29.4	3.6	-	-	33.0	-
State, municipalities and political subdivisions	500.1	8.3	11.0	-	497.4	-
U.S. corporate public securities	9,992.8	509.9	58.0	-	10,444.7	4.0
U.S. corporate private securities	2,753.6	73.4	49.4	-	2,777.6	-
Foreign corporate public securities and foreign governments [1]	2,620.2	99.5	30.6	-	2,689.1	-
Foreign corporate private securities [1]	2,734.6	103.9	23.1	-	2,815.4	-
Residential mortgage-backed securities:						
Agency	1,375.6	61.5	13.2	11.0	1,434.9	-
Non-Agency	271.4	41.1	2.3	4.6	314.8	11.0
Total Residential mortgage-backed securities	1,647.0	102.6	15.5	15.6	1,749.7	11.0
Commercial mortgage-backed securities	951.2	14.0	8.1	-	957.1	-
Other asset-backed securities	317.8	7.8	3.0	-	322.6	0.3
Total fixed maturities, including securities pledged	22,493.1	968.0	207.2	15.6	23,269.5	15.3
Less: Securities pledged	722.6	29.2	3.6	-	748.2	-
Total fixed maturities	21,770.5	938.8	203.6	15.6	22,521.3	15.3
Equity securities	15.2	3.5	-	-	18.7	-
Total fixed maturities and equity securities investments	$ 21,785.7	$ 942.3	$ 203.6	$ 15.6	$ 22,540.0	$ 15.3

[1] Primarily U.S. dollar denominated.
[2] Embedded derivatives within fixed maturity securities are reported with the host investment. The changes in fair value of embedded derivatives are reported in Other net realized capital gains (losses) in the Statements of Operations.
[3] Represents OTTI reported as a component of Other comprehensive income (loss).
[4] Amount excludes $118.2 of net unrealized gains on impaired available-for-sale securities.

Available-for-sale and FVO fixed maturities and equity securities were as follows as of December 31, 2015:

	Amortized Cost	Gross Unrealized Capital Gains	Gross Unrealized Capital Losses	Embedded Derivatives[2]	Fair Value	OTTI[3][4]
Fixed maturities:						
U.S. Treasuries	$ 992.7	$ 70.2	$ 4.2	$ -	$ 1,058.7	$ -
U.S. Government agencies and authorities	79.4	2.8	0.3	-	81.9	-
State, municipalities and political subdivisions	359.1	6.6	5.2	-	360.5	-
U.S. corporate public securities	10,718.9	389.2	236.2	-	10,871.9	4.5
U.S. corporate private securities	2,365.0	74.3	44.9	-	2,394.4	-
Foreign corporate public securities and foreign governments [1]	2,826.9	67.3	101.2	-	2,793.0	-
Foreign corporate private securities [1]	2,592.9	95.0	61.9	-	2,626.0	-
Residential mortgage-backed securities						
Agency	1,525.4	81.2	5.8	14.9	1,615.7	-
Non-Agency	221.4	43.9	2.1	6.2	269.4	19.5
Total Residential mortgage-backed securities	1,746.8	125.1	7.9	21.1	1,885.1	19.5
Commercial mortgage-backed securities	1,311.0	35.8	3.4	-	1,343.4	-
Other asset-backed securities	257.6	11.3	5.6	-	263.3	0.3
Total fixed maturities, including securities pledged	23,250.3	877.6	470.8	21.1	23,678.2	24.3
Less: Securities pledged	633.3	52.2	13.1	-	672.4	-
Total fixed maturities	22,617.0	825.4	457.7	21.1	23,005.8	24.3
Equity securities	15.4	3.8	-	-	19.2	-
Total fixed maturities and equity securities investments	$ 22,632.4	$ 829.2	$ 457.7	$ 21.1	$ 23,025.0	$ 24.3

[1] Primarily U.S. dollar denominated.
[2] Embedded derivatives within fixed maturity securities are reported with the host investment. The changes in fair value of embedded derivatives are reported in Other net realized capital gains (losses) in the Statements of Operations.
[3] Represents OTTI reported as a component of Other comprehensive income (loss).
[4] Amount excludes $180.3 of net unrealized gains on impaired available-for-sale securities.

The amortized cost and fair value of fixed maturities, including securities pledged, as of December 31, 2016, are shown below by contractual maturity. Actual maturities may differ from contractual maturities as securities may be restructured, called or prepaid. MBS and Other ABS are shown separately because they are not due at a single maturity date.

	Amortized Cost	Fair Value
Due to mature:		
One year or less	$ 977.5	$ 978.6
After one year through five years	4,778.4	4,977.2
After five years through ten years	8,053.5	8,171.5
After ten years	5,767.7	6,112.8
Mortgage-backed securities	2,598.2	2,706.8
Other asset-backed securities	317.8	322.6
Fixed maturities, including securities pledged	$ 22,493.1	$ 23,269.5

The investment portfolio is monitored to maintain a diversified portfolio on an ongoing basis. Credit risk is mitigated by monitoring concentrations by issuer, sector and geographic stratification and limiting exposure to any one issuer.

As of December 31, 2016 and 2015, the Company did not have any investments in a single issuer, other than obligations of the U.S. Government and government agencies, with a carrying value in excess of 10% of the Company's Shareholder's equity.

The following tables set forth the composition of the U.S. and foreign corporate securities within the fixed maturity portfolio by industry category as of the dates indicated:

	Amortized Cost	Gross Unrealized Capital Gains	Gross Unrealized Capital Losses	Fair Value
December 31, 2016				
Communications	$ 1,070.3	$ 83.7	$ 4.4	$ 1,149.6
Financial	2,917.6	115.6	18.2	3,015.0
Industrial and other companies	8,692.2	342.7	70.7	8,964.2
Energy	1,809.2	85.5	20.5	1,874.2
Utilities	2,642.1	125.4	32.8	2,734.7
Transportation	600.3	24.2	5.9	618.6
Total	$ 17,731.7	$ 777.1	$ 152.5	$ 18,356.3
December 31, 2015				
Communications	$ 1,147.2	$ 64.9	$ 17.9	$ 1,194.2
Financial	2,798.2	108.8	22.1	2,884.9
Industrial and other companies	8,778.0	282.1	165.9	8,894.2
Energy	2,357.3	32.2	175.9	2,213.6
Utilities	2,500.6	113.6	31.2	2,583.0
Transportation	571.8	17.0	13.8	575.0
Total	$ 18,153.1	$ 618.6	$ 426.8	$ 18,344.9

Fixed Maturities and Equity Securities

The Company's fixed maturities and equity securities are currently designated as available-for-sale, except those accounted for using the FVO. Available-for-sale securities are reported at fair value and unrealized capital gains (losses) on these securities are recorded directly in AOCI and presented net of related changes in DAC, VOBA and Deferred income taxes. In addition, certain fixed maturities have embedded derivatives, which are reported with the host contract on the Balance Sheets.

The Company has elected the FVO for certain of its fixed maturities to better match the measurement of assets and liabilities in the Statements of Operations. Certain CMOs, primarily interest-only and principal-only strips, are accounted for as hybrid instruments and valued at fair value with changes in the fair value recorded in Other net realized capital gains (losses) in the Statements of Operations.

The Company invests in various categories of CMOs, including CMOs that are not agency-backed, that are subject to different degrees of risk from changes in interest rates and defaults. The principal risks inherent in holding CMOs are prepayment and extension risks related to significant decreases and increases in interest rates resulting in the prepayment of principal from the underlying mortgages, either earlier or later than originally anticipated. As of December 31, 2016 and 2015, approximately 53.8% and 46.6%, respectively, of the Company's CMO holdings, were invested in the above mentioned types of CMOs such as interest-only or principal-only strips, that are subject to more prepayment and extension risk than traditional CMOs.

Public corporate fixed maturity securities are distinguished from private corporate fixed maturity securities based upon the manner in which they are transacted. Public corporate fixed maturity securities are issued initially through market intermediaries on a registered basis or pursuant to Rule 144A under the Securities Act of 1933 (the "Securities Act") and are traded on the secondary market through brokers acting as principal. Private corporate fixed maturity securities are originally issued by borrowers directly to investors pursuant to Section 4(a)(2) of the Securities Act, and are traded in the secondary market directly with counterparties, either without the participation of a broker or in agency transactions.

Repurchase Agreements

As of December 31, 2016 and 2015, the Company did not have any securities pledged in dollar rolls, repurchase agreement transactions or reverse repurchase agreements.

Securities Lending

As of December 31, 2016 and 2015, the fair value of loaned securities was $270.9 and $147.9, respectively, and is included in Securities pledged on the Balance Sheets. As of December 31, 2016 and 2015, cash collateral retained by the lending agent and invested in short-term liquid assets on the Company's behalf was $111.0 and $153.6, respectively, and is recorded in Short-term investments under securities loan agreements, including collateral delivered on the Balance Sheets. As of December 31, 2016 and 2015, liabilities to return collateral of $111.0 and $153.6, respectively, are included in Payables under securities loan agreements, including collateral held on the Balance Sheets.

During the first quarter of 2016 under an amendment to the securities lending program, the Company began accepting non-cash collateral in the form of securities. The securities retained as collateral by the lending agent may not be sold or re-pledged, except in the event of default, and are not reflected in the Company’s Balance Sheets. This collateral generally consists of U.S. Treasury, U.S. Government agency securities and MBS pools. As of December 31, 2016, the fair value of securities retained as collateral by the lending agent on the Company’s behalf was $168.2. As of December 31, 2015, the Company did not retain any securities as collateral.

The following table sets forth borrowings under securities lending transactions by class of collateral pledged for the dates indicated:

	December 31, 2016[1]	December 31, 2015
U.S. Treasuries	$ 62.4	$ -
U.S. corporate public securities	174.3	73.5
Foreign corporate public securities and foreign governments	42.5	80.1
Payables under securities loan agreements	$ 279.2	$ 153.6

[1] Borrowings under securities lending transactions include both cash and non-cash collateral of $111.0 and $168.2, respectively.

The Company's securities lending activities are conducted on an overnight basis, and all securities loaned can be recalled at any time. The Company does not offset assets and liabilities associated with its securities lending program.

Variable Interest Entities

The Company holds certain VIEs for investment purposes. VIEs may be in the form of private placement securities, structured securities, securitization transactions, or limited partnerships. The Company has reviewed each of its holdings and determined that consolidation of these investments in the Company's financial statements is not required, as the Company is not the primary beneficiary, because the Company does not have both the power to direct the activities that most significantly impact the entity's economic performance and the obligation or right to potentially significant losses or benefits, for any of its investments in VIEs. The Company did not provide any non-contractual financial support and its carrying value represents the Company's exposure to loss. The carrying value of the investments in VIEs was $227.4 and $1.2 as of December 31, 2016 and 2015, respectively; these investments are included in Limited partnerships/corporations on the Balance Sheets. Income and losses recognized on these investments are reported in Net investment income in the Statements of Operations.

Securitizations

The Company invests in various tranches of securitization entities, including RMBS, CMBS and ABS. Through its investments, the Company is not obligated to provide any financial or other support to these entities. Each of the RMBS, CMBS and ABS entities are thinly capitalized by design and considered VIEs. The Company's involvement with these entities is limited to that of a passive investor. The Company has no unilateral right to appoint or remove the servicer, special servicer or investment manager, which are generally viewed to have the power to direct the activities that most significantly impact the securitization entities' economic performance, in any of these entities, nor does the Company function in any of these roles. The Company, through its investments or other arrangements, does not have the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the entity. Therefore, the Company is not the primary beneficiary and will not consolidate any of the RMBS, CMBS and ABS entities in which it holds investments. These investments are accounted for as investments available-for-sale as described in the *Business, Basis of Presentation and Significant Accounting Policies* Note to these Financial Statements and unrealized capital gains (losses) on these securities are recorded directly in AOCI, except for certain RMBS which are accounted for under the FVO for which changes in fair value are reflected in Other net realized gains (losses) in the Statements of Operations. The Company's maximum exposure to loss on these structured investments is limited to the amount of its investment.

Unrealized Capital Losses

Unrealized capital losses (including noncredit impairments), along with the fair value of fixed maturity securities, including securities pledged, by market sector and duration were as follows as of December 31, 2016:

	Six Months or Less Below Amortized Cost		More Than Six Months and Twelve Months or Less Below Amortized Cost		More Than Twelve Months Below Amortized Cost		Total	
	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses
U.S. Treasuries	$ 455.0	$ 8.5	$ -	$ -	$ -	$ -	$ 455.0	$ 8.5
U.S. Government agencies and authorities	-	-	-	-	-	-	-	-
State, municipalities and political subdivisions	269.3	9.5	-	-	11.7	1.5	281.0	11.0
U.S. corporate public securities	1,931.7	43.0	23.9	1.2	171.2	13.8	2,126.8	58.0
U.S. corporate private securities	822.9	29.2	34.5	0.7	122.9	19.5	980.3	49.4
Foreign corporate public securities and foreign governments	411.2	12.7	19.6	1.4	140.6	16.5	571.4	30.6
Foreign corporate private securities	478.6	17.8	-	-	50.7	5.3	529.3	23.1
Residential mortgage-backed	374.8	10.9	34.8	0.8	53.3	3.8	462.9	15.5
Commercial mortgage-backed	281.2	6.4	12.9	-	14.1	1.7	308.2	8.1
Other asset-backed	87.5	0.3	-	-	52.0	2.7	139.5	3.0
Total	$ 5,112.2	$ 138.3	$ 125.7	$ 4.1	$ 616.5	$ 64.8	$ 5,854.4	$ 207.2

Unrealized capital losses (including noncredit impairments), along with the fair value of fixed maturity securities, including securities pledged, by market sector and duration were as follows as of December 31, 2015:

	Six Months or Less Below Amortized Cost		More Than Six Months and Twelve Months or Less Below Amortized Cost		More Than Twelve Months Below Amortized Cost		Total	
	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses
U.S. Treasuries	$ 311.6	$ 4.2	$ -	$ -	$ -	$ -	$ 311.6	$ 4.2
U.S. Government agencies and authorities	49.3	0.3	-	-	-	-	49.3	0.3
State, municipalities and political subdivisions	116.9	1.3	98.9	3.9	-	-	215.8	5.2
U.S. corporate public securities	1,973.2	63.0	2,250.3	140.7	136.1	32.5	4,359.6	236.2
U.S. corporate private securities	362.0	9.7	369.5	28.2	34.3	7.0	765.8	44.9
Foreign corporate public securities and foreign governments	815.3	28.0	416.3	45.7	134.0	27.5	1,365.6	101.2
Foreign corporate private securities	492.8	40.6	194.5	14.3	23.0	7.0	710.3	61.9
Residential mortgage-backed	145.8	1.0	94.1	1.7	150.8	5.2	390.7	7.9
Commercial mortgage-backed	236.2	1.9	25.2	0.8	0.7	0.7	262.1	3.4
Other asset-backed	13.5	- *	-	-	76.7	5.6	90.2	5.6
Total	$ 4,516.6	$ 150.0	$ 3,448.8	$ 235.3	$ 555.6	$ 85.5	$ 8,521.0	$ 470.8

*Less than $0.1.

Of the unrealized capital losses aged more than twelve months, the average market value of the related fixed maturities was 90.5% and 86.6% of the average book value as of December 31, 2016 and 2015, respectively.

Unrealized capital losses (including noncredit impairments) in fixed maturities, including securities pledged, for instances in which fair value declined below amortized cost by greater than or less than 20% for consecutive months as indicated in the tables below, were as follows as of the dates indicated:

	Amortized Cost		Unrealized Capital Losses		Number of Securities	
	< 20%	> 20%	< 20%	> 20%	< 20%	> 20%
December 31, 2016						
Six months or less below amortized cost	$ 5,318.4	$ 18.5	$ 147.7	$ 4.2	955	8
More than six months and twelve months or less below amortized cost	260.5	12.6	15.5	4.0	59	3
More than twelve months below amortized cost	429.5	22.1	29.2	6.6	141	6
Total	$ 6,008.4	$ 53.2	$ 192.4	$ 14.8	1,155	17
December 31, 2015						
Six months or less below amortized cost	$ 4,611.3	$ 468.6	$ 131.4	$ 131.5	758	93
More than six months and twelve months or less below amortized cost	3,445.1	-	171.2	-	524	-
More than twelve months below amortized cost	450.4	16.4	32.4	4.3	158	3
Total	$ 8,506.8	$ 485.0	$ 335.0	$ 135.8	1,440	96

Unrealized capital losses (including noncredit impairments) in fixed maturities, including securities pledged, by market sector for instances in which fair value declined below amortized cost by greater than or less than 20% were as follows as of the dates indicated:

	Amortized Cost		Unrealized Capital Losses		Number of Securities	
	< 20%	> 20%	< 20%	> 20%	< 20%	> 20%
December 31, 2016						
U.S. Treasuries	$ 463.5	$ -	$ 8.5	$ -	11	-
U.S. Government agencies and authorities	-	-	-	-	-	-
State, municipalities and political subdivisions	292.0	-	11.0	-	185	-
U.S. corporate public securities	2,172.6	12.2	55.0	3.0	374	3
U.S. corporate private securities	995.5	34.2	40.3	9.1	114	3
Foreign corporate public securities and foreign governments	597.8	4.2	29.6	1.0	126	3
Foreign corporate private securities	552.4	- *	23.1	- *	61	2
Residential mortgage-backed	478.4	- *	15.5	- *	172	3
Commercial mortgage-backed	313.7	2.6	6.4	1.7	66	3
Other asset-backed	142.5	-	3.0	-	46	-
Total	$ 6,008.4	$ 53.2	$ 192.4	$ 14.8	1,155	17
December 31, 2015						
U.S. Treasuries	$ 315.8	$ -	$ 4.2	$ -	8	-
U.S. Government agencies and authorities	49.6	-	0.3	-	1	-
State, municipalities and political subdivisions	221.0	-	5.2	-	117	-
U.S. corporate public securities	4,316.2	279.6	159.1	77.1	681	57
U.S. corporate private securities	769.5	41.2	33.3	11.6	90	4
Foreign corporate public securities and foreign governments	1,343.5	123.3	66.6	34.6	251	26
Foreign corporate private securities	734.2	38.0	50.4	11.5	81	5
Residential mortgage-backed	398.6	- *	7.9	- *	141	2
Commercial mortgage-backed	264.1	1.4	2.7	0.7	33	1
Other asset-backed	94.3	1.5	5.3	0.3	37	1
Total	$ 8,506.8	$ 485.0	$ 335.0	$ 135.8	1,440	96

*Less than $0.1.

Investments with fair values less than amortized cost are included in the Company's other-than-temporary impairments analysis. Impairments were recognized as disclosed in the "Evaluating Securities for Other-Than-Temporary Impairments" section below. The Company evaluates non-agency RMBS and ABS for "other-than-temporary impairments" each quarter based on actual and projected cash flows, after considering the quality and updated loan-to-value ratios reflecting current home prices of underlying collateral, forecasted loss severity, the payment priority within the tranche structure of the security and amount of any credit enhancements. The Company's assessment of current levels of cash flows compared to estimated cash flows at the time the securities were acquired (typically pre-2008) indicates the amount and the pace of projected cash flows from the underlying collateral has generally been lower and slower, respectively. However, since cash flows are typically projected at a trust level, the impairment review incorporates the security's position within the trust structure as well as credit enhancement remaining in the trust to determine whether an impairment is warranted. Therefore, while lower and slower cash flows will impact the trust, the effect on the valuation of a particular security within the trust will also be dependent upon the trust structure. Where the assessment continues to project full recovery of principal and interest on schedule, the Company has not recorded an impairment. Based on this analysis, the Company determined that the remaining investments in an unrealized loss position were not other-than-temporarily impaired and therefore no further other-than-temporary impairment was necessary.

Troubled Debt Restructuring

The Company invests in high quality, well performing portfolios of commercial mortgage loans and private placements. Under certain circumstances, modifications are granted to these contracts. Each modification is evaluated as to whether a troubled debt restructuring has occurred. A modification is a troubled debt restructuring when the borrower is in financial difficulty and the creditor makes concessions. Generally, the types of concessions may include reducing the face amount or maturity amount of the debt as originally stated, reducing the contractual interest rate, extending the maturity date at an interest rate lower than current market interest rates and/or reducing accrued interest. The Company considers the amount, timing and extent of the concession granted in determining any impairment or changes in the specific valuation allowance recorded in connection with the troubled debt restructuring. A valuation allowance may have been recorded prior to the quarter when the loan is modified in a troubled debt restructuring. Accordingly, the carrying value (net of the specific valuation allowance) before and after modification through a troubled debt restructuring may not change significantly, or may increase if the expected recovery is higher than the pre-modification recovery assessment. For the years ended December 31, 2016 and 2015, the Company had no new troubled debt restructurings for private placement bonds or commercial mortgage loans.

As of December 31, 2016, the Company held no commercial mortgage troubled debt restructured loans.

As of December 31, 2016 and 2015, the Company did not have any commercial mortgage loans or private placements modified in a troubled debt restructuring with a subsequent payment default.

Mortgage Loans on Real Estate

The Company's mortgage loans on real estate are all commercial mortgage loans held for investment, which are reported at amortized cost, less impairment write-downs and allowance for losses. The Company diversifies its commercial mortgage loan portfolio by geographic region and property type to reduce concentration risk. The Company manages risk when originating commercial mortgage loans by generally lending only up to 75% of the estimated fair value of the underlying real estate. Subsequently, the Company continuously evaluates mortgage loans based on relevant current information including a review of loan-specific credit quality, property characteristics and market trends. Loan performance is monitored on a loan specific basis through the review of submitted appraisals, operating statements, rent revenues and annual inspection reports, among other items. This review ensures properties are performing at a consistent and acceptable level to secure the debt. The components to evaluate debt service coverage are received and reviewed at least annually to determine the level of risk.

The following table summarizes the Company's investment in mortgage loans as of the dates indicated:

	December 31, 2016			December 31, 2015		
	Impaired	Non Impaired	Total	Impaired	Non Impaired	Total
Commercial mortgage loans	$ -	$ 3,882.5	$ 3,882.5	$ 3.7	$ 3,308.2	$ 3,311.9
Collective valuation allowance for losses	N/A	(1.0)	(1.0)	N/A	(1.0)	(1.0)
Total net commercial mortgage loans	$ -	$ 3,881.5	$ 3,881.5	$ 3.7	$ 3,307.2	$ 3,310.9

N/A - Not Applicable

There were no impairments taken on the mortgage loan portfolio for the years ended December 31, 2016 and 2015.

The following table summarizes the activity in the allowance for losses for commercial mortgage loans for the periods indicated:

	December 31, 2016	December 31, 2015
Collective valuation allowance for losses, balance at January 1	$ 1.0	$ 0.8
Addition to (reduction of) allowance for losses	-	0.2
Collective valuation allowance for losses, end of period	$ 1.0	$ 1.0

The carrying values and unpaid principal balances of impaired mortgage loans were as follows as of the dates indicated:

	December 31, 2016	December 31, 2015
Impaired loans without allowances for losses	$ -	$ 3.7
Less: Allowances for losses on impaired loans	-	-
Impaired loans, net	$ -	$ 3.7
Unpaid principal balance of impaired loans	$ -	$ 3.7

The following table presents information on restructured loans as of the dates indicated:

	December 31, 2016	December 31, 2015
Troubled debt restructured loans	$ -	$ 3.7

The Company defines delinquent mortgage loans consistent with industry practice as 60 days past due. The Company's policy is to recognize interest income until a loan becomes 90 days delinquent or foreclosure proceedings are commenced, at which point interest accrual is discontinued. Interest accrual is not resumed until the loan is brought current.

There were no mortgage loans in the Company's portfolio in process of foreclosure as of December 31, 2016 and 2015.

There were no loans 30 days or less in arrears, with respect to principal and interest as of December 31, 2016. There were two loans 30 days or less in arrears, with respect to principal and interest as of December 31, 2015, with a total amortized cost of $2.1.

Commercial loans are placed on non-accrual status when 90 days in arrears if the Company has concerns regarding the collectability of future payments, or if a loan has matured without being paid off or extended. Factors considered may include conversations with the borrower, loss of major tenant, bankruptcy of borrower or major tenant, decreased property cash flow, number of days past due, or various other circumstances. Based on an assessment as to the collectability of the principal, a determination is made to either apply against the book value or apply according to the contractual terms of the loan. Funds recovered in excess of book value would then be applied to recover expenses, impairments, and then interest. Accrual of interest resumes after factors resulting in doubts about collectability have improved.

The following table presents information on the average investment during the period in impaired loans and interest income recognized on impaired and troubled debt restructured loans for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
Impaired loans, average investment during the period (amortized cost) [1]	$ 1.8	$ 10.4	$ 20.2
Interest income recognized on impaired loans, on an accrual basis [1]	-	0.5	1.1
Interest income recognized on impaired loans, on a cash basis [1]	-	0.6	1.0
Interest income recognized on troubled debt restructured loans, on an accrual basis	-	0.5	1.1

[1] Includes amounts for Troubled debt restructured loans.

Loan-to-value ("LTV") and debt service coverage ("DSC") ratios are measures commonly used to assess the risk and quality of mortgage loans. The LTV ratio, calculated at time of origination, is expressed as a percentage of the amount of the loan relative to the value of the underlying property. A LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the underlying collateral. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of a property's net income to its debt service payments. A DSC ratio of less than 1.0 indicates that a property's operations do not generate sufficient income to cover debt payments. These ratios are utilized as part of the review process described above.

The following table presents the LTV ratios as of the dates indicated:

	December 31, 2016[1]	December 31, 2015[1]
Loan-to-Value Ratio:		
0% - 50%	$ 428.7	$ 399.9
>50% - 60%	1,010.8	927.9
>60% - 70%	2,104.1	1,772.0
>70% - 80%	334.7	207.0
>80% and above	4.2	5.1
Total Commercial mortgage loans	$ 3,882.5	$ 3,311.9

[1] Balances do not include collective valuation allowance for losses.

The following table presents the DSC ratios as of the dates indicated:

	December 31, 2016[1]	December 31, 2015[1]
Debt Service Coverage Ratio:		
Greater than 1.5x	$ 3,013.6	$ 2,569.3
>1.25x - 1.5x	438.9	505.3
>1.0x - 1.25x	308.2	145.6
Less than 1.0x	77.2	40.4
Commercial mortgage loans secured by land or construction loans	44.6	51.3
Total Commercial mortgage loans	$ 3,882.5	$ 3,311.9

[1] Balances do not include collective valuation allowance for losses.

Properties collateralizing mortgage loans are geographically dispersed throughout the United States, as well as diversified by property type, as reflected in the following tables as of the dates indicated:

	December 31, 2016[1]		December 31, 2015[1]	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
Commercial Mortgage Loans by U.S. Region:				
Pacific	$ 887.6	22.9%	$ 763.0	23.0%
South Atlantic	979.4	25.2%	792.5	23.9%
Middle Atlantic	494.5	12.7%	467.2	14.1%
West South Central	466.2	12.0%	388.8	11.7%
Mountain	378.5	9.7%	334.1	10.1%
East North Central	400.2	10.3%	324.2	9.8%
New England	64.1	1.7%	58.2	1.8%
West North Central	140.0	3.6%	117.6	3.6%
East South Central	72.0	1.9%	66.3	2.0%
Total Commercial mortgage loans	$ 3,882.5	100.0%	$ 3,311.9	100.0%

[1] Balances do not include collective valuation allowance for losses.

	December 31, 2016[1]		December 31, 2015[1]	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
Commercial Mortgage Loans by Property Type:				
Retail	$ 1,144.7	29.5%	$ 1,125.1	33.9%
Industrial	988.2	25.5%	788.3	23.8%
Apartments	832.3	21.4%	615.2	18.6%
Office	668.4	17.2%	535.6	16.2%
Hotel/Motel	82.9	2.1%	83.3	2.5%
Mixed Use	31.1	0.8%	29.9	0.9%
Other	134.9	3.5%	134.5	4.1%
Total Commercial mortgage loans	$ 3,882.5	100.0%	$ 3,311.9	100.0%

[1]Balances do not include collective valuation allowance for losses.

The following table sets forth the breakdown of mortgages by year of origination as of the dates indicated:

	December 31, 2016[1]	December 31, 2015[1]
Year of Origination:		
2016	$ 959.3	$ -
2015	795.5	810.1
2014	553.6	557.9
2013	600.5	624.7
2012	169.1	232.8
2011	353.2	460.4
2010 and prior	451.3	626.0
Total Commercial mortgage loans	$ 3,882.5	$ 3,311.9

[1] Balances do not include collective valuation allowance for losses.

Evaluating Securities for Other-Than-Temporary Impairments

The Company performs a regular evaluation, on a security-by-security basis, of its available-for-sale securities holdings, including fixed maturity securities and equity securities in accordance with its impairment policy in order to evaluate whether such investments are other-than-temporarily impaired.

The following table identifies the Company's credit-related and intent-related impairments included in the Statements of Operations, excluding impairments included in Other comprehensive income (loss) by type for the periods indicated:

	Year Ended December 31,					
	2016		2015		2014	
	Impairment	No. of Securities	Impairment	No. of Securities	Impairment	No. of Securities
U.S. corporate public securities	$ 1.9	2	$ 11.0	10	$ 1.4	2
Foreign corporate public securities and foreign governments [1]	2.6	2	18.2	6	0.6	4
Foreign corporate private securities [1]	1.5	2	0.5	1	-	-
Residential mortgage-backed	3.9	32	2.7	27	2.8	39
Commercial mortgage-backed	0.1	1	0.4	2	0.1	2
Other asset-backed	- *	2	-	-	0.5	2
Equity	-	-	- *	1	0.3	2
Total	$ 10.0	41	$ 32.8	47	$ 5.7	51

[1] Primarily U.S. dollar denominated.
* Less than $0.1.

The above tables include $5.3, $7.3 and $3.7 of write-downs related to credit impairments for the years ended December 31, 2016, 2015 and 2014, respectively, in Other-than-temporary impairments, which are recognized in the Statements of Operations. The remaining $4.7, $25.5 and $2.0, for the years ended December 31, 2016, 2015 and 2014, respectively, are related to intent impairments.

The following table summarizes these intent impairments, which are also recognized in earnings, by type for the periods indicated:

	Year Ended December 31,					
	2016		2015		2014	
	Impairment	No. of Securities	Impairment	No. of Securities	Impairment	No. of Securities
U.S. corporate public securities	$ 1.7	1	$ 11.0	9	$ 1.2	2
Foreign corporate public securities and foreign governments [1]	1.8	1	14.0	5	0.6	4
Foreign corporate private securities [1]	-	-	-	-	-	-
Residential mortgage-backed	1.1	3	0.1	4	0.1	5
Commercial mortgage-backed	0.1	1	0.4	2	0.1	2
Other asset-backed	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Total	$ 4.7	6	$ 25.5	20	$ 2.0	13

[1] Primarily U.S. dollar denominated.

The Company may sell securities during the period in which fair value has declined below amortized cost for fixed maturities or cost for equity securities. In certain situations, new factors, including changes in the business environment, can change the Company's previous intent to continue holding a security. Accordingly, these factors may lead the Company to record additional intent related capital losses.

The following table identifies the amount of credit impairments on fixed maturities for which a portion of the OTTI loss was recognized in Other comprehensive income (loss) and the corresponding changes in such amounts for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
Balance at January 1	$ 27.2	$ 33.1	$ 42.1
Additional credit impairments:			
On securities not previously impaired	-	-	0.4
On securities previously impaired	2.6	1.8	3.0
Reductions:			
Increase in cash flows	0.4	0.4	0.5
Securities sold, matured, prepaid or paid down	9.2	7.3	11.9
Balance at December 31	$ 20.2	$ 27.2	$ 33.1

Net Investment Income

The following table summarizes Net investment income for the periods indicated:

	Year Ended December 31,		
	2016	**2015**	**2014**
Fixed maturities	$ 1,205.2	$ 1,169.5	$ 1,121.7
Equity securities, available-for-sale	2.8	2.1	2.4
Mortgage loans on real estate	176.3	165.0	145.6
Policy loans	5.1	4.7	5.0
Short-term investments and cash equivalents	-	0.3	0.8
Other	33.3	18.3	39.9
Gross investment income	1,422.7	1,359.9	1,315.4
Less: investment expenses	60.2	54.4	50.7
Net investment income	$ 1,362.5	$ 1,305.5	$ 1,264.7

As of December 31, 2016 and 2015, the Company had $6.3 and $1.7, respectively, of investments in fixed maturities that did not produce net investment income. Fixed maturities are moved to a non-accrual status when the investment defaults.

Interest income on fixed maturities is recorded when earned using an effective yield method, giving effect to amortization of premiums and accretion of discounts. Such interest income is recorded in Net investment income in the Statements of Operations.

Net Realized Capital Gains (Losses)

Net realized capital gains (losses) comprise the difference between the amortized cost of investments and proceeds from sale and redemption, as well as losses incurred due to the credit-related and intent-related other-than-temporary impairment of investments. Realized investment gains and losses are also primarily generated from changes in fair value of embedded derivatives within products and fixed maturities, changes in fair value of fixed maturities recorded at FVO and changes in fair value including accruals on derivative instruments, except for effective cash flow hedges. The cost of the investments on disposal is generally determined based on FIFO methodology.

Net realized capital gains (losses) were as follows for the periods indicated:

	Year Ended December 31,		
	2016	**2015**	**2014**
Fixed maturities, available-for-sale, including securities pledged	$ 9.9	$ (37.5)	$ 2.4
Fixed maturities, at fair value option	(137.6)	(98.0)	(50.0)
Equity securities, available-for-sale	0.1	-	(0.1)
Derivatives	(1,075.9)	(86.8)	(33.8)
Embedded derivatives - fixed maturities	(5.6)	(5.0)	(2.7)
Guaranteed benefit derivatives	324.2	95.8	(708.4)
Other investments	-	(0.1)	18.5
Net realized capital gains (losses)	$ (884.9)	$ (131.6)	$ (774.1)
After-tax net realized capital gains (losses)	$ (575.2)	$ (85.6)	$ (503.2)

Proceeds from the sale of fixed maturities and equity securities, available-for-sale and the related gross realized gains and losses, before tax, were as follows for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
Proceeds on sales	$ 3,021.3	$ 1,700.4	$ 2,436.1
Gross gains	75.5	24.7	21.9
Gross losses	64.0	35.6	26.3

3. Derivative Financial Instruments

The Company enters into the following types of derivatives:

Interest rate swaps and floors: Interest rate swaps are used by the Company primarily to reduce market risks from changes in interest rates and to alter interest rate exposure arising from mismatches between assets and/or liabilities. Interest rate swaps are also used to hedge the interest rate risk associated with the value of assets it owns or in an anticipation of acquiring them. Using interest rate swaps, the Company agrees with another party to exchange, at specified intervals, the difference between fixed rate and floating rate interest payments, calculated by reference to an agreed upon notional principal amount. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made to/from the counterparty at each due date. The Company uses interest rate floor contracts to hedge interest rate exposure if rates decrease below a specified level. The Company utilizes these contracts in qualifying hedging relationships as well as non-qualifying hedging relationships.

Foreign exchange swaps: The Company uses foreign exchange or currency swaps to reduce the risk of change in the value, yield or cash flows associated with certain foreign denominated invested assets. Foreign exchange swaps represent contracts that require the exchange of foreign currency cash flows against U.S. dollar cash flows at regular periods, typically quarterly or semi-annually. The Company utilizes these contracts in qualifying hedging relationships as well as non-qualifying hedging relationships.

Credit default swaps: Credit default swaps are used to reduce credit loss exposure with respect to certain assets that the Company owns or to assume credit exposure on certain assets that the Company does not own. Payments are made to or received from the counterparty at specified intervals. In the event of a default on the underlying credit exposure, the Company will either receive a payment (purchased credit protection) or will be required to make a payment (sold credit protection) equal to the par minus recovery value of the swap contract. Credit default swaps are also used to hedge credit exposure associated with certain variable annuity guarantees. The Company utilizes these contracts in non-qualifying hedging relationships.

Total return swaps: The Company uses total return swaps as a hedge against a decrease in variable annuity account values, which are invested in certain indices. Using total return swaps, the Company agrees with another party to exchange, at specified intervals, the difference between the economic risk and reward of assets or a market index and the LIBOR rate, calculated by reference to an agreed upon notional principal amount. No cash is exchanged at the onset of the contracts. Cash is paid and received over the life of the contract based upon the terms of the swaps. The Company utilizes these contracts in non-qualifying hedging relationships.

Currency forwards: The Company uses currency forward contracts to hedge policyholder liabilities associated with the variable annuity contracts which are linked to foreign indices. The currency fluctuations may result in a decrease in account values, which would increase the possibility of the Company incurring an expense for guaranteed benefits in excess of account values. The Company also utilizes currency forward contracts to hedge currency exposure related to invested assets. The Company utilizes these contracts in non-qualifying hedging relationships.

Futures: Futures contracts are used to hedge against a decrease in certain equity indices. Such decreases may result in a decrease in variable annuity account values which would increase the possibility of the Company incurring an expense for guaranteed benefits in excess of account values. The Company also uses interest rate futures contracts to hedge its exposure to market risks due to changes in interest rates. The Company enters into exchange traded futures with regulated futures commissions that are members of the exchange. The Company also posts initial and variation margins with the exchange on a daily basis. The Company utilizes exchange-traded futures in non-qualifying hedging relationships. The Company also used futures contracts as a hedge against an increase in certain equity indices. Such increases may result in increased payments to the holders of fixed index annuity ("FIA") contracts. During the first quarter of 2016, the Company moved to a static hedging strategy for its FIA contracts and replaced futures contracts with equity options.

Swaptions: A swaption is an option to enter into a swap with a forward starting effective date. The Company uses swaptions to hedge the interest rate exposure associated with the minimum crediting rate and book value guarantees embedded in the retirement products that the Company offers. Increases in interest rates will generate losses on assets that are backing such liabilities. In certain instances, the Company locks in the economic impact of existing purchased swaptions by entering into offsetting written swaptions. The Company pays a premium when it purchases the swaption. The Company utilizes these contracts in non-qualifying hedging relationships.

Options: The Company uses options to manage the equity, interest rate and equity volatility risk of the economic liabilities associated with certain variable annuity minimum guaranteed benefits and/or to mitigate certain rebalancing costs resulting from increased volatility. The Company also uses equity options to hedge against an increase in various equity indices, and interest rate options to hedge against an increase in the interest rate benchmarked crediting strategies within FIA contracts. Such increases may result in increased payments to the holders of the FIA contracts. The Company pays an upfront premium to purchase these options. The Company utilizes these options in non-qualifying hedging relationships.

Variance swaps: The Company uses variance swaps to manage equity volatility risk on the economic liabilities associated with certain minimum guaranteed living benefits and/or to mitigate certain rebalancing costs resulting from increased volatility. An increase in the equity volatility results in higher valuations of such liabilities. In an equity variance swap, the Company agrees with another party to exchange amounts in the future, based on the changes in equity volatility over a defined period. The Company utilizes equity variance swaps in non-qualifying hedging relationships.

Embedded derivatives: The Company also invests in certain fixed maturity instruments and has issued certain products that contain embedded derivatives for which market value is at least partially determined by, among other things, levels of or changes in domestic and/or foreign interest rates (short-term or long-term), exchange rates, prepayment rates, equity rates, or credit ratings/spreads. In addition, the Company has entered into coinsurance with funds withheld arrangements, which contain embedded derivatives.

The Company's use of derivatives is limited mainly to economic hedging to reduce the Company's exposure to cash flow variability of assets and liabilities, interest rate risk, credit risk, exchange rate risk and equity market risk. It is the Company's policy not to offset amounts recognized for derivative instruments and amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement, which provides the Company with the legal right of offset.

The notional amounts and fair values of derivatives were as follows as of the dates indicated:

	December 31, 2016			December 31, 2015		
	Notional Amount	Asset Fair Value	Liability Fair Value	Notional Amount	Asset Fair Value	Liability Fair Value
Derivatives: Qualifying for hedge accounting[1]						
Cash flow hedges:						
Interest rate contracts	$ 18.2	$ 0.3	$ 0.1	$ 18.2	$ 0.5	$ -
Foreign exchange contracts	161.6	13.1	3.7	57.1	11.7	-
Fair value hedges:						
Interest rate contracts	-	-	-	295.1	0.8	5.9
Derivatives: Non-qualifying for hedge accounting[1]						
Interest rate contracts	38,839.9	530.2	112.5	27,139.0	529.5	114.9
Foreign exchange contracts	1,222.1	33.3	12.8	967.0	30.9	12.3
Equity contracts	28,042.9	399.3	50.1	19,062.4	223.7	65.6
Credit contracts	204.0	2.6	0.2	1,230.0	2.3	5.9
Embedded derivatives:						
Within fixed maturity investments	N/A	15.6	-	N/A	21.1	-
Within products	N/A	-	3,500.0	N/A	-	3,628.1
Within reinsurance agreements	N/A	(5.9)	145.5	N/A	(15.6)	10.2
Total		$ 988.5	$ 3,824.9		$ 804.9	$ 3,842.9

[1] Open derivative contracts are reported as Derivatives assets or liabilities on the Balance Sheets at fair value.
N/A - Not Applicable

Based on the notional amounts, a substantial portion of the Company's derivative positions was not designated or did not qualify for hedge accounting as part of a hedging relationship as of December 31, 2016 and 2015. The Company utilizes derivative contracts mainly to hedge exposure to variability in cash flows, interest rate risk, credit risk, foreign exchange risk and equity market risk. The majority of derivatives used by the Company are designated as product hedges, which hedge the exposure arising from insurance liabilities or guarantees embedded in the contracts the Company offers through various product lines. These derivatives do not qualify for hedge accounting as they do not meet the criteria of being "highly effective" as outlined in ASC Topic 815, but do provide an economic hedge, which is in line with the Company's risk management objectives. The Company also uses derivatives contracts to hedge its exposure to various risks associated with the investment portfolio. The Company does not seek hedge accounting treatment for certain of these derivatives as they generally do not qualify for hedge accounting due to the criteria required under the portfolio hedging rules outlined in ASC Topic 815. The Company also uses credit default swaps coupled with other investments in order to produce the investment characteristics of otherwise permissible investments that do not qualify as effective accounting hedges under ASC Topic 815.

Although the Company has not elected to net its derivative exposures, the notional amounts and fair values of Over-The-Counter ("OTC") and cleared derivatives excluding exchange traded contracts and forward contracts (To Be Announced mortgage-backed securities) are presented in the tables below as of the dates indicated:

	December 31, 2016		
	Notional Amount	**Asset Fair Value**	**Liability Fair Value**
Credit contracts	$ 204.0	$ 2.6	$ 0.2
Equity contracts	21,545.3	377.0	49.3
Foreign exchange contracts	1,383.7	46.4	16.5
Interest rate contracts	35,454.4	530.5	112.1
		956.5	178.1
Counterparty netting[1]		(162.3)	(162.3)
Cash collateral netting[1]		(685.5)	(14.9)
Securities collateral netting[1]		(52.1)	-
Net receivables/payables		$ 56.6	$ 0.9

[1] Represents the netting of receivable balances with payable balances, net of collateral, for the same counterparty under eligible netting agreements.

	December 31, 2015		
	Notional Amount	**Asset Fair Value**	**Liability Fair Value**
Credit contracts	$ 1,230.0	$ 2.3	$ 5.9
Equity contracts	11,528.3	167.5	53.9
Foreign exchange contracts	1,024.1	42.6	12.3
Interest rate contracts	24,030.4	530.8	120.1
		743.2	192.2
Counterparty netting[1]		(184.6)	(184.6)
Cash collateral netting[1]		(427.3)	(5.9)
Securities collateral netting[1]		(12.5)	(1.7)
Net receivables/payables		$ 118.8	$ -

[1] Represents the netting of receivable balances with payable balances, net of collateral, for the same counterparty under eligible netting agreements.

Collateral

Under the terms of the OTC Derivative International Swaps and Derivatives Association, Inc. ("ISDA ") agreements, the Company may receive from, or deliver to, counterparties collateral to assure that terms of the ISDA agreements will be met with regard to the Credit Support Annex ("CSA"). The terms of the CSA call for the Company to pay interest on any cash received equal to the Federal Funds rate. To the extent cash collateral is received and delivered, it is included in Payables under securities loan agreements, including collateral held and Short-term investments under securities loan agreements, including collateral delivered, respectively, on the Balance Sheets and is reinvested in short-term investments. Collateral held is used in accordance with the CSA to satisfy any obligations. Investment grade bonds owned by the Company are the source of noncash collateral posted, which is reported in Securities pledged on the Balance Sheets. As of December 31, 2016, the Company held $654.8 and $23.0 of net cash collateral related to OTC derivative contracts and cleared derivative contracts, respectively. As of December 31, 2015, the Company held $423.0 and $0.4 of net cash collateral related to OTC derivative contracts and cleared derivative contracts, respectively. In addition, as of December 31, 2016, the Company delivered $477.3 of securities and held $52.1 of securities as collateral. As of December 31, 2015, the Company delivered $524.5 of securities and held $12.9 of securities as collateral.

Net realized gains (losses) on derivatives were as follows for the periods indicated:

	Year Ended December 31,		
	2016	**2015**	**2014**
Derivatives: Qualifying for hedge accounting[1]			
Cash flow hedges:			
Interest rate contracts	$ 0.3	$ 0.3	$ 0.2
Foreign exchange contracts	1.1	0.8	0.7
Fair value hedges:			
Interest rate contracts	(2.0)	(3.6)	(12.9)
Derivatives: Non-qualifying for hedge accounting[2]			
Interest rate contracts	(6.9)	135.4	797.0
Foreign exchange contracts	91.4	56.8	91.8
Equity contracts	(1,145.4)	(277.3)	(911.4)
Credit contracts	(14.4)	0.8	0.8
Embedded derivatives:			
Within fixed maturity investments[2]	(5.6)	(5.0)	(2.7)
Within products[2]	324.2	95.8	(708.4)
Within reinsurance agreements[3]	(125.6)	175.6	(231.1)
Total	$ (882.9)	$ 179.6	$ (976.0)

[1] Changes in value for effective fair value hedges are recorded in Other net realized capital gains (losses). Changes in fair value upon disposal for effective cash flow hedges are amortized through Net investment income and the ineffective portion is recorded in Other net realized capital gains (losses) in the Statements of Operations. For the years ended December 31, 2016, 2015 and 2014, ineffective amounts were immaterial.
[2] Changes in value are included in Other net realized capital gains (losses) in the Statements of Operations.
[3] Changes in value are included in Interest credited and other benefits to contract owners/policyholders in the Statements of Operations.

Credit Default Swaps

The Company has entered into various credit default swaps. When credit default swaps are sold, the Company assumes credit exposure to certain assets that it does not own. Credit default swaps may also be purchased to reduce credit exposure in the Company's portfolio. Credit default swaps involve a transfer of credit risk from one party to another in exchange for periodic payments. As of December 31, 2016, the fair values of credit default swaps of $2.6 and $0.2 were included in Derivatives assets and Derivatives liabilities, respectively, on the Balance Sheets. As of December 31, 2015, the fair values of credit default swaps of $2.3 and $5.9 were included in Derivatives assets and Derivatives liabilities, respectively, on the Balance Sheets. As of December 31, 2016, the maximum potential future net exposure to the Company was $194.0 on credit default swaps. As of December 31, 2015, the maximum potential future net exposure to the Company was $220.0 on credit default swaps. These instruments are typically written for a maturity period of 5 years and contain no recourse provisions. If the Company's current debt and claims paying ratings were downgraded in the future, the terms in the Company's derivative agreements may be triggered, which could negatively impact overall liquidity.

4. Fair Value Measurements

Fair Value Measurement

The Company categorizes its financial instruments into a three-level hierarchy based on the priority of the inputs to the valuation technique, pursuant to ASU 2011-04, "Fair Value Measurements (ASC Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP" ("ASU 2011-04"). The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded at fair value on the Balance Sheets are categorized as follows:

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in an active market. The Company defines an active market as a market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Quoted prices in markets that are not active or valuation techniques that require inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

a) Quoted prices for similar assets or liabilities in active markets;
b) Quoted prices for identical or similar assets or liabilities in non-active markets;
c) Inputs other than quoted market prices that are observable; and
d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means.

- Level 3 - Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These valuations, whether derived internally or obtained from a third party, use critical assumptions that are not widely available to estimate market participant expectations in valuing the asset or liability.

When available, the estimated fair value of financial instruments is based on quoted prices in active markets that are readily and regularly obtainable. When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, including discounted cash flow methodologies, matrix pricing or other similar techniques.

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities, including securities pledged:				
U.S. Treasuries	$ 974.1	$ 8.8	$ -	$ 982.9
U.S. Government agencies and authorities	-	33.0	-	33.0
State, municipalities and political subdivisions	-	497.4	-	497.4
U.S. corporate public securities	-	10,434.5	10.2	10,444.7
U.S. corporate private securities	-	2,364.0	413.6	2,777.6
Foreign corporate public securities and foreign governments[1]	-	2,688.7	0.4	2,689.1
Foreign corporate private securities[1]	-	2,671.9	143.5	2,815.4
Residential mortgage-backed securities	-	1,727.2	22.5	1,749.7
Commercial mortgage-backed securities	-	949.4	7.7	957.1
Other asset-backed securities	-	291.9	30.7	322.6
Total fixed maturities, including securities pledged	974.1	21,666.8	628.6	23,269.5
Equity securities, available-for-sale	11.6	-	7.1	18.7
Derivatives:				
Interest rate contracts	-	530.5	-	530.5
Foreign exchange contracts	-	46.4	-	46.4
Equity contracts	22.3	342.7	34.3	399.3
Credit contracts	-	2.6	-	2.6
Embedded derivative on reinsurance	-	(5.9)	-	(5.9)
Cash and cash equivalents, short-term investments and short-term investments under securities loan agreements	1,310.8	64.7	5.0	1,380.5
Assets held in separate accounts	30,933.7	-	-	30,933.7
Total assets	$ 33,252.5	$ 22,647.8	$ 675.0	$ 56,575.3
Liabilities:				
Derivatives:				
Guaranteed benefit derivatives:				
FIA	$ -	$ -	$ 1,987.5	$ 1,987.5
GMAB / GMWB / GMWBL[2]	-	-	1,512.5	1,512.5
Other derivatives:				
Interest rate contracts	0.5	112.1	-	112.6
Foreign exchange contracts	-	16.5	-	16.5
Equity contracts	0.8	49.3	-	50.1
Credit contracts	-	0.2	-	0.2
Embedded derivative on reinsurance	-	145.5	-	145.5
Total liabilities	$ 1.3	$ 323.6	$ 3,500.0	$ 3,824.9

[1] Primarily U.S. dollar denominated.
[2] Guaranteed minimum accumulation benefits ("GMAB"), Guaranteed minimum withdrawal benefits ("GMWB") and Guaranteed minimum withdrawal benefits with life payouts ("GMWBL").

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities, including securities pledged:				
U.S. Treasuries	$ 1,049.2	$ 9.5	$ -	$ 1,058.7
U.S. Government agencies and authorities	-	81.9	-	81.9
State, municipalities and political subdivisions	-	360.5	-	360.5
U.S. corporate public securities	-	10,871.2	0.7	10,871.9
U.S. corporate private securities	-	2,067.1	327.3	2,394.4
Foreign corporate public securities and foreign governments[1]	-	2,791.8	1.2	2,793.0
Foreign corporate private securities[1]	-	2,481.0	145.0	2,626.0
Residential mortgage-backed securities	-	1,856.5	28.6	1,885.1
Commercial mortgage-backed securities	-	1,331.3	12.1	1,343.4
Other asset-backed securities	-	252.0	11.3	263.3
Total fixed maturities, including securities pledged	1,049.2	22,102.8	526.2	23,678.2
Equity securities, available-for-sale	12.5	-	6.7	19.2
Derivatives:				
Interest rate contracts	-	530.8	-	530.8
Foreign exchange contracts	-	42.6	-	42.6
Equity contracts	56.2	161.8	5.7	223.7
Credit contracts	-	2.3	-	2.3
Embedded derivative on reinsurance	-	(15.6)	-	(15.6)
Cash and cash equivalents, short-term investments and short-term investments under securities loan agreements	1,947.2	1.4	-	1,948.6
Assets held in separate accounts	33,355.5	-	-	33,355.5
Total assets	$ 36,420.6	$ 22,826.1	$ 538.6	$ 59,785.3
Liabilities:				
Derivatives:				
Guaranteed benefit derivatives:				
FIA	$ -	$ -	$ 1,779.1	$ 1,779.1
GMAB / GMWB / GMWBL	-	-	1,849.0	1,849.0
Other derivatives:				
Interest rate contracts	0.7	120.1	-	120.8
Foreign exchange contracts	-	12.3	-	12.3
Equity contracts	11.7	53.9	-	65.6
Credit contracts	-	5.9	-	5.9
Embedded derivative on reinsurance	-	10.2	-	10.2
Total liabilities	$ 12.4	$ 202.4	$ 3,628.1	$ 3,842.9

[1] Primarily U.S. dollar denominated

Valuation of Financial Assets and Liabilities at Fair Value

Certain assets and liabilities are measured at estimated fair value on the Company's Balance Sheets. The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The exit price and the transaction (or entry) price will be the same at initial recognition in many circumstances. However, in certain cases, the transaction price may not represent fair value. The fair value of a liability is based on the amount that would be paid to

transfer a liability to a third-party with an equal credit standing. Fair value is required to be a market-based measurement that is determined based on a hypothetical transaction at the measurement date, from a market participant's perspective. The Company considers three broad valuation approaches when a quoted price is unavailable: (i) the market approach, (ii) the income approach and (iii) the cost approach. The Company determines the most appropriate valuation technique to use, given the instrument being measured and the availability of sufficient inputs. The Company prioritizes the inputs to fair valuation techniques and allows for the use of unobservable inputs to the extent that observable inputs are not available.

The Company utilizes a number of valuation methodologies to determine the fair values of its financial assets and liabilities in conformity with the concepts of exit price and the fair value hierarchy as prescribed in ASC Topic 820. Valuations are obtained from third-party commercial pricing services, brokers and industry-standard, vendor-provided software that models the value based on market observable inputs. The valuations obtained from third-party commercial pricing services are non-binding. The Company reviews the assumptions and inputs used by third-party commercial pricing services for each reporting period in order to determine an appropriate fair value hierarchy level. The documentation and analysis obtained from third-party commercial pricing services are reviewed by the Company, including in-depth validation procedures confirming the observability of inputs. The valuations are reviewed and validated monthly through the internal valuation committee price variance review, comparisons to internal pricing models, back testing to recent trades or monitoring of trading volumes.

Fixed maturities: The fair values for actively traded marketable bonds are determined based upon the quoted market prices and are classified as Level 1 assets. Assets in this category primarily include certain U.S. Treasury securities.

For fixed maturities classified as Level 2 assets, fair values are determined using a matrix-based market approach, based on prices obtained from third-party commercial pricing services and the Company’s matrix and analytics-based pricing models, which in each case incorporate a variety of market observable information as valuation inputs. The market observable inputs used for these fair value measurements, by fixed maturity asset class, are as follows:

U.S. Treasuries: Fair value is determined using third-party commercial pricing services, with the primary inputs being stripped interest and principal U.S. Treasury yield curves that represent a U.S. Treasury zero-coupon curve.
U.S. government agencies and authorities, State, municipalities and political subdivisions: Fair value is determined using third-party commercial pricing services, with the primary inputs being U.S. Treasury yield curves, trades of comparable securities, credit spreads off benchmark yields and issuer ratings.

U.S. corporate public securities, Foreign corporate public securities and foreign governments: Fair value is determined using third-party commercial pricing services, with the primary inputs being benchmark yields, trades of comparable securities, issuer ratings, bids and credit spreads off benchmark yields.

U.S. corporate private securities and Foreign corporate private securities: Fair values are determined using a matrix and analytics-based pricing model. The model incorporates the current level of risk-free interest rates, current corporate credit spreads, credit quality of the issuer and cash flow characteristics of the security. The model also considers a liquidity spread, the value of any collateral, the capital structure of the issuer, the presence of guarantees, and prices and quotes for comparably rated publicly traded securities.

RMBS, CMBS and ABS: Fair value is determined using third-party commercial pricing services, with the primary inputs being credit spreads off benchmark yields, prepayment speed assumptions, current and forecasted loss severity, debt service coverage ratios, collateral type, payment priority within tranche and the vintage of the loans underlying the security.

Generally, the Company does not obtain more than one vendor price from pricing services per instrument. The Company uses a hierarchy process in which prices are obtained from a primary vendor and, if that vendor is unable to provide the price, the next vendor in the hierarchy is contacted until a price is obtained or it is determined that a price cannot be obtained from a commercial pricing service. When a price cannot be obtained from a commercial pricing service, independent broker quotes are solicited. Securities priced using independent broker quotes are classified as Level 3.

Broker quotes and prices obtained from pricing services are reviewed and validated through an internal valuation committee price variance review, comparisons to internal pricing models, back testing to recent trades, or monitoring of trading volumes. As of December 31, 2016, $537.9 and $17.6 billion of a total fair value of $23.3 billion in fixed maturities, including securities pledged, were valued using unadjusted broker quotes and unadjusted prices obtained from pricing services, respectively and verified through the review process. The remaining balance in fixed maturities consisted primarily of privately placed bonds valued using a matrix-based pricing. As of December 31, 2015, $504.8 and $18.6 billion of a total fair value of $23.7 billion in fixed maturities, including securities pledged, were valued using unadjusted broker quotes and unadjusted prices obtained from pricing services, respectively and verified through the review process. The remaining balance in fixed maturities consisted primarily of privately placed bonds valued using a matrix-based pricing.

All prices and broker quotes obtained go through the review process described above including valuations for which only one broker quote is obtained. After review, for those instruments where the price is determined to be appropriate, the unadjusted price provided is used for financial statement valuation. If it is determined that the price is questionable, another price may be requested from a different vendor. The internal valuation committee then reviews all prices for the instrument again, along with information from the review, to determine which price best represents exit price for the instrument.

Fair values of privately placed bonds are determined primarily using a matrix-based pricing model and are generally classified as Level 2 assets. The model considers the current level of risk-free interest rates, current corporate spreads, the credit quality of the issuer and cash flow characteristics of the security. Also considered are factors such as the net worth of the borrower, the value of collateral, the capital structure of the borrower, the presence of guarantees and the Company's evaluation of the borrower's ability to compete in its relevant market. Using this data, the model generates estimated market values which the Company considers reflective of the fair value of each privately placed bond.

Equity securities, available-for-sale: Fair values of publicly traded equity securities are based upon quoted market price and are classified as Level 1 assets. Other equity securities, typically private equities or equity securities not traded on an exchange, are valued by other sources such as analytics or brokers and are classified as Level 2 or Level 3 assets.

Derivatives: Derivatives are carried at fair value which is determined using the Company's derivative accounting system in conjunction with observable key financial data from third party sources, such as yield curves, exchange rates, S&P 500 Index prices, London Interbank Offered Rates ("LIBOR") and Overnight Index Swap ("OIS") rates. The Company uses OIS for valuations of collateralized interest rate derivatives, which are obtained from third-party sources. For those derivatives that are unable to be valued by the accounting system, the Company typically utilizes values established by third-party brokers. Counterparty credit risk is considered and incorporated in the Company's valuation process through counterparty credit rating requirements and monitoring of overall exposure. It is the Company's policy to transact only with investment grade counterparties with a credit rating of A- or better. The Company's nonperformance risk is also considered and incorporated in the Company's valuation process. Valuations for the Company's futures and interest rate forward contracts are based on unadjusted quoted prices from an active exchange and, therefore, are classified as Level 1. The Company also has certain credit default swaps and options that are priced using models that primarily use market observable inputs, but contain inputs that are not observable to market participants, which have been classified as Level 3. The remaining derivative instruments, including those priced by third-party vendors, are valued based on market observable inputs and are classified as Level 2.

Cash and cash equivalents, Short-term investments and Short-term investments under securities loan agreement: The carrying amounts for cash reflect the assets' fair values. The fair values for cash equivalents and most short-term investments are determined based on quoted market prices. These assets are classified as Level 1. Other short-term investments are valued and classified in the fair value hierarchy consistent with the policies described herein, depending on investment type.

Assets held in separate accounts: Assets held in separate accounts are reported at the quoted fair values of the underlying investments in the separate accounts. The underlying investments include mutual funds, short-term investments and cash, the valuations of which are based upon a quoted market price and are included in Level 1. Fixed maturity valuations are obtained from third-party commercial pricing services and brokers and are classified in the fair value hierarchy consistent with the policy described above for fixed maturities.

Guaranteed benefit derivatives: The Company records reserves for annuity contracts containing GMAB, GMWB and GMWBL riders. The guarantee is an embedded derivative and is required to be accounted for separately from the host variable annuity

contract. The fair value of the obligation is calculated based on actuarial and capital market assumptions related to the projected cash flows, including benefits and related contract charges, over the anticipated life of the related contracts. The cash flow estimates are produced by using stochastic techniques under a variety of market return scenarios and other market implied assumptions. These derivatives are classified as Level 3 liabilities in the fair value hierarchy.

The indexed-crediting feature in the Company's FIA contracts is an embedded derivative that is required to be accounted for separately from the host contract. The fair value of the obligation is calculated based on actuarial and capital market assumptions related to the projected cash flows, including benefits and related contract charges, over the anticipated life of the related contracts. The cash flow estimates are produced by market implied assumptions. These derivatives are classified as Level 3 liabilities in the fair value hierarchy.

The discount rate used to determine the fair value of the Company's GMAB, GMWB, GMWBL and FIA embedded derivative liabilities includes an adjustment to reflect nonperformance risk. The nonperformance risk adjustment incorporates a blend of observable, similarly rated peer holding company credit default swap spreads, adjusted to reflect the credit quality of the Company, the issuer of the guarantee, as well as an adjustment to reflect the priority of policyholder claims.

The Company's valuation actuaries are responsible for the policies and procedures for valuing the embedded derivatives, reflecting the capital markets and actuarial valuation inputs and nonperformance risk in the estimate of the fair value of the embedded derivatives. The actuarial and capital market assumptions for each liability are approved by each product's Chief Risk Officer ("CRO"), including an independent annual review by the CRO. Models used to value the embedded derivatives must comply with the Company's governance policies.

Quarterly, an attribution analysis is performed to quantify changes in fair value measurements and a sensitivity analysis is used to analyze the changes. The changes in fair value measurements are also compared to corresponding movements in the hedge target to assess the validity of the attributions. The results of the attribution analysis are reviewed by the valuation actuaries, responsible CFOs, Controllers, CROs and/or others as nominated by management.

Embedded derivative on reinsurance: The carrying value of embedded derivatives is estimated based upon the change in the fair value of the assets supporting the funds withheld payable under reinsurance agreements. As the fair value of the assets held in trust is based on a quoted market price (Level 1), the fair value of the embedded derivative is based on market observable inputs and is classified as Level 2.

ansfers in and out of Level 1 and 2

There were no securities transferred between Level 1 and Level 2 for the years ended December 31, 2016 and 2015. The Company's policy is to recognize transfers in and transfers out as of the beginning of the reporting period.

Level 3 Financial Instruments

The fair values of certain assets and liabilities are determined using prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement (i.e., Level 3 as defined by ASC Topic 820), including but not limited to liquidity spreads for investments within markets deemed not currently active. These valuations, whether derived internally or obtained from a third party, use critical assumptions that are not widely available to estimate market participant expectations in valuing the asset or liability. In addition, the Company has determined, for certain financial instruments, an active market is such a significant input to determine fair value that the presence of an inactive market may lead to classification in Level 3. In light of the methodologies employed to obtain the fair values of financial assets and liabilities classified as Level 3, additional information is presented below.

The following table summarizes the change in fair value of the Company's Level 3 assets and liabilities and transfers in and out of Level 3 for the period indicated:

	Year Ended December 31, 2016										
	Fair Value as of January 1	Total Realized/Unrealized Gains (Losses) Included in:		Purchases	Issuances	Sales	Settlements	Transfers into Level 3[3]	Transfers out of Level 3[3]	Fair Value as of December 31	Change in Unrealized Gains (Losses) Included in Earnings[4]
		Net Income	OCI								
Fixed maturities, including securities pledged:											
U.S. corporate public securities	0.7	(0.1)	(0.4)	-	-	(0.7)	(0.4)	11.1	-	10.2	-
U.S. corporate private securities	327.3	(0.2)	3.7	131.5	-	(14.0)	(46.1)	18.6	(7.2)	413.6	(0.2)
Foreign corporate public securities and foreign governments[1]	1.2	(0.8)	-	-	-	-	-	-	-	0.4	(0.8)
Foreign corporate private securities[1]	145.0	(1.4)	8.8	-	-	(0.1)	(26.1)	20.5	(3.2)	143.5	(1.3)
Residential mortgage-backed securities	28.6	(3.0)	-	-	-	(2.6)	(0.5)	-	-	22.5	(2.9)
Commercial mortgage-backed securities	12.1	(0.2)	0.2	-	-	-	(4.7)	0.3	-	7.7	(0.2)
Other asset-backed securities	11.3	(0.1)	(0.2)	13.8	-	-	(2.9)	8.8	-	30.7	(0.1)
Total fixed maturities, including securities pledged	526.2	(5.8)	12.1	145.3	-	(17.4)	(80.7)	59.3	(10.4)	628.6	(5.5)
Equity securities, available-for-sale	6.7	-	0.4	-	-	-	-	-	-	7.1	-
Derivatives:											
Guaranteed benefit derivatives:											
FIA[2]	(1,779.1)	(159.7)	-	-	(237.2)	-	188.5	-	-	(1,987.5)	-
GMWB/GMAB/GMWBL[2]	(1,849.0)	483.9	-	-	(147.9)	-	0.5	-	-	(1,512.5)	-
Other derivatives, net	5.7	3.8	-	27.5	-	-	(2.7)	-	-	34.3	28.5
Cash and cash equivalents, short-term investments and short-term investments under securities loan agreements	-	-	-	5.0	-	-	-	-	-	5.0	-

[1] Primarily U.S. dollar denominated.
[2] All gains and losses on Level 3 liabilities are classified as realized gains (losses) for the purpose of this disclosure because it is impracticable to track realized and unrealized gains (losses) separately on a contract-by-contract basis. These amounts are included in Other net realized capital gains (losses) in the Statements of Operations.
[3] The Company's policy is to recognize transfers in and transfers out as of the beginning of the reporting period.
[4] For financial instruments still held as of December 31, amounts are included in Net investment income and Total net realized capital gains (losses) in the Statements of Operations.

The following table summarizes the change in fair value of the Company's Level 3 assets and liabilities and transfers in and out of Level 3 for the period indicated:

	Year Ended December 31, 2015										
	Fair Value as of January 1	Total Realized/Unrealized Gains (Losses) Included in:		Purchases	Issuances	Sales	Settlements	Transfers into Level 3[3]	Transfers out of Level 3[3]	Fair Value as of December 31	Change in Unrealized Gains (Losses) Included in Earnings [4]
		Net Income	OCI								
Fixed maturities, including securities pledged:											
U.S. corporate public securities	$ 53.8	$ -	$ (0.1)	$ 0.2	$ -	$ -	$ -	$ -	$ (53.2)	$ 0.7	$ -
U.S. corporate private securities	260.2	(0.1)	(11.9)	111.3	-	(2.6)	(73.3)	43.7	-	327.3	(0.1)
Foreign corporate public securities and foreign governments[1]	-	(4.2)	(0.3)	-	-	-	(5.1)	10.8	-	1.2	(4.2)
Foreign corporate private securities[1]	147.3	(0.5)	(3.4)	9.4	-	-	(40.2)	32.4	-	145.0	(0.7)
Residential mortgage-backed securities	31.3	(1.1)	(0.5)	-	-	-	(0.3)	1.8	(2.6)	28.6	(1.1)
Commercial mortgage-backed securities	-	-	(0.1)	15.0	-	-	(2.8)	-	-	12.1	-
Other asset-backed securities	0.9	-	-	11.9	-	-	(0.7)	16.5	(17.3)	11.3	-
Total fixed maturities, including securities pledged	493.5	(5.9)	(16.3)	147.8	-	(2.6)	(122.4)	105.2	(73.1)	526.2	(6.1)
Equity securities, available-for-sale	-	-	0.2	6.5	-	-	-	-	-	6.7	-
Derivatives:											
Guaranteed benefit derivatives:											
FIA[2]	(1,924.4)	228.7	-	-	(255.2)	-	171.8	-	-	(1,779.1)	-
GMWB/GMAB/GMWBL[2]	(1,564.4)	(132.9)	-	-	(152.3)	-	0.6	-	-	(1,849.0)	-
Other derivatives, net	31.2	(29.8)	-	21.6	-	-	(17.3)	-	-	5.7	(25.5)
Cash and cash equivalents, short-term investments and short-term investments under securities loan agreements	1.8	-	-	-	-	-	(1.8)	-	-	-	-

[1] Primarily U.S. dollar denominated.
[2] All gains and losses on Level 3 liabilities are classified as realized gains (losses) for the purpose of this disclosure because it is impracticable to track realized and unrealized gains (losses) separately on a contract-by-contract basis. These amounts are included in Other net realized capital gains (losses) in the Statements of Operations.
[3] The Company's policy is to recognize transfers in and transfers out as of the beginning of the reporting period.
[4] For financial instruments still held as of December 31, amounts are included in Net investment income and Total net realized capital gains (losses) in the Statements of Operations.

For the years ended December 31, 2016 and 2015, the transfers in and out of Level 3 for fixed maturities and equity securities, were due to the variation in inputs relied upon for valuation each quarter. Securities that are primarily valued using independent broker quotes when prices are not available from one of the commercial pricing services are reflected as transfers into Level 3. When securities are valued using more widely available information, the securities are transferred out of Level 3 and into Level 1 or 2, as appropriate.

Significant Unobservable Inputs

The Company's Level 3 fair value measurements of its fixed maturities, equity securities available-for-sale and equity and credit derivative contracts are primarily based on broker quotes for which the quantitative detail of the unobservable inputs is neither provided nor reasonably corroborated, thus negating the ability to perform a sensitivity analysis. The Company performs a review of broker quotes by performing a monthly price variance comparison and back tests broker quotes to recent trade prices.

Quantitative information about the significant unobservable inputs used in the Company's Level 3 fair value measurements of its guaranteed benefit derivatives is presented in the following sections and table.

Significant unobservable inputs used in the fair value measurements of GMABs, GMWBs and GMWBLs include long-term equity and interest rate implied volatility, correlations between the rate of return on policyholder funds and between interest rates and equity returns, nonperformance risk, mortality and policyholder behavior assumptions, such as benefit utilization, lapses and partial withdrawals. Such inputs are monitored quarterly.

Significant unobservable inputs used in the fair value measurements of FIAs include nonperformance risk and policyholder behavior assumptions, such as lapses and partial withdrawals. Such inputs are monitored quarterly.

Following is a description of selected inputs:

Equity/Interest Rate Volatility: A term-structure model is used to approximate implied volatility for the equity indices and swap rates for GMAB, GMWB and GMWBL fair value measurements. Where no implied volatility is readily available in the market, an alternative approach is applied based on historical volatility.

Correlations: Integrated interest rate and equity scenarios are used in GMAB, GMWB and GMWBL fair value measurements to better reflect market interest rates and interest rate volatility correlations between equity and fixed income fund groups and between equity fund groups and interest rates. The correlations are based on historical fund returns and swap rates from external sources.

Nonperformance Risk: For the estimate of the fair value of embedded derivatives associated with the Company's product guarantees, the Company uses a blend of observable, similarly rated peer company credit default swap spreads, adjusted to reflect the credit quality of the Company as well as adjustment to reflect the priority of policyholder claims.

Actuarial Assumptions: Management regularly reviews actuarial assumptions, which are based on the Company's experience and periodically reviewed against industry standards. Industry standards and Company experience may be limited on certain products.

The following table presents the unobservable inputs for Level 3 fair value measurements as of December 31, 2016:

	Range[1]		
Unobservable Input	**GMWB / GMWBL**	**GMAB**	**FIA**
Long-term equity implied volatility	15% to 25%	15% to 25%	-
Interest rate implied volatility	0.1% to 18%	0.1% to 18%	-
Correlations between:			
Equity Funds	-13% to 99%	-13% to 99%	-
Equity and Fixed Income Funds	-38% to 62%	-38% to 62%	-
Interest Rates and Equity Funds	-32% to 26%	-32% to 26%	-
Nonperformance risk	0.25% to 1.6%	0.25% to 1.6%	0.25% to 1.6%
Actuarial Assumptions:			
Benefit Utilization	85% to 100% [2]	-	-
Partial Withdrawals	-	0% to 3.4%	0% to 10%
Lapses	0.11% to 12.15% [3][4]	0.4% to 19.1% [3][4]	0% to 60% [3]
Mortality	- [5]	- [5]	- [5]

[1] Represents the range of reasonable assumptions that management has used in its fair value calculations.

[2] Those policyholders who have elected systematic withdrawals are assumed to continue taking withdrawals. As a percent of policies, approximately 40% are taking systematic withdrawals. The Company assumes that 85% of all policies will begin systematic withdrawals either immediately or after a delay period, with 100% utilizing at age 100. The utilization function varies by policyholder age and policy duration. Interactions with lapse and mortality also affect utilization. The utilization rate for GMWB and GMWBL tends to be lower for younger contract owners and contracts that have not reached their maximum accumulated GMWB and GMWBL benefit amount. There is also a lower utilization rate, though indirectly, for contracts that are less "in the money" (i.e., where the notional benefit amount is in excess of the account value) due to higher lapses. Conversely, the utilization rate tends to be higher for contract owners near or beyond retirement age and contracts that have accumulated their maximum GMWB or GMWBL benefit amount. There is also a higher utilization rate, though indirectly, for contracts which are highly "in the money". The chart below provides the GMWBL account value by current age group and average expected delay times from the associated attained age group as of December 31, 2016 (account value amounts are in $ billions).

	Account Values			
Attained Age Group	**In the Money**	**Out of the Money**	**Total**	**Average Expected Delay (Years)****
< 60	$ 1.8	$ - *	$ 1.8	9.9
60-69	5.6	0.1	5.7	4.9
70+	5.7	0.1	5.8	3.0
	$ 13.1	$ 0.2	$ 13.3	5.5

*Less than $0.1.

** For population expected to withdraw in future. Excludes policies taking systematic withdraws and 15% of policies the Company assumes will never withdraw until age 100.

[3] Lapse rates tend to be lower during the contractual surrender charge period and higher after the surrender charge period ends; the highest lapse rates occur in the year immediately after the end of the surrender charge period.

[4] The Company makes dynamic adjustments to lower the lapse rates for contracts that are more "in the money." The table below shows an analysis of policy account values according to whether they are in or out of the surrender charge period or at the shock lapse period and to whether they are "in the money" or "out of the money" as of December 31, 2016 (account value amounts are in $ billions). Lapse ranges are based on weighted average ranges of underlying account value exposure.

		GMAB		GMWB/GMWBL	
	Moneyness	**Account Value**	**Lapse Range**	**Account Value**	**Lapse Range**
During Surrender Charge Period					
	In the Money**	$ -	0.4% to 6.9%	$ 2.0	0.1% to 4.5%
	Out of the Money	-	1.6% to 7.6%	- *	0.6% to 4.7%
Shock Lapse Period					
	In the Money**	$ -	4.7% to 17.3%	$ 2.7	2.3% to 11.6%
	Out of the Money	-	17.3% to 19.1%	- *	11.6% to 12.2%
After Surrender Charge Period					
	In the Money**	$ -	2.8% to 10.6%	$ 8.5	1.4% to 6.7%
	Out of the Money	0.1	10.6% to 11.7%	0.6	6.7% to 7.0%

* Less than $0.1.
**The low end of the range corresponds to policies that are highly "in the money." The high end of the range corresponds to the policies that are close to zero in terms of "in the moneyness."
(5)The mortality rate is based on the 2012 Individual Annuity Mortality Basic table with mortality improvements.

The following table presents the unobservable inputs for Level 3 fair value measurements as of December 31, 2015:

	Range[1]		
Unobservable Input	**GMWB / GMWBL**	**GMAB**	**FIA**
Long-term equity implied volatility	15% to 25%	15% to 25%	-
Interest rate implied volatility	0.1% to 18%	0.1% to 18%	-
Correlations between:			
Equity Funds	48% to 98%	48% to 98%	-
Equity and Fixed Income Funds	-38% to 62%	-38% to 62%	-
Interest Rates and Equity Funds	-32% to 16%	-32% to 16%	-
Nonperformance risk	0.23% to 1.3%	0.23% to 1.3%	0.23% to 1.3%
Actuarial Assumptions:			
Benefit Utilization	85% to 100% [2]	-	-
Partial Withdrawals	0% to 10%	0% to 10%	0% to 10%
Lapses	0.08% to 22% [3][4]	0.08% to 25% [3][4]	0% to 60% [3]
Mortality	- [5]	- [5]	- [5]

[1] Represents the range of reasonable assumptions that management has used in its fair value calculations.
[2] Those policyholders who have elected systematic withdrawals are assumed to continue taking withdrawals. As a percent of account value, 36% are taking systematic withdrawals. Of those policyholders who are not taking withdrawals, the Company assumes that 85% will begin systematic withdrawals after a delay period. The utilization function varies by policyholder age and policy duration. Interactions with lapse and mortality also affect utilization. The utilization rate for GMWB and GMWBL tends to be lower for younger contract owners and contracts that have not reached their maximum accumulated GMWB and GMWBL benefit amount. There is also a lower utilization rate, though indirectly, for contracts that are less "in the money" (i.e., where the notional benefit amount is in excess of the account value) due to higher lapses. Conversely, the utilization rate tends to be higher for contract owners near or beyond retirement age and contracts that have accumulated their maximum GMWB or GMWBL benefit amount. There is also a higher utilization rate, though indirectly, for contracts which are highly "in the money". The chart below provides the GMWBL account value by current age group and average expected delay times from the associated attained age group as of December 31, 2015 (account value amounts are in $ billions).

	Account Values			
Attained Age Group	**In the Money**	**Out of the Money**	**Total**	**Average Expected Delay (Years)***
< 60	$ 2.2	$ - *	$ 2.2	9.0
60-69	6.1	- *	6.1	4.2
70+	5.4	- *	5.4	2.4
	$ 13.7	$ - *	$ 13.7	5.0

* Less than $0.1
** For population expected to withdraw in future. Excludes policies taking systematic withdrawals and policies the Company assumes will never withdraw.
(3) Lapse rates tend to be lower during the contractual surrender charge period and higher after the surrender charge period ends; the highest lapse rates occur in the year immediately after the end of the surrender charge period.
(4) The Company makes dynamic adjustments to lower the lapse rates for contracts that are more "in the money." The table below shows an analysis of policy account values according to whether they are in or out of the surrender charge period or at the shock lapse period and to whether they are "in the money" or "out of the money" as of December 31, 2015 (account value amounts are in $ billions). The December 31, 2015 presentation and calculation of the lapse ranges has been made consistent with the current period. Lapse ranges are based on weighted average ranges of underlying account value exposure.

		GMAB		GMWB/GMWBL	
	Moneyness	**Account Value**	**Lapse Range**	**Account Value**	**Lapse Range**
During Surrender Charge Period					
	In the Money**	$ -	0.4% to 6.9%	$ 4.9	0.1% to 4.5%
	Out of the Money	-	1.6% to 7.6%	- *	0.6% to 4.7%
Shock Lapse Period					
	In the Money**	$ - *	5.4% to 22.3%	$ 1.8	3.0% to 13.7%
	Out of the Money	- *	22.3% to 24.5%	- *	13.7% to 14.4%
After Surrender Charge Period					
	In the Money**	$ - *	2.8% to 12.1%	$ 7.1	1.8% to 7.9%
	Out of the Money	- *	12.1% to 13.3%	0.5	7.9% to 8.2%

* Less than $0.1.
** The low end of the range corresponds to policies that are highly "in the money." The high end of the range corresponds to the policies that are close to zero in terms of "in the moneyness."
(5) The mortality rate is based on the 2012 Individual Annuity Mortality Basic table with mortality improvements.

Generally, the following will cause an increase (decrease) in the GMAB, GMWB and GMWBL embedded derivative fair value liabilities:

- An increase (decrease) in long-term equity implied volatility
- An increase (decrease) in interest rate implied volatility
- An increase (decrease) in equity-interest rate correlations
- A decrease (increase) in nonperformance risk
- A decrease (increase) in mortality
- An increase (decrease) in benefit utilization
- A decrease (increase) in lapses

Changes in fund correlations may increase or decrease the fair value depending on the direction of the movement and the mix of funds. Changes in partial withdrawals may increase or decrease the fair value depending on the timing and magnitude of withdrawals.

Generally, the following will cause an increase (decrease) in the FIA embedded derivative fair value liability:

- A decrease (increase) in nonperformance risk
- A decrease (increase) in lapses

The Company notes the following interrelationships:

- Higher long-term equity implied volatility is often correlated with lower equity returns, which will result in higher in-the-moneyness, which in turn, results in lower lapses due to the dynamic lapse component reducing the lapses. This increases the projected number of policies that are available to use the GMWBL benefit and may also increase the fair value of the GMWBL.
- Generally, an increase (decrease) in benefit utilization will decrease (increase) lapses for GMWB and GMWBL.

Other Financial Instruments

The carrying values and estimated fair values of the Company's financial instruments as of the dates indicated:

	December 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Fixed maturities, including securities pledged	$ 23,269.5	$ 23,269.5	$ 23,678.2	$ 23,678.2
Equity securities, available-for-sale	18.7	18.7	19.2	19.2
Mortgage loans on real estate	3,881.5	3,940.3	3,310.9	3,429.8
Policy loans	74.7	74.7	79.8	79.8
Cash and cash equivalents, short-term investments and short-term investments under securities loan agreements	1,380.5	1,380.5	1,948.6	1,948.6
Derivatives	978.8	978.8	799.4	799.4
Other investments	18.6	18.6	48.6	48.6
Deposits from affiliates	157.8	158.0	155.3	156.3
Embedded derivative on reinsurance	(5.9)	(5.9)	(15.6)	(15.6)
Assets held in separate accounts	30,933.7	30,933.7	33,355.5	33,355.5
Liabilities:				
Investment contract liabilities:				
Deferred annuities[1]	19,443.1	19,193.3	19,274.7	19,367.9
Funding agreements with fixed maturities	357.8	355.0	1,105.7	1,083.1
Supplementary contracts, immediate annuities and other	2,724.1	2,956.3	1,766.5	1,955.3
Derivatives:				
Guaranteed benefit derivatives:				
FIA	1,987.5	1,987.5	1,779.1	1,779.1
GMAB/GMWB/GMWBL	1,512.5	1,512.5	1,849.0	1,849.0
Other derivatives	179.4	179.4	204.6	204.6
Long-term debt	435.0	543.2	435.0	524.7
Embedded derivative on reinsurance	145.5	145.5	10.2	10.2

[1] Certain amounts included in Deferred annuities are also reflected within the Guaranteed benefit derivatives section of the table above.

The following disclosures are made in accordance with the requirements of ASC Topic 825 which requires disclosure of fair value information about financial instruments, whether or not recognized at fair value on the Balance Sheets, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates, in many cases, could not be realized in immediate settlement of the instrument.

ASC Topic 825 excludes certain financial instruments, including insurance contracts and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following valuation methods and assumptions were used by the Company in estimating the fair value of the following financial instruments, which are not carried at fair value on the Balance Sheets:

Mortgage loans on real estate: The fair values for mortgage loans on real estate are estimated on a monthly basis using discounted cash flow analyses and rates currently being offered in the marketplace for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. Mortgage loans on real estate are classified as Level 3.

Policy loans: The fair value of policy loans approximates the carrying value of the loans. Policy loans are collateralized by the cash surrender value of the associated insurance contracts and are classified as Level 2.

Other investments: FHLB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value and is classified as Level 2.

Deposits from affiliates: Fair value is estimated based on the fair value of the liabilities for the underlying contracts. Fair value is estimated by discounting cash flows, including associated expenses for maintaining the contracts, at rates, that are risk-free rates plus an adjustment for nonperformance risk. These liabilities are classified as Level 2.

Investment contract liabilities:

Deferred annuities: Fair value is estimated as the mean present value of stochastically modeled cash flows associated with the contract liabilities, taking into account assumptions about contract holder behavior. The stochastic valuation scenario set is consistent with current market parameters and discount is taken using stochastically evolving risk-free rates in the scenarios plus an adjustment for nonperformance risk. Margins for non-financial risks associated with the contract liabilities are also included. These liabilities are classified as Level 3.

Funding agreements with fixed maturities: Fair value is estimated by discounting cash flows, including associated expenses for maintaining the contracts, at rates, that are risk-free rates plus an adjustment for nonperformance risk. These liabilities are classified as Level 2.

Supplementary contracts and immediate annuities: Fair value is estimated as the mean present value of the single deterministically modeled cash flows associated with the contract liabilities discounted using stochastically evolving short risk-free rates in the scenarios plus an adjustment for nonperformance risk. The valuation is consistent with current market parameters. Margins for non-financial risks associated with the contract liabilities are also included. These liabilities are classified as Level 3.

Long-term debt: Estimated fair value of the Company's notes to affiliates is based upon discounted future cash flows using a discount rate approximating the current market rate, incorporating nonperformance risk and is classified as Level 2.

Fair value estimates are made at a specific point in time, based on available market information and judgments about various financial instruments, such as estimates of timing and amounts of future cash flows. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument, nor do they consider the tax impact of the realization of unrealized capital gains (losses). In many cases, the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realized in immediate settlement of the instruments. In evaluating the Company's management of interest rate, price and liquidity risks, the fair values of all assets and liabilities should be taken into consideration, not only those presented above.

5. Deferred Policy Acquisition Costs and Value of Business Acquired

The following table presents a rollforward of DAC and VOBA for the periods indicated:

	DAC	VOBA	Total
Balance at January 1, 2014	$ 2,271.7	$ 58.6	$ 2,330.3
Deferrals of commissions and expenses	118.2	-	118.2
Amortization:			
Amortization	24.4	(12.2)	12.2 [2]
Interest accrued	100.5	3.3 [1]	103.8
Net amortization included in the Statements of Operations	124.9	(8.9)	116.0
Change in unrealized capital gains/losses on available-for-sale securities	(301.9)	(10.6)	(312.5)
Balance as of December 31, 2014	2,212.9	39.1	2,252.0
Deferrals of commissions and expenses	115.3	-	115.3
Amortization:			
Amortization	(688.2)	(17.2)	(705.4) [2]
Interest accrued	35.8	2.6 [1]	38.4
Net amortization included in the Statements of Operations	(652.4)	(14.6)	(667.0)
Change in unrealized capital gains/losses on available-for-sale securities	424.4	20.1 &sbsp;	444.5
Balance as of December 31, 2015	2,100.2	44.6	2,144.8
Deferrals of commissions and expenses	123.1	-	123.1
Amortization:			
Amortization	(446.8)	(9.1)	(455.9) [2]
Interest accrued	30.8	2.1 [1]	32.9
Net amortization included in the Statements of Operations	(416.0)	(7.0)	(423.0)
Change in unrealized capital gains/losses on available-for-sale securities	(122.3)	(6.9)	(129.2)
Balance as of December 31, 2016	$ 1,685.0	$ 30.7	$ 1,715.7

[1] Interest accrued at the following rates for VOBA: 3.8% to 5.8% during 2016, 2.2% to 5.8% during 2015 and 2.0% to 5.8% during 2014.
[2] Includes loss recognition for DAC and VOBA of $137.1 and $0.6, respectively, during 2016 and loss recognition for DAC and VOBA of $275.7 and $1.2, respectively, during 2015. There was no loss recognition for DAC and VOBA during 2014.

The estimated amount of VOBA amortization expense, net of interest, for the next five years is presented in the following table. Actual amortization incurred during these years may vary as assumptions are modified to incorporate actual results and/or changes in best estimates of future results.

Year	Amount
2017	7.5
2018	6.6
2019	6.0
2020	6.1
2021	7.4

6. Sales Inducements

During the years ended December 31, 2016, 2015 and 2014, the Company capitalized $28.5, $22.0 and $28.4, respectively, of Sales inducements to contract owners. During the years ended December 31, 2016, 2015 and 2014, the Company amortized $(126.3), $(109.8) and $(19.3), respectively, of Sales inducements to contract owners, which included loss recognition of $32.3 and $65.1 for the years ended December 31, 2016 and 2015, respectively. The Company had no loss recognition related to Sales inducements to contract owners for the year ended December 31, 2014. The unamortized balance of capitalized Sales inducements to contract owners was $312.9 and $431.6 as of December 31, 2016 and 2015, respectively.

7. Guaranteed Benefit Features

While the Company stopped actively writing new retail variable annuity products with substantial guarantee features in early 2010, its currently-sold retail variable annuity contracts with separate account options guarantee the contract owner a return of no less than (i) total deposits made to the contract less any partial withdrawals, (ii) total deposits made to the contract less any partial withdrawals plus a minimum return, or (iii) the highest contract value on a specified date minus any withdrawals. These guarantees include benefits that are payable in the event of death, annuitization or at specified dates.

The Company also has certain indexed annuity products which contain guaranteed withdrawal benefit provisions. This provision guarantees an annual withdrawal amount for life that is calculated as a percentage of the benefit base, which equals premium paid at the time of product issue, and can increase by a rollup percentage (mainly 7%, 6% or a percentage linked to index credits earned, depending on versions of the benefit) or annual ratchet. The percentage used to determine the guaranteed annual withdrawal amount may vary by age at first withdrawal and depends on whether the benefit is for a single life or joint lives.

The Company’s major source of income from guaranteed benefit features is the base contract mortality, expense, and guaranteed death and living benefit rider fees charged to the contract owner, less the costs of administering the product and providing for the guaranteed death and living benefits.

The Company's closed block of variable annuity contracts offer one or more of the following guaranteed death and living benefits:

Guaranteed Minimum Death Benefits (GMDB)

- *Standard*: Guarantees that, upon the death of the individual specified in the policy, the death benefit will be no less than the premiums paid by the customer, adjusted for withdrawals.
- *Ratchet*: Guarantees that, upon the death of the individual specified in the policy, the death benefit will be no less than the greater of (1) Standard or (2) the maximum policy anniversary (or quarterly) value of the variable annuity, adjusted for withdrawals.
- *Rollup*: Guarantees that, upon the death of the individual specified in the policy, the death benefit will be no less than the aggregate premiums paid by the contract owner, with interest at the contractual rate per annum, adjusted for withdrawals. The Rollup may be subject to a maximum cap on the total benefit.
- *Combo*: Guarantees that, upon the death of the individual specified in the policy, the death benefit will be no less than the greater of (1) Ratchet or (2) Rollup.

Guaranteed Minimum Living Benefits

Guaranteed Minimum Income Benefit (GMIB): Guarantees a minimum income payout, exercisable only on a contract anniversary on or after a specified date, in most cases 10 years after purchase of the GMIB rider. The income payout is determined based on contractually established annuity factors multiplied by the benefit base. The benefit base equals the premium paid at the time of product issue and may increase over time based on a number of factors, including a rollup percentage (mainly 7% or 6% depending on the version of the benefit) and ratchet frequency subject to maximum caps which vary by product version (200%, 250% or 300% of initial premium).

Guaranteed Minimum Withdrawal Benefit and Guaranteed Minimum Withdrawal Benefit for Life (GMWB/GMWBL): Guarantees an annual withdrawal amount for a specified period of time (GMWB) or life (GMWBL) that is calculated as a percentage of the benefit base that equals premium paid at the time of product issue and may increase over time based on a number of factors, including a rollup percentage (mainly 7%, 6% or 0%, depending on versions of the benefit) and ratchet frequency (primarily annually or quarterly, depending on versions). The rollup ceases 10 years after purchase of the rider, or in the year when withdrawals occur. The percentage used to determine the guaranteed annual withdrawal amount may vary by age at first withdrawal and depends on versions of the benefit. A joint life-time withdrawal benefit option was available to include coverage for spouses. Most versions of the withdrawal benefit included reset and/or step-up features that may increase the guaranteed withdrawal amount in certain conditions. Earlier versions of the withdrawal benefit guarantee that annual withdrawals of up to 7.0% of eligible premiums may be made until eligible premiums previously paid by the contract owner are returned, regardless of account value performance. Asset allocation requirements apply at all times where withdrawals are guaranteed for life.

Guaranteed Minimum Accumulation Benefit (GMAB): Guarantees that the account value will be at least 100% of the eligible premiums paid by the customer after 10 years, adjusted for withdrawals. The Company offered an alternative design that guaranteed the account value to be at least 200% of the eligible premiums paid by contract owners after 20 years.

The following assumptions and methodology were used to determine the guaranteed reserves for closed block of variable annuity contracts as of December 31, 2016 and 2015:

Area	Assumptions/Basis for Assumptions
Data used	Based on 1,000 investment performance scenarios.
Mean investment performance	GMDB and GMIB: The overall blended mean is 7.8% based on a single fund group. GMAB / GMWB / GMWBL: Zero rate curve.
Volatility	GMDB: 14.2% for 2016 and 15.1% for 2015. GMIB: 14.2% for 2016 and 15.1% for 2015. GMAB / GMWB / GMWBL: Implied volatilities through the first 5 years and then a blend of implied and historical thereafter.
Mortality	Depending on the type of benefit and gender, the Company uses the 2012 Individual Annuity Mortality Basic table with mortality improvement through December 31, 2016, further adjusted for company experience.
Lapse rates	Vary by contract type, share class, time remaining in the surrender charge period and in-the-moneyness.
Discount rates	GMDB / GMIB: 5.5% for 2016 and 2015. GMAB / GMWB / GMWBL: Zero rate curve plus adjustment for nonperformance risk.

Variable annuity contracts containing guaranteed minimum death and living benefits expose the Company to market risk. For example, with a decline in the equity markets, the Company has exposure to increasing claims due to the guaranteed minimum benefits. On the other hand, with an increase in the equity markets, the Company's exposure to risks associated with the guaranteed minimum benefits generally decreases. In order to mitigate the risk associated with guaranteed death and living benefits, the Company enters into reinsurance agreements and derivative positions on various public market indices chosen to closely replicate contract owner variable fund returns.

The calculation of the GMDB, GMIB, GMAB, GMWB, and GMWBL liabilities assumes dynamic surrenders and dynamic utilization of the guaranteed living benefit feature.

The liabilities for variable annuity contracts containing guaranteed minimum death and living benefits are recorded in separate account liabilities as follows as of December 31, 2016 and 2015. The separate account liabilities may include more than one type of guarantee. These liabilities are subject to the requirements for additional reserve liabilities under ASC Topic 944, which are

recorded on the Balance Sheets in Future policy benefits and contract owner account balances. The paid and incurred amounts were as follows for the years ended December 31, 2016, 2015 and 2014:

	GMDB[1]	GMAB/GMWB	GMIB[2]	GMWBL[3]
Separate account liability at December 31, 2016	$ 30,838.9	$ 534.0	$ 9,806.7	$ 13,311.4
Separate account liability at December 31, 2015	$ 33,321.3	$ 593.5	$ 11,338.1	$ 13,811.4
Additional liability balance:				
Balance at January 1, 2014	$ 339.0	$ 28.7	$ -	$ 414.0
Incurred guaranteed benefits	108.6	4.8	-	631.5
Paid guaranteed benefits	(73.3)	(0.7)	-	-
Balance at December 31, 2014	374.3	32.8	-	1,045.5
Incurred guaranteed benefits	231.4	(3.1)	-	200.5
Paid guaranteed benefits	(88.5)	(0.6)	-	-
Balance at December 31, 2015	517.2	29.1	-	1,246.0
Incurred guaranteed benefits	128.2	(6.5)	-	(353.8)
Paid guaranteed benefits	(135.5)	(0.5)	-	-
Balance at December 31, 2016	$ 509.9	$ 22.1	$ -	$ 892.2

[1]The additional liability balances as of December 31, 2016, 2015, 2014 and as of January 1, 2014 are presented net of reinsurance of $29.0, $32.8, $30.8 and $33.2, respectively.
[2]The additional liability balances as of December 31, 2016, 2015, 2014 and as of January 1, 2014 are presented net of reinsurance of $1.3 billion, $1.4 billion, $1.1 billion and $1.1 billion, respectively.
[3]The additional liability balances as of December 31, 2016, 2015, 2014 and as of January 1, 2014 are presented net of reinsurance of $598.2, $573.9, $486.1 and $458.3, respectively.

The Company also calculates additional liabilities for FIA contracts with guaranteed withdrawal benefits. The additional liability represents the expected value of these benefits in excess of the projected account balance, and is accreted based on assessments over the accumulation period of the contract. The additional liability for FIA guaranteed withdrawal benefits was $146.6 and $91.0, as of December 31, 2016 and 2015, respectively. The additional liability is recorded in Future policy benefits and contract owner account balances on the Balance Sheets.

The net amount at risk for the GMDB, GMAB and GMWB benefits is equal to the guaranteed value of these benefits in excess of the account values.

The net amount at risk for the GMIB and GMWBL benefits is equal to the excess of the present value of the minimum guaranteed annuity payments available to the contract owner over the current account value.

The separate account values, net amount at risk, net of reinsurance, and the weighted average attained age of contract owners by type of minimum guaranteed benefit, were as follows as of the dates indicated.

	In the Event of Death	At Annuitization, Maturity, or Withdrawal		
	GMDB	GMAB/GMWB	GMIB	GMWBL
December 31, 2016				
Separate account value	$ 30,838.9	$ 534.0	$ 9,806.7	$ 13,311.4
Net amount at risk, net of reinsurance	$ 5,503.9	$ 13.5	$ -	$ -
Weighted average attained age	71	73	-	-
December 31, 2015				
Separate account value	$ 33,321.3	$ 593.5	$ 11,338.1	$ 13,811.4
Net amount at risk, net of reinsurance	$ 6,073.6	$ 17.2	$ -	$ -
Weighted average attained age	70	72	-	-

The aggregate fair value of equity securities, including mutual funds, supporting separate accounts with additional insurance benefits and minimum investment return guarantees as of December 31, 2016 and 2015 was $30.8 billion and $33.3 billion, respectively.

8. Reinsurance

The Company has reinsurance treaties with 14 unaffiliated reinsurers covering a portion of the mortality risks and guaranteed death and living benefits under its life and annuity contracts. The Company, as cedant, also has reinsurance treaties with three affiliates, SLD, SLDI and RRII, related to funding agreements, fixed annuities, variable annuities and universal life insurance policies. In addition, the Company assumed reinsurance risk under reinsurance treaties with its affiliate, ReliaStar Life Insurance Company ("RLI") related to certain life insurance policies and employee benefit group annual term policies. The Company remains liable to the extent its reinsurers do not meet their obligations under the reinsurance agreements. Furthermore, the Company has an agreement with SLD which is accounted for using the deposit method. For additional information regarding these transactions with affiliates, see the *Related Party Transactions* Note for further detail.

Deposits, premiums receivable and reinsurance recoverable was comprised of the following as of the dates indicated:

	December 31,	
	2016	2015
Reserves ceded and claims recoverable [1]	$ 6,805.2	$ 5,041.5
Deposits [1]	157.8	155.3
Funds withheld by ceding companies [1]	431.5	449.1
Premiums receivable, net	23.0	-
Total	$ 7,417.5	$ 5,645.9

[1] Includes amounts with affiliates - refer to the *Related Party Transactions* Note for further detail.

The following table summarizes the effect of reinsurance on Premiums for the periods indicated:

	December 31,		
	2016	2015	2014
Premiums:			
Direct premiums	$ 731.8	$ 482.7	$ 634.2
Reinsurance assumed [(1)]	436.1	428.5	407.7
Reinsurance ceded [(1)]	(671.4)	(405.4)	(504.1)
Net premiums	$ 496.5	$ 505.8	$ 537.8

[(1)] Includes amounts with affiliates - refer to the *Related Party Transactions* Note for further detail.

9. Capital Contributions, Dividends and Statutory Information

Iowa insurance law imposes restrictions on an Iowa insurance company's ability to pay dividends to its parent. These restrictions are based in part on the prior year's statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval. Dividends in larger amounts, or extraordinary dividends, are subject to approval by the Iowa Insurance Commission.

Under Iowa law, an extraordinary dividend or distribution is defined as a dividend or distribution that, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (1) ten percent (10.0%) of the Company's earned statutory surplus at the prior year end or (2) the Company's prior year statutory net gain from operations. Iowa law also prohibits an Iowa insurer from declaring or paying a dividend except out of its earned surplus unless prior insurance regulatory approval is obtained.

On June 9, 2016 the Company declared an ordinary dividend in the amount of $373.0, which was paid to its Parent on June 27, 2016. On May 20, 2015, the Company paid an ordinary dividend in the amount of $394.0 to its Parent.

During the year ended December 31, 2016, the Company did not pay any extraordinary distributions to its Parent. During the year ended December 31, 2015, the Company paid an extraordinary distribution in the amount of $98.0 to its Parent.

During the years ended December 31, 2016, and 2015, the Company did not receive any capital contributions from its Parent.

The Company is subject to minimum risk-based capital ("RBC") requirements established by the Division. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of total adjusted capital ("TAC"), as defined by the National Association of Insurance Commissioners ("NAIC"), to authorized control level RBC, as defined by the NAIC. The Company exceeded the minimum RBC requirements that would require any regulatory or corrective action for all periods presented herein.

The Company is required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the Division. Such statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities and contract owner account balances using different actuarial assumptions as well as valuing investments and certain assets and accounting for deferred taxes on a different basis. Certain assets that are not admitted under statutory accounting principles are charged directly to surplus. Depending on the regulations of the Division, the entire amount or a portion of an insurance company's asset balance can be non-admitted depending on specific rules regarding admissibility. The most significant non-admitted assets of the Company are typically deferred tax assets.

Statutory net income (loss) was $232.4, $553.3 and $335.6, for the years ended December 31, 2016, 2015 and 2014, respectively. Statutory capital and surplus was $1.9 billion and $2.1 billion as of December 31, 2016 and 2015, respectively .

10. Accumulated Other Comprehensive Income (Loss)

Shareholder's equity included the following components of AOCI as of the dates indicated:

	December 31,		
	2016	2015	2014
Fixed maturities, net of OTTI	$ 760.8	$ 406.8	$ 1,388.5
Equity securities, available-for-sale	3.5	3.8	3.6
Derivatives	10.3	11.8	7.6
DAC/VOBA, Sales inducements and other intangibles adjustments on available-for-sale securities	(371.6)	(181.3)	(714.0)
Other	(35.4)	(35.9)	(35.5)
Unrealized capital gains (losses), before tax	367.6	205.2	650.2
Deferred income tax asset (liability)	56.9	113.7	(42.0)
Unrealized capital gains (losses), after tax	424.5	318.9	608.2
Pension and other postretirement benefits liability, net of tax	0.6	0.7	0.8
AOCI	$ 425.1	$ 319.6	$ 609.0

Changes in AOCI, including the reclassification adjustments recognized in the Statements of Operations, were as follows for the periods indicated:

	Year Ended December 31, 2016		
	Before-Tax Amount	**Income Tax**	**After-Tax Amount**
Available-for-sale securities:			
Fixed maturities	$ 354.9	$ (124.1)	$ 230.8
Equity securities	(0.3)	0.1	(0.2)
Other	0.5	(0.2)	0.3
OTTI	9.0	(3.2)	5.8
Adjustments for amounts recognized in Net realized capital gains (losses) in the Statements of Operations	(9.9)	3.5	(6.4)
DAC/VOBA, Sales inducements and other intangibles	(190.3) [1]	66.6	(123.7)
Change in unrealized gains/losses on available-for-sale securities	163.9	(57.3)	106.6
Derivatives:			
Derivatives	(1.5) [2]	0.5	(1.0)
Adjustments related to effective cash flow hedges for amounts recognized in Net investment income in the Statements of Operations	-	-	-
Change in unrealized gains/losses on derivatives	(1.5)	0.5	(1.0)
Pension and other postretirement benefits liability:			
Amortization of prior service cost recognized in Operating expenses in the Statements of Operations	(0.1) [3]	-	(0.1)
Change in pension and other postretirement benefits liability	(0.1)	-	(0.1)
Change in Other comprehensive income (loss)	$ 162.3	$ (56.8)	$ 105.5

[1] See the *Deferred Policy Acquisition Costs and Value of Business Acquired* Note to these Financial Statements for additional information.
[2] See the *Derivative Financial Instruments* Note to these Financial Statements for additional information.
[3] See the *Benefit Plans* Note to these Financial Statements for amounts reported in Net Periodic (Benefit) Costs.

	Year Ended December 31, 2015		
	Before-Tax Amount	Income Tax	After-Tax Amount
Available-for-sale securities:			
Fixed maturities	$ (1,025.8)	$ 359.0	$ (666.8)
Equity securities	0.2	(0.1)	0.1
Other	(0.4)	0.1	(0.3)
OTTI	6.6	(2.3)	4.3
Adjustments for amounts recognized in Net realized capital gains (losses) in the Statements of Operations	37.5	(13.1)	24.4
DAC/VOBA, Sales inducements and other intangibles	532.7 [(1)]	(186.4)	346.3
Change in unrealized gains/losses on available-for-sale securities	(449.2)	157.2	(292.0)
Derivatives:			
Derivatives	4.2 [(2)]	(1.5)	2.7
Adjustments related to effective cash flow hedges for amounts recognized in Net investment income in the Statements of Operations	-	-	-
Change in unrealized gains/losses on derivatives	4.2	(1.5)	2.7
Pension and other postretirement benefits liability:			
Amortization of prior service cost recognized in Operating expenses in the Statements of Operations	(0.2) [(3)]	0.1	(0.1)
Change in pension and other postretirement benefits liability	(0.2)	0.1	(0.1)
Change in Other comprehensive income (loss)	$ (445.2)	$ 155.8	$ (289.4)

[(1)] See the *Deferred Policy Acquisition Costs and Value of Business Acquired* Note to these Financial Statements for additional information.
[(2)] See the *Derivative Financial Instruments* Note to these Financial Statements for additional information.
[(3)] See the *Benefit Plans* Note to these Financial Statements for amounts reported in Net Periodic (Benefit) Costs.

	Year Ended December 31, 2014		
	Before-Tax Amount	Income Tax	After-Tax Amount
Available-for-sale securities:			
Fixed maturities	$ 538.0	$ (188.4)	$ 349.6
Equity securities	1.3	(0.5)	0.8
Other	(0.2)	0.1	(0.1)
OTTI	16.7	(5.8)	10.9
Adjustments for amounts recognized in Net realized capital gains (losses) in the Statements of Operations	6.3	(2.2)	4.1
DAC/VOBA, Sales inducements and other intangibles	(372.5) [1]	130.4	(242.1)
Change in unrealized gains/losses on available-for-sale securities	189.6	(66.4)	123.2
Derivatives:			
Derivatives	7.2 [2]	(2.5)	4.7
Adjustments related to effective cash flow hedges for amounts recognized in Net investment income in the Statements of Operations	-	-	-
Change in unrealized gains/losses on derivatives	7.2	(2.5)	4.7
Pension and other postretirement benefits liability:			
Amortization of prior service cost recognized in Operating expenses in the Statements of Operations	(0.2) [3]	0.1	(0.1)
Change in pension and other postretirement benefits liability	(0.2)	0.1	(0.1)
Change in Other comprehensive income (loss)	$ 196.6	$ (68.8)	$ 127.8

[1] See the *Deferred Policy Acquisition Costs and Value of Business Acquired* Note to these Financial Statements for additional information.
[2] See the *Derivative Financial Instruments* Note to these Financial Statements for additional information.
[3] See the *Benefit Plans* Note to these Financial Statements for amounts reported in Net Periodic (Benefit) Costs.

11. Income Taxes

Income tax expense (benefit) consisted of the following for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
Current tax expense (benefit):			
Federal	$ 67.0	$ (68.5)	$ 69.9
Total current tax expense (benefit)	67.0	(68.5)	69.9
Deferred tax expense (benefit):			
Federal	48.9	14.6	27.4
Total deferred tax expense (benefit)	48.9	14.6	27.4
Total income tax expense (benefit)	$ 115.9	$ (53.9)	$ 97.3

Income taxes were different from the amount computed by applying the federal income tax rate to Income (loss) before income taxes for the following reasons for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
Income (loss) before income taxes	$ 135.2	$ (79.0)	$ 72.4
Tax rate	35.0%	35.0%	35.0%
Income tax expense (benefit) at federal statutory rate	47.3	(27.7)	25.3
Tax effect of:			
Dividends received deduction	(68.3)	(76.3)	(58.6)
Valuation allowance	136.1	47.7	125.8
Audit settlements	(2.2)	-	2.8
Tax credits	1.7	2.3	2.0
Non-deductible expense (benefit)	1.3	0.1	0.2
Other	-	-	(0.2)
Income tax expense (benefit)	$ 115.9	$ (53.9)	$ 97.3
Effective tax rate	85.7%	68.2%	134.4%

Temporary Differences

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities as of the dates indicated, are presented below.

	Year Ended December 31,	
	2016	2015
Deferred tax assets		
Insurance reserves	$ 767.5	$ 759.0
Investments	817.9	867.9
Compensation and benefits	22.9	21.7
Other assets	22.0	21.6
Total gross assets before valuation allowance	1,630.3	1,670.2
Less: Valuation allowance	733.5	597.4
Assets, net of valuation allowance	896.8	1,072.8
Deferred tax liabilities		
Deferred policy acquisition costs	(662.9)	(842.7)
Net unrealized investment (gains) losses	(244.7)	(135.3)
Total gross liabilities	(907.6)	(978.0)
Net deferred income tax asset (liability)	$ (10.8)	$ 94.8

Valuation allowances are provided when it is considered more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2016 and 2015, the Company had total valuation allowances of $733.5 and $597.4, respectively. As of December 31, 2016 and 2015, $919.2 and $783.1, respectively, of these valuation allowances were allocated to continuing operations, and $(185.7) as of the end of each period was allocated to Other comprehensive income (loss) related to realized and unrealized capital losses.

For the years ended December 31, 2016, 2015 and 2014, the increases in the valuation allowance were $136.1, $47.7 and $125.8, respectively, all of which were allocated to continuing operations.

Tax Sharing Agreement

The Company had a receivable from Voya Financial, Inc. of $4.1 as of December 31, 2016 and a payable to Voya Financial, Inc. of $27.6 as of December 31, 2015, for federal income taxes under the intercompany tax sharing agreement.

The results of the Company's operations are included in the consolidated tax return of Voya Financial, Inc. Generally, the Company's financial statements recognize the current and deferred income tax consequences that result from the Company's activities during the current and preceding periods pursuant to the provisions of Income Taxes (ASC Topic 740) as if the Company were a separate taxpayer rather than a member of Voya Financial, Inc.'s consolidated income tax return group with the exception of any net operating loss carryforwards and capital loss carryforwards, which are recorded pursuant to the tax sharing agreement. If the Company instead were to follow a separate taxpayer approach without any exceptions, there would be no impact to income tax expense (benefit) for the periods indicated above. Also, any current tax benefit related to the Company's tax attributes realized by virtue of its inclusion in the consolidated tax return of Voya Financial, Inc. would have been recorded directly to equity rather than income. Under the tax sharing agreement, Voya Financial, Inc. will pay the Company for the tax benefits of ordinary and capital losses only in the event that the consolidated tax group actually uses the tax benefit of losses generated.

Unrecognized Tax Benefits

Reconciliations of the change in the unrecognized income tax benefits for the periods indicated are as follows:

	Year Ended December 31,		
	2016	2015	2014
Balance at beginning of period	$ 5.5	$ 5.5	$ 2.7
Additions for tax positions related to prior years	-	-	2.8
Reductions for tax positions related to prior years	(2.3)	-	-
Reductions for settlements with taxing authorities	(1.3)	-	-
Balance at end of period	$ 1.9	$ 5.5	$ 5.5

The Company had $1.9, $5.5 and $5.5, respectively, of unrecognized tax benefits as of December 31, 2016, 2015 and 2014, which would affect the Company's effective tax rate if recognized.

Interest and Penalties

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in current income taxes and income tax expense on the Balance Sheets and Statement of Operations, respectively. The Company had no accrued interest as of December 31, 2016 and 2015.

Tax Regulatory Matters

During 2016, the Internal Revenue Service ("IRS") completed its examination of Voya Financial, Inc.'s consolidated return (including the Company) through tax year 2015. The audit settlements did not have a material impact on the Company. Voya Financial, Inc. (including the Company) is currently under audit by the IRS, and it is expected that the examination of tax year 2016 may be finalized within the next twelve months. Voya Financial, Inc. (including the Company) and the IRS have agreed to participate in the Compliance Assurance Process for the tax years 2016 and 2017.

The Company does not expect any material changes in the amount of the unrecognized tax benefit of $1.9 within the next twelve months. The timing of a payment (if any) associated with the unrecognized tax benefit cannot be reliably estimated.

12. Benefit Plans

Defined Benefit Plan

Voya Services Company sponsors the Voya Retirement Plan (the "Retirement Plan"). Substantially all employees of Voya Services Company and its affiliates (excluding certain employees) are eligible to participate, including the Company's employees.

The Retirement Plan is a tax qualified defined benefit plan, the benefits of which are guaranteed (within certain specified legal limits) by the Pension Benefit Guaranty Corporation ("PBGC"). Beginning January 1, 2012, the Retirement Plan adopted a cash balance pension formula instead of a final average pay ("FAP") formula, allowing all eligible employees to participate in the Retirement Plan. Participants will earn an annual credit equal to 4% of eligible compensation. Interest is credited monthly based on a 30-year U.S. Treasury securities bond rate published by the Internal Revenue Service in the preceding August of each year. The accrued vested cash pension balance benefit is portable; participants can take it if they leave the Company.

The costs allocated to the Company for its employees' participation in the Retirement Plan were $2.1, $1.7 and $2.1, for the years ended December 31, 2016, 2015 and 2014, respectively, and are included in Operating expenses in the Statements of Operations.

Defined Contribution Plan

Voya Services Company sponsors the Voya Savings Plan and ESOP (the "Savings Plan"). Substantially all employees of Voya Services Company and its affiliates (excluding certain employees) are eligible to participate, including the Company's employees other than Company agents. The Savings Plan is a tax qualified defined contribution and stock bonus plan, which includes an employee stock ownership plan component. Savings Plan benefits are not guaranteed by the PBGC. The Savings Plan allows eligible participants to defer into the Savings Plan a specified percentage of eligible compensation on a pretax basis. Voya Services Company matches such pre-tax contributions, up to a maximum of 6.0% of eligible compensation, subject to IRS limits. Matching contributions are subject to a 4-year graded vesting schedule. Contributions made to the Savings Plan are subject to certain limits imposed by applicable law. The costs allocated to the Company for the Savings Plan were $3.2, $3.0 and $3.3, for the years ended December 31, 2016, 2015 and 2014, respectively, and are included in Operating expenses in the Statements of Operations.

Non-Qualified Retirement Plans

Effective December 31, 2001, the Company, in conjunction with Voya Services Company, offers certain eligible employees (other than Career Agents) a Supplemental Executive Retirement Plan and an Excess Plan (collectively, the "SERPs"). Benefits under the SERPs are determined based on an eligible employee's years of service and average annual compensation for the highest five years during the last ten years of employment.

Effective January 1, 2012, the Supplemental Executive Retirement Plan was amended to coordinate with the amendment of the Retirement Plan from its current final average pay formula to a cash balance formula.

The SERPs are non-qualified defined benefit pension plans, which means all the SERPs benefits are payable from the general assets of the Company. These non-qualified defined benefit pension plans are not guaranteed by the PBGC.

Obligations and Funded Status

The following table summarizes the benefit obligations for the SERPs as of December 31, 2016 and 2015:

	Year Ended December 31,	
	2016	2015
Change in benefit obligation:		
Benefit obligation, January 1	$ 21.6	$ 23.5
Interest cost	1.0	1.0
Benefits paid	(1.3)	(1.7)
Actuarial (gains) losses on obligation	1.1	(1.2)
Benefit obligation, December 31	$ 22.4	$ 21.6

Amounts recognized on the Balance Sheets in Other liabilities and in AOCI were as follows as of December 31, 2016 and 2015:

	December 31,	
	2016	2015
Accrued benefit cost	$ (22.4)	$ (21.6)
Accumulated other comprehensive income (loss):		
Prior service cost (credit)	(0.1)	(0.1)
Net amount recognized	$ (22.5)	$ (21.7)

Assumptions

The weighted-average assumptions used in the measurement of the December 31, 2016 and 2015, benefit obligation for the SERPs were as follows:

	2016	2015
Discount rate	4.55%	4.81%
Rate of compensation increase	4.00%	4.00%

In determining the discount rate assumption, the Company utilizes current market information provided by its plan actuaries, including a discounted cash flow analysis of the Company's pension obligation and general movements in the current market environment. The discount rate modeling process involves selecting a portfolio of high quality, noncallable bonds that will match the cash flows of the SERP. Based upon all available information, it was determined that 4.55% was the appropriate discount rate as of December 31, 2016, to calculate the Company's accrued benefit liability.

The weighted-average assumptions used in calculating the net pension cost were as follows:

	2016	2015	2014
Discount rate	4.81%	4.36%	4.95%
Rate of compensation increase	4.00%	4.00%	4.00%

Since the benefit plans of the Company are unfunded, an assumption for return on plan assets is not required.

Net Periodic Benefit Costs

Net periodic benefit costs for the SERPs were as follows for the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,		
	2016	2015	2014
Interest cost	$ 1.0	$ 1.0	$ 1.0
Amortization of prior service cost (credit)	-	-	-
Net (gain) loss recognition	1.1	(1.2)	3.9
Net periodic (benefit) cost	$ 2.1	$ (0.2)	$ 4.9

Cash Flows

In 2017, the Company is expected to contribute $1.2 to the SERPs. Future expected benefit payments related to the SERPs for the years ended December 31, 2017 through 2021, and thereafter through 2026, are estimated to be $1.2, $1.2, $1.4, $1.3, $1.3 and $6.9, respectively.

Share Based Compensation Plans

Certain employees of the Company participate in the 2013 and 2014 Omnibus Employee Incentive Plans ("the Omnibus Plans") sponsored by Voya Financial, Inc., with respect to awards granted in 2013 through 2015. Certain employees also participate in various ING Group share-based compensation plans with respect to awards granted prior to 2013. Upon closing of the IPO, certain awards granted by ING Group that, upon vesting, would have been issuable in the form of American Depository Receipts ("ADRs") of ING Group were converted into performance shares or restricted stock units ("RSUs") under the Omnibus Plans, that upon vesting, will be issuable in Voya Financial, Inc. common stock.

The Company was allocated compensation expense from Voya Financial, Inc. and ING Group of $12.0, $12.0 and $14.4, for the years ended December 31, 2016, 2015 and 2014, respectively.

The Company recognized tax benefits of $4.9, $5.6 and $5.1 in December 31, 2016, 2015 and 2014, respectively. Excess tax benefits are recognized in Additional paid-in capital and are accounted for in a single pool available to all share-based compensation awards. Excess tax benefits in Additional paid-in capital are not recognized until the benefits result in a reduction in taxes payable. The Company uses tax law ordering when determining when excess tax benefits have been realized.

Other Benefit Plans

In addition to providing retirement plan benefits, the Company, in conjunction with Voya Services Company, provides certain supplemental retirement benefits to eligible employees and health care and life insurance benefits to retired employees and other eligible dependents. The supplemental retirement plan includes a non-qualified defined benefit pension plan and a non-qualified defined contribution plan, which means all benefits are payable from the general assets of the Company. The postretirement health care plan is contributory, with retiree contribution levels adjusted annually and the Company subsidizes a portion of the monthly per-participant premium. Beginning August 1, 2009, the Company moved from self-insuring its supplemental health care costs and began to use a private-fee-for-service Medicare Advantage program for post-Medicare eligible retired participants. In addition, effective October 1, 2009, the Company no longer subsidizes medical premium costs for early retirees. This change does not impact any participant currently retired and receiving coverage under the plan or any employee who is eligible for coverage under the plan and whose employment ended before October 1, 2009. The Company continues to offer access to medical coverage until retirees become eligible for Medicare. The life insurance plan provides a flat amount of noncontributory coverage and optional contributory coverage. The Voya Financial, Inc. Deferred Compensation Savings Plan is a non-qualified deferred compensation plan that includes a 401(k) excess component. The benefits charges allocated to the Company related to all of these plans for the years ended December 31, 2016, 2015 and 2014, were $3.5, $3.5 and $3.6, respectively.

13. Commitments and Contingencies

Leases

The Company leases its office space and certain equipment under operating leases, the longest term of which expires in 2017.

For the years ended December 31, 2016, 2015 and 2014, rent expense for leases was $6.1, $5.4 and $7.1, respectively. The future net minimum payment under non-cancellable leases for the year ended December 31, 2017 is estimated to be $5.3 and none thereafter. Lease expenses not paid directly by the Company were paid for by an affiliate and allocated to the Company.

Commitments

Through the normal course of investment operations, the Company commits to either purchase or sell securities, mortgage loans, or money market instruments, at a specified future date and at a specified price or yield. The inability of counterparties to honor these commitments may result in either a higher or lower replacement cost. Also, there is likely to be a change in the value of the securities underlying the commitments. As of December 31, 2016 and 2015, the Company had off-balance sheet commitments to acquire mortgage loans of $261.3 and $323.6, respectively, and purchase limited partnerships and private placement investments of $366.2 and $285.9, respectively.

Federal Home Loan Bank Funding

The Company is a member of the FHLB of Des Moines and is required to pledge collateral to back funding agreements issued to the FHLB. As of December 31, 2016 and 2015, the Company had $200.1 and $950.4, respectively, in non-putable funding agreements, including accrued interest, issued to the FHLB. These non-putable funding agreements are included in Future policy benefits and contract owner account balances on the Balance Sheets. As of December 31, 2016 and 2015, assets with a market value of $235.7 and $1,096.0, respectively, collateralized the funding agreements to the FHLB. Assets pledged to the FHLB are included in Fixed maturities, available-for-sale, at fair value on the Balance Sheets.

Restricted Assets

The Company is required to maintain assets on deposit with various regulatory authorities to support its insurance operations. The Company may also post collateral in connection with certain securities lending, repurchase agreements, funding agreements, letter of credit ("LOC") and derivative transactions as described further in this note. The components of the fair value of the restricted assets were as follows as of the dates indicated:

	December 31,	
	2016	**2015**
Fixed maturity collateral pledged to FHLB[1]	$ 235.7	$ 1,096.0
FHLB restricted stock[2]	18.0	48.0
Other fixed maturities-state deposits	10.5	11.5
Securities pledged[3]	748.2	672.4
Total restricted assets	$ 1,012.4	$ 1,827.9

[1] Included in Fixed maturities, available-for-sale, at fair value on the Balance Sheets.
[2] Included in Other investments on the Balance Sheets.
[3] Includes the fair value of loaned securities of $270.9 and $147.9 as of December 31, 2016 and 2015, respectively. In addition, as of December 31, 2016 and 2015, the Company delivered securities as collateral of $477.3 and $524.5, respectively. Loaned securities and securities delivered as collateral are included in Securities pledged on the Balance Sheets.

Litigation, Regulatory Matters and Loss Contingencies

Litigation, regulatory and other loss contingencies arise in connection with the Company's activities as a diversified financial services firm. The Company is a defendant in a number of litigation matters arising from the conduct of its business, both in the ordinary course and otherwise. In some of these matters, claimants seek to recover very large or indeterminate amounts, including

compensatory, punitive, treble and exemplary damages. Modern pleading practice in the U.S. permits considerable variation in the assertion of monetary damages and other relief. Claimants are not always required to specify the monetary damages they seek or they may be required only to state an amount sufficient to meet a court's jurisdictional requirements. Moreover, some jurisdictions allow claimants to allege monetary damages that far exceed any reasonably possible verdict. The variability in pleading requirements and past experience demonstrates that the monetary and other relief that may be requested in a lawsuit or claim often bears little relevance to the merits or potential value of a claim. Litigation against the Company includes a variety of claims including negligence, breach of contract, fraud, violation of regulation or statute, breach of fiduciary duty, negligent misrepresentation, failure to supervise, elder abuse and other torts.

As with other financial services companies, the Company periodically receives informal and formal requests for information from various state and federal governmental agencies and self-regulatory organizations in connection with inquiries and investigations of the products and practices of the Company or the financial services industry. It is the practice of the Company to cooperate fully in these matters. Regulatory investigations, exams, inquiries and audits could result in regulatory action against the Company. The potential outcome of such action is difficult to predict but could subject the Company to adverse consequences, including, but not limited to, settlement payments, additional payments to beneficiaries and additional escheatment of funds deemed abandoned under state laws. They may also result in fines and penalties and changes to the Company's procedures for the identification and escheatment of abandoned property or the correction of processing errors and other financial liability.

The outcome of a litigation or regulatory matter is difficult to predict and the amount or range of potential losses associated with these or other loss contingencies, requires significant management judgment. It is not possible to predict the ultimate outcome or to provide reasonably possible losses or ranges of losses for all pending regulatory matters, litigation, and other loss contingencies. While it is possible that an adverse outcome in certain cases could have a material adverse effect upon the Company's financial position, based on information currently known, management believes that neither the outcome of pending litigation and regulatory matters, nor potential liabilities associated with other loss contingencies, are likely to have such an effect. However, given the large and indeterminate amounts sought in certain litigation and the inherent unpredictability of all such matters, it is possible that an adverse outcome in certain of the Company's litigation or regulatory matters, or liabilities arising from other loss contingencies, could, from time to time, have a material adverse effect upon the Company's results of operations or cash flows in a particular quarterly or annual period.

For some matters, the Company is able to estimate a possible range of loss. For such matters in which a loss is probable, an accrual has been made. For matters where the Company, however, believes a loss is reasonably possible, but not probable, no accrual is required. For matters for which an accrual has been made, but there remains a reasonably possible range of loss in excess of the amounts accrued or for matters where no accrual is required the Company develops an estimate of the unaccrued amounts of the reasonably possible range of losses. As of December 31, 2016, the Company estimates the aggregate range of reasonably possible losses, in excess of any amounts accrued for these matters as of such date, is not material to the Company.

For other matters, the Company is currently not able to estimate the reasonably possible loss or range of loss. The Company is often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from plaintiffs and other parties, investigation of factual allegations, rulings by a court on motions or appeals, analysis by experts and the progress of settlement discussions. On a quarterly and annual basis, the Company reviews relevant information with respect to litigation and regulatory contingencies and updates the Company's accruals, disclosures and reasonably possible losses or ranges of loss based on such reviews.

14. Related Party Transactions

Operating Agreements

The Company has certain agreements whereby it generates revenues and incurs expenses with affiliated entities. The agreements are as follows:

- Underwriting and distribution agreement with Directed Services LLC ("DSL") (successor by merger to Directed Services, Inc.), an affiliated broker-dealer, whereby DSL serves as the principal underwriter for variable insurance products issued by the Company. DSL is authorized to enter into agreements with broker-dealers to distribute the Company's variable

products and appoint representatives of the broker-dealers as agents. For the years ended December 31, 2016, 2015 and 2014, commissions were incurred in the amounts of $172.9, $198.3 and $217.0, respectively.

- Asset management agreement with Voya Investment Management LLC ("VIM"), an affiliate, in which VIM provides asset management, administration and accounting services for VIAC's general account. The Company records a fee, which is paid quarterly, based on the value of the assets under management. For the years ended December 31, 2016, 2015 and 2014, expenses were incurred in the amounts of $56.7, $52.8 and $48.1, respectively.

- Intercompany agreement with DSL pursuant to which DSL agreed, effective January 1, 2010, to pay the Company, on a monthly basis, a portion of the revenues DSL earns as investment adviser to certain U.S. registered investment companies that are investment options under certain of the Company's variable insurance products. For the years ended December 31, 2016, 2015 and 2014, revenue under the DSL intercompany agreement was $116.5, $115.5 and $139.9, respectively.

- Intercompany agreement with VIM pursuant to which VIM agreed, effective January 1, 2010, to pay the Company, on a monthly basis, a portion of the revenues VIM earns as investment adviser to certain U.S. registered investment companies that are investment options under certain of the Company's variable insurance products. For the years ended December 31, 2016, 2015 and 2014, revenue under the VIM intercompany agreement was $41.8, $44.3 and $41.8, respectively.

- Services agreements with Voya Services Company dated September 1, 2000 and January 1, 2001, respectively, for administrative, management, financial, information technology and finance and treasury services. For the years ended December 31, 2016, 2015 and 2014, expenses were incurred in the amounts of $133.3, $135.2 and $106.9, respectively. Effective October 1, 2010, the services agreement with Voya Services Company dated January 1, 2001, was amended in order for the Company to provide Voya Services Company with use of the corporate office facility at 5780 Powers Ferry Road, N.W., Atlanta, GA (the "Atlanta Office") in exchange for Voya Services Company's payment of the Company's direct and indirect costs for the Atlanta Office.

- Amended and Restated Services agreement between the Company and its U.S. insurance company affiliates and other affiliates dated as of April 1, 2015, for administrative, management, professional, advisory, consulting and other services. For the years ended December 31, 2016, 2015 and 2014, expenses related to the agreements were incurred in the amount of $19.3, $15.0 and $13.2, respectively.

- Administrative Services Agreement between the Company, ReliaStar Life Insurance Company of New York ("RLNY"), an affiliate and other U.S. insurance company affiliates dated March 1, 2003, amended effective August 1, 2004, in which the Company and affiliates provide services to RLNY. For the years ended December 31, 2016, 2015 and 2014, revenue related to the agreement was $2.5, $2.2 and $2.3, respectively.

- Variable annuity and fixed insurance products issued by the Company are sold by Voya Financial Advisors, Inc. ("VFA"), an affiliate of the Company. For the years ended December 31, 2016, 2015 and 2014 commission expenses incurred by the Company were $9.5, $10.6 and $10.9, respectively.

Management and service contracts and all cost sharing arrangements with other affiliated companies are allocated in accordance with the Company's expense and cost allocation methods. Revenues and expenses recorded as a result of transactions and agreements with affiliates may not be the same as those incurred if the Company was not a wholly owned subsidiary of its Parent.

Reinsurance Agreements

Reinsurance Ceded

As of December 31, 2016 and 2015, total reserves ceded to affiliates were $6,750.8 and $5,019.9, respectively. For the years ended December 31, 2016, 2015 and 2014, premiums ceded to affiliates were $670.2, $404.5 and $502.5, respectively.

Waiver of Premium - Coinsurance Funds Withheld

Effective October 1, 2010, the Company entered into a coinsurance funds withheld agreement with its affiliate, SLDI. Under the terms of the agreement, the Company ceded to SLDI 100% of the group life waiver of premium liability (except for groups covered under rate credit agreements) assumed from RLI, related to the Group Annual Term Coinsurance Funds Withheld agreement between the Company and RLI described under "Reinsurance Assumed" below.

As of December 31, 2016 and 2015, the value of the funds withheld liability under this agreement was $154.9 and $170.6, respectively, which is included in Funds held under reinsurance treaties with affiliates on the Balance Sheets. In addition, as of December 31, 2016 and 2015, the Company had an embedded derivative under this agreement with a value of $(2.1) and $(5.6), respectively, which is recorded in Funds held under reinsurance treaties with affiliates on the Balance Sheets. As of December 31, 2016 and 2015, reserves ceded by the Company under this agreement were $183.9 and $203.6, respectively.

Guaranteed Living Benefit - Coinsurance and Coinsurance Funds Withheld

Prior to July 1, 2016, the Company had an amended and restated automatic reinsurance agreement with an affiliate, SLDI, on a combined coinsurance and coinsurance funds withheld basis, covering 100% of the benefits guaranteed under specific variable annuity guaranteed living benefit riders attached to certain variable annuity contracts issued by the Company on or after January 1, 2000. Also, prior to July 1, 2016, the Company had a services agreement with SLDI, under which the Company provided certain actuarial risk modeling consulting services to SLDI with respect to hedge positions undertaken by SLDI in connection with the reinsurance agreement. Additionally, prior to July 1, 2016, the Company and SLDI had an asset management services agreement, under which SLDI served as asset manager for the funds withheld account. SLDI retained its affiliate, VIM, as sub-advisor for the funds withheld account.

Effective July 1, 2016, SLDI acquired RRII, a Missouri life reinsurance captive, from its affiliate, ReliaStar Life Insurance Company and also effective July 1, 2016, RRII redomesticated from the State of Missouri to the State of Arizona. Effective July 1, 2016, the Company, SLDI and RRII entered into release, consent and novation agreements pursuant to which RRII assumed the variable annuity guaranteed living benefits previously reinsured to SLDI under the automatic reinsurance agreement; the services agreement from SLDI under which the Company provides certain actuarial risk modeling consulting services to SLDI with respect to hedge positions undertaken by SLDI in connection with the automatic reinsurance agreement; and SLDI's obligation to serve as asset manager for the funds withheld account under the asset management services agreement.

For the years ended December 31, 2016, 2015 and 2014, revenue related to the aforementioned services agreement was $9.6, $10.9, and $12.3, respectively.

The impacts of these agreements on the Balance Sheets as of the dates indicated are as follows:

	December 31,	
($ in millions)	2016	2015
Assets on deposit in trust	$ 6,504.5	$ 6,632.1
Funds withheld liability[1]	6,356.8	6,616.3
Embedded derivative[1]	147.6	15.8
Reserves ceded[2]	6,545.9	4,795.7
Deferred loss[3]	269.1	283.3

[1] Included in Funds held under reinsurance treaties with affiliates on the Balance Sheets.
[2] Included in Deposits, premiums receivable and reinsurance recoverable on the Balance Sheets.
[3] Included in Other assets on the Balance Sheets.

Multi-year Guaranteed Fixed Annuity - Coinsurance

Effective May 1, 2005, the Company entered into a coinsurance agreement with its affiliate, SLD. Under the terms of the agreement, SLD assumed and accepted the responsibility for paying, when due, 100% of the liabilities arising under the multi-year guaranteed fixed annuity contracts issued by the Company between January 1, 2001 and December 31, 2003. The coinsurance agreement was accounted for using the deposit method. In addition, the Company assigned to SLD all future premiums received by the Company attributable to the ceded contracts.

Under the terms of the agreement, the Company ceded $2.5 billion in account balances and transferred a ceding commission and $2.7 billion in assets to SLD, resulting in a realized capital gain of $47.9 to the Company, which reduced the ceding commission.

The coinsurance agreement was accounted for using the deposit method. As such, $2.7 billion of Deposit receivable from affiliate was established on the Balance Sheets. On September 25, 2015, the Company recaptured, via a commutation agreement, the multi-year guaranteed fixed annuity contracts ceded under the coinsurance agreement. Under the terms of the agreement, which was effective July 1, 2015, the Company received net assets in the amount of $618.7 in satisfaction of the deposit receivable balance and recognized a pre-tax loss of $4.2 in 2015. The Company incurred amortization expense of the negative ceding commission of $3.2 and $6.6 for the years ended December 31, 2015 and 2014, respectively, which is recorded in Other expense in the Statements of Operations.

Universal Life - Coinsurance

Effective January 1, 2000, the Company entered into a 100% coinsurance agreement with its affiliate, SLD, covering certain universal life policies which had been issued and in force as of, as well as any such policies issued after, the effective date of the agreement. As of December 31, 2016 and 2015, reserves ceded by the Company under this agreement were $21.0 and $20.6, respectively.

Guaranteed Investment Contract - Coinsurance

Effective August 20, 1999, the Company entered into a Facultative Coinsurance Agreement with its affiliate, SLD. Under the terms of the agreement, the Company facultatively cedes, from time to time, certain guaranteed investment contracts and funding agreements to SLD on a 100% coinsurance basis. The Company utilizes this reinsurance facility primarily for diversification and asset-liability management purposes in connection with this business. The coinsurance agreement is accounted for using the deposit method. As of December 31, 2016 and 2015, the deposit receivable was $157.8 and $155.3, respectively.

Reinsurance Assumed

As of December 31, 2016 and 2015, total reserves assumed from affiliates were $418.7 and $438.7, respectively. For the years ended December 31, 2016, 2015 and 2014, premiums assumed from affiliates were $436.1, $428.5 and $407.7, respectively.

Level Premium Term Life Insurance - Stop-loss

Effective January 1, 2012, the Company entered into a stop-loss agreement with RLI, which was amended and restated April 1, 2012, under which the Company agreed to indemnify RLI, and RLI agreed to reinsure with the Company, the aggregate mortality risk under the combined blocks of level premium term life insurance policies issued by RLI between January 1, 2009 and December 31, 2009 and also between January 1, 2012 and December 31, 2012. This coverage included certain level premium term life insurance policies assumed by RLI from RLNY under an Automatic Coinsurance Agreement effective March 1, 2008. Under the terms of the agreement, the Company will make benefit payments to RLI equal to the amount of claims in excess of the attachment point (equal to a percentage of net reinsurance premium) up to the maximum fully covered benefit. The stop-loss agreement is accounted for using the deposit method. A fee receivable from affiliate of $0.4 as of December 31, 2016 and 2015 is included in Other liabilities on the Balance Sheets. The fee is accrued and subsequently settled in cash each quarterly accounting period.

Group Annual Term - Coinsurance Funds Withheld

Effective December 31, 2008, the Company entered into a coinsurance funds withheld agreement with RLI for an indefinite duration. Under the terms of the agreement, the Company assumed 100% quota share of RLI's net retained liability under certain Employee Benefits Group Annual Term policies, including disability waiver of premium.

The initial premium of $219.9 was equal to the aggregate reserve assumed by the Company. Thereafter, premiums are equal to the total earned gross premiums collected by RLI from policyholders. RLI will retain all reinsurance premiums payable to the Company as funds withheld, as security for ceded liabilities and against which ceded losses will be offset. Monthly, the Company will receive or pay a net settlement. This agreement was amended and restated October 1, 2010 to better reflect the current investment environment and to modify the treatment of claims under certain policies under which claims are not paid in the form of a single lump sum; the underlying terms described above remained unchanged. (Please see also description of "Waiver of Premium Coinsurance Funds Withheld" agreement between the Company and SLDI under "Reinsurance Ceded" above). As of December 31, 2016 and 2015, reserves assumed by the Company under this agreement were $418.7 and $438.7, respectively.

As of December 31, 2016 and 2015, the value of the funds withheld by ceding companies under this agreement was $437.4 and $464.8, respectively, which is included in Deposits, premiums receivable and reinsurance recoverable on the Balance Sheets. In addition, as of December 31, 2016 and 2015, the Company had an embedded derivative under this agreement with a value of $(5.9) and $(15.6), respectively.

Reciprocal Loan Agreement

The Company maintains a reciprocal loan agreement with Voya Financial, Inc., an affiliate, to facilitate the handling of unanticipated short-term cash requirements that arise in the ordinary course of business. Under this agreement, which became effective in January 2004, and based upon its renewal on January 14, 2014, expires on January 14, 2024, either party can borrow from the other up to 3.0% of the Company's statutory net admitted assets, excluding Separate Accounts, as of the preceding December 31. For the years ended December 31, 2016, 2015 and 2014, interest on any borrowing by either the Company or Voya Financial, Inc. was charged at a rate based on the prevailing market rate for similar third-party borrowings or securities.

Under this agreement, the Company incurred minimal interest expense for the years ended December 31, 2016 and 2015. The Company did not incur interest expense for the year ended December 31, 2014. The Company earned interest income of $0.7, $0.7 and $0.2 for the years ended December 31, 2016, 2015 and 2014, respectively. Interest expense and income are included in Interest expense and Net investment income, respectively, in the Statements of Operations. As of December 31, 2016 and 2015, the Company did not have any outstanding receivable/payable with Voya Financial, Inc. under the reciprocal loan agreement.

Long-Term Debt with Affiliates

The Company issued a 30-year surplus note in the principal amount of $35.0 on December 8, 1999, to its affiliate, SLD, which matures on December 7, 2029. Interest is charged at an annual rate of 7.98%. Payment of the note and related accrued interest is subordinate to payments due to contract owners and claimant and beneficiary claims, as well as debts owed to all other classes of debtors, other than surplus note holders. Any payment of principal and/or interest made is subject to the prior approval of the Iowa Insurance Commissioner. Interest expense was $2.8 for the years ended December 31, 2016, 2015 and 2014.

On December 29, 2004, the Company issued surplus notes in the aggregate principal amount of $400.0 (the "Notes"), scheduled to mature on December 29, 2034, to its affiliates, Voya Retirement Insurance and Annuity Company, RLI and SLDI. The Notes bear interest at a rate of 6.26% per year. Any payment of principal and/or interest is subject to the prior approval of the Iowa Insurance Commissioner. Interest expense was $25.4 for the years ended December 31, 2016, 2015 and 2014.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective in ensuring that material information relating to the Company required to be disclosed in the Company's periodic SEC filings is made known to them in a timely manner.

Management's Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the Company. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements of the Company in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making its assessment, management has used the criteria set forth in "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In the opinion of management, the Company has maintained effective internal control over financial reporting as of December 31, 2016.

Attestation Report of the Company's Registered Public Accounting Firm

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to Title IX, Section 989G of the Dodd-Frank Act, which provides non-accelerated filers such as the Company with an exemption from Section 404(b) of the Sarbanes-Oxley Act, the provision that otherwise requires an issuer to provide an attestation report by its registered public accounting firm on management's assessment of internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

There were no changes in the internal control over financial reporting of the Company (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, these internal controls over financial reporting.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Omitted pursuant to General Instruction I(2) of Form 10-K, except with respect to compliance with Sections 406 and 407 of the Sarbanes-Oxley Act of 2002.

a. Code of Ethics for Financial Professionals
The Company has approved and adopted a Code of Ethics for Financial Professionals (which was filed as Exhibit 14 to the Company's Form 10-K, as filed with the Securities and Exchange Commission on March 29, 2004, File No. 033-87270), pursuant to the requirements of Section 406 of the Sarbanes-Oxley Act of 2002. Any waiver of the Code of Ethics will be disclosed by the Company by way of a Form 8-K filing.

b. Designation of Board Financial Expert
The Company has designated Michael S. Smith, Director, as its Board Financial Expert, pursuant to the requirements of Section 407 of the Sarbanes-Oxley Act of 2002. Because the Company is not subject to the requirements of Exchange Act Rule 10A-3, it does not have any outside directors sitting on its board.

Item 11. Executive Compensation

Omitted pursuant to General Instruction I(2) of Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Omitted pursuant to General Instruction I(2) of Form 10-K.

Item 13. Certain Relationships, Related Transactions and Director Independence

Omitted pursuant to General Instruction I(2) of Form 10-K.

Item 14. Principal Accounting Fees and Services
(Dollar amounts in millions, unless otherwise stated)

In 2016 and 2015, Ernst & Young LLP ("Ernst & Young") served as the principal external auditing firm for Voya Financial, Inc., including Voya Insurance and Annuity Company ("VIAC" or the "Company", as appropriate). Voya Financial, Inc. subsidiaries, including VIAC, are allocated Ernst & Young fees attributable to services rendered by Ernst & Young to each subsidiary. Ernst & Young fees allocated to the Company along with a description of the services rendered by Ernst & Young to the Company are detailed below for the periods indicated.

	Year Ended December 31,	
	2016	2015
Audit fees	$ 2.0	$ 2.1
Audit-related fees	0.7	1.0
Tax fees	- *	- *
All other fees	- *	- *
	$ 2.7	$ 3.1

* Less than $0.1.

Audit Fees

Audit fees were allocated to VIAC and include fees associated with professional services rendered by the auditors for the audit of the annual financial statements of the Company and review of the Company's interim financial statements.

Audit-related Fees

Audit-related fees were allocated to VIAC for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements and are not reported under the audit fee item above. These services consisted primarily of the audit of financial information supporting the Securities and Exchange Commission ("SEC") product filings.

Tax Fees

There were minimal tax fees allocated to VIAC in 2016 and 2015. Tax fees allocated to VIAC were primarily for tax compliance. These services consisted of tax compliance, including the review of tax disclosures and proper completion of tax forms, assistance with questions regarding tax audits and tax planning and advisory services related to common forms of domestic taxation (i.e., income tax and capital tax).

All Other Fees

There were minimal fees allocated to VIAC in 2016 and 2015 under the category "All other fees." Other fees allocated to VIAC under this category typically include fees paid for products and services other than the audit fees, audit-related fees and tax fees described above and consist primarily of advisory services.

Pre-approval Policies and Procedures

VIAC is subject to the pre-approval policies and procedures of Voya Financial, Inc. Audit, audit-related and non-audit services provided to the Company by the independent registered public accountants of Voya Financial, Inc. (the "External Auditor") are included in the total annual budgeted amounts for Voya Financial, Inc. and pre-approved by the audit committee of Voya Financial, Inc. (the "Voya Financial audit committee"). Pursuant to the pre-approval policies and procedures of Voya Financial, Inc., the Voya Financial audit committee is required to pre-approve all services provided by the External Auditor to Voya Financial, Inc. and its subsidiaries, including the Company. The pre-approval policies and procedures of Voya Financial, Inc. distinguish five types of services: (1) audit services, (2) audit-related services, (3) tax services, (4) other services that are not audit, audit-related, tax, or prohibited services and (5) prohibited services (as described in the Sarbanes-Oxley Act of 2002).

The pre-approval procedures of Voya Financial, Inc. consist of a general pre-approval procedure and a specific pre-approval procedure.

General Pre-approval Procedure

The Voya Financial audit committee pre-approves audit, audit-related, tax and other services to be provided by the External Auditor to Voya Financial, Inc. and its subsidiaries on an annual basis, and sets the maximum annual amount for such pre-approved services. Throughout the year, the Voya Financial audit committee receives from the External Auditor an overview of all services provided, including related fees and supported by sufficiently detailed information. The Voya Financial audit committee evaluates this overview quarterly. Additionally, the Voya Financial, Inc. Corporate Controller monitors the amounts paid versus the pre-approved amounts throughout the year.

Specific Pre-approval Procedure

In addition to the general pre-approval procedure of Voya Financial, Inc., each proposed External Auditor engagement by Voya Financial, Inc. or one of its subsidiaries that is expected to generate fees in excess of the pre-approved amounts, must be approved by the Voya Financial audit committee after recommendation of Voya Financial, Inc. management on a case-by-case basis.

In 2016, 2015 and 2014, 100% of each of the audit, audit-related services, tax services and all other services provided to the Company were pre-approved by the audit committee of Voya Financial, Inc.

PART IV

Item 15. Exhibits, Financial Statement Schedules

a. The following documents are filed as part of this report:

1. Financial statements. See Item 8. on page 88.
2. Financial statement schedules. See Index to Financial Statement Schedules on page 174.
3. Exhibits. See Exhibit Index on page 179.

Index to Financial Statement Schedules

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I. Summary of Investments - Other than Investments in Affiliates as of December 31, 2016	176
IV. Reinsurance Information as of and for the years ended December 31, 2016, 2015 and 2014	177

Schedules other than those listed above are omitted because they are not required or not applicable.

Report of Independent Registered Public Accounting Firm

The Board of Directors
Voya Insurance and Annuity Company

We have audited the financial statements of Voya Insurance and Annuity Company as of December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016, and have issued our report thereon dated March 16, 2017 (included elsewhere in this Annual Report (Form 10-K)). Our audits also included the financial statement schedules, listed in Item 15.a. of this Annual Report (Form 10-K). These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these schedules based on our audits.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Ernst & Young LLP

Boston, Massachusetts

March 16, 2017

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Schedule I

Summary of Investments - Other than Investments in Affiliates
As of December 31, 2016
(In millions)

Type of Investments	Cost	Fair Value	Amount Shown on Balance Sheets
Fixed maturities			
U.S. Treasuries	$ 946.4	$ 982.9	$ 982.9
U.S. Government agencies and authorities	29.4	33.0	33.0
State, municipalities and political subdivisions	500.1	497.4	497.4
U.S. corporate public securities	9,992.8	10,444.7	10,444.7
U.S. corporate private securities	2,753.6	2,777.6	2,777.6
Foreign corporate public securities and foreign governments [1]	2,620.2	2,689.1	2,689.1
Foreign corporate private securities [1]	2,734.6	2,815.4	2,815.4
Residential mortgage-backed securities	1,647.0	1,749.7	1,749.7
Commercial mortgage-backed securities	951.2	957.1	957.1
Other asset-backed securities	317.8	322.6	322.6
Total fixed maturities, including securities pledged to creditors	22,493.1	23,269.5	23,269.5
Equity securities, available-for-sale	15.2	18.7	18.7
Mortgage loans on real estate	3,881.5	3,940.3	3,881.5
Policy loans	74.7	74.7	74.7
Other investments	18.6	18.6	18.6
Derivatives	412.5	978.8	978.8
Limited partnerships/corporations	227.4	227.4	227.4
Short-term investments	429.7	429.7	429.7
Total investments	$ 27,552.7	$ 28,957.7	$ 28,898.9

[1] Primarily U.S. dollar denominated.

Voya Insurance and Annuity Company
(A wholly owned subsidiary of Voya Holdings Inc.)
Schedule IV

Reinsurance
Years Ended December 31, 2016, 2015 and 2014
(In millions)

	Gross	Ceded	Assumed	Net	Percentage of Assumed to Net
Year Ended December 31, 2016					
Life insurance in force	$ 3,004.4	$ 928.3	$ 189,723.0	$ 191,799.1	98.9%
Premiums:					
Life insurance	12.0	32.0	436.1	416.1	104.8%
Accident and health insurance	0.1	0.1	-	-	-%
Annuities	719.7	639.3	-	80.4	-%
Total premiums	$ 731.8	$ 671.4	$ 436.1	$ 496.5	87.8%
Year Ended December 31, 2015					
Life insurance in force	$ 3,367.4	$ 999.2	$ 184,690.0	$ 187,058.2	98.7%
Premiums:					
Life insurance	12.4	30.1	428.5	410.8	104.3%
Accident and health insurance	0.1	0.1	-	-	-%
Annuities	470.2	375.2	-	95.0	-%
Total premiums	$ 482.7	$ 405.4	$ 428.5	$ 505.8	84.7%
Year Ended December 31, 2014					
Life insurance in force	$ 3,709.8	$ 1,056.6	$ 170,970.2	$ 173,623.4	98.5%
Premiums:					
Life insurance	13.8	33.1	407.7	388.4	105.0%
Accident and health insurance	- *	- *	-	-	-%
Annuities	620.4	471.0	-	149.4	-%
Total premiums	$ 634.2	$ 504.1	$ 407.7	$ 537.8	75.8%

* Less than $0.1.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 16, 2017	Voya Insurance and Annuity Company
(Date)	(Registrant)

By: /s/ David P. Wiland

David P. Wiland
Senior Vice President and
Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on or before March 16, 2017.

Signatures	Title
/s/ Rodney O. Martin, Jr. Rodney O. Martin, Jr.	Chairman and Director
/s/ Alain M. Karaoglan Alain M. Karaoglan	Director
/s/ Charles P. Nelson Charles P. Nelson	Director
/s/ Chetlur S. Ragavan Chetlur S. Ragavan	Director
/s/ Michael S. Smith Michael S. Smith	Director
/s/ Carolyn M. Johnson Carolyn M. Johnson	Director and President
/s/ C. Landon Cobb, Jr. C. Landon Cobb, Jr.	Senior Vice President and Chief Accounting Officer
/s/ David P. Wiland David P. Wiland	Senior Vice President and Chief Financial Officer

Voya Insurance and Annuity Company (the "Company")
Form 10-K for Fiscal Year Ended December 31, 2016

Exhibit Index

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger dated June 25, 2003, by and between USG Annuity & Life Company, United Life & Annuity Insurance Company, Equitable Life Insurance Company of Iowa and Golden American Life Insurance Company, incorporated by reference in Exhibit 99-8 in the Company's Form 8K filed with the SEC on January 2, 2004 (File No. 333-87270).
3.1	Restated Articles of Incorporation Providing for the Redomestication of Golden American Life Insurance Company dated July 2 and 3, 2003, effective January 1, 2004, incorporated by reference to Company's 10-K, as filed with the SEC on March 29, 2004 (File No. 033-87270).
3.2	Amendment to Articles of Incorporation Providing for the Name Change of Golden American Life Insurance Company dated November 20, 2003, effective January 1, 2004, incorporated by reference to the Company's 10-K, as filed with the SEC on March 29, 2004 (File No. 033-87270).
3.3	Amendment to Articles of Incorporation Providing for the Change in Purpose and Powers of ING USA Annuity and Life Insurance Company dated March 3 and 4, 2004, effective March 11, 2004, incorporated by reference to the Company's 10-Q, as filed with the SEC on May 17, 2004 (File No. 033-87270).
3.4	Amended and Restated By-Laws of ING USA Annuity and Life Insurance Company effective January 1, 2005, incorporated by reference to the Company's Form 10-Q, as filed with the SEC on May 13, 2005 (File No. 033-87270).
3.5	Amendment to Articles of Incorporation Providing for the Name Change of ING USA Annuity and Life Insurance Company dated March 6, 2014, effective September 1, 2014, incorporated by reference to the Company's Form 10-Q, as filed with the SEC on November 12, 2014 (File No. 001-32625).
3.6	Amended and Restated Bylaws of Voya Insurance and Annuity Company effective September 1, 2014, incorporated by reference to the Company's Form 10-Q, as filed with the SEC on November 12, 2014 (File No. 001-32625).
10.1	Asset Management Agreement, dated January 20, 1998, between Golden American and ING Investment Management LLC, incorporated by reference from Exhibit 10(f) to Golden American's Form 10-Q filed with the SEC on August 14, 1998 (File No. 033-87270).
10.2	Surplus Note, dated December 8, 1999, between Golden American and First Columbine Life Insurance Company, incorporated by reference from Exhibit 10(g) to Amendment No. 7 to a Registration Statement for Golden American on Form S-1 filed with the SEC on or about January 27, 2000 (File No. 333-28765).
10.3	Services Agreement between Golden American and the affiliated companies listed in Exhibit B to that Agreement, dated as of January 1, 2001, as amended effective January 1, 2002, incorporated by reference from Exhibit 10.A (k) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.4	Services Agreement between Golden American and ING North America Insurance Corporation effective January 1, 2001, incorporated by reference from Exhibit 10.A (g) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.5	Form of Shared Services Center Services Agreement by and among ING North America Insurance Corporation ("Service Provider") and Ameribest Life Insurance Company, a Georgia corporation; Equitable Life Insurance Company of Iowa, an Iowa corporation; USG Annuity & Life Company, an Oklahoma corporation; Golden American, a Delaware corporation; First Columbine Life Insurance Company, a Colorado corporation; Life Insurance Company of Georgia, a Georgia corporation; Southland Life Insurance Company, a Texas corporation; Security Life of Denver Insurance Company, a Colorado corporation; Midwestern United Life Insurance Company, an Indiana corporation; and United Life & Annuity Insurance Company, a Texas corporation, incorporated by reference from Exhibit 10(r) to Pre-Effective Amendment No. 1 to a Registration Statement on Form S-1 filed by Registrant with the SEC on or about December 11, 2001 (File No. 333-70602).
10.6	Tax Sharing Agreement between Golden American, ING America Insurance Holdings, Inc. and affiliated companies, effective January 1, 2001, incorporated by reference from Exhibit 10.A (j) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).

Exhibit Index

Exhibit Number	Description of Exhibit
10.7	Administrative Services Agreement between Golden American, ReliaStar Life Insurance Company of New York and affiliated companies listed on Exhibit A to the Agreement, effective March 1, 2003, incorporated by reference from Exhibit 10.A (m) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.8	First Amendment to the Administrative Services Agreement between ING USA Annuity and Life Insurance Company and its affiliates, effective as of August 1, 2004, incorporated by reference from Exhibit 10.(i) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 18, 2005 (File No. 033-87270).
10.9	Amendments to Asset Management Agreement between Golden American and ING Investment Management LLC, effective January 1, 2003, incorporated by reference from Exhibit 10.A (l) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.10	Third Amendment to the Asset Management Agreement, between Golden American and ING Investment Management LLC, effective August 18, 2003, incorporated by reference from Exhibit 10.A (n) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.11	Lease Agreement, dated as of April 16, 1998, by and between Golden American and Dunwoody Associates, incorporated by reference from Exhibit 10.A (o) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.12	First Amendment to Lease Agreement, dated November 4, 1998, between Golden American and Dunwoody Associates, incorporated by reference from Exhibit 10.A (p) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.13	Second Amendment to Lease Agreement, dated June 1, 2000, between Golden American and Dunwoody Associates, incorporated by reference from Exhibit 10.A (q) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
10.14	Services Agreement with ING Financial Advisers, LLC ("INGFA"), entered into June 1, 2002 by Equitable Life Insurance Company of Iowa, as subsumed by ING USA pursuant to the January 1, 2004 merger, incorporated by reference from Exhibit 10.(p) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 18, 2005 (File No. 033-87270).
10.15	Surplus Note for $50,000,000 aggregate principal amount, dated December 29, 2004, issued by ING USA Annuity and Life Insurance Company to its affiliate, Security Life of Denver International Limited, incorporated by reference from Exhibit 10.(q) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 18, 2005 (File No. 033-87270).
10.16	Surplus Note for $175,000,000 aggregate principal amount, dated December 29, 2004, issued by ING USA Annuity and Life Insurance Company to its affiliate, ING Life Insurance and Annuity Company, incorporated by reference from Exhibit 10.(r) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 18, 2005 (File No. 033-87270).
10.17	Surplus Note for $175,000,000 aggregate principal amount, dated December 29, 2004, issued by ING USA Annuity and Life Insurance Company to its affiliate, ReliaStar Life Insurance Company, incorporated by reference from Exhibit 10.(s) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 18, 2005 (File No. 033-87270).
10.18	Lease Agreement dated August 31, 1995, between The Graham Group, Inc. and Equitable Life Insurance Company of Iowa, as subsumed by ING USA Annuity and Life Insurance Company pursuant to the January 1, 2004 merger, incorporated by reference from Exhibit 10.(t) to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 18, 2005 (File No. 033-87270).
10.19	Coinsurance Agreement, effective May 1, 2005, between ING USA Annuity and Life Insurance Company and Security Life of Denver Insurance Company, incorporated by reference from Exhibit 10. to ING USA Annuity and Life Insurance Company's Form 10-Q filed with the SEC on August 15, 2005 (File No. 033-87270).
10.20	Amendment Number 2006-1, dated as of September 11, 2006, to the Services Agreement between ING USA Annuity and Life Insurance Company and ING North America Insurance Corporation, incorporated by reference from Exhibit 10. to ING USA Annuity and Life Insurance Company's Form 10-Q filed with the SEC on November 14, 2006 (File No. 001-32625).

Exhibit Index

Exhibit Number	Description of Exhibit
10.21	Amendment Number 2007-1 to Services Agreement, dated as of December 31, 2007, between ING USA and the affiliated companies listed on Exhibit B to the Agreement, incorporated by reference from Exhibit 10.26 to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 28, 2008 (File No. 001-32625).
10.22	Amendment Number 2008-1 to Services Agreement, effective October 1, 2008, among ING USA Annuity and Life Insurance Company and the affiliated companies listed on Exhibit B to the Agreement, incorporated by reference from Exhibit 10.28 to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 31, 2009 (File No. 001-32625).
10.23	Amendment Number 4, effective January 1, 2009, to Investment Advisory Agreement, between ING USA Annuity and Life Insurance Company and ING Investment Management LLC, incorporated by reference from Exhibit 10.29 to ING USA Annuity and Life Insurance Company's Form 10-K 2009 filed with the SEC on March 31, 2010 (File No. 001-032625).
10.24	Third Amendment to Lease, effective February 11, 2010, between ING USA Annuity and Life Insurance Company and Lexington Lion Dunwoody, L.P., incorporated by reference from Exhibit 10 to ING USA Annuity and Life Insurance Company's Form 10-Q filed on May 14, 2010 (File No. 001-032625).
10.25	Amendment 2010-1 to Services Agreement, dated as of October 1, 2010, between ING USA Annuity and Life Insurance Company and ING North America Insurance Corporation, incorporated by reference from Exhibit 10.33 to ING USA Annuity and Life Insurance Company's Form 10-K filed on March 30, 2011 (File No. 001-32625).
10.26	Intercompany Agreement, effective January 1, 2010, between ING USA Annuity and Life Insurance Company and Directed Services LLC, incorporated by reference from Exhibit 10.35 to ING USA Annuity and Life Insurance Company's Form 10-K filed on March 30, 2011 (File No. 001-32625).
10.27	Federal Tax Sharing Agreement, effective January 1, 2013, between lNG U.S., Inc. and each of its undersigned Subsidiaries, including lNG USA Annuity and Life Insurance Company, incorporated by reference from Exhibit 10.1 to ING USA Annuity and Life Insurance Company's Form 10-Q filed on May 14, 2013 (File No. 001-32625).
10.28	First Amendment to Lease Agreement, dated as of October 2, 2000, between The Graham Group, Inc. and Equitable Life Insurance Company of Iowa, as subsumed by lNG USA Annuity and Life Insurance Company pursuant to the January 1, 2004 merger, incorporated by reference from Exhibit 10.2 to lNG USA Annuity and Life Insurance Company's Form 10-Q filed on May 14, 2013 (File No. 001-32625).
10.29	Second Amendment to Lease Agreement, dated as of February 4, 2002, between The Graham Group, Inc. and Equitable Life Insurance Company of Iowa, as subsumed by ING USA Annuity and Life Insurance Company pursuant to the January 1, 2004 merger, incorporated by reference from Exhibit 10.3 to ING USA Annuity and Life Insurance Company's Form 1 0-Q filed on May 14, 2013 (File No. 001-32625).
10.30	Reciprocal Loan Agreement, effective January 14, 2014 between ING USA Annuity and Life Insurance Company and ING America Insurance Holdings, Inc., incorporated by reference from Exhibit 10 to ING USA Annuity and Life Insurance Company's Form 10-Q filed on May 13, 2014 (File No. 001-32625).
10.31	Fourth Amendment to Lease, made May 31, 2012, between ING USA Annuity and Life Insurance Company and Lexington Lion Dunwoody, L.P., incorporated by reference from Exhibit 10 to ING USA Annuity and Life Insurance Company's Form 10-Q filed on August 10, 2012 (File No. 001-32625).
10.32	Commutation Agreement, made effective on July 1, 2015, by and between Voya Insurance and Annuity Company and Security Life of Denver Insurance Company, incorporated by reference from Exhibit 10.34 to Voya Insurance and Annuity Company's Form 10-K filed on March 18, 2016 (File No. 001-32625).
10.33	Amended and Restated Services Agreement, made as of April 1, 2015, between Voya Insurance and Annuity Company, the affiliated insurance companies and certain other affiliated companies specified in Exhibit B of the Agreement, incorporated by reference from Exhibit 10 to Voya Insurance and Annuity Company's Form 10-Q filed on May 12, 2016 (File No. 001-32625).
10.34+	Lease agreement, made and entered into as of February 24, 2017 between Voya Services Company and Employers Mutual Casualty Company.
14.	ING Code of Ethics for Financial Professionals, incorporated by reference from Exhibit 14 to ING USA Annuity and Life Insurance Company's Form 10-K filed with the SEC on March 29, 2004 (File No. 033-87270).
23.1+	Consent of Ernst & Young LLP

Exhibit Index

Exhibit Number	Description of Exhibit
31.1+	Certificate of David P. Wiland pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certificate of Carolyn M. Johnson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certificate of David P. Wiland pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Certificate of Carolyn M. Johnson pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
	XBRL Instance Document [1]
	XBRL Taxonomy Extension Schema
	XBRL Taxonomy Extension Calculation Linkbase
	XBRL Taxonomy Extension Definition Linkbase
	XBRL Taxonomy Extension Label Linkbase
	XBRL Taxonomy Extension Presentation Linkbase

[1]Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Balance Sheets as of December 31, 2016 and 2015; (ii) Statements of Operations for the years ended December 31, 2016, 2015 and 2014; (iii) Statements of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014; (iv) Statements of Changes in Shareholder's Equity for the years ended December 31, 2016, 2015 and 2014; (v) Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014; and (vi) Notes to the Financial Statements.

Users of this data are advised pursuant to Rule 401 of Regulation S-T that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of Voya Insurance and Annuity Company.

+ Filed herewith.

Exhibit 10.34

LEASE SUMMARY SHEET

1. **NDLORD:** Employers Mutual Casualty Company
   717 Mulberry Street
   Des Moines, IA 50309
   Contact: Cindy McCauley
   (515) 345-2569

2. **NANT:** Voya Services Company
   c/o Corporate Real Estate
   One Orange Way (C4- N)
   Windsor, CT 06095
   Contact: Ronald Falkner
   (860) 580-3970

3. **ILDING:** Hub Tower, 699 Walnut Street, Des Moines, Iowa

4. y 86,259 rentable square feet on floor(s) 6-10 and a portion of floor 13 of the Building, plus approximately 1,210 of basement storage space.

5. **NANT'S PROPORTIONATE SHARE:** 30.45%

6. **RM:** 7 years, 7 months

   (a) Scheduled Substantial Completion Dates:

   6th Floor: 11/23/2017
   7th Floor: 10/20/2017
   8th Floor: 10/2/2017
   9th Floor: 10/27/2017
   10th Floor 11/10/2017
   13th Floor: 10/2/2017

   (b) Commencement Date (estimated): January 1, 2018

7.

   Lease Year 1: $17.25 per square foot = $1,487,967.75 per year.
   Lease Year 2: $17.50 per square foot = $1,509,532.50 per year.
   Lease Year 3: $17.75 per square foot = $1,531,097.25 per year.
   Lease Year 4: $18.00 per square foot = $1,552,662.00 per year.
   Lease Year 5: $18.25 per square foot = $1,574,226.75 per year.
   Lease Year 6: $18.50 per square foot = $1,595,791.50 per year.

Lease Year 7 (through July 31, 2025): $18.75 per square foot = $1,617,356.25 per year.

STANDARD OFFICE LEASE

THIS LEASE AGREEMENT (this "Lease") is made and entered into as of the 24th day of February, 2017 (the "Effective Date"), between Landlord and Tenant named below.

1. **THE PARTIES**.

(a) The name and address of Landlord is:

Employers Mutual Casualty Company
717 Mulberry Street
Des Moines, IA 50309
Contact: Cindy McCauley

(b) The name and address of Tenant is:

Voya Services Company
One Orange Way (C-4N)
Windsor, Connecticut 06095
Attn: Corporate Real Estate

2. **BUILDING, PREMISES AND COMMON AREAS**.

(a) The name and address of the building (the "Building") in which the Premises are located is:

Hub Tower, 699 Walnut Street, Des Moines, Iowa. The Building is located on the land described on the attached Exhibit A-1 and depicted on the site plan attached to this Lease as Exhibit A-2.

(b) The premises (the "Premises") covered by this Lease are as shown on the attached Exhibit B (which exhibit also depicts the Premises in relation to the Building's floorplate for each floor occupied by Tenant), and comprise approximately 86,122 rentable square feet of office space, plus approximately 1,210 square feet of basement storage space. The rentable and usable square foot areas for each floor occupied by Tenant have been established using the current Building Owners and Managers Association International ANSI Z 65.1 method of measurement, Copyright 1990 (the "BOMA Method") and are as follows:

6th FLOOR 15,518 rentable square feet
13,295 usable square feet

7th FLOOR 15,518 rentable square feet
13,295 usable square feet

8th FLOOR 15,518 rentable square feet
13,295 usable square feet

9th FLOOR 15,518 rentable square feet
13,295 usable square feet

10th FLOOR 15,518 rentable square feet
13,295 usable square feet

13th FLOOR 8,669 rentable square feet
7,322 usable square feet

TOTAL 86,259 rentable square feet
73,797 usable square feet

In addition to the Premises, Tenant shall have the exclusive right to use the approximately 1,210 square feet of storage space (the "Storage Area") depicted on Exhibit I for no additional charge. The Storage Area shall not be subject to additional rent and shall not be included in Tenant's proportionate share, but shall be included in Tenant's insurance coverages as provided herein. The Premises shall not be subject to remeasurement.

(c) Tenant and its invitees shall have the non-exclusive right to use, in common with Landlord and other tenants, those areas within the Property (as hereinafter defined), including the Building's entrances, lobbies, corridors, main elevators, freight elevators, loading facilities, roof, accessways, lavatories, skywalk bridges adjacent to and abutting the Building, driveways, public and fire stairways, sidewalks, exterior ramps, parking facilities, risers, plenums, conduits and utility rooms, and other similar areas which enable Tenant to obtain full use and enjoyment of the Premises for all customary purposes (the "Common Areas")subject to those reasonable Rules and Regulations established from time to time by Landlord and defined below.

(d) The Building, the Premises, the Common Areas, the land and any other improvements on the land are hereinafter collectively referred to as the "Property."

(e) In addition to Tenant's rights pursuant to Paragraphs 29 and 30 hereof, Tenant shall have the right, at any time prior to the execution by Landlord of the contract with the General Contractor for the Preparation Work (both terms as defined in Paragraph 20 hereof), to increase or decrease the rentable area of the Premises up to a change of fifteen percent (15%). In the event that Tenant elects to increase or decrease the rentable area of the Premises and timely notifies Landlord before execution of the contract, then (A) the rentable area of the Premises, the Annual Base Rent, and Tenant's Proportionate Share payable under this Lease shall be recomputed accordingly and an amendment reflecting these adjustments shall be executed by Landlord and Tenant within thirty (30) days of Tenant's election to increase or reduce the rentable area of the Premises; and (B) Tenant will provide Landlord with revised floor plans reflecting any changes within the Premises and execute a change order, if necessary, to grant Landlord a reasonable period of time to construct the Premises as modified.

3. **LEASING CLAUSE; QUIET ENJOYMENT**. Landlord represents that it is the fee simple owner of the Property and has full right and authority to make this Lease. Landlord hereby leases the Premises to Tenant and Tenant hereby accepts the same from Landlord, in accordance with the provisions of this Lease. Landlord covenants that Tenant shall have peaceful and quiet enjoyment of the Premises during the Term (as defined below) of this Lease, subject to the terms hereof.

4. **USE OF PREMISES**. Tenant may use and occupy the Premises for general office purposes, and uses incidental thereto.

5. **TERM**.

(a) The term of this Lease (the "Term") shall begin thirty (30) days after the later to occur of (i) the date of Substantial Completion (as defined below) of the entire Premises or (ii) the date Landlord has given Tenant written notice that the Preparation Work (as defined in Paragraph 20) is Substantially Complete (the "Commencement Date") and shall end on that date which is the last day of the ninety-first (91st) full calendar month following the Commencement Date (the "Expiration Date"), unless: (i) sooner terminated in accordance with the terms and conditions contained in this Lease; or (ii) extended pursuant to the provisions of this Lease. In no event shall the Commencement Date occur prior to January 1, 2018. Landlord and Tenant agree to execute an amendment to this Lease establishing the Commencement Date and the Expiration Date, and, if applicable, the revised rentable area and usable area of the Premises, the Annual Base Rent, the monthly rent installment and Tenant's Proportionate Share developed through the operation of Subparagraph 2(b) of this Lease.

(b) "Substantial Completion" and "Substantially Complete" shall mean that all of the following conditions have been satisfied: (i) Landlord has secured and delivered to Tenant the required permanent certificate of occupancy (or the substantial equivalent under applicable state or local law) to permit full use and occupancy of the Building, the Premises and the Common Areas for the purposes permitted under this Lease; (ii) construction of the improvements to the Premises has been completed in accordance with the Preparation Plans (as defined in Paragraph 20 hereof), as reasonably determined by Tenant, subject only to normal punch list items that will not interfere with Tenant's business operations, a list of which shall be delivered to Landlord by Tenant's architect, and which items Landlord agrees to use its best efforts to correct by the Commencement Date, but in no event later than thirty (30) days after the Commencement Date; and (iii) a certification by Tenant's architect, consented to and approved by Landlord and Landlord's architect, has been delivered to Tenant, stating that: (A) the proper federal, state, county, regional and local authorities, including those having jurisdiction over applicable zoning, building, health, safety and environmental regulations, have issued all licenses, permits, approvals and consents necessary in connection with the construction and lawful occupancy by Tenant of the Premises for the purposes permitted in Paragraph 4; (B) all of the "Preparation Work," as hereinafter defined, and all approved changes thereto comply with the provisions of Paragraphs 14 and 19 hereof and with any private covenants applicable to the Property generally; (C) all of the Property is complete, in clean and first-class condition, and where applicable, in working order, such that Landlord may perform its obligations in the manner required by this Lease; and (D) the rentable area of the Premises and the Building are as shown on the schedule to such certification and that such areas have been calculated in accordance with the BOMA Method, based on the supporting calculation attached to such certification.

(c) Landlord will use all commercially reasonable efforts to Substantially Complete respective portions of the Premises on or before the respective dates set forth in 6(a) of the Lease Summary Sheet (for such portions of the Premises, the applicable "Scheduled Substantial Completion Date"). If any such portion of the Premises is not Substantially Complete by the date that is five (5) days following the applicable Scheduled Substantial Completion Date, then (i) for the 8th and 13th Floor premises respectively, Tenant shall be entitled to a credit, in the amount of two (2) days of Annual Base Rent for the entire Premises, for every day that any such portion the Premises are not Substantially Completed, to be applied against Annual Base Rent otherwise due and payable as of the Commencement Date, (ii) for the 6th, 7th, 9th and 10th Floor premises, Tenant shall be entitled to a credit, in the amount of two (2) days of Annual Base Rent prorated for the portion of the Premises not delivered timely, for every day that any such portion the Premises are not Substantially Completed, to be applied against Annual Base Rent otherwise due and payable as of the Commencement Date until the date that is two (2) weeks after the Scheduled Completion Date for such portion of the Premises, whereupon such credit shall be calculated as two (2) days of Annual Base Rent for the entire Premise for every day that such portion of

the Premises are not Substantially Completed. Notwithstanding the foregoing, Landlord shall not be liable for more than one such daily penalty for any concurrent delays with respect to multiple portions of the Premises; and further provided that Landlord shall not be responsible for any credit to the extent that the delay is caused in whole or in part by acts or omissions of Tenant, or if the design and plans are not timely completed as provided herein, subject to a five (5) day grace period for Tenant's delivery of the design and plans (by way of example, if completed design and plans are delayed by seven (7) days, all other dates set forth herein shall be delayed by two (2) days). If any portion of the Premises is not Substantially Complete within ninety (90) days after the Scheduled Substantial Completion Date, then Tenant shall have the right to terminate this Lease by giving Landlord ten (10) days' prior written notice. Regarding the construction of the server room on the 8th Floor (the "Server Room") the parties shall cooperate in good faith as to the construction and installation of information technology related infrastructure equipment to allow the full functionality of Tenant's Server Room by September 1, 2017. Notwithstanding the foregoing, three (3) weeks prior to the Scheduled Substantial Completion Dates, Landlord shall provide access to Tenant in the respective portion of the Premises for installation of its furniture, fixtures and equipment.

(d) Tenant may, but shall not be required to, take occupancy of the Premises prior to the Commencement Date.

(e) If the Commencement Date has not occurred within two (2) years of the date of this Lease, the Lease shall terminate without further action of either party.

6. **ANNUAL BASE RENT**.

(a) Following a six (6) month free rent period, the Annual Base Rent is as set forth in Paragraph 7 of the Lease Summary Sheet and shall be payable in monthly installments on the date that is six (6) months after the Commencement Date (the "Rent Commencement Date"), and thereafter, for each month through and including the Expiration Date. The term "Lease Year" shall mean the one year period commencing on the Rent Commencement Date, and each subsequent year. Rent for any partial month shall be equitably prorated. Annual Base Rent shall be paid by a check mailed by the first business day of each month to the following address: Attn: Facilities Department, Employers Mutual Casualty Company, 717 Mulberry Street, Des Moines, IA 50309, or any other address provided to Tenant by Landlord in accordance with Paragraph 32 of the Lease, or at Tenant's option, by wire transfer, pursuant to wire instructions provided to Tenant upon request.

Notwithstanding the foregoing, Tenant shall pay rent for the first month payable hereunder by the date that is ninety (90) days following the full execution and delivery of this Lease.

(b) Landlord and Tenant acknowledge that a portion of Annual Base Rent is allocable to the initial cost of providing electricity and janitorial services to the Premises. In the event that Tenant exercises its right to install separate metering for electricity in the Premises and provide its own electricity in accordance with Paragraph 27, Annual Base Rent shall be reduced, on a per rentable square foot basis by the greater of (i) the actual cost per rentable square foot paid by Landlord to provide electricity to the Premises for the Base Year (as hereinafter defined), or (ii) two and 22/100 Dollars ($2.22 PSF), which is the estimated cost per rentable square foot to provide electricity to the Premises for the Base Year, listed on Exhibit C attached hereto and made a part hereof, and Building Operating Expenses (for the Base Year and for all Computation Years) shall thereafter not include the cost of electricity for leasable areas of the Building. In the event that Tenant exercises its right to provide its own janitorial services in accordance with Paragraph 26, Annual Base Rent shall be reduced on a per rentable square foot basis, by the greater of (i) the actual cost per rentable square foot paid by Landlord to provide

janitorial services to the Premises for the Base Year; or (ii) one and 23/100 Dollars ($1.23 PSF), which is the estimated cost per rentable square foot to provide janitorial services to the Premises for the Base Year, listed in Exhibit C hereto, and Building Operating Expenses (for the Base Year and for all Computation Years) shall thereafter not include the cost of janitorial services for leasable areas of the Building.

7. **ANNUAL ADDITIONAL RENT**.

(a) For the purpose of this Paragraph 7:

(i) Base Year shall mean the calendar year 2018;

(ii) Computation Year shall mean each full twelve (12) calendar months subsequent to the Base Year through the end of the Term;

(iii) Property shall mean only the Building and the land fairly and equitably allocated to the Building;

(iv) Tenant's Proportionate Share shall mean the ratio, expressed as a percentage, of the rentable square feet of the Premises occupied by Tenant, measured pursuant to the BOMA Method, to the entire rentable area in the Building, which is 283,314 rentable square feet. Tenant's Proportionate Share is thirty and forty one-hundredths percent (30.45%);

(v) Real Estate Taxes shall mean all taxes, assessments, SSMIDs (Self-Supported Municipal Improvement Districts), levies and other charges, which are assessed, levied or charged upon the Property during any calendar year or portion thereof throughout the Term and which have been finally determined by legal proceedings or otherwise to be legally payable, less any abatement received by Landlord, any affiliate of Landlord or any tenant of the Property. Real Estate Taxes shall not include (A) any interest or penalties; (B) any capital levy, estate, succession, inheritance, transfer, sales, use or franchise taxes, or any income, profits, or revenue tax, assessment or charge imposed upon the rent received as such by the Landlord under this Lease; nor (C) any increase in property taxes solely due to a reassessment performed as a result of the sale or transfer of the Property. Annual increases in taxes payable by Tenant shall be calculated solely on any normal and ordinary increases in assessment valuation or levy rate for the Property. For the Base Year only, Real Estate Taxes shall mean an amount equal to the greater of (x) the actual Real Estate Taxes incurred during the Base Year, or (y) a good faith estimate of the Real Estate Taxes which will be incurred during the Base Year, as set forth in Exhibit C, which amount set forth in (x) or (y) shall be multiplied by a formula, mutually determined by Landlord and Tenant, necessary to adjust the Real Estate Taxes as if the Base Year were a full tax year in which the Building were ninety percent (90%) leased and occupied and the Property were fully assessed as if the improvements thereon were fully completed (the "Base Year Real Estate Taxes"); and

(vi) Building Operating Expenses shall mean the total actual out-of-pocket expenses paid by Landlord for the operation, maintenance and repair of the Property which are incurred during any calendar year or portion thereof throughout the Term, in accordance with sound property management principles, as applied to first-class office buildings. For the Base Year only, Building Operating Expenses shall mean an amount equal to the greater of (x) the actual Building Operating Expenses incurred during the Base Year, or (y) a good faith estimate of the Building Operating Expenses which will be incurred during the Base Year, as set forth in Exhibit C, which amount set forth in (x) or (y) shall be multiplied by a formula, mutually

determined by Landlord and Tenant, necessary to adjust the Building Operating Expenses as if the Base Year were a full year in which the Building were ninety percent (90%) leased and occupied and all initial warranties and service contracts for new equipment have expired (the "Base Year Building Operating Expenses"). In the event Landlord, during any Computation Year, undertakes any type of expense that was not incurred by Landlord during the Base Year, then the Building Operating Expenses for the Base Year will be adjusted to include the cost that Landlord would have incurred to undertake such expense in the Base Year.

Building Operating Expenses shall include the skywalk expenses or charges properly allocated to the Building pursuant to skywalk ordinances, skywalk agreements or agreement with the Kaleidoscope at the Hub.

Notwithstanding anything in this Lease to the contrary, the following expenses are excluded from Building Operating Expenses:

(A) Depreciation and amortization;

(B) Expenses incurred by Landlord to prepare, renovate, repaint, redecorate or perform any other work in any space leased to an existing tenant or prospective tenant of the Building;

(C) Expenses incurred by Landlord for repairs or other work occasioned by fire, windstorm, or other insurable casualty or condemnation;

(D) Expenses incurred by Landlord to lease space to new tenants or to retain existing tenants including leasing commissions, advertising and promotional expenditures;

(E) Expenses including, without limitation, legal fees and disbursements incurred by Landlord to resolve disputes, enforce or negotiate lease terms with prospective or existing tenants or in connection with any financing, sale or syndication of the Property;

(F) Interest, principal, points and fees, amortization or other costs associated with any debt and rent payable under any lease to which this Lease is subject and all costs and expenses associated with any such debt or lease and any ground lease rent, irrespective of whether this Lease is subject or subordinate thereto;

(G) Deleted.;

(H) Cost of alterations, capital improvements, equipment replacement and other items which under generally accepted accounting principles are properly classified as capital expenditures;

(I) expenses for the replacement of any item covered under warranty, to the extent of any reimbursement, exclusive of any deductible thereunder;

(J) Cost to correct any penalty or fine incurred by Landlord due to Landlord’s violation of any federal state, or local law or regulation in existence as of the

Effective Date and any interest or penalties due for late payment by Landlord of any of the Building Operating Expenses;

(K) Cost of repairs necessitated by Landlord's negligence or willful misconduct;

(L) Expenses for any item or service which Tenant pays directly to a third party or separately reimburses Landlord and expenses incurred by Landlord to the extent the same are reimbursable or reimbursed from any other tenants, occupants of the property, or third parties;

(M) Expenses for any item or service not provided to Tenant but which are provided to any other tenants in the Building;

(N) A property management fee for the Building in excess of the lesser of (i) the concurrent management contract obligation or (ii) four percent (4%) of the gross rents of the Building (exclusive of capital expenditures, tenant reimbursements and ancillary income from other tenants [e.g., income from antennae, or satellite dishes, paid parking, security deposits and interest thereon, etc.]) applicable to the Building for the relevant calendar year. Landlord shall charge the above management fee during the Base Year and all subsequent years;

(O) Compensation and benefits of (i) employees above the grade of building superintendent or building manager, and (ii) that portion of employee expenses for employees whose time is not spent directly in the operation of the Property;

(P) Landlord's general corporate overhead and administrative expenses except if it is solely for the Building;

(Q) Business interruption insurance or rental value insurance;

(R) Expenses incurred by Landlord in order to comply with the provisions of Subparagraphs 14(a) and 19(a) hereof, provided such conditions requiring compliance existed at the Building as of the Effective Date;

(S) Reserves;

(T) Fees paid to affiliates of Landlord to the extent that such fees exceed the customary amount charged for the services provided;

(U) The operating expenses incurred by Landlord relative to retail stores, hotels and any specialty service in the Building or on the Property;

(V) Deleted;

(W) Deleted;

(X) cost of sculptures, paintings and other objects of art;

(Y) costs associated with the removal of hazardous materials in violation of applicable environmental law located in leasable areas of the Building as of the Effective Date;

(Z) the excess over competitive costs by independent suppliers and contractors, of the cost of supplies and services provided by subsidiaries and affiliates of Landlord;

(AA) other items not customarily included as operating expenses for similar buildings;

(BB) all categories of costs not included in the Base Year calculation of operating costs for which the Base Year amount had not been adjusted, but specifically excluding new categories of cost already included in the Base Year calculation of operating costs as of the Effective Date but which are merely re-categorized in subsequent years;

(CC) any charge for Landlord's income tax, excess profit tax, franchise tax, or like tax on Landlord's business and tax penalties incurred as a result of Landlord's negligence, inability or unwillingness to make payments and/or to file any income tax or informational returns when due;

(DD) taxes assessed against the Building or Landlord for Tenant Improvements above the Building Standard;

(EE) cost of signs in or on the Building or complex identifying the owner of the Building or other tenants' signs;

(FF) assessments and premiums which are not specifically charged to Tenant because of what Tenant has done, which can be paid by Landlord in installments, shall be paid by Landlord in the maximum number of installments permitted by law and not included as operating expenses except in the year in which the assessment or premium installment is actually paid; provided, however, that if the prevailing practice of other comparable office buildings in the vicinity of the Building to pay such assessments or premiums on an earlier basis, such assessments or premiums shall be included in operating expenses as paid by Landlord; in no event, however, shall Landlord include any accrued interest (resulting from such assessments or premiums) in its computation of operating expenses;

(GG) costs arising from Landlord's charitable or political contributions;

(HH) rentals and other related expenses incurred in leasing HVAC systems, elevators or other equipment ordinarily considered to be Capital Items;

(II) the cost of any electric power used by any tenant in the Building in excess of the Building-standard amount, or electric power costs for which any tenant directly contracts;

(JJ) costs arising from the negligence or faults of other tenants, to the extent recouped by Landlord;

(KK) Deleted.

(LL) costs associated with the operation of the business of the partnership or entity which constitutes Landlord as the same are distinguished from the costs of operation of the Building;

(MM) costs of any "tap fees" or any sewer or water connection fees for the benefit of any particular tenant in the Building;

(NN) any expenses incurred by Landlord for use of any portions of the Building to accommodate events;

(OO) any entertainment, dining or travel expenses;

(PP) any unreasonable flowers, gifts, balloons, etc. provided to any entity whatsoever;

(QQ) any "finders fees", brokerage commissions, job placement costs or job advertising cost;

(RR) the cost of any magazine, newspaper, trade or other subscriptions;

(SS) the cost of any training or incentive programs, other than for tenant life safety information services;

(TT) the cost of any "tenant relations" parties, events or promotion; and

(UU) "In-house" legal and/or accounting fees.

(b) Subject to its rights to appeal and protest, Landlord shall pay before delinquency all Real Estate Taxes and Building Operating Expenses for the Property. In addition to the Annual Base Rent set forth in Paragraph 6, for each Computation Year during the Term, Tenant shall pay Landlord the following sums (collectively, "Annual Additional Rent"):

(i) Tenant's Proportionate Share of any increase in Real Estate Taxes over the Base Year Real Estate Taxes (the "Tax Payment"). The Tax Payment shall be made by Tenant in accordance with the terms of Subparagraph 7(c) and shall be subject to adjustment as provided for in this Paragraph 7; and

(ii) Tenant's Proportionate Share of any increase in Building Operating Expenses over the Base Year Building Operating Expenses (the "Operating Expense Payment"); provided, however, that for purposes of computing the Operating Expense Payment, Building Operating Expenses for any Computation Year shall not include an increase of more than five

percent (5%) over, with respect to the first Computation Year, Base Year Building Operating Expenses and with respect to any other Computation Year, the Building Operating Expenses for the preceding Computation Year on a non-cumulative basis. Notwithstanding the foregoing, expenses for insurance, debris removal and utilities shall not be subject to the foregoing limitation. The Operating Expense Payment shall be made by Tenant in accordance with the terms of Subparagraph 7(c) and shall be subject to adjustment as provided for in this Paragraph 7. Notwithstanding the foregoing, in the event Tenant vacates any entire floor or the 13th Floor of the Premises, prior to the end of the Term and continues to pay Tenant's Base Rent and Additional Rent on such vacated Premises, Tenant's share of Operating Expenses shall be equitably reduced by the reduction in services, maintenance and utilities at the vacated Premises. Upon notice of such vacancy, Landlord shall, without limitation: (i) reduce HVAC to a level necessary for safety of Building's systems only; (ii) permit reduced lighting; (iii) reduce the frequency and extent of the janitorial services to be commensurate with vacated space; and (iv) to likewise reduce the frequency and extent of any maintenance obligations. Upon Tenant's written request, Landlord shall provide Tenant with reasonable evidence of such reductions in Operating Expenses.

(c) Within ninety (90) days after the end of the Base Year and the end of each Computation Year, Landlord shall furnish to Tenant itemized statements certified by an authorized agent of Landlord setting forth the Base Year Real Estate Taxes and Base Year Building Operating Expenses, the Real Estate Taxes and Building Operating Expenses for the most recently completed Computation Year and Tenant's Tax Payment and Operating Expense Payment, if any. Such statement shall include any receipted tax bills for the Base Year and the relevant Computation Year and such supporting documentation as to Building Operating Expenses (including copies of all calculations) as Tenant shall reasonably require. Tenant shall pay the Tax Payment and Operating Expense Payment within sixty (60) days following receipt of the statement described above. In the event that Landlord fails to furnish Tenant with an itemized statement as described above within one (1) year after the end of any Computation Year, then Tenant shall not be required to pay any increase in Real Estate Taxes or Building Operating Expenses for that Computation Year, nor shall any such increase be included in the calculation for any subsequent Computation Year.

(d) Within one (1) year after receipt of any statement, Tenant shall have the right, by notice to Landlord, to dispute the inclusion and amount of any item or items in any statement. If Tenant shall dispute the inclusion or amount of any item or items in any statement within sixty (60) days after receipt of such statement, then Tenant shall pay the Operating Expense Payment and the Tax Payment, excluding the items or amounts in dispute. In the event that such a dispute is not settled within sixty (60) days after notice of such dispute has been delivered to Landlord, the dispute shall be determined by a firm of real estate audit professionals mutually acceptable to Landlord and Tenant ("Audit Professionals"). If Landlord and Tenant cannot agree on Audit Professionals within thirty (30) days, then Landlord and Tenant shall each, within fifteen (15) days, select one (1) independent firm of Audit Professionals, and such two (2) Audit Professionals shall together select a third firm of Audit Professionals, which third firm shall be the Audit Professionals who shall resolve the dispute. If Landlord fails to select its Audit Professionals within the aforesaid fifteen (15)-day period, then, to the extent that Tenant has previously paid Landlord for the items in dispute, Tenant shall have the right to deduct the amount of such items from any installments of Annual Base Rent, Annual Additional Rent or other charges due or becoming due under this Lease (the "Set-Off Rights"). The Audit Professionals shall be entitled to review all records relating to the disputed items. The determination of the Audit Professionals shall be final and binding upon both Landlord and Tenant and the Audit Professionals' expenses shall be borne by the party against whom the decision is rendered; provided, that if more than one item is disputed, the expenses shall

be apportioned equitably according to the number of items decided against each party and the amounts involved.

If the Audit Professionals determine that Tenant has made an underpayment, Tenant shall reimburse Landlord for the amount of the underpayment within thirty (30) days following such determination. If the Audit Professionals determine that Tenant has made an overpayment, Landlord shall reimburse Tenant for the amount of the overpayment within thirty (30) days following such determination. If Landlord shall fail to pay the same, Tenant shall have the Set-Off Rights.

Notwithstanding the foregoing provisions of this Subparagraph 7(d), Tenant shall have the right at any time within three (3) years of Rent Commencement to dispute the amount of Real Estate Taxes or Building Operating Expenses calculated for the Base Year. If the Audit Professionals determine that the amount of Real Estate Taxes or Building Operating Expenses for the Base Year should be increased, then Landlord shall reimburse Tenant, within thirty (30) days following such determination, for any overpayment of Additional Rent for all Computation years. If Landlord shall fail to pay the same, Tenant shall have the Set-Off Rights.

(e) Landlord shall promptly notify Tenant of any increase in Real Estate Taxes resulting from other than a general increase in the tax rate or an increase in the assessed value of the Property. Should Landlord fail to notify Tenant of any such increase prior to the expiration of any appeal rights, such increase shall not be included in the computation of Real Estate Taxes. Landlord shall take all reasonable steps to contest any such increase, and shall keep Tenant informed, with timely advice, of the steps being taken.

Further, in the event Landlord does not contest such tax increase, Tenant shall have the right to contest any such increase and shall keep Landlord informed of the steps being taken. Landlord agrees to fully cooperate with Tenant in prosecuting any appeal taken by Tenant as a result of such increase, at no cost or expense to Landlord. To the extent Tenant obtains any reduction as a result of such contest, Tenant shall have the right to setoff against the Annual Base Rent and the Annual Additional Rent due hereunder all reasonable costs and expenses, including reasonable attorneys' fees, incurred by Tenant in connection with such contest, provided the same shall not exceed the amount of the reduction in Real Estate Taxes obtained thereby.

(f) Tenant shall have the right to examine, to copy and to have an audit conducted of all books and records of Landlord pertaining to Building Operating Expenses and Real Estate Taxes. Such audit shall be conducted by an auditing firm retained by Tenant. All expenses of the audit shall be borne by Tenant unless such audit discloses an overstatement of Building Operating Expenses or Real Estate Taxes of five percent (5%) or more, in which case Landlord shall promptly reimburse Tenant for the cost of the audit. If Landlord fails to pay the same, Tenant shall have the Set-Off Rights. If the auditing firm determines that Tenant has made an underpayment, Tenant shall reimburse Landlord for the amount of the underpayment within thirty (30) days following such determination. If the auditing firm determines that Tenant has made an overpayment, Landlord shall reimburse Tenant for the amount of the overpayment within thirty (30) days following such determination. If Landlord shall fail to pay the same, Tenant shall have the Set-Off Rights. In the event Landlord disputes the findings of the audit, then Landlord and Tenant agree to submit any disputed items to the Audit Professionals for resolution pursuant to the terms of Subparagraph 7(d) and the Set-Off Rights shall not become effective until thirty (30) days after the determination of the Audit Professionals. Landlord shall maintain all books and records for a period of not less than three (3) years following the applicable Computation Year.

(g) The rights and obligations of Tenant and Landlord under this Paragraph 7 shall survive the expiration or earlier termination of the Lease, provided that Operating Expense Payments and Tax Payments shall be prorated to reflect any partial final year of the Term of the Lease.

8. **SUBLETTING OR ASSIGNMENT**.

(a) Subletting. Tenant shall have the right to sublet all or any portion of the Premises or grant licenses therein, with the consent of Landlord which shall not be unreasonably withheld or conditioned, provided:

(i) Tenant is not in default of the Lease beyond any applicable cure period;

(ii) Tenant provides Landlord with prior written notice of the sublease or license, at least thirty (30) days prior to the commencement date of the sublease or license;

(iii) Tenant delivers to Landlord an executed copy of the sublease or license within ten (10) days following the commencement date of the sublease or license;

(iv) Tenant remains liable to Landlord for the obligations of Tenant under the Lease; and

(v) If Landlord has not denied Tenant's request to sublet with specificity within fourteen (14) days of request, Landlord's consent to any such request shall be deemed to have been granted. It shall be deemed unreasonable for Landlord to withhold its consent A) based on the financial condition of any proposed sublet or the lack of any financial information) or B) if the proposed sublet is then a tenant in the Building or the complex in which the Building comprises a portion and the Landlord then has space comparable to the proposed sublet space available for lease for a term similar to the proposed sublease term.

Tenant shall, upon demand, reimburse Landlord for any out-of-pocket fees incurred by Landlord in connection with the review, execution, and delivery of such subletting request up to Two Hundred Fifty and 00/100 ($250.00) per request.

Landlord shall be entitled to Fifty percent (50%) of any additional rent or compensation payable to Tenant by reason of such sublease, net of the amortized amounts of Tenant's costs for such sublease including, without limitation, tenant improvements, concessions, brokerage fees and legal expenses and Tenant agrees to pay such amounts to Landlord with its monthly Rent. Notwithstanding the foregoing, such rent sharing shall not apply to a sublease with a bona fide affiliate of Tenant.

(b) Assignment.

(i) Tenant shall not be permitted to assign this Lease, without the prior written consent of Landlord, which consent shall not be unreasonably withheld or conditioned. It shall be deemed reasonable to withhold or condition such consent only if:

(A) the proposed assignee's business and reputation are not consistent with the business and reputation of the tenants then occupying; or

(B) the proposed assignee intends to use the Premises (or the applicable portion thereof) for a use (x) prohibited by this Lease; or

(C) the proposed assignee is then negotiating with Landlord for the rental of any comparable space in the Building for a term similar to the remaining term of this Lease.

(ii) In addition, if Tenant requires that Tenant shall have no liability to Landlord under this Lease as of the date of the assignment, than the proposed assignee must have a net worth, as determined by generally accepted accounting principles ("Net Worth") which is equal to any "Fortune 500 Company," as such term is generally recognized in the marketplace, otherwise Tenant shall remain liable under this Lease.

(iii) Tenant shall provide Landlord with the following information each time Tenant wishes to assign any interest in the Lease:

(A) Name and address of the proposed assignee;

(B) Brief description of the proposed assignee's business;

(C) If the provisions of Subparagraph 8(b)(ii) above apply, financial references or, if reasonably available, the proposed assignee's most recent balance sheet and income statements; and

(D) The proposed assignment and assumption agreement in form and substance reasonably satisfactory to Landlord, in which the assignee shall assume performance of all of the terms, covenants, conditions and obligations of Tenant pursuant to this Lease from and after the date of the proposed assignment. If Tenant is to be released of all liability to Landlord as of the date of assignment pursuant to the provisions of Subparagraph 8(b)(ii) above, the assignment instrument shall so state. Nothing contained in this Subparagraph shall limit or relieve Tenant's liability under this Lease prior to the date of the assignment.

(iv) Landlord shall have fifteen (15) days from the date on which Tenant has submitted to Landlord the information set forth in Subparagraph 8(b)(iii), to notify Tenant in writing of Landlord's rejection or consent to the proposed assignee. Landlord shall specify the reasons for rejection in any notice of rejection. In the event Landlord reasonably claims that any of the above information is incomplete, Landlord shall immediately notify Tenant, in writing, of such claim, and the fifteen (15) day period shall be extended by the number of days of Tenant's delay in delivering reasonably complete information to Landlord in accordance with Subparagraph 8(b)(iii) above. Landlord's consent shall be conclusively deemed given within the fifteen (15) day period, unless refused or delayed as described above.

(v) Notwithstanding the provisions of this Subparagraph 8(b), Tenant shall have the right to assign or transfer any interest in this Lease to a subsidiary, parent or an affiliate of Tenant, or a successor to Tenant by way of merger, consolidation, corporate reorganization or the purchase of all or substantially all of Tenant's, or any operating division of Tenant’s assets, each without Landlord's consent.

(vi) Notwithstanding anything to the contrary in this Paragraph 8, any transfer, sale, pledge or other disposition and/or power to vote the outstanding shares of corporate stock of Tenant shall not be deemed an assignment.

Tenant shall, upon demand, reimburse Landlord for any out-of-pocket fees incurred by Landlord in connection with the review, execution, and delivery of such assignment request up to Two Hundred Fifty and 00/100 ($250.00) per request.

(c) Estoppels and Nondisturbance for Subtenant. Landlord shall, at Tenant's reasonable request, (i) provide Tenant with an estoppel certificate stating whether Landlord knows of any defaults under this Lease at the time of any proposed subletting or assignment; and (ii) provide to any subtenant of Tenant an agreement in recordable form stating that Landlord will not disturb the possession of such subtenant due to an early termination of this Lease, but only upon the reasonable determination of Landlord at that time.

Tenant shall, upon demand, reimburse Landlord for any out-of-pocket fees incurred by Landlord in connection with the review, execution, and delivery of such estoppel request up to Two Hundred Fifty and 00/100 ($250.00) per request.

9. **INSPECTION AND REPAIR OF PREMISES**. Landlord may access, inspect and repair the Premises at reasonable times and after reasonable prior notice to Tenant (except prior notice shall not be required in emergencies). In accessing or making any inspection or performing maintenance or repairs to, or construction in, or around the Premises, Landlord shall use all commercially reasonable efforts to protect Tenant's property and personnel from loss and injury and to avoid interfering with the conduct of Tenant's business. Notwithstanding the forgoing, access to the Premises shall be only through use of Tenant’s access control system and keyed entry shall not be permitted except in an emergency. Landlord shall provide Tenant with a list of required access cards with registration information as to the identity of the cardholder and the purpose of each entry. Landlord shall adopt reasonable security protocols to ensure that only authorized parties have access to Tenant’s access cards for such purposes, and in such manner and, further, provide Tenant with reasonable evidence that such protocols have been implemented and are being followed.

10. **DAMAGE TO PREMISES**.

(a) If the Property or any portion thereof is damaged by fire or other casualty, then, except as provided below, the damage shall be promptly repaired by and at the expense of Landlord. Until such repairs and restoration are completed, and if the damage limits Tenant’s use of the Premises, the Annual Base Rent and Annual Additional Rent shall be equitably abated to the extent that damage to the Premises and/or other portions of the Property materially and adversely interferes with the conduct of Tenant's business, as reasonably determined by Landlord and Tenant. Landlord shall notify Tenant in writing within fifteen (15) days of such damage as to whether the damage is susceptible of complete repair within one hundred twenty (120) days after the occurrence. If such damage to the Property or any portion thereof shall materially and adversely interfere with the conduct of Tenant's business, as reasonably determined by Tenant, and shall not be susceptible of complete repair and restoration within one hundred twenty (120) days after the occurrence of such casualty, then Tenant may, by written notice to Landlord, terminate this Lease as of the date of occurrence of such damage, provided such notice is given within forty-five (45) days after the date of such casualty. If such damage can be repaired within one hundred twenty (120) days and Landlord fails to repair or restore such damage within such period, then Tenant may terminate this Lease, by thirty (30) days' prior written notice to Landlord, in addition to all other remedies Tenant may have under this Lease, at law or in equity. Notwithstanding the foregoing

provisions of this Subparagraph 10(a), in the event that (x) any portion of the Premises is damaged during the last twelve (12) months of the Term or (y) any other portion of the Property is damaged during the last twelve (12) months of the Term and such damage materially and adversely interferes with the conduct of Tenant's business, as reasonably determined by Landlord and Tenant, then Tenant shall have the option to terminate this Lease upon thirty (30) days' prior written notice to Landlord. In the event of the termination of this Lease pursuant to this Paragraph 10, Annual Base Rent and Annual Additional Rent shall be prorated as of the date of such termination.

(b) Landlord and Tenant do each hereby release and discharge the other party and any officer, agent, employee or representative of such party from any liability for loss or damage to property caused by fire or other casualty for which insurance (containing waiver of subrogation) is required to be carried by the injured party under the terms of this Lease.

11. **EMINENT DOMAIN**. If the Property or any portion thereof shall be taken under the power of eminent domain or conveyed in lieu thereof, the taking of which materially and adversely interferes with the conduct of Tenant's business, then Tenant shall have the right to terminate this Lease at such time by furnishing written notice to Landlord. If Tenant does not terminate this Lease, Landlord shall proceed with due diligence to make all repairs necessary to restore the Property to as near its former condition as circumstances will permit and the Lease shall remain in full force and effect, except that, effective on the date of taking or conveyance, the Premises shall be reduced by the portion of the Premises so taken or conveyed, and the Annual Base Rent and Tenant's Proportionate Share shall be (a) proportionately reduced by the portion of the Premises taken or conveyed, and (b) equitably reduced to the extent that such taking or conveyance of other portions of the Property materially and adversely interferes with the conduct of Tenant's business. Damages awarded Landlord for such taking or conveyance shall belong to Landlord, provided that Tenant may assert a claim for the unamortized cost of any leasehold improvements paid for by Tenant, Tenant's personal property, fixtures and moving expenses, and the loss of Tenant's business.

12. **TENANT'S OBLIGATIONS**.

(a) Tenant shall maintain, at its expense, with an insurer(s) holding an A.M. Best Rating of A- (Excellent), Financial Size Category VIII or higher and reasonably acceptable to Landlord:

(i) Standard Commercial General Liability Insurance. The limits of liability of such insurance shall be an amount not less than Two Million and 00/100 Dollars ($2,000,000.00) per occurrence, Personal Injury including death and Two Million and 00/100 Dollars ($2,000,000.00) per occurrence, Property Damage Liability or Two Million and 00/100 Dollars ($2,000,000.00) combined single limit for Personal Injury and Property Damage Liability. Such policies shall name Landlord as Additional Insured and include Contractual Liability coverage;

(ii) Property insurance covering the risk of physical damage or loss to Tenant’s personal property, furniture, trade fixtures, office equipment and any property in the care, custody and control of the Tenant and all original and later-installed Tenant improvements in the Premises, at full replacement cost value. This insurance shall include fire and extended coverage perils. Such property insurance policy shall contain appropriate endorsements waiving the insurer's right of subrogation against Landlord;

(iii) Worker's Compensation and Employer's Liability insurance as required by state law;

(iv) Business Automobile Insurance for all owned, non-owned, hired, rented and/or borrowed vehicles used by the Tenant, its employees or agents. Such policy shall include a combined single limit of at least $1,000,000.00 per claim for bodily injury and property damage and will provide that employees are insured; and

(v) Excess or Umbrella Liability insurance with a limit of at least $1,000,000 providing additional limits of insurance over the primary limits of the Standard Commercial General Liability, Employers' Liability, and Business Auto Liability insurance. Any Tenant insurance policy shall exclude any policies of insurance maintained by Landlord and that Tenant insurance be primary with respect to any indemnity obligation of Tenant in connection with this Lease, and any insurance carried by Landlord shall be excess and non-contributing with respect thereto.

(vi) At Tenant's option, Tenant may provide the coverages required under this Subparagraph 12(a) through blanket policies of insurance covering Tenant's other properties. Tenant shall deliver a certificate of insurance evidencing the coverages (or such other evidence as Landlord may reasonably request) by the Commencement Date, and annually thereafter, within thirty (30) days of the expiration or renewal of the coverages. Each policy will provide that Landlord shall receive at least thirty (30) days' prior written notice of cancellation, material alteration or non-renewal of the policy.

(b) Tenant shall comply with all laws pertaining to Tenant's use of the Premises, including compliance with local and state laws requiring a smoke-free environment, provided Tenant shall not be required to make any structural alterations or improvements to the Premises or the Building.

(c) Tenant shall obey reasonable rules and regulations established by Landlord in connection with the operation, maintenance, safety or security of the Building, provided Tenant has prior written notice of such rules and regulations and they are consistently and uniformly applied to and enforced against all tenants of the Building. The current rules and regulations for the Building are attached to this Lease as Exhibit D. In the event of any conflict between the rules and regulations (as the same may exist from time to time) and the Lease, the terms of this Lease shall control.

(d) During the Term, Tenant may make improvements, alterations or additions to the Premises, provided such work is done in a workmanlike manner with materials and finishes comparable to those then existing in the Premises, and provided that structural improvements, alterations and additions shall be made only with the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. If Tenant makes any improvements, alterations or additions, Tenant agrees to:

(i) comply with all insurance requirements and all laws, ordinances, rules and regulations of all governmental authorities, provided that Landlord shall cooperate with Tenant in securing any necessary permits, the cost for such permits to be borne by Tenant;

(ii) discharge by payment, bond or otherwise, any mechanics' lien filed against the Property (of which Tenant has written notice) for work, labor, services or materials performed at or furnished to the Premises on behalf of Tenant, except when such mechanics' lien is filed by a contractor, subcontractor, materialman, laborer, employee or agent of Landlord, in which event, Landlord shall discharge such lien by payment, bond or otherwise; and

(iii) upon reasonable request from Landlord, (A) furnish Landlord with plans of such improvements, alterations or additions and (B) furnish Landlord with contractors' affidavits and lien waivers.

(e) Tenant may install and maintain its own security system for the Premises which may be compatible with the Building's security system, which may include establishing limited access areas within the Premises that are reasonably acceptable to Landlord. Landlord will provide Tenant with micro prox tags to be affixed to Tenant's access cards to allow access to the Building security system. At its sole option, Tenant may remove any security, telephone or computer system or any portion thereof (the "Systems") installed on behalf of Tenant, provided Tenant repairs any damage caused by such removal. In no event, however, shall Tenant be required to remove any portion of the Systems (including, without limitation, cabling) installed in any wall, floor, partition, ceiling or under any floor covering.

(f) Upon the expiration or earlier termination of this Lease, Tenant, subject to Subparagraph 12(e) hereof, shall surrender the Premises broom clean, except for loss or damages resulting from casualty, condemnation, acts of God, ordinary wear and tear and any improvements, alterations or additions made to the Premises. In no event shall Tenant be required to remove any such improvements, alterations or additions made to the Premises in connection with the Tenant Improvement Work or any cabling or wiring. Notwithstanding the foregoing, Tenant shall have the right, but not the obligation, to remove any improvements, alterations or additions made to the Premises on Tenant's behalf, provided Tenant repairs any damage caused by such removal.

13. **LANDLORD'S OBLIGATIONS**.

(a) Landlord shall maintain, without cost to Tenant (except as otherwise provided in Paragraph 7 as a Building Operating Expense), with an insurer(s) holding a Best Rating of A- (Excellent), Financial Size Category VIII or higher and reasonably acceptable to Tenant:

(i) Standard Commercial General Liability Insurance. The limits of liability of such insurance shall be an amount not less than Two Million and 00/100 Dollars ($2,000,000.00) per occurrence, Personal Injury including death and Two Million and 00/100 Dollars ($2,000,000.00) per occurrence, Property Damage Liability or Two Million and 00/100 Dollars ($2,000,000.00) combined single limit for Personal Injury and Property Damage Liability. Such policies shall name Tenant as Additional Insured and include Contractual Liability coverage;

(ii) "all risk" property insurance on the Building, the Premises and the Common Areas insuring one hundred percent (100%) of the replacement value thereof. This insurance shall include, but not be limited to, fire and extended coverage perils. The policy will contain appropriate endorsements waiving the insurer's right of subrogation against the Tenant. The property to be insured by Landlord shall not include Tenant's furniture and furnishings or any fixtures or equipment removable by Tenant under the provisions of this Lease;

(iii) Boiler and Machinery (also known as Equipment Breakdown) coverage in an amount that is adequate for the exposure at risk; and

(iv) Landlord shall deliver a certificate of insurance evidencing the coverages described in this Subparagraph 13(a) (or such other evidence as Tenant may reasonably request) by the Commencement Date and at such other time, within thirty (30) days of Tenant's written

request. Each policy will provide that Tenant shall receive at least thirty (30) days' prior written notice of cancellation, material alteration or non-renewal of the policy.

(b) Landlord, without cost to Tenant (except as otherwise provided in Paragraph 7), shall maintain, repair and replace, as necessary, and keep in good order and in safe, clean and first-class condition, all structural and non-structural portions of the Property, and all service systems for the same, including, without limitation:

(i) the plumbing, sprinkler, heating, ventilating and air conditioning systems, building electrical and mechanical lines and equipment associated therewith, and elevators and boilers, all of which either are located in or serve the Premises or Common Areas;

(ii) broken or damaged glass and damage by vandals;

(iii) the exterior and interior structure of the Building including the roof, exterior walls, bearing walls, support beams, foundation, columns, exterior doors and windows and lateral support to the Building and the Common Areas;

(iv) the interior walls, ceilings, floors and floor coverings (including carpets and tiles) of the Common Areas; and

(v) the exterior improvements to the land, including curbs, driveways, parking areas, sidewalks, lighting, exterior signs, ditches, shrubbery, landscaping and fencing.

(c) Without limiting Subparagraph (b) above, Landlord shall provide the following services and facilities, without cost to Tenant except as provided in Paragraph 7 or otherwise stated in this Subparagraph 13(c):

(i) passenger and freight elevator service, toilet facilities and supplies, hot and cold water, sewage facilities, refrigerated drinking water and vermin extermination, in each case as reasonably required by Tenant;

(ii) such repainting as is necessary to maintain the Building in first-class condition;

(iii) heating, ventilation, humidification and air conditioning sufficient to (A) provide for comfortable use and occupancy of the Premises from 7 a.m. to 6 p.m. on Monday through Friday and 7 a.m. to 2 p.m. on Saturday ("Tenant's Regular Business Hours") and (B) accommodate Tenant's electrical capacity and equipment requirements as set forth in Exhibit H-3. "Comfortable use and occupancy" shall mean a temperature range of 70ºF to 74º regardless of exterior air temperatures with internal relative humidity of approximately twenty percent (20%) in winter and approximately fifty percent (50%) in summer. All systems shall conform to local and national codes;

(iv) HVAC Service for the Premises at times other than Tenant's Regular Business Hours, upon receipt of reasonable prior notice from Tenant. Landlord may bill Tenant in arrears by monthly invoice for the actual cost (as evidenced by supporting documentation reasonably acceptable to Tenant) incurred by Landlord for providing HVAC Service after Tenant's Regular Business Hours, provided, however, Landlord acknowledges that its present practice is

not to charge for such services, but Landlord may adopt a charge as it reasonably determines at market rates.

(v) engineering personnel are available on site at the Building on a twenty-four (24) hour, seven (7) day a week basis and Tenant shall have access to such engineers on such twenty-four (24) hour, seven (7) day a week basis to control temperature within the Premises.

(vi) elevator service, access, and Common Area lighting necessary to permit use of the Premises by Tenant after Tenant's Regular Business Hours, twenty-four (24) hours per day, seven (7) days per week;

(vii) replacement of all necessary light bulbs, tubes and ballasts required to maintain a light level throughout the Premises adequate for Tenant's business operation, as reasonably determined by Tenant;

(viii) removal of ice, snow and debris from the Common Areas;

(ix) electricity for Tenant's office uses, including lighting, vending machines, office machines, office equipment and computers;

(x) excluding the Premises, landscaping maintenance and services for all plants, shrubs, flower beds and grounds located in both the interior and exterior of the Building and the Common Areas;

(viiii) facilities for Tenant's loading, unloading, delivery and pick-up activity, including access thereto twenty-four (24) hours per day, seven (7) days per week;

(ixi) janitorial services as provided for in Exhibit E [**to include twice daily day porter services for restrooms and pantries**] attached hereto. At Tenant's expense, Landlord will provide such additional janitorial services as may be requested by Tenant in writing;

(xi) line-striped underground parking facility in the Building (the “Hub Tower Parking Garage” or the “Ramp”) and the use of, from time to time, of up to two hundred (200) paved line-striped surface parking spaces in lots C and D as shown on the attached Exhibit A-3 Throughout the Term, Landlord shall provide up to 22 spaces(calculated as (1) one unreserved parking space in the Ramp for every 4,000 rentable square feet of office space in the Premises) at market rates, which initially shall be one hundred-forty 00/100 Dollars ($140) per space per month. Monthly rates per space for lots C and D shall be seventy 00/100 Dollars ($70) and sixty 00/100 Dollars ($60), respectively. All present rates are subject to annual review and adjustment, provided that such adjustments are at market rates. All parking facilities shall be safe, clean and adequately lit;

(xiv) security for the Property at all times. Landlord will physically check and secure the Building and the Premises after Tenant's business hours;

(xi) a security/reception desk in the Building, which will be staffed and open from 7 a.m. until 6 p.m. Monday through Friday, and 7 a.m. until 2 p.m. on Saturdays. A representative of Landlord will be available at 700 Walnut and on call at all other times, twenty-four (24) hours per day, seven (7) days per week;

(xiii) At Landlord's sole cost, Building standard suite signage, a building directory in the lobby of the main entrance level of the Building and floor directories in the elevator lobbies of each floor on which the Premises are located. Such directories shall include listings of Tenant's name and the names of Tenant's principal departments, sections, employees and agents, as provided by Tenant to Landlord, from time to time, in writing. Further, Tenant shall have the right at Tenant's sole expense to install signage at street level and skywalk Building entrances, the locations, size and design to be mutually agreeable to Landlord and Tenant. Tenant at Tenant's expense, shall be responsible for (i) obtaining all permits and approvals required to insure that the sign(s) conform to all applicable laws, zoning and code requirements of the city or town where the Property is located and (ii) the installation, maintenance and removal of the signs(s).

(d) Notwithstanding anything to the contrary in the Lease, if any interruption of Essential Services, as hereinafter defined, materially and adversely interferes with Tenant's business operations in all or any portion of the Premises, then unless such interruption shall be the result of the negligence or intentional act of Tenant or its agents, Tenant shall provide written notice of the same to Landlord with specific references to the Essential Services which have been interrupted. If Landlord fails to restore the Essential Service identified in Tenant's written notice within three (3) business days of such notice, then the Annual Base Rent payable hereunder shall be proportionately abated and recouped against up to 50% of the monthly Annual Base Rent due and payable until such abatement has been recouped in full. The abatement shall be calculated from the date of such written notice until the date when such Essential Services are restored. "Essential Services" shall mean (i) HVAC services, repair & maintenance, (ii) electrical service, repair & maintenance, (iii) water/sewer, (iv) debris removal, if necessary for reasonable access, (v) parking accommodations (including garage) and repair, (vi) reasonable pest control, (vii) janitorial service, and (viii) legal compliance to the extent Tenant is forbidden from operating its business in any portion of the Premises. Landlord shall have no responsibility or liability for failure to supply the Essential Services when prevented from so doing by any cause beyond Landlord's reasonable control.

14. **COMPLIANCE WITH LAWS; LIFE SAFETY**.

(a) In addition to the obligation to comply with laws set forth in Subparagraph 19(a), Landlord shall, at its own expense, comply with all present and future laws, ordinances, requirements, orders, directives, rules and regulations of federal, state, county and city governments and of all other governmental authorities having or claiming jurisdiction over the Property (excluding Tenant's specific use of the Premises) or appurtenances or any part thereof. Without limiting the generality of the foregoing, Landlord shall, at its own expense, (i) comply with the Americans with Disabilities Act of 1990 (as amended) ("ADA"), the Federal Occupational Safety and Health Act of 1970 (as amended) and all regulations or standards as are or may be promulgated thereunder; and (ii) procure each and every permit, license, certificate, or other authorization now or hereafter required in connection with the lawful and proper use of the Property

(b) Landlord, without cost to Tenant except as otherwise provided in Paragraph 7, shall install and maintain within the Property sprinkler systems, fire alarms, emergency lighting, and other related life safety equipment to comply with the current edition of the National Fire Code Bulletin entitled "NFPA 101 - Code for Safety to Life," along with all present and future requirements of federal, state, county and city governments and all other governmental authorities having or claiming jurisdiction with respect to the occupancy of the Premises initially and throughout the Term. Exits from the Premises,

Building and other portions of the Property shall comply with the current NFPA 101 standards at the time of construction.

15. **INDEMNIFICATION**.

(a) Tenant shall defend and indemnify Landlord and save Landlord harmless from and against any and all losses, claims, liability, expenses and damages (other than consequential damages) which, either directly or indirectly, in whole or in part, arise out of or result from (i) the negligence or willful misconduct of Tenant, its agents, contractors or employees; (ii) any act or occurrence in the Premises, unless caused by the negligence or willful misconduct of Landlord, its agents, contractors or employees; (iii) judgments, citations, fines or other penalties rendered or assessed against Landlord (with the exception of any claims under any worker's compensation laws) as a result of Tenant's failure to comply with all federal, state and local laws, safety and health regulations relating to Tenant's specific use of the Premises, provided that Landlord agrees to give Tenant prompt notice of any such violation asserted by any government agency; and (iv) the breach of any provision of this Lease by Tenant, its agents, contractors or employees.

(b) Landlord shall defend and indemnify Tenant and save Tenant harmless from and against any and all losses, claims, liability, expenses and damages (other than consequential damages) which, either directly or indirectly, in whole or in part, arise out of or result from (i) the negligence or willful misconduct of Landlord, its agents, contractors or employees; (ii) judgments, citations, fines or other penalties rendered or assessed against Tenant (with the exception of any claims under any worker's compensation laws) as a result of Landlord's failure to comply with all provided that Tenant agrees to give Landlord prompt notice of any such violation asserted by any government agency; and (iv) the breach of any provision of this Lease by Landlord, its agents, contractors or employees.

(c) Nothing in this Paragraph 15 is intended to require indemnification for any property claim for which insurance is required to be maintained under the terms of this Lease. The rights and obligations of Landlord and Tenant under this Paragraph 15 shall survive the expiration or earlier termination of this Lease.

16. **TENANT DEFAULT**. If Tenant shall:

(a) file or have filed against it a petition or case under any section or chapter of the United States Bankruptcy Code, as amended, or under any similar law or statute of the United States or any state and such petition or case is not discharged within sixty (60) days;

(b) fail to pay any installment of Annual Base Rent or Annual Additional Rent within ten (10) days after receiving written notice that the same is overdue; or

(c) fail to fulfill any other covenant or provision of this Lease on its part to be performed and fail to remedy such failure within thirty (30) days after Landlord shall have given Tenant written notice of such failure, then the same shall be an event of default and Landlord shall have all rights, powers and remedies available at law or equity, including the right to terminate Tenant’s right to possession without terminating Tenant’s liability under the Lease. Landlord shall use all commercially reasonable efforts to mitigate its damages in the event of default by Tenant. The rights of Landlord under this Paragraph 16 shall survive the expiration or earlier termination of this Lease.

17. **LANDLORD DEFAULT**.

(a) If Landlord shall:

(i) file or have filed against it a petition or case under any section or chapter of the United States Bankruptcy Code, as amended, or under any similar law or statute of the United States or any state and such petition or case is not discharged within sixty (60) days; or

(xiii) fail to fulfill any covenant or provision of this Lease on its part to be performed and fail to remedy such failure within thirty (30) days after Tenant shall have given Landlord written notice of such failure,

then the same shall be an event of default and Tenant shall have all rights, powers and remedies available at law or equity.

(b) Without limiting the rights described in Subparagraph 17(a) above, in the event that (i) Landlord, for any reason, other than by reason of any default by Tenant, fails to fulfill any covenant or provision of this Lease on its part to be performed, and (ii) such failure materially and adversely interferes with the conduct of Tenant's business, as reasonably determined by Tenant and Tenant actually ceases to conduct its business in all or a portion of the Premises; and (iii) such failure is not remedied within ten (10) days after Landlord receives actual notice of such failure, then (x) Annual Base Rent and Annual Additional Rent shall be proportionately abated as of the tenth (10th) day after such notice until such failure is remedied, and (y) Tenant shall have the right, but not the obligation, to remedy Landlord's failure and charge Landlord for the reasonable cost of such remedy, which charges shall be payable by Landlord within ten (10) days of Tenant's demand therefor. If Landlord shall fail to pay the same, Tenant shall have the Set-Off Rights, as defined in Subparagraph 7(d). The rights described in (y) shall be deemed Tenant's "Additional Remedies."

(c) Without limiting the rights described in Subparagraphs 17(a) and (b) above, in the event that (i) Landlord, for any reason, other than by reason of any default by Tenant, fails to fulfill any covenant or provision of this Lease on its part to be performed, and (ii) such failure is not remedied within thirty (30) days after Tenant shall have given Landlord written notice of such failure, then Tenant may exercise the Additional Remedies. The rights of Tenant under this Paragraph 17 shall survive the expiration or earlier termination of this Lease.

(d) Without limiting the rights described in Subparagraphs 17(a), (b) and (c) above, in the event that (i) Landlord fails to fulfill any covenant or provision of this Lease, and (ii) such failure materially and adversely interferes with the conduct of Tenant's business, as reasonably determined by Tenant, and (iii) such failure is not remedied within sixty (60) days after Tenant shall have given Landlord written notice of such failure, unless Landlord has commenced and is diligently prosecuting its cure, provided that such additional period shall not exceed ninety (90) days, then Tenant shall have the right to terminate this Lease.

18. **SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENTS**.

(a) Future Encumbrances. This Lease shall be subject and subordinate to the lien of any mortgage, deed of trust or ground lease hereafter placed on all or any part of the Property, provided that Landlord shall deliver to Tenant a Subordination, Non-Disturbance and Attornment Agreement substantially in the form attached hereto as Exhibit G (the "SNDA") or as otherwise mutually agreed upon by the Tenant and the holder of such mortgage ("Holder"). Upon execution by Tenant, Landlord shall record the SNDA in the appropriate governmental offices for giving notice of interests in real property for the city or county, as the case may be, where the Property is located ("Recording Office"), at Landlord's sole cost.

(b) Existing Encumbrances. Simultaneously with the execution and delivery of this Lease, Landlord shall deliver to Tenant the SNDA executed by each Holder of any mortgage, deed of trust or ground lease then encumbering all or any part of the Property. Tenant shall execute the SNDA simultaneously with the execution of this Lease. Landlord shall, within ten (10) days of the execution of this Lease, record the SNDA(s) in the appropriate Recording Office at Landlord's sole cost.

(c) Tenant shall be entitled to rely upon any notice requesting that Tenant make all future rent payments to a Holder and Tenant shall not be liable to Landlord for any payment made to a Holder in accordance with such notice.

19. **ENVIRONMENTAL COMPLIANCE**.

(a) Landlord represents that the Property and its existing uses and to the best of Landlord's knowledge, after due investigation, its prior uses, comply with, and Landlord is not in violation of, and has not violated, in connection with the ownership, use, maintenance or operation of the Property and the conduct of the business related thereto, any applicable federal, state, county, regional or local statutes, laws, regulations, rules, ordinances, codes, standards, orders, licenses and permits of any governmental authorities relating to environmental, health or safety matters (including, without limitation, Hazardous Materials, as defined in Subparagraph 19(b) below) (collectively, "Environmental Laws"). Landlord shall, at its own expense, promptly observe and comply with all present and future Environmental Laws, including, without limitation, the Clean Air Act Amendments of 1990 and any regulations (as amended) and all regulations or standards as are or may be promulgated thereunder.

(b) Without limiting the generality of Subparagraph 19(a), Landlord represents that Landlord, its agents, contractors and employees (i) have operated the Property and have at all times received, handled, used, stored, treated, transported and disposed of any chemical, material or substance, exposure to which is prohibited, limited or regulated by any federal, state, county, regional or local authority or which even if not so prohibited, limited or regulated, poses a hazard to the health and safety of the occupants of the Property or the occupants of the area near the Property (collectively, "Hazardous Materials") in strict compliance with all Environmental Laws, and (ii) have removed (or will remove prior to the Commencement Date) from the Property all Hazardous Materials.

(c) Landlord represents to Tenant that the information provided by Landlord in (i) the Environmental Issues Questionnaire, and (ii) the NFPA 101 Life Safety Information List (both dated April 21, 2016) was true and accurate on that date and remains true and accurate.

(d) Landlord represents that there is no fact known to Landlord pertaining to the physical condition of the Property or the area surrounding the Property which (i) materially and adversely

affects or materially and adversely will affect the Property, or the use, enjoyment or value thereof, or Landlord's ability to perform the obligations contained in this Lease, and (ii) which Landlord has not disclosed to Tenant in writing prior to the date of this Lease.

(e) Landlord represents that it has received no notices of any violation or claimed violation of any of the matters referred to in Subparagraphs 19(a) through 19(c) or of any pending or contemplated investigation, lawsuit or other action relating thereto.

(f) Tenant covenants and agrees that it shall use the Premises in full compliance with the Environmental Laws, and shall indemnify Landlord, for any damages incurred by Landlord or to the Property by reason of any breach of this covenant by Tenant.

(g) The representations contained in this Paragraph 19 shall survive the expiration or earlier termination of this Lease.

20. **PREPARATION OF PREMISES**.

(a) Preparation Work. Subject to the Construction Schedule (as hereinafter defined), Landlord will perform all work necessary for preparation of the Premises (including the "Base Building Work," as hereinafter defined) in accordance with (i) the final preparation plans including construction documents (the “Final Preparation Plans”) generated by Tenant to be submitted by Tenant to Landlord by May 1, 2017, which date remains subject to the five (5) day grace period referenced in Section 5(c) and primarily based on the test fit to be attached hereto as Exhibit H-1 ("Test Fit"); (ii) any change orders thereto; (iii) the "General Contract;" and (iv) the construction schedule attached hereto as Exhibit H-2 ("Construction Schedule"), all as more particularly described hereinbelow (the "Preparation Work"). Landlord shall, within five (5) days of receipt of the Final Preparation Plans, notify Tenant in writing of its approval, which shall not be unreasonably withheld, conditioned or delayed, or a detailed reason for its disapproval. If Landlord fails to deliver said notice within five (5) days, then the "Final Preparation Plans" shall be deemed approved. Landlord shall be solely responsible, at Landlord's sole cost, for performing the base building work in the Premises and the restroom and elevator lobby upgrades (the "Base Building Work") set forth in Exhibit H-3, which Base Building Work shall be with materials of the standard type, brand, and quality used generally by Landlord for leasehold construction or common areas, as the case may be throughout the Building, but in no event shall be less than the type, brand, and quality substantially equivalent to that found in new leasehold construction or common areas, as the case may be, in other first-class office projects in the city in which the Building is located. Tenant's employees, agents and contractors shall be permitted entry to any portion of the Building and Premises prior to the Commencement Date for the installation of Tenant's equipment and furnishings and the performance of such work as Tenant may desire, provided that such installations shall not unreasonably interfere with construction of the improvements by Landlord. In preparing the Premises, Landlord shall provide Tenant, its agents, employees and contractors, with all Building services necessary or desirable for the installations and work described in the preceding sentence. Landlord's and Tenant's performance of the obligations set forth in this Subparagraph 20(a) shall be pursuant to all terms of this Lease, excepting Tenant's obligation to pay Annual Base Rent, Annual Additional Rent, and any utility charges.

(b) Change Orders. Tenant may make additional changes to the Final Preparation Plans and the "General Contract", as hereinafter defined, subject to Landlord's written approval which shall not be unreasonably withheld, conditioned or delayed. Landlord shall notify Tenant in writing, within three (3) days of Tenant's change order request, of its approval or a detailed reason of its disapproval of such change order and a good faith estimate of the actual cost of such change order.

Tenant may, within three (3) days of its receipt of such estimate, elect to rescind its request for such change order upon written notice to Landlord. The cost to Tenant of any approved change order shall be limited to the actual costs incurred as a result of such change order, net of any overhead, profits, or fees. Landlord may require changes in the Final Preparation Plans and the General Contract only if necessary to comply with changes, revisions or additions to applicable building codes and other laws, which changes shall be at Landlord's sole cost and shall be subject to Tenant's prior written approval.

(c) General Contract. The Preparation Work shall be performed by Neumann Brothers, (the “General Contractor”) on a cost of work basis plus a fee with a guaranteed maximum price. Landlord shall enter into a contract using an AIA 133 with A201 General Conditions with the General Contractor for performance of the Preparation Work, which contract shall (i) contain a contract price in an amount equal to the lesser of (x) the actual cost of the Preparation Work and (y) a guaranteed maximum price (regardless of the actual cost) approved by Tenant (the "Contract Price"); (ii) include a complete unit cost breakdown of all materials and labor, which unit costs also shall apply to all change orders; (iii) itemize the Base Building Work and Tenant Work (defined below); (iv) require insurance coverage in amounts and types mutually and reasonably acceptable to Landlord and Tenant; (v) provide that the General Contractor is required to bid to three qualified firms for each trade for Preparation Work, Landlord will review its list of qualified contractors for each trade with Tenant and both parties will reasonably cooperate with each other in the selection of qualified firms for bidding; Tenant shall have the right to approve any subcontractor, excluding subcontractors performing Base Building Work, entering into a contract with a contract price in excess of Twenty-Five Thousand and 00/100 Dollars ($25,000); (vi) include a requirement that the Preparation Work shall be completed in accordance with the Construction Schedule; and (vii) otherwise be in a form mutually and reasonably acceptable to Landlord and Tenant (the "General Contract"). The General Contractor's fee shall be comprised of an overhead and profit fee of 6.5% (comprised of preconstruction time, project management time, safety professionals, office personnel and accounting), other indirect costs include: small tool charge of 3.5% of the costs of labor and benefit, umbrella liability insurance fee of 0.2% of project costs, a gl subcontractor insurance fee of 0.07% of subcontract cost; and payment and performance bond rate fees as follows: the first $1,000,000.00 shall have a fee of 0.72%, the next $4,000,000.00 shall have fee of 0.65%, the next $5,000,000.00 shall have a fee of 0.55%, and any amount above the amounts set forth herein shall have fee of 0.475%. Tenant shall have the right to retain its own construction manager. Landlord shall be solely responsible for all payments and other liabilities or obligations to the General Contractor, Landlord's other contractors, agents or employees who participate in the Preparation Work. Nothing in the Final Preparation Plans creates any authority for Landlord, its agents, employees or contractors to act on behalf of Tenant or cause Tenant to incur any obligation or liability. In no event shall the cost of the Preparation Work include, nor shall Tenant be otherwise liable for, any supervisory, freight elevator, loading dock access or other similar fees.

(d) Tenant's Costs and Tenant Improvement Allowance.

(xiv) Tenant's Costs. Tenant's costs for the Preparation Work shall be limited solely to the Contract Price actually paid by Landlord, as the same may have been revised by any change orders made in accordance with this Lease, which Tenant's costs shall be reduced by, without limitation, the following: (x) any overhead charge, profit, fee or other mark-up of any kind for the benefit of Landlord or any affiliate; (y) any and all costs, expenses or fees directly and indirectly related to the Base Building Work; and (z) any and all costs, expenses or fees relating to Landlord's obligations under Subparagraph 20(d) ("Tenant's Costs"). Prior to the earlier to occur of the commencement of construction of the Preparation Work and execution of

the General Contract, Landlord shall furnish to Tenant a good faith, detailed written estimate of the cost of each item of Tenant's Costs;

Tenant shall be permitted to enter the Premises to install its equipment and furniture prior to Substantial Completion, provided Tenant does not unreasonably interfere with Landlord in the performance of its work and Tenant's move-in.

(ii) Tenant Improvement Allowance. Landlord shall provide Tenant an allowance of thirty-seven and 50/100 Dollars ($37.50) per rentable square foot in the Premises (the "Tenant Improvement Allowance") to be applied against Tenant's Costs as follows: $36.50/RSF for tenant improvements and $1.00/RSF for Tenant's moving costs. Within thirty (30) days of Substantial Completion of the Premises, Landlord shall furnish to Tenant a final accounting of all Tenant's Costs (itemized by construction category for labor, materials and taxes) which accounting shall include, without limitation, draw requests signed by the General Contractor and actual bills and invoices evidencing such costs;

(x) If Tenant's Costs, as verified in writing by Tenant, exceed the Tenant Improvement Allowance, then Tenant shall, at its option, either (A) amortize any portion of the excess up to ten Dollars ($10) per rentable square foot over the Term of the Lease with interest computed as of at the Rent Commencement Date at the annual rate of four percent (4%), or (B) pay Landlord the excess within thirty (30) days of receipt of actual bills and invoices evidencing such costs and completion of such work in accordance with the Final Preparation Plans as evidenced by certification of Tenant's Architect.

(y). If Tenant's Costs, as verified in writing by Tenant, are less than the Tenant Improvement Allowance, then following Tenant's verification of Tenant's Costs, Landlord shall, at Tenant's option, either (A) pay Tenant the difference within thirty (30) days or (B) allow Tenant to apply the remainder of the Tenant Improvement Allowance to Tenant's Annual Base Rent in the form of a rent credit beginning with the next monthly installment of Annual Base Rent due Landlord.

(e) Warranty. Landlord warrants to Tenant, for one year after the Commencement Date of the Lease, that the Preparation Work shall be completed by Landlord in a good and workman-like manner, free from faulty materials, in accordance with all applicable legal requirements, and sound engineering standards, and in accordance with the Preparation Plans. Such warranty includes, without limitation, the repair or replacement (including labor), at Landlord's sole cost, of all materials, fixtures and equipment which are defective or which are defectively installed by Landlord in connection with the Preparation Work. Landlord shall, at Tenant's option, assign to Tenant, or enforce for the benefit of Tenant, all warranties from subcontractors and material suppliers for such materials, workmanship, fixtures and equipment in effect after the expiration of such twelve (12) month warranty period. The provisions of this Subparagraph (e) shall survive the termination or expiration of this Lease.

(f) Landlord's Obligation. Landlord, at its sole cost and expense, will assist Tenant in the development of the Final Preparation Plans. Such assistance shall include, without limitation, (i) coordination with the plans and specifications, for the Base Building Work, (ii) construction cost estimates for potential savings, and (iii) contract negotiations, if required.

(g) Authorized Representatives. Tenant shall furnish Landlord with a written list of Tenant's authorized construction representatives for the Preparation Work. Only such construction

representatives are authorized to sign any change order, or disbursement request for any allowance, receipt, or other document on behalf of Tenant related to the Preparation Work, and without the signature of such authorized construction representative, no such document shall be binding upon Tenant. Tenant may from time to time change or add to the list of authorized construction representatives by giving Landlord written notice of the addition or change.

(h) Tenant Option to Perform Preparation Work (other than Base Building Work).

After the selection of the General Contractor, Tenant may elect to execute a contract with the General Contractor for the performance of the Preparation Work but specifically excluding the Base Building Work ("Tenant Work"). In such event, Landlord shall pay to Tenant, or if directed by Tenant, directly to the General Contractor, amounts coming due pursuant to the construction contract. If Landlord fails to timely make such payments, Tenant shall have the Set Off Rights.

(i) Timing of Work and Freight Elevator Use. Tenant shall be permitted without additional charge by Landlord, to perform such work during business and non-business hours and, further, to use the freight elevator(s) on a 24/7 basis in connection with its construction and move-in including, without limitation, for furniture installation, its construction vendors and employee relocations.

21. **ANTENNA(E) INSTALLATION**.

Subject to the following provisions of this Paragraph 21, Landlord grants Tenant the right, in common with Landlord and other tenants, to install, operate and maintain, at Tenant's expense and risk, a lawfully permitted antenna(e), satellite dish and associated equipment (the "Antenna Equipment") at a location on the Property to be determined by Tenant and reasonably acceptable to Landlord (the "Antenna Premises"):

(a) Tenant shall submit to Landlord for its approval, a full set of engineering plans and specifications for the proposed Antenna Equipment installation, such approval not to be unreasonably withheld, conditioned or delayed. Landlord may withhold its approval for reasons including, but not limited to, the size and number of antennae proposed;

(b) Tenant shall make all required conduit or cable connections between Tenant's equipment in the Premises and the Antenna Equipment utilizing Building services, subject to (i) Tenant's payment of reasonable costs for such services, and (ii) approval of such connections by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed;

(c) Any Antenna Equipment installed by Tenant shall be erected so as not to interfere with the operation of any previously erected antenna(e), and Landlord shall not erect or permit the erection of any antenna(e) so as to interfere with the operation of any Antenna Equipment previously erected by Tenant;

(d) Tenant, its employees, agents and contractors shall, at all reasonable times, have the right to enter or leave the Antenna Premises at all times accompanied by Landlord's representative. Landlord agrees that it will not give unauthorized persons access to Tenant's Antenna Premises or Antenna Equipment;

(e) Tenant shall obtain all necessary municipal, state and federal permits and authorizations required to install, maintain and operate the Antenna(e) Equipment and pay any charges levied by government agencies which are the sole result of Tenant having the Antenna Equipment.

Landlord agrees to fully cooperate with Tenant in obtaining all such permits and authorizations, at no cost or expense to Landlord;

(f) Tenant agrees to maintain the Antenna Equipment and Antenna Premises in a good state of repair and to save Landlord harmless from any claims, liability or expenses resulting from the erection, operation, maintenance, existence or removal of the Antenna Equipment, provided that such loss, costs or damages are not due, in whole or in part, to the negligence or willful misconduct of Landlord, its agents, employees or contractors;

(g) At the conclusion of the Term, Tenant shall remove the Antenna Equipment and surrender and restore the Antenna Premises to Landlord in substantially as good condition as when entered, except for loss or damages resulting from casualty, condemnation, act of God or ordinary wear and tear; and

(h) The liability insurance to be carried by Tenant pursuant to the provisions of this Lease shall include coverage for Tenant's activity on the Antenna Premises. Tenant shall pay any increase in rates for insurance which Landlord is required to carry under the Lease resulting from the installation and use of the Antenna Equipment by Tenant, provided Landlord delivers to Tenant evidence, reasonably satisfactory to Tenant, of such increase and the reasons therefor.

22. **RECORDING**. Neither Landlord nor Tenant shall record this Lease. Contemporaneously with the execution of this Lease, Landlord and Tenant shall execute a memorandum of lease containing such information as shall be required by the appropriate state statutes, and such other information as Tenant may reasonably require. Either party may, within ten (10) days after the execution of this Lease, at its sole cost, record the memorandum of lease in the appropriate Recording Office. Landlord shall not, without Tenant's prior written consent, disclose the contents of this Lease to any third party except Landlord's professional advisors, existing and potential lenders or ground lessors, and potential purchasers of the Property.

23. **ESTOPPEL CERTIFICATE**. Tenant shall, upon fourteen (14) days prior written request of Landlord (but not more often than twice during any calendar year) execute, acknowledge and deliver to Landlord or its designee a written statement stating, to the reasonable knowledge of Tenant as of the date made: (a) the date this Lease was executed; (b) the Commencement Date and the Expiration Date; (c) the monthly amount of Annual Base Rent and the date to which such Annual Base Rent has been paid; (d) that this Lease is in full force and effect and has not been assigned, modified, supplemented or amended in any way (or specifying the date and terms of any agreement so affecting this Lease); (e) that this Lease represents the entire agreement between the parties as to this lease transaction (or identifying those other documents which, together with this Lease, form the entire agreement between the parties as to this lease transaction); (f) that all required contributions by Landlord to Tenant on account of Tenant's improvements have been received (or specifying those required contributions which Landlord has not made); (g) that as of the date of the statement there are no existing defenses or offsets which Tenant has against the enforcement of this Lease by Landlord except as set out by Tenant; (h) that no Annual Base Rent has been paid for more than one (1) month in advance except as set out by Tenant; and (i) that no security has been deposited with Landlord. Any such statement may be relied upon by a prospective purchaser or mortgagee of Landlord's interest in the Property.

Landlord shall, upon demand, reimburse Tenant for any out-of-pocket fees incurred by Tenant in connection with the review, execution, and delivery of such estoppel up to Two Hundred Fifty and 00/100 Dollars ($250.00) per request. Landlord shall, upon fourteen (14) days prior written request by Tenant,

deliver to Tenant or its designee an estoppel certificate, in the substance and form described above, describing the status of this Lease and any ground lease, underlying lease or mortgage encumbering the Property. Tenant shall, upon demand, reimburse Landlord for any out-of-pocket fees incurred by Landlord in connection with the review, execution, and delivery of such estoppel up to Two Hundred Fifty and 00/100 Dollars ($250.00) per request.

24. **EXTENSION RIGHT; HOLDING OVER**.

(a) Tenant shall have the right to extend the Term of this Lease, as extended by the option to renew described in Paragraph 28 (the "Option to Renew”), for a period of six (6) months (the "Extension Period"), subject to the following terms and conditions (the "Extension Right"). The Extension Right shall be exercised by Tenant delivering written notice to Landlord at least six (6) months days prior to the Expiration Date, as extended by the Option to Renew. The Extension Period shall be subject to all of the terms and conditions of the Lease and each monthly installment of Annual Base Rent shall be the monthly installment of Annual Base Rent in effect during the last month prior to the Extension Period.

(b) If Tenant shall hold over after the expiration of the Term, its tenancy shall be on a month-to-month basis and shall be subject to all of the terms, conditions, provisions and obligations of this Lease, except that, following the expiration of the Term, each monthly installment of Annual Base Rent shall be one hundred twenty five percent (125%) of the monthly Annual Base Rent installment that applied to the last month of the Term. For the first two (2) months of any holdover, this holdover rental amount shall be Landlord's exclusive right and remedy against Tenant and shall be deemed to cover all liabilities, obligations or charges which may be incurred by Landlord because of a holdover by Tenant.

25. **OTHER UTILITIES**. At Tenant's sole cost and expense, Tenant shall have the right to introduce into the Premises such other utilities as Tenant might require and Tenant shall pay the cost of such other utilities directly to the applicable utility companies.

26. **OPTION TO PROVIDE OWN JANITORIAL SERVICES**. Tenant shall have the right at any time during the Term to contract independently with any cleaning contractor of Tenant's choice for the cleaning of all of the Premises. Tenant shall give Landlord at least thirty (30) days prior written notice of Tenant's election. In the event that Tenant elects to contract independently, then beginning with the effective date of the institution of such services by Tenant, (i) the Annual Base Rent and the Base Year Building Operating Expenses shall be reduced as specified in Subparagraph 6(b), and (ii) Building Operating Expenses shall include the cost of janitorial services only for the Common Areas.

27. **ELECTRICITY**. Upon notice to Landlord at any time during the Term, Tenant may elect to have Tenant's electricity consumption in the Premises separately metered at its expense. In the event that Tenant elects to separately meter its electricity consumption: (a) Tenant shall pay the cost of such metering and the cost of Tenant's electricity consumption directly to the electric utility company; (b) the Annual Base Rent and the Base Year Building Operating Expenses shall be reduced as specified in Subparagraph 6(b); and (c) Building Operating Expenses shall include only the cost of electricity consumption for the Common Areas. In the event that separate metering is not available or is available only at a cost which in Tenant's sole opinion is prohibitive, Tenant, at its option, may have a survey of its electricity consumption performed by a firm of engineering consultants acceptable to Tenant and selected from a list of not less than five (5) local professional electrical engineering firms mutually agreeable to Landlord and Tenant, and Tenant shall reimburse Landlord monthly for the cost of its electricity consumption as determined by the survey, and the adjustments described in Subparagraphs (b) and (c) shall be made.

If Tenant elects to surrender space as provided in Section 30 below, Tenant shall pay to re-connect metering for space returned to Landlord.

28. **OPTION TO RENEW**.

(a) Provided Tenant is not in default under this Lease beyond any applicable cure period at the time the option may be exercised, Landlord grants Tenant the option to renew this Lease with respect to all or any portion of the Premises comprising at least two floors for one (1) additional term of five (5) years. Such option shall be exercised by Tenant delivering written notice to Landlord at least nine (9) months prior to the Expiration Date, as extended by any previously exercised option.

(b) The renewal rental rate for the first year of the option period shall be nineteen 00/100 Dollars ($19.00) per rentable square foot with annual increases of twenty-five cents ($0.25) per rentable square foot with a 2018 Base Year (the “Renewal Rental Rate”). Landlord shall provide Tenant with an improvement allowance equal to Ten 00/100 Dollars ($10.00) for every rentable square foot of Premises so renewed, which amount shall be payable by Landlord within thirty (30) days of Tenant’s exercise of the renewal right, and following presentation of receipts for improvements and/or furniture, fixtures and equipment, or at Tenant’s sole election regardless of its use of the allowance for improvements, as a rent credit any time on or after the first day of the renewal term, provided that at least seventy-five percent (75%) of the improvement allowance was used for improvements and/or furniture, fixtures and equipment. If Landlord fails to timely tender all or any portion of such amount, Tenant shall have the Set-Off Rights.

(c) Except as set forth above, the option period shall be subject to all of the terms and conditions of this Lease.

29. **AMENITIES**.

(a) Landlord agrees that Tenant and its employees, guests, invitees and contractors shall have the right throughout the Term to use at the unsubsidized rate the cafeteria located on the third floor of the building located at 700 Walnut Street, also owned by Landlord. Landlord consents to maintain and operate such cafeteria subject to reasonable modifications in rules and regulations provided that the cafeteria operations are consistent with first-class corporate cafeterias.

(b) Tenant shall have the right to use the existing conference facilities located on the third floor of the Building throughout the Term at Landlord’s reasonable charges and terms. The current rates and terms for such usage are attached as Exhibit F.

(c) Upon not less than thirty (30) days notice, Tenant shall have the right to use the conference facilities at 700 Walnut Street for approximately 200 participants up to four (4) times per year at reasonable charges and terms. The parties shall reasonably cooperate with each other with respect to such use and the terms of such use. Landlord reserves the right to re-locate Tenant at its expense upon reasonable advance notice to reasonably equivalent facilities if Landlord needs the conference facilities for its own purposes.

(d) Tenant shall have the right to use the fire-stairs between floors of the Premises and, subject to Landlord’s approval, not to be unreasonably withheld or delayed, install paint and amenities allowed by fire code, and a security system in the stairwells.

(e) Tenant shall have the right, at its election, and at its expense, subject to the Tenant Improvement Allowance, pursuant to plans and specifications reasonably approved by Landlord, to install a supplemental HVAC unit in the Premises to cool its voice and data room on a 24/7 basis, which shall be served by the Emergency Generator (as defined in paragraph 35 below). Tenant may use the Building's glycol loop for such equipment at no charge

30. **OPTION TO SURRENDER SPACE**. During the period beginning on the fifth (5th) anniversary of the Rent Commencement Date, Tenant shall have the option, upon not less than nine (9) months prior written notice, to surrender all or up to fifty percent (50%) of the Premises comprising one or more whole floors or a portion of the 13th Floor premises (the "Surrender Space"). The date stated in Tenant's notice as the effective date of delivery of the Surrender Space to Landlord shall be referred to as the "Surrender Date," On or before thirty (30) days prior to the Surrender Date, Tenant shall tender to Landlord the amount of (i) the monthly gross rent for the Surrender Space as of the date of the surrender notice and (ii) the unamortized (on a straight-line basis with no interest as of the Surrender Date) sum of the Tenant Improvement Allowance, and additional allowance, free rent and brokerage commissions actually paid by Landlord applicable to the surrender space. As of the Surrender Date, (a) Tenant shall vacate the Surrender Space; (b) Annual Base Rent and Tenant's Proportionate Share shall be reduced by the same proportion that the rentable area of the Surrender Space bears to the total rentable area of the Premises, if applicable; (c) Tenant shall be relieved of any further obligations under this Lease pertaining to the Surrender Space; and (d) Tenant's right to parking spaces stated in Subparagraph 13(c)(xii) shall be proportionately reduced, if applicable. This option to surrender a portion of the Premises shall be self-operative and no additional agreement between Landlord and Tenant will be necessary to effectuate such release; provided, however, Landlord and Tenant shall, for their mutual convenience, execute an amendment to this Lease within thirty (30) days following the Surrender Date, stating the reduced area of the Premises, the Annual Base Rent, the monthly rent installment and Tenant's Proportionate Share. Immediately after the Surrender Date, Landlord shall, at its expense, perform any construction work necessary on the 13th Floor to separate the Surrender Space from the balance of the Premises, including, without limitation, the construction of any necessary new demising walls, and the finishing of the side of such walls that face the balance of the Premises, in a manner that is consistent with the interior of the Premises.

31. **CONTINUING RIGHT OF FIRST REFUSAL**.

(a) First Refusal If at any time during the term of this Lease (and subject to the rights of all tenants to renew their then current leases, the existing rights of Dickinson Law Firm with respect to the 15th floor and Deloitte, LLP and Whitfield and Eddy, PLC with respect to the 18th floor), and subject to the use by Landlord for its own use, as opposed to prospective third party tenants, Landlord receives a bona fide offer from a third party to lease all or any part of the rentable areas of the Building, Landlord shall provide Tenant with written notice of the terms of Landlord's offer (the "Landlord's Offer"). Within ten (10) business days following its receipt of Landlord's Offer, Tenant shall have the right to accept the same by written notice to Landlord. Within 30 days following Tenant's written notice of acceptance, Landlord and Tenant shall enter into an amendment of this Lease incorporating the space described in Landlord's Offer into the Premises upon the same economic terms then applicable to the Premises, including, without limitation Term, provided, however that the Tenant Improvement Allowance and free rent applicable to the Premises shall be applied to the additional space on a per rentable square foot basis, prorated to reflect the then remaining Term of Landlord's Offer. In the event Tenant either rejects Landlord's Offer or fails to notify Landlord of its acceptance of the same within the thirty (30) day

period, Landlord shall thereafter have the right, for a period of nine (9) months, to enter into a lease with the third party prospect upon the terms set forth in Landlord's Offer.

32. **NOTICES**. Any notice required or permitted under this Lease shall be in writing, sent by a reputable private carrier of overnight mail or mailed by United States Certified Mail, Return Receipt Requested, postage prepaid, in each case addressed as follows:

If to Landlord:
Employers Mutual Casualty Company
Attention: Facilities
717 Mulberry Street
Des Moines, IA 50309
Contact: Cindy McCauley

with a copy to: Employers Mutual Casualty Company
Legal Department
717 Mulberry Street
Des Moines, Iowa 50309
Attention: General Counsel

If to Tenant: Voya Services Company
One Orange Way (C4-N)
Windsor, Connecticut 06095
Attn: Corporate Real Estate

with a copy to: William R. Crowe
Rogin Nassau LLC
185 Asylum Street, CityPlace I, 22nd Floor
Hartford, CT 06103

Either Landlord or Tenant may, by notice to the other, change the address(es) to which notices are to be sent. All notices shall be deemed effective upon receipt or upon refusal to accept delivery.

33. **COMPETITORS** Subject to applicable Laws, Landlord shall not lease space in the Building to, nor allow to be used by, any law enforcement agencies or other government agencies or to any Competitors. As used herein, "Competitors" shall mean T Rowe Price, Vanguard, TIAA-CREF, Principal Financial Group, MetLife, Prudential, Lincoln, Financial, AIG and any subsidiary or affiliate thereof, and their respective successors. Landlord's breach of this Paragraph 32 shall be an event of default hereunder pursuant to Paragraph 17. Upon Landlord's breach of this Paragraph 32, in addition to the rights and remedies available at law or in equity or specifically set forth herein, Tenant shall have the right to terminate this Lease upon not less than thirty (30) days' written notice to Landlord, and if such violation is not corrected within such thirty (30) days, this Lease shall terminate in which event Landlord shall pay to Tenant upon demand Tenant's relocation costs on thirty (30) days' prior notice. Notwithstanding the forgoing, if Tenant has sublet all or a portion of the Premises to a non-affiliate such that the balance of the Premises not subject to any such sublease(s) comprises less than one floor, Landlord may lease space in the Building to a Competitor, provided that Landlord may not lease space to a Competitor on the floor so retained by Tenant.

34. **MISCELLANEOUS**.

(a) Within fourteen (14) days following any transfer by Landlord of its ownership interest in the Property, Landlord shall provide Tenant with written notice of such transfer of the Property and the name and address of the successor Landlord to whom Tenant should send future rent payments and notices (the "Transfer Notice"). In the event that a predecessor Landlord fails to provide the Transfer Notice, (a) Tenant shall not be liable to any successor Landlord for any rent payments paid to a predecessor Landlord; and (b) any successor Landlord shall be bound by any notice sent to a predecessor Landlord.

(b) The captions appearing within the body of this Lease have been inserted as a matter of convenience and for reference only and in no way define, limit or enlarge the scope of meaning of this Lease or any provision of this Lease.

(c) This Lease may be executed in several counterparts, all of which constitute one and the same instrument.

(d) This Lease shall be governed by and construed in accordance with the laws of the state or commonwealth in which the Premises are located.

(e) The language of this Lease shall be construed according to its normal and usual meaning and not strictly for or against either Landlord or Tenant. The rule of construction which allows a court to construe a document more strictly against its author shall not govern the interpretation of this Lease.

(f) Each party represents to the other that (i) it has not dealt with any broker, agent or other intermediary who is or may be entitled to be paid a broker commission or finder's fee in connection with this Lease, except for Cushman & Wakefield and CBRE-Hubbell ("Tenant's Broker") and Iowa Realty "Landlord's Broker"); and (ii) there are no claims for brokerage commissions or finder's fees in connection with this Lease, except as to Landlord's Broker and Tenant's Broker. Landlord acknowledges that any commission or finder's fee due to the Broker(s) in connection with this Lease shall be the sole obligation of Landlord. Each party agrees to indemnify the other and hold it harmless from all liabilities arising from breach of the representations stated above. The representations and obligations contained in this Subparagraph 33(f) shall survive the termination of this Lease.

(g) This Lease shall be null and void if not signed by Landlord and returned to Tenant within thirty (30) days of the day and year first above written. No agreement shall be binding upon Tenant unless signed by the authorized representative of Tenant.

(h) In no event shall Tenant be obligated at any time during the Term or any extension thereof to relocate from the Premises to substitute space.

(i) No right or remedy herein conferred upon or reserved to either party is intended to be exclusive of any other right or remedy, and every right and remedy shall be cumulative and in addition to any other right or remedy given by this Lease or now or hereafter existing at law or in equity. The failure of either party to insist upon the strict performance of any obligation shall not be deemed a waiver thereof.

(j) If either party shall at any time be in default under this Lease and if the non-defaulting party shall institute an action or summary proceeding against the defaulting party based upon such default, then the losing party will reimburse the prevailing party for its reasonable attorneys' fees and disbursements.

(k) If any provision of this Lease, or its application to any situation, shall be invalid or unenforceable to any extent, the remainder of this Lease, or the application thereof to situations other than as to which it is invalid or unenforceable, shall not be affected thereby, and every provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

(li) This Lease constitutes the entire agreement between the parties and may be amended only by written agreement of the parties. No representations, inducements, promises or agreements, oral or otherwise, between Landlord and Tenant or any of their respective brokers, employees or agents, not embodied herein, shall be of any force or effect.

(m) This Lease shall be binding upon and shall inure to the benefit of the parties hereto, their heirs, executors, administrators, successors and permitted assigns.

(n) Landlord and Tenant agree that in fulfilling all terms and conditions of this Lease, time is of the essence.

35. **GENERATOR**.

(a) During the Term, as the same may be extended, Landlord shall install a new 750kW emergency generator by November 15, 2017, and thereafter maintain in operable condition during the Term, test and monitor an emergency generator pursuant to mutually agreeable specifications (the "Emergency Generator") in accordance with a NFPA 101 standard. Landlord shall provide Tenant with copies of any monitoring and / or testing results upon reasonable request at reasonable intervals. Landlord acknowledges that Tenant shall be permitted to utilize up to 200 kW of the capacity of the Emergency Generator for its needs, but shall not exceed that capability without Landlord's prior approval and coordination. Landlord will monitor Tenant's use through a demand meter. Landlord may utilize a portion of the capacity of the Emergency Generator for the needs of the Building (i.e. life safety), provided however, that no such use shall overburden the Emergency Generator or interfere with Tenant's utilization of the Emergency Generator. The intent of design is to provide enough generator capacity to support Tenant load and Fire Life Safety requirements.

(b) Tenant acknowledges that, provided that no other tenants of the Building have the right to utilize the Emergency Generator, twenty-seven percent (27%) of the Emergency Generator's operation, maintenance and repair costs shall be allocated to Tenant as a Building Operating Expense. Tenant will pay its pro rata share of the remaining seventy-three percent (73%) of the Emergency Generator's operation, maintenance and repair costs associated with Building Fire Life Safety requirements in accordance with the provisions of Section 7. If Landlord allocates Emergency Generator capacity to other tenants, then Tenant's pro rata share will be adjusted accordingly. Notwithstanding the foregoing, Tenant shall always be allocated a minimum of 200kW.

(c) Costs allocated between Tenant and Landlord will be for Emergency Generator design, acquisition and installation including distribution panel(s) for Tenant's transfer switches, if necessary (assuming the Emergency Generator infrastructure is not duplicative with the infrastructure already supported in the Building), it being understood and agreed that Tenant transfer switch(s),

distribution panels, feeders and branch circuits, if required, will be Tenant's sole cost and expense and Tenant will not be allocated any of Landlord's cost of transfer switches, distribution panels, feeders and branch circuits, or distribution panels solely used by Landlord except for one feeder breaker in Landlord's Emergency Distribution Panel. Allocated costs will also include cost of load management system to shed Tenant's load in order to maintain fire/life safety requirements if required by City of Des Moines or MidAmerican Energy Company. Notwithstanding the foregoing, Tenant's allocated costs with respect to the design, acquisition and installation of the Emergency Generator shall not exceed $200,000.00. Tenant agrees to reimburse Landlord for all costs to acquire and install the Emergency Generator based on the formula below, based on the expected life of the generator (which life shall be no less than fifteen (15) years) prorated to Tenant's lease term as may be extended and prorated to Tenant's requirements versus the Building requirements. By way of example only, Tenant Emergency Generator use requirements are 200kW and the Building Emergency Generator capacity is 750kW, Tenant's proportionate use of the Emergency Generator is calculated as a fraction, the numerator of which is Tenant Emergency Generator requirements and the denominator of which will be the Building Emergency Generator capacity (200kW/750kW = 0.27). Therefore, in this example, Tenant's proportionate use of the generator capacity is 27%. The amortized cost of the generator shall be calculated by a fraction, the numerator of which shall be the cost of the Emergency Generator, which we will say by way of example is $1,000,000.00, and the denominator of which is the estimated life of the Emergency Generator, which we will say is 15 years ($1,000,000.00/15 years = $66,700.00). Therefore, the total Emergency Generator amortization in this example equals $66,700.00 per year for total Emergency Generator amortization. Finally, Tenant's annual share would be determined by multiplying Tenant's proportionate use of the Emergency Generator by the generator amortization (27%*$66,700.00 = $18,000.00) equaling, in this example, a total share of $18,000.00 owed by Tenant.

(d) Landlord does hereby grant Tenant the right to and through building chases and electrical spaces and other spaces as may be mutually agreed upon to route appropriate emergency power feeders together with distribution panels, transfer switches and associated generator and transfer switch control wiring to Tenant's Premises.

(e) Landlord shall conduct all required Emergency Generator testing on weekends, outside of normal Building hours and upon prior notice to, and coordination with Tenant, so as not to disrupt Tenant's business operations. Landlord shall not conduct tests of the Emergency Generator without prior coordination with Tenant. Any testing required of Tenant's emergency system, including transfer switches, will be conducted by Landlord with Tenant prior coordination and approval. Tenant shall not have access to the Emergency Generator at any time unless accompanied by Landlord, which escort shall be reasonably provided upon request.

36. **ATTACHMENTS**. The following exhibits form a part of this Lease and were attached before this Lease was signed by the parties:

Exhibits:

A-1 - Legal Description
A-2 - Site Plan
A-3 - Parking Facility
B - Floor Plan of Premises

ingCExpenses and Real Estate Taxes for the Base Year

D - Current Rules and Regulations

E - Janitorial Services

F - Conference Center

G - Subordination, Non-Disturbance and Attornment Agreement

H-1 - Test Fit

H-2 - Construction Schedule

H-3 - Base Building Work Including Restroom and Elevator Lobby Upgrades

I - Storage Area

IN WITNESS WHEREOF, Landlord and Tenant have signed this Lease as of the day and year first above written.

Signed, Sealed, and Delivered Employers Mutual Casualty Company

________________________________ By: /s/Bruce G. Kelley________________

Its CEO & President

____

VOYA SERVICES COMPANY

________________________________ By: /s/Ronald Falkner__________________

Its Vice President

____

EXHIBIT A-1

LEGAL DESCRIPTION

Parcel 1: Garage Parcel

All of the following described real estate in the City of Des Moines, Polk County, Iowa, that lies below Elevation 36.20, City Datum (First Floor Level):

All of Lots 3, 4, 5, and 6, and the Vacated 16.5 foot wide North-South Alley lying West of and adjoining said Lots 5 and 6, all in Block 12, in the ORIGINAL TOWN OF FORT DES MOINES, an Official Plat, now included in and forming a part of the City of Des Moines, Polk County, Iowa,

AND a triangular portion of vacated Sixth Avenue Right-of-Way described as follows:

Beginning at the Southeast corner of Lot 5 in Block 12 in the ORIGINAL TOWN OF FORT DES MOINES, an Official Plat, now included in and forming a part of the City of Des Moines, Polk County, Iowa, thence Northerly, along the Easterly line of said Lot 5, a distance of 57.82 feet, thence Southerly, a distance of 57.82 feet to a point that is 0.3533 feet East of the Southeast corner of said Lot 5, thence Westerly 0.3533 feet to the Point of Beginning.

AND EXCEPTING THEREFROM the following described triangular shaped portion of the above real estate:

Commencing at the Southeast corner of Lot 5 in Block 12, in the ORIGINAL TOWN OF FORT DES MOINES, an Official Plat, now included in and forming a part of the City of Des Moines, Polk County, Iowa, thence Northerly along the Easterly line of said Lot 5, a distance of 57.82 feet, to the Point of Beginning, thence Northerly, a distance of 75.29 feet, to the Northeast corner of Lot 6, Block 12, in the ORIGINAL TOWN OF FORT DES MOINES, an Official Plat, all now included in and forming a part of the City of Des Moines, Polk County, Iowa; thence Westerly along the Northerly line of said Lot 6, a distance of 0.46 feet; thence Southerly a distance of 75.29 feet, to the Point of Beginning.

Parcel 2: Office Tower Parcel

All of the following described real estate in the City of Des Moines, Polk County, Iowa, that lies above Elevation 69.82, City Datum (Third Floor Level):

The West 179.0 feet, EXCEPT the North 39.0 feet of the East 25.0 feet thereof; AND EXCEPT the South 20.0 feet of the East 25.0 feet thereof, of the following described real estate:

All of Lots 3, 4, 5, and 6, and the Vacated 16.5 foot wide North-South Alley lying West of and adjoining said Lots 5 and 6, all in Block 12, in the ORIGINAL TOWN OF FORT DES MOINES, an Official Plat, now included in and forming a part of the City of Des Moines, Polk County, Iowa.

Parcel 3: First Floor Office Building Entrance and Elevator Lobby.

All that part of the following described real estate that lies above Elevation 36.20, City Datum (First Floor Level) and below Elevation 54.82, City Datum (Second Floor Level):

Commencing at the S.W. Corner of Lot 4, Block 12, in the ORIGINAL TOWN OF FORT DES MOINES, an Official Plat, now included in and forming a part of the City of Des Moines, Polk County, Iowa; thence Easterly, along the Southerly Line of said Lot 4, 62.67 feet, to the Center Line of Column No. 4, and to the Point of Beginning; thence Northerly, at Right Angles to the Southerly Line of said Lot 4, and along the Center Line of said Column Line No. 4, 41.75 feet; thence Westerly, at Right Angles to the preceding course, 1.08 feet; thence Northerly, at Right Angles to the preceding course, 28.83 feet; thence Easterly, at Right Angles to the preceding course, 32.17 feet; thence Southerly, at Right Angles to the preceding course, 28.83 feet; thence Westerly, at Right Angles to the preceding course, 3.08 feet; thence Southerly, at Right Angles to the preceding course and along the Center Line of Column No. 5, 41.75 feet, to a point that is on the Southerly Line of said Lot 4; thence Westerly, at Right Angles to the preceding course, 28.0 feet, to the Point of Beginning.

Parcel 4: Second Floor Office Building Elevator Lobby

All that part of the following described real estate that lies above Elevation 54.82 City Datum (Second Floor Level) and below Elevation 69.82, City Datum (Third Floor Level):

Commencing at the S.W. Corner of Lot 4, Block 12, in the ORIGINAL TOWN OF FORT DES MOINES, an Official Plat, now included in and forming a part of the City of Des Moines, Polk County, Iowa; thence Easterly, along the Southerly Line of said Lot 4, 62.67 feet, to the Center Line of Column No. 4; thence Northerly, at Right Angles to the Southerly Line of said Lot 4, and along the Center Line of said Column Line No. 4, 41.75 feet; thence Westerly, at Right Angles to the preceding course, 1.08 feet, to the Point of Beginning; thence Northerly, at Right Angles to the preceding course, 28.83 feet; thence Easterly, at Right Angles to the preceding course, 32.17 feet; thence Southerly, at Right Angles to the preceding course, 28.83 feet; thence Westerly, at Right Angles to the preceding course, 32.17 feet, to the Point of Beginning.

Parcel 5: Beneficial Easements for Footing Encroachments

Easements for Footing Encroachments on:

All of the underground area lying below Elevation 31.91, City Datum, and above Elevation 20.07, City Datum, and lying within each of the following described areas (except the triangular portion of the following described areas that are located in the triangular portion of the Sixth Avenue Right-of-Way that is excepted from the description of Parcel 1 hereof):

The East 3 feet - 1 inch of Seventh Street Right-of- Way lying west of and adjoining Block 12, in the ORIGINAL TOWN OF FORT DES MOINES, an Official Plat;

The North 3 feet - 1 inch of Walnut Street Right-of- Way lying south of and adjoining said Block 12;

The West 3 feet - 1 inch of Sixth Avenue Right-of-Way lying east of and adjoining said Block 12;

All now included in and forming a part of the City of Des Moines, Polk County, Iowa.

Parcel 6:

Together with the benefits of the declaration of covenants, conditions, restrictions and easements dated as of December 31, 1994, filed January 3, 1995, in book 7137, page 832, as instrument no. 039851, as amended by first amendment to declaration of covenants, conditions, RESTRICTIONS and easements dated June 30, 1997, filed July 1, 1997, in book 7669, page 697.

The terms “north”, “east”, “west”, and “south” used in this Exhibit shall be construed to mean “northerly”, “easterly”, “westerly”, and “southerly,” and vice versa, where the context so requires, by reason of the platting of downtown Des Moines on a southwest to northeast axis.

EXHIBIT A-2

SITE PLAN
699 Walnut Street

EXHIBIT A-3
Parking Facility

PARKING EXHIBIT

A - 8th & Mulberry Parking Ramp
Cost: $1.50/hour - $7.50 daily - $100 monthly

B - 5th & Walnut Parking Ramp
Cost: $1.50/hour - $9.25 daily - $110 monthly

C - 7th & Cherry Parking Lot A
Cost: $20 monthly

D - 7th & Cherry Parking Lot B
Cost: $60 monthly

E – th & Walnut
Cost: $13.00 daily - negotiable monthly

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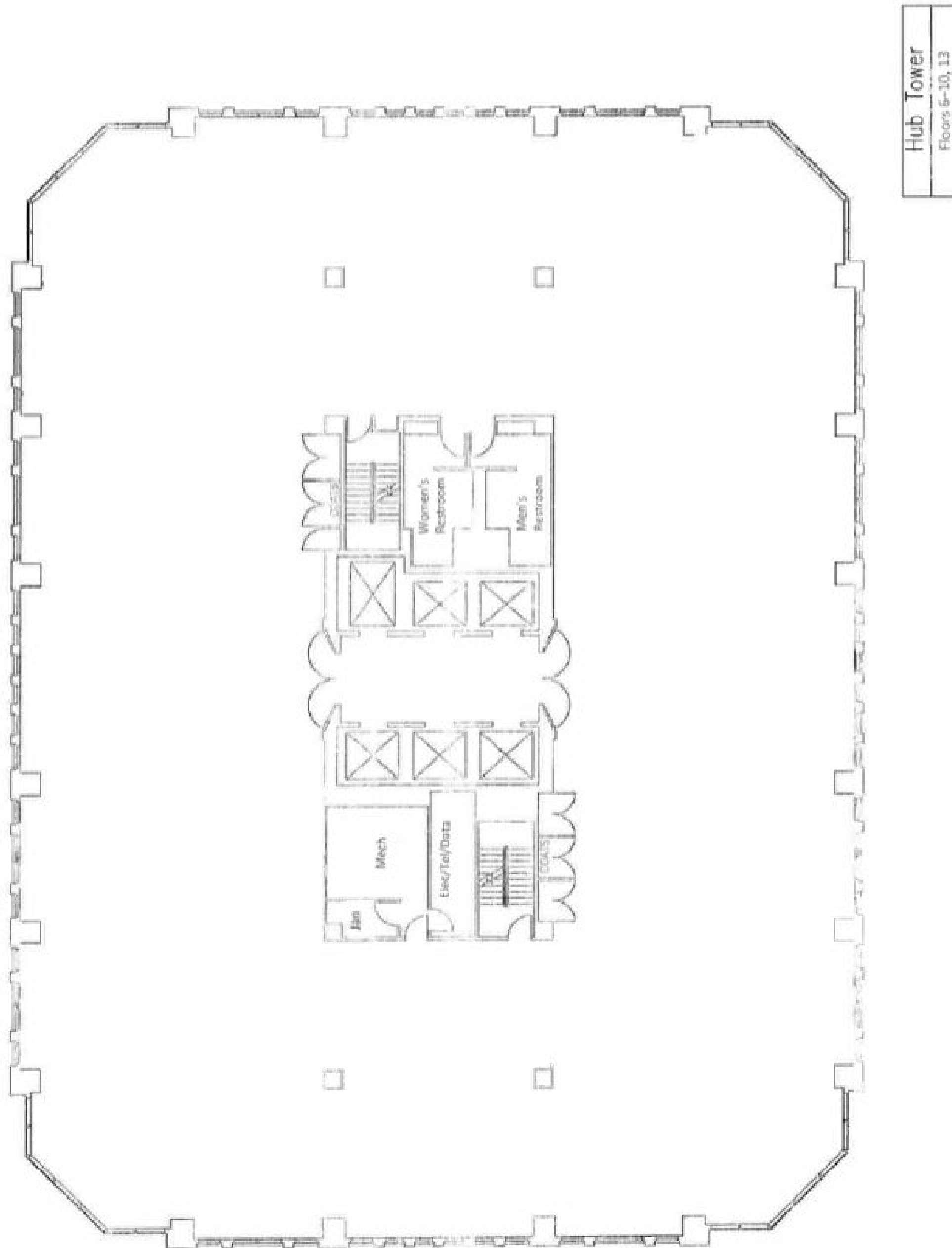
EXHIBIT B

FLOOR PLAN OF PREMISES



Women's
Men's
HUB TOWER
13th FLOOR PLAN
1" = 20'
0 4' 8' 24'
N

EXHIBIT C

ESTIMATED BUILDING OPERATING EXPENSES AND REAL ESTATE

TAXES FOR THE BASE YEAR

	Actual		Projected		Projected with Voya Occupancy		
VOYA Projections	CY 2016	$/RSF/Yr	CY 2017	$/RSF/Yr	CY2018	$/RSF/Yr	
Administration	$699,578	$2.47	$668,202	$2.36	$714,962	$ 2.52	
Electricity	$408,678	$1.44	$420,939	$1.49	$628,257	$ 2.22	2018 = 2017 + 3%, gross up to 90%
Water	$41,333	$0.15	$42,573	$0.15	$63,540	$ 0.22	2018 = 2017 + 3%, gross up to 90%
Repairs & Maintenance	$104,180	$0.37	$107,305	$0.38	$110,525	$ 0.39	
Contract Services	$340,461	$1.20	$350,675	$1.24	$404,009	$ 1.43	
Janitorial Service & Supplies	$227,179	$0.80	$233,994	$0.83	$349,239	$ 1.23	2018 = 2017 + 3%, gross up to 90%
Carpet Cleaning-Voya Floors					$ 13,500	$ 0.16	
Insurance	$75,484	$0.27	$77,748	$0.27	$80,081	$ 0.28	
Property Taxes	$549,786	$1.94	$566,280	$2.00	$583,268	$ 2.06	
Total	**$2,446,678**	**$8.64**	**$2,467,715**	**$8.71**	**$2,933,880**	**$ 10.46**	

Administration: Salaries & Wages
Management Fees
Building phone lines

EXHIBIT D

CURRENT RULES AND REGULATIONS

The following rules and regulations shall apply to the Premises, the Building, the parking garage, the Land and the appurtenances thereto:

1. The Building shall be maintained as a smoke-free and weapon free environment.

2. Sidewalks, doorways, vestibules, halls, stairways, and other similar areas shall not be obstructed by Tenant or used by any tenant for purposes other than ingress and egress to and from their respective leased premises and for going from one part to another in the Building.

3. No signs, advertisements or notices shall be painted or affixed on or to any windows, doors, or other part of the Building, outside of the Premises, without the prior written consent of the Landlord.

4. Plumbing, fixtures and appliances shall be used only for the purposes for which designed. No sweepings, rubbish, rags or other unsuitable objects shall be thrown or deposited therein. Expenses attributable to misuse of the plumbing, fixtures, or appliances by Tenant or its agents, employees or invitees shall be paid by Tenant.

5. Landlord shall provide all manual door locks and/or electronic card access locks in Tenant's Premises. Landlord shall furnish to each tenant a reasonable number of keys and access cards for the leased premises and no tenant shall make duplicates thereof.

6. Except to hang ordinary wall hangings and pictures, no nails, hooks or screws shall be driven or inserted in any part of the Building, other than the Premises, except by the Building maintenance personnel, nor shall any part of the Building be defaced by Tenant.

7. No awnings or other projections shall be attached to the outside walls of the Building. No curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises, without the prior written consent of Landlord. Such curtains, blinds, shades or screens must be of a quality, type, design and color, and attached in the manner, approved by Landlord, and if same are provided by Landlord, shall not be removed. Tenants shall not put down any floor coverings in the Premises without the Landlord's prior approval of the manner and method of applying such floor coverings. Any wallpaper or vinyl fabric material which Tenant may install on painted walls shall be applied with a strippable

adhesive. The use of non-strippable adhesives will cause damage to the walls when materials are removed, and repairs made necessary thereby shall be made by Landlord at Tenant's expense. The sashes, sash doors, windows, glass lights, and any lights or skylights that reflect or admit light into the halls or other places of the Building shall not be covered or obstructed.

8. Intentionally Deleted.

9. Movement in or out of the Building of furniture or office equipment, or dispatch or receipt of any bulky materials or merchandise by Tenant which require the use of elevators or stairways, or movement through the Building entrances or lobby shall be conducted under Landlord's supervision at such times and in such a manner as Landlord may reasonably require. Each tenant assumes all liability for damages to articles moved or injury to persons engaged or not engaged in such movement, including equipment, property and personnel of Landlord if damaged or injured as a result of acts in connection with such movement.

10. Landlord may reasonably prescribe weight limitations and determine locations for safes and other heavy equipment such as high density files or library which shall be placed in the Building so as to distribute weight in a manner acceptable to Landlords. If structural calculations are required from a licensed structural engineer, the cost will pass on to Tenant. All damages to the Building caused by the installation or removal of any property of a tenant or caused by tenant's property while in the Building shall be repaired at tenant's reasonable expense.

11. No birds or animals (other than service animals) shall be brought into or kept in or about Tenant's Premises, except otherwise expressly provided under the permitted use.

12. No portion of the Tenant's Premises shall be used or occupied as sleeping or lodging quarters.

13. Tenants shall cooperate with Landlord's efforts to keep its Premises neat and clean. Except for employees of Tenant, Tenant shall not engage any person for the purpose of such cleaning. To ensure orderly operation of the Building, no ice, mineral or other water, towels, newspaper, etc., shall be delivered to any premises except by persons given prior consent by Landlord.

14. Tenant shall not make or permit any objectionable or unpleasant noises or odors in the Building or otherwise unreasonably interfere in any way with other Tenants.

15. No portable heaters and fans or machinery/equipment, other than standard office computers, copy machines and the like, shall be operated by any Tenant on the Premises without Landlord's prior written consent; such consent shall not be unreasonably withheld. Tenant shall not use or keep in the Building any flammable, explosive or hazardous materials of any kind other than properly handled materials used in the ordinary course of Tenant's business.

16. Except for Landlord's negligence or intentional misconduct, Landlord or its agents will not be responsible for lost or stolen property, money or jewelry from Tenant's Premises or from common areas regardless of whether such loss occurs when the area is locked against entry or not.

17. No vending or dispensing machines of any kind may be maintained in the Premises without the prior written consent of Landlord, which shall not be unreasonably withheld.

18. Mail Delivery shall be handled by Tenant and post office directly. Any other deliveries and/or pickup of goods shall be handled by Tenant and servicing carrier directly. Delivery and use of loading zone shall be reasonably coordinated with and approved by Landlord.

19. The Building cafeteria at 700 Walnut is not open to anyone other than employees of the Landlord or Tenant unless:

a. Guests are accompanied by an employee of the Landlord or of Tenant with an active access card displayed for the cafeteria cashier and are wearing a guest badge; or

b. Special instances or services are designated and arranged by the cafeteria manager with the approval of the Landlord.

20. No food shall be distributed from Tenant's office to third parties.

21. Tenant shall comply with all skywalk ordinances, rules and regulations.

22. Parking on level P1 of the building, as provided in the Lease, is assigned to the Tenant, not to an individual employee of the Tenant. Safety violations by an employee of a Tenant will be reported to the Tenant so that the violation can be addressed with the employee. If such violations continue after two written requests to cease such unsafe conduct, the employee shall be restricted from parking on level P1. This same rule applies to all individuals parking on level P1 of the building, whether employed by the Landlord or Tenant.

23. No radio, television, or similar amplified device or aerial attached thereto shall be installed outside the Premises without first obtaining in each instance the Landlord's written consent in Landlord's sole discretion; and, if consent shall be given, no such device shall be used in a manner so as to be heard outside the Premises.

24. Tenant shall allow access to rodent, pest and vermin exterminator contractor at such intervals as may be reasonably required by Landlord.

25. All mechanical equipment and machinery will be kept free of noise and vibration which may be transmitted to any part of the Building beyond the confines of the Premises.

26. Landlord agrees to install and maintain at Landlord's expense at a readily available location in the Premises, an ABC type or equal all-purpose, hand-operated fire extinguisher containing a minimum capacity of 2-1/2 lbs., or such other capacity as may be required by the Landlord's insurance company or the local Fire Department.

27. Tenant shall not install, or suffer or permit to be installed or placed, exterior fascia partitions, decorations, alterations, or improvements or the like over, upon or under the sprinkler heads within the Premises; and the sprinkler heads shall remain exposed at all times.

28. Tenant shall not use or suffer or permit the use of any parts or portions of the Premises that are visible to the exterior of the office building for the "quick type" services of food, beverages, ice cream, popcorn, candy, gum or any other edible (unless Landlord expressly allows these items).

29. Landlord reserves the right to, but shall not be held obligated to, exclude or reject from the Building any and all solicitors, canvassers, peddlers and any other persons conducting themselves in such manner as, in the reasonable judgment of Landlord, constitutes an annoyance to any of the merchants or tenants in the Building or an interference with operation of the Building or who are otherwise undesirable.

30. Tenant shall not request employees of the Building to perform any work or to do anything outside their regular duties unless consent is obtained from the Director of Facilities.

31. Tenant shall not use any open flame or use live holiday wreaths or trees.

32. Tenant shall give prompt notice to the office of the building manager, Cindy McCauley, having an address of 717 Mulberry Street, Des Moines, Iowa 50309-3872,

of any damage to or defects in plumbing, electrical fixtures or heating and cooling equipment. Liquids or other materials or substances which will cause injury to the plumbing, shall not be put into the lavatories, water closets or other plumbing fixtures by Tenant, its agents, employees or invitees, and damages resulting to such fixture or appliances from misuse by Tenant or Tenant's agents, employees or invitees shall be paid by Tenant, and Landlord shall not in any case be liable therefore.

33. Landlord reserves the right to rescind or make any reasonable changes of these rules and regulations and to make such other further rules and regulations not inconsistent with the terms and conditions of the Lease as in its judgment shall from time to time be needed for safety, protection, care, regulatory compliance and cleanliness of the Building, the operation thereof, the preservation of good order therein and the protection and comfort of the tenants and their agents, employees and invitees, which reasonable rules and regulations, when made and 30 days written notice thereof is given to a tenant, shall be binding upon all tenants of the building in like manner as if originally herein prescribed.

34. In the event of severe weather, it is Tenant's responsibility to prepare an evacuation plan for tenant suites and review with its employees on an annual basis. Tenant will provide Landlord a copy of said plan. Tenant shall have representation at the Landlord's annual building emergency training.

EXHIBIT E

JANITORIAL SERVICES

Building surfaces and furnishings shall be maintained in first class condition, free of odors, spots, stains, visible soil, dust, dirt, scuff marks, and dirt/chemical build-up. Fixtures that are not in proper working order (e.g. lights, towel/toilet tissue dispensers, toilets, etc.) shall receive proper maintenance. Specifically, the following services shall be provided by Landlord:

OFFICES

A. TWICE DAILY

1. Day Porter services for pantries

B. ILY

1. Empty wastebaskets and replace liners as needed.
2. Deleted.
3. g furnishings including desks, chairs, and bases, partitions, telephones, tables, filing cabinets, bookcases and shelves.
4. Spot clean desk tops.
5. Clean counter tops.
6. Clean and sanitize drinking fountains.
7. Vacuum carpet.
8. Spot clean carpet and spot mop any hard surface floors with spills.
9. Spot clean door.
10. Dust mop all hard surfaced floors.
11. Sweep all stairways.
12. Remove trash and recyclable materials.
13. Wet wipe all tables in eating areas.

C. EKLY

1. l vertical surfaces (floor to 6') including permanent fixtures/decorations attached to walls.
2. Clean entire desk tops (where possible).
3. ge prints from doors, frames, light switches, kick and push plates, handles and telephones.
4. Spot clean interior window glass.
5. Wash tile floors.

D. NTHLY

1. Dust venetian blinds.
2. Remove cobwebs from ceiling areas.
3. Dust air grilles and light fixtures.
4. Vacuum upholstered furniture.
5. Polish and buss (no wax) resilient floors.
6. t in high traffic areas (entrances, lobbies, lunch rooms, main traffic aisles) with dry chemical and/or extraction method).

ARTERLY

1. Clean inside windows and partition glass.
2. Polish furniture.
3. High dust surfaces above 6'.
4. t in moderate traffic areas (interior aisles, private offices, conference rooms) with a dry chemical and/or extraction method.
5. Wash exterior windows.

NUALLY

1. t in light traffic areas (general office) with a dry chemical and/or extraction method.

NECESSARY

1. Replace light bulbs.

LAVATORIES

VICE DAILY

1. Refill all dispensers.
2. Remove all wastepaper and refuse.
3. Day Porter service

GHTLY

1. Sweep floors.
2. Wash floors.
3. es (toilets, dispensers, sinks, pipes) with disinfectant.
4. Clean and polish all metal and mirrors.
5. Clean partitions.

ARTERLY

1. Completely wash partitions/walls.
2. Machine scrub floor.

EXHIBIT F
Conference Center

717 Mulberry
Des Moines, IA 50309-3872
P.O. Box 712
Des Moines, IA 50306-0712
Phone 515.280.2511
www.emcins.com

Hub Tower Conference Center

- Point of contact for reservations or cancellations = Tracy Johnson @ EMC, 345-2832
- Point of contact for catering = EMC Treat Cafeteria – 345-2592
- Classroom capacity
  - Room 313 = 45
  - Room 312 = 20
  - Room 311 = 20
  - Room 310 = 20
- Room Set Up Options
  - Classroom style
  - Theater style
  - Open-u or square
- Amenities
  - Audio/Video equipment are provided for each room
    - controls are located on wall
  - Lectern is available upon request
  - White boards are available
  - No cable television
  - Speaker phone is available upon request
    - AT&T "bridge card" is required of tenants for tenant use
    - Phone use charge = $25 per phone
  - No microphones
  - Internet connectivity can be provided ahead of time through EMC.
- Room Use Charges
  - Charges are based per room, per set up, per day, per group
  - Rooms for routine scheduled meetings may be reserved for no more than 60 days out.
  - If room is no longer needed, 24 hour notice must be given to EMC for cancellation or charge will remain.
  - Reservations are subject to change by landlord
  - Charges and schedules will be based upon an annual review
  - Suggested Room Use Charges
    - Room 313 = $200
    - Room 312 = $100
    - Room 311 = $100
    - Room 310 = $150

CLASSROOM NO. 3 312

CLASSROOM NO.2 311

CLASSROOM NO.1 310

STAIR NO.2 S302

MECHANICA 309

CLASSROOM NO.4 313

PRE-FUNCTION ROOM 307

TABLE/CHA STORAGE 308

COAT ROOM 314

CORRIDOR C301

JANITOR 304

MECHANICAL 303

TELECOM 315

CORRIDOR C302

WOMENS

EMC Insurance Companies

EMC Hub Tower
3rd Floor
Standard Setup

Drawn by: RE & F
Scale: N.T.S.
Date: 09/08/11
Sheet 1 of 1

EXHIBIT G

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

THIS AGREEMENT dated the _________ day of _______________, 20_____, between _______________, ("Mortgagee"), and _______________, ("Tenant").

W I T N E S S E T H:

Tenant has entered into a certain lease (the "Lease") dated __________ with ____________________ as lessor ("Landlord"), covering certain premises known as _______________ and located in ____________________ (the "Premises"); and

Mortgagee has agreed to make a mortgage loan in the amount of _______________ ("the Mortgage") to the Landlord, secured by the Premises, and the parties wish to set forth their agreement herein.

NOW, THEREFORE, in consideration of the Premises and the sum of One Dollar ($1.00) by each party in hand paid to the other, the receipt of which is hereby acknowledged, the parties hereby agree as follows:

1. The Lease is and shall be subject and subordinate to the Mortgage insofar as it affects the real property of which the Premises form a part, and to all renewals, modifications, consolidations, replacements and extensions thereof, to the full extent of the principal sum secured by the Mortgage and interest on that principal sum.

2. Tenant agrees that it will attorn to and recognize any purchaser at a foreclosure sale under the Mortgage, any transferee who acquires the Premises by deed in lieu of foreclosure, and the successors and assigns of such purchaser or transferee, as its landlord for the unexpired balance (and any extensions, if exercised) of the term of the Lease upon the same terms and conditions set forth in the Lease.

3. Mortgagee, for itself and its successors and assigns, covenants and agrees that notwithstanding any default under the Mortgage and so long as Tenant is not in default under the Lease beyond any applicable cure period, Mortgagee shall not, in the exercise of any of its rights under the Mortgage, disturb or interfere with Tenant, deprive Tenant of its possession or its right to possession of the Premises (or any part thereof) under the Lease, deprive Tenant of any right or privilege granted to Tenant or inuring to the benefit of Tenant under the Lease, or join Tenant in summary or foreclosure proceedings.

4. If Mortgagee succeeds to the interest of Landlord under the Lease, Mortgagee shall not be:

(a) liable for any Landlord default of any prior landlord (including Landlord), provided that Mortgagee will be subject to offset and any and all other Tenant remedies under the Lease with respect to those Landlord defaults for which Tenant has delivered a prior written notice to Mortgagee in accordance with the terms of this Agreement;

(b) bound by any rent or additional rent which Tenant might have paid for more than the current month to any prior landlord (including Landlord) unless the same is transferred to Mortgagee; or

(c) bound by any amendment or modification of the Lease which affects the rent, term or any other material economic provision of the Lease, unless such amendment or modification has been approved by Mortgagee.

5. Tenant agrees to give Mortgagee, by certified mail, a copy of any notice of Landlord default served upon Landlord, provided that prior to such notice, Tenant has been notified in writing of the address of Mortgagee. Tenant agrees that if Landlord shall have failed to cure such Landlord default within the period provided for in the Lease, then Mortgagee shall have an additional thirty (30) days beyond that period within which to cure such Landlord default; provided that such extension shall not apply to Tenant's abatement rights and Additional Remedies described in Subparagraphs 17(b) and 17(c).

6. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their successors and assigns.

IN WITNESS WHEREOF, the parties hereto have entered into this Agreement as of the day and year first above written.

Signed, Sealed, and Delivered Employers Mutual Casualty Company

_________________________________ By: _________________________________

Its

____

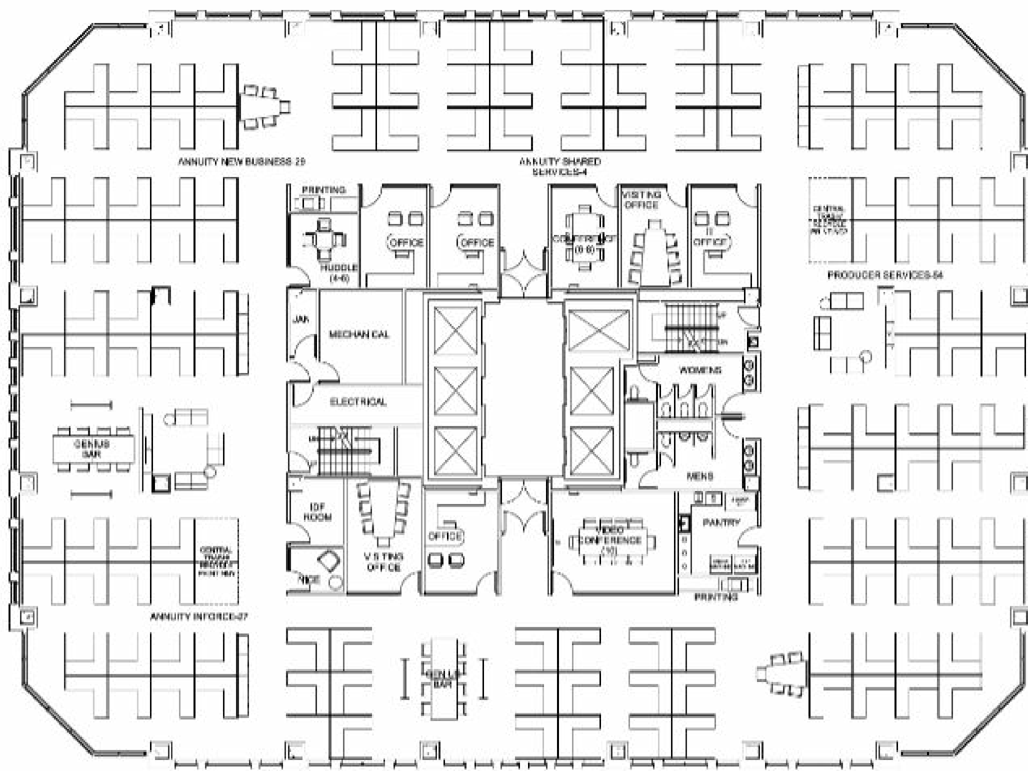
_________________________________ By: _________________________________

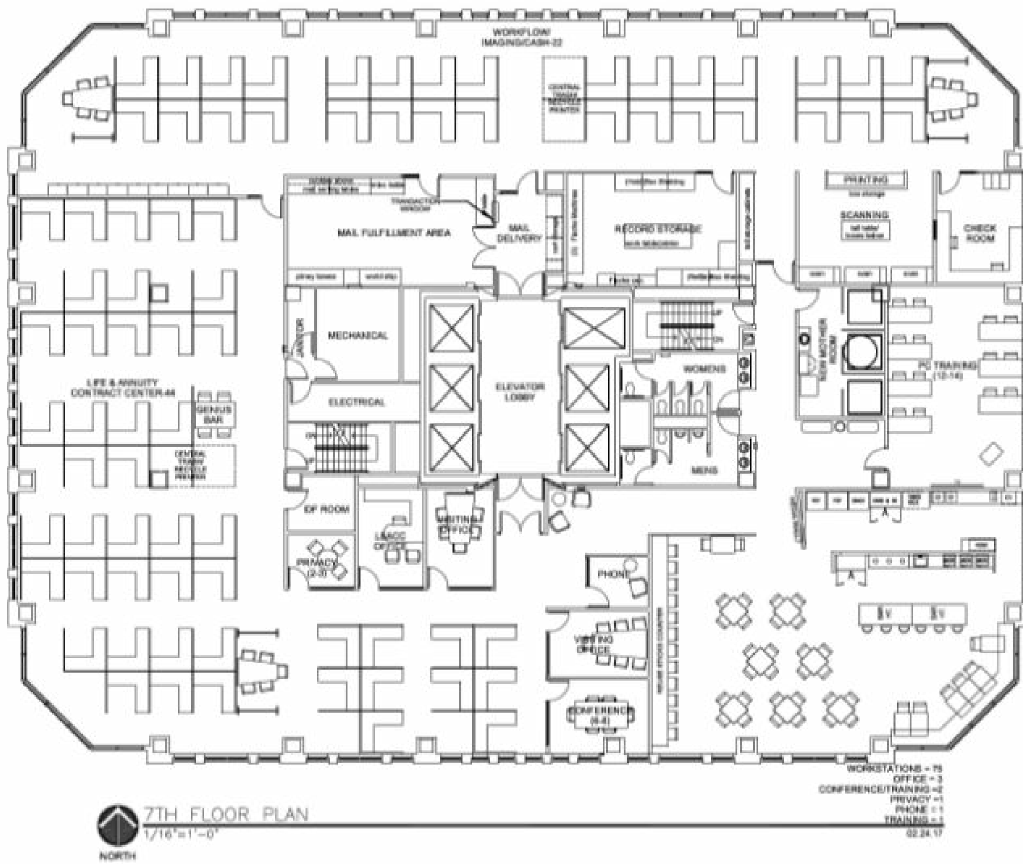
Its

____

EXHIBIT H-1

TEST FIT





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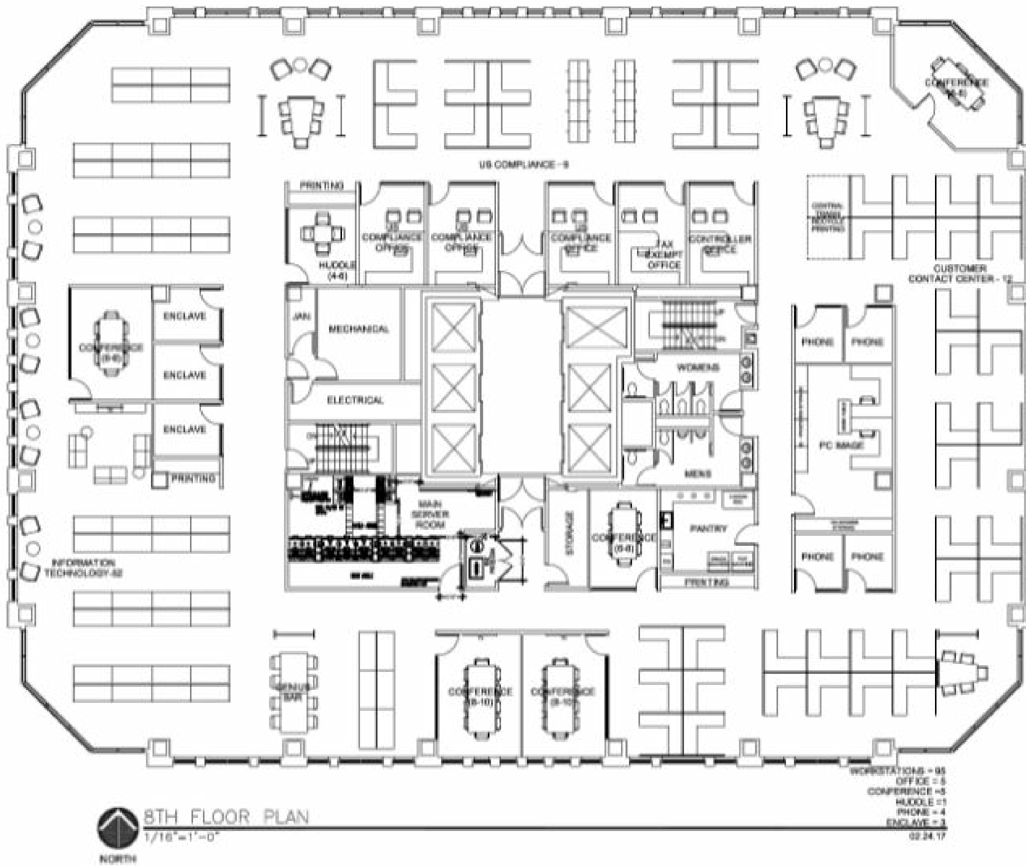

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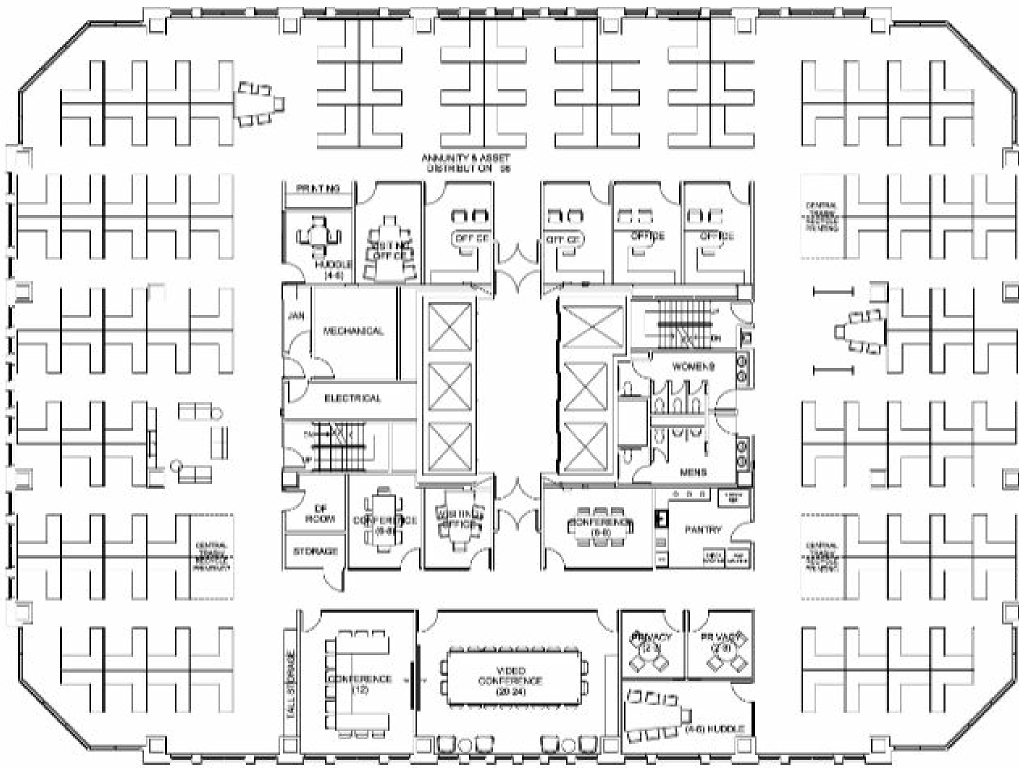

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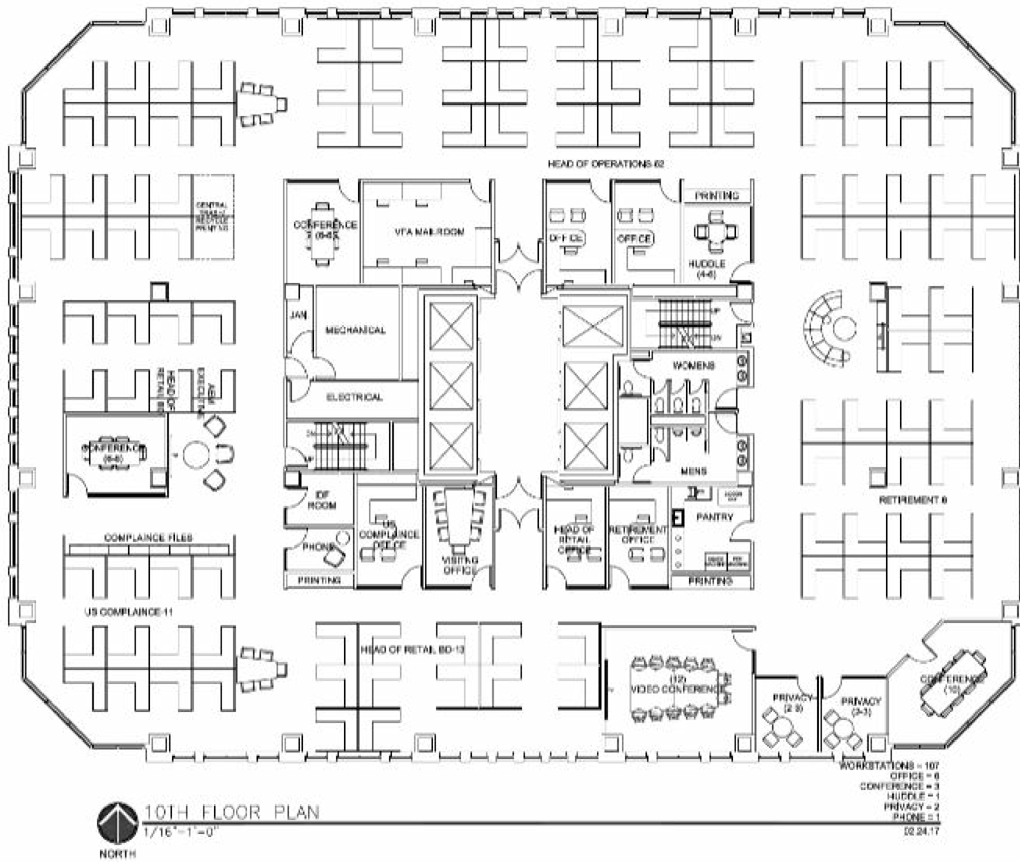

HEAD OF OPERATIONS 62
CONFERENCE (6-8)
VFA MAILROOM
OFFICE
OFFICE
PRINTING
HUDDLE (4-6)
JAN
MECHANICAL
ELECTRICAL
WOMENS
MENS
CONFERENCE (6-8)
IDF ROOM
PHONE
PRINTING
US COMPLIANCE OFFICE
VISITING OFFICE
HEAD OF RETAIL OFFICE
RETIREMENT OFFICE
PANTRY
PRINTING
RETIREMENT 6
COMPLAINCE FILES
US COMPLAINCE 11
HEAD OF RETAIL BD 13
(12) VIDEO CONFERENCE
PRIVACY (2-3)
PRIVACY (2-3)
CONFERENCE (10)
WORKSTATIONS = 107
OFFICE = 6
CONFERENCE = 3
HUDDLE = 1
PRIVACY = 2
PHONE = 1
02.24.17

10TH FLOOR PLAN
1/16"=1'-0"
NORTH

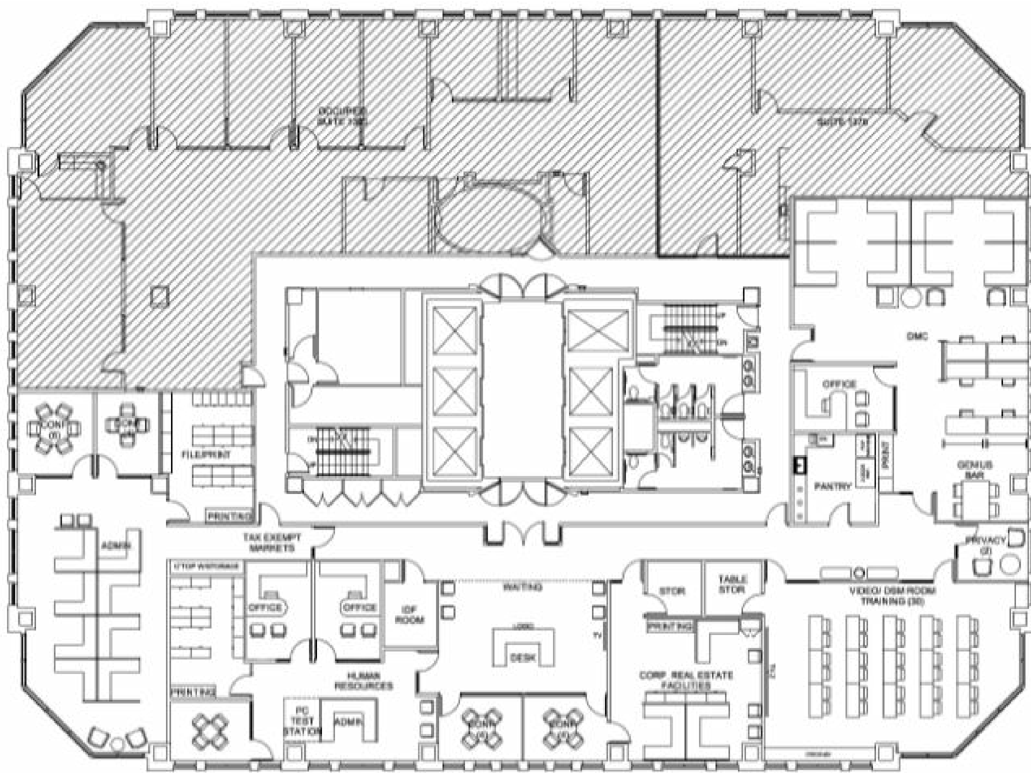

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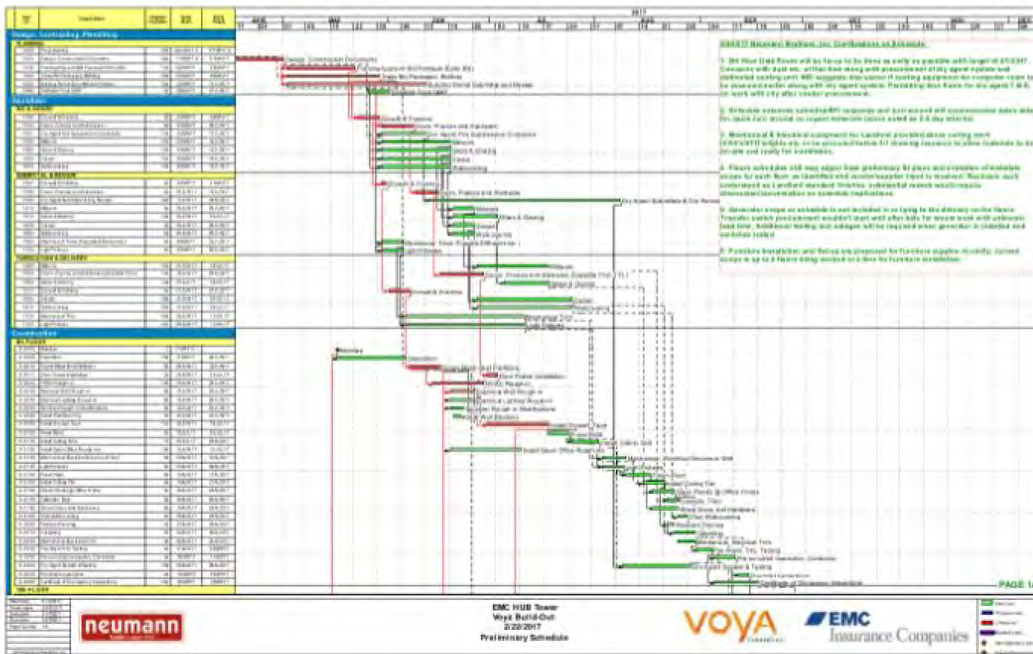
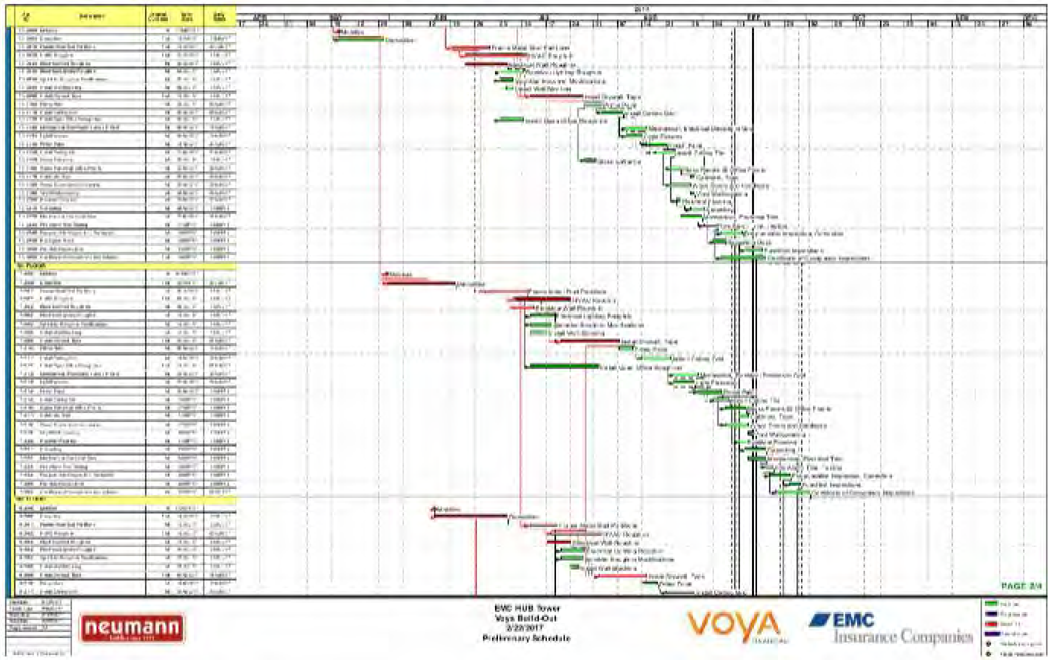
EXHIBIT H-2

CONSTRUCTION SCHEDULE





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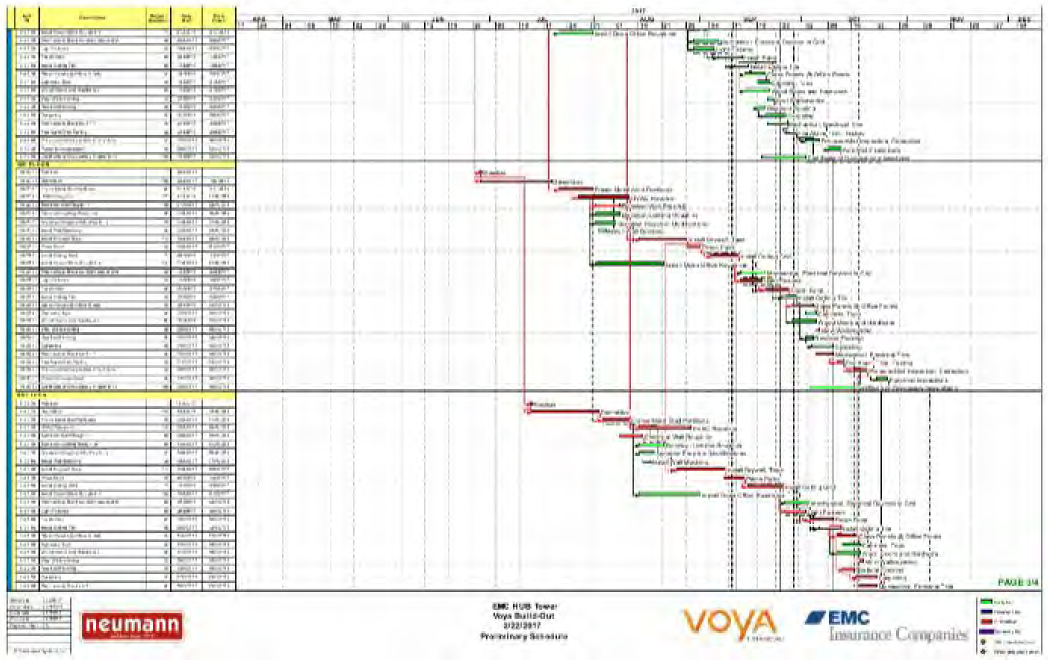
PAGE 3/4
neumann
EMC HUB Tower
Voya Build-Out
2/22/2017
Preliminary Schedule
VOYA
EMC
Insurance Companies

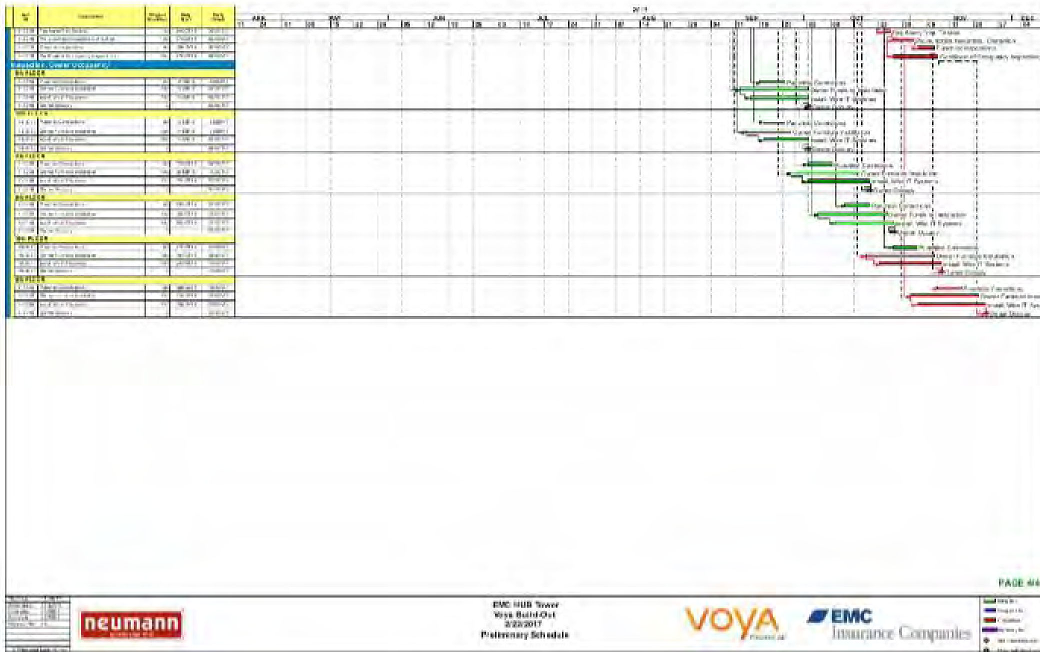

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EXHIBIT H-3

BASE BUILDING WORK
INCLUDING RESTROOM AND ELEVATOR LOBBY UPGRADES

DESIGN / CONSTRUCTION RESPONSIBILITIES BY TENANT AND LANDLORD

Landlord Responsibilities Design and Construction of the following.
Building Core
Building Standard Elevator Lobby
Building Standard Restrooms, Drinking Fountain, and Janitor Closet
Office, Conference, Etc.
Demolition of existing
Building Standard Ceiling and Grid
Building Standard Window Blinds

Design and install Variable Air Volume units, Ductwork, Diffusers and Ductwork

Building Automation System controls for all HVAC zones
Each typical open office or general office zone to be sized to 1,500-2,000 square feet. Offices should be configured to have no more than 4-5 typical 150 square foot offices per zone. Other rooms, including large conference and pantries should have individual zones. Other smaller "like use" rooms with a similar HVAC profile (i.e. air flow/temperature balance) may be grouped on a common zone where practical.
The following HVAC upgrades will be made by Landlord:
Removing inlet vanes at the air handling units.
Replacing fan motors.
Installing variable frequency drives to allow for varying airflow.
Replacing VAV boxes and electric reheat coils with new.
Electric reheat coils upgraded to SCR type control from staged type.
Replacing all VAV controls with wireless type (Johnson Controls). All controls will be Direct Digital Control.
Making sure the openings above the ceiling are adequate to allow smoke to travel to the two smoke collection points on each floor for evacuation out of the building in the event of a fire. Prior to occupancy on each floor, the smoke evacuation system is tested and a report submitted to the City.
Intent of the design is to meet first class HVAC design standards for commercial office space.

Building Standard 2x2 LED Lighting and Open Plan Office Lighting Controls

Normal Power Electrical Panels

Emergency Power required by Building Code (Egress Lighting, Stairwell Pressurization, etc.)

Building Standard Security Systems
Building Standard Fire Sprinklers, Fire Detection,
Design and Construction of the following:
Difference in cost from Building Standard

Tenant Responsibilities
Building Core

Office, Conference, Etc.
Difference in cost from Building Standard for Ceiling, Lighting, Window Sills and Shades. Landlord to reimburse Tenant for cost associated with the design of the reflective ceiling plan design

Wall construction of partial height, ceiling height or above ceiling height
Doors and Hardware
Floor finishes and required floor preparation
Glycol System connections

Plumbing outside existing Restrooms, Janitor and Drinking Fountain

Power Distribution to all receptacles and other loads beyond building standard
Emergency Power beyond building standard (subject to allocations pursuant to Section 35). Tenant shall be responsible for its Tenant specific transfer switches and UPS costs, including associated maintenance obligations.
Circuiting
Uninterruptable Power
Lighting Control for offices, conference rooms, separate spaces
Telephone/Data distribution to floor locations
Telephone/Data riser through building
Audio Visual
Sound Masking

Security Systems required by Tenant

DEFINITION OF TENANT IMPROVEMENTS

Relative to the preparation of the Premises, the following items represent those Tenant Improvement cost items to which the TI allowance shall apply (i.e., items that are Tenant's cost in the preparation of space):

TENANT COSTS (labor & materials)

Category	Ref	Item	Yes	No
SOFT, MISC.	1	Permitting, inspections and certificates of occupancy.	X	
	2	Architectural and engineering relating to the Premises and applicable Base Building system integration. If Landlord's architect is selected.		X
	3	Permit expediting, if necessary.	X	
	4	Contractor overhead, profit & general conditions.	X	
FINISHES	5	Floor finishes and base boards.	X	
	6	Interior partition finishes.	X	
	7	Door finishing.	X	
	8	Door frame painting.	X	
DOORS	9	Interior doors, frames & hardware.	X	
CEILING	10	Ceiling tiles labor and materials (LL to provide building specs)		X
	11	Ceiling grid adjustments to conform to Tenant's plans. (LL to provide building specs)		X
PARTITIONS	12	Interior partitions (including insulation).	X	
	13	½ of demising & corridor walls (including insulation).		X
HVAC*	14	HVAC ductwork, and VAV units and diffuser adjustments to conform to Tenant's plans.		X
Per building standard calcs.	15	HVAC air balancing.		X
	16	Modifications and adjustments to HVAC controls to adjust to Tenant's plans.		X
	17	Intentionally deleted.		
	18	Connection interface for Tenant supplementary cooling requirements.		X
ELECTRICAL	19	Light fixtures and lenses (labor and materials) (LL to provide building specs for LED lights)		X
	20	Light fixtures and lenses in excess of 1 per 80 RSF of space leased. (LL to provide building specs for LED lights)		X
	21	Light switches (new only).	X	
	22	Live electrical outlets and related conduit (new only).	X	
	23	Telephone receptacles (new only) and related conduit.	X	
PLUMBING	24	Relocation of sprinkler heads (if applicable) to conform to Tenant's plans.		X
	25	Plumbing work (new) beyond Base Building stub-outs.	X	
MILLWORK	26	Millwork & casework (new only).	X	

Base Building costs outlined on ensuing page.

Cost items (Base Building oriented) incurred by Landlord during built-out process:

LANDLORD COSTS (if applicable during the build-out process)

Category	Ref	Item	Yes	No
MISC	26	All existing or pre-existing improvements (only labor for any adjustment thereto to be Tenant's cost).	X	
CEILING	27	Main ceiling grid labor and materials (24"x24" concealed spine); all ceiling tiles stock-piled in the Premises.	X	
CORE	28	All exterior window treatment.	X	
	29	Finished common areas including lobbies, corridors, toilet areas, elevators, elevator rooms, janitor closets, electric/mechanical/plumbing closets, fire stairwells, all exterior work - all such improvements to meet ADA compliance.	X	
	30	Overall ADA compliance for common areas and Base Building components (including all rest rooms).	X	
HVAC	31	HVAC capacity, including fresh air per ASHRAE Standard 62-89 criteria, allowing for a total average of 6 watts per USF for lighting and general utility power, with Tenant occupancy averaging 1 person per 130 USF and so long as Tenant operates and installs equipment with a connected load of no more than 4 watts per USF of space leased. Landlord will provide building standard - Please define building standard: __	X	
	32	All medium and large velocity HVAC ductwork including items specified in 14-18 above.	X	
FIRE, LIFE SAFETY	33	Automatic fire protection system (concealed sprinkler heads) in conformance with NFPA 13 and local requirements.	X	
	34	Fire/life safety alarm system in conformance with NFPA 72, NFPA 101, ADA & local requirements.	X	
	35	Exit and emergency light fixtures, including additional fire alarm devices caused by Tenant's Work (devices only, no system improvements) to accommodate Tenant configuration. Landlord to provide all floors fireproofed and with appropriate fire stopping.		X
STRUCTURAL	36	Live floor loading of 70 pounds per RSF leased, which includes the weight of partitions.	X	
	37	Floor slabs with smooth surface ready for carpet or tile installation, leveled to a tolerance of 1/8" of a 10' radius (non-cumulative). Maximum deviation not to exceed 1.5" between any two points on the floor. Landlord shall review existing floor surfaces. If floor surfaces do not meet commercially reasonable standards then Landlord shall repair at Landlord's sole cost. The intent of this section is not to require Landlord to resurface the floors entirely but to ensure floors meet commercially reasonable standards.	X	
PARTITIONS	38	For 1st generation space: Interior surfaces of exterior walls and support columns finished in drywall (taped, blocked and skinned).	N/A	
	39	All exterior wall and slab insulation.	N/A	
ELECTRICAL	40	. Landlord will provide building standard. Reference Section 41 of RFP document above.	X	
	41	All electric and telecommunication risers serving Base Building electrical closets.	X	
PLUMBING	42	For 1st generation space: Plumbing connections "roughed in" and available for vent and hot/cold water at wet columns.	N/A	

ENVIRONMENTAL	43	Any/all Environmental Hazardous Material (EHM) material removal (including asbestos).	X	
DEMOLITION		Premises will be delivered demolished. Columns, core, and exterior walls to be provided sheet rocked and ready to receive paint.	X	
Restroom Upgrades	44	Landlord shall, at Landlord's cost upgrade the restrooms as follows: • Upgrade the counter tops with composite material. • Replace all fixtures with hands-free fixtures (including towel dispenser). • Vinyl wall covering to be consistent with recently upgraded restrooms in the Building	X	
Elevator Lobby Upgrades	45	Landlord shall, at Landlord's sole cost upgrade the elevator lobbies as follows: • Tile floor - LL will provide allowance for standard lobby floor covering, Tenant will pay the upgrade portion for tile. • Landlord will provide fire doors as required by Code. Tenant may provide at its expense (subject to Tenant Improvement Allowance) 2 double-entry wood doors with sidelights in either door or adjacent wall located in the elevator lobbies. • New lighting to building standard • Wall covering to building standard to be approved by Tenant Finish scheduled for the above Landlord's Rest Rooms and Elevator Lobby Upgrades in items 44 & 45 (including allowances as necessary) shall be agreed to prior to lease signing and be confirmed in a lease exhibit.	X	

EXHIBIT I

STORAGE AREA

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Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

Form	Registration Number	Prospectus
S-3	333-203648	Voya Fixed Account I
S-3	333-203651	Voya Fixed Account II
S-3	333-203650	Voya SmartDesign Guaranteed Account
S-3	333-203649	Voya GoldenSelect Guarantee Annuity
S-3	333-203647	Voya SmartDesign Multi-Rate Index Annuity
S-3	333-196392	Potential Plus Indexed Variable Annuity

of our reports dated March 16, 2017, with respect to the financial statements and schedules of Voya Insurance and Annuity Company included in this Annual Report (Form 10-K) for the year ended December 31, 2016.

/s/Ernst & Young LLP

Boston, Massachusetts

March 16, 2017

Exhibit 31.1

CERTIFICATION

I, David P. Wiland, certify that:

1. I have reviewed this annual report on Form 10-K of Voya Insurance and Annuity Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2017

By: /s/ David P. Wiland

David P. Wiland
Senior Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

Exhibit 31.2

CERTIFICATION

I, Carolyn M. Johnson, certify that:

1. I have reviewed this annual report on Form 10-K of Voya Insurance and Annuity Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2017

By: /s/ Carolyn M. Johnson

Carolyn M. Johnson
President
(Duly Authorized Officer and Principal Officer)

Exhibit 32.1

CERTIFICATION

Pursuant to 18 U.S.C. §1350, the undersigned officer of Voya Insurance and Annuity Company (the "Company") hereby certifies that, to the officer's knowledge, the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (the "Report") fully complies with the requirements of Section 13 or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 16, 2017	By:	/s/ David P. Wiland
(Date)		David P. Wiland
		Senior Vice President and
		Chief Financial Officer

Exhibit 32.2

CERTIFICATION

Pursuant to 18 U.S.C. §1350, the undersigned officer of Voya Insurance and Annuity Company (the "Company") hereby certifies that, to the officer's knowledge, the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (the "Report") fully complies with the requirements of Section 13 or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 16, 2017	By:	/s/ Carolyn M. Johnson
(Date)		Carolyn M. Johnson
		President

<u>Exhibit I</u>

Unaudited Financial Statements of the Apollo Individual Applicants, the Crestview Individual Applicants and the Reverence Individual Applicants

Submitted confidentially under separate cover.