LINCOLN NATIONAL CORP
Form 10-Q
August 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2017

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number: 1-6028

LINCOLN NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Indiana (State or other jurisdiction of incorporation or organization)	35-1140070 (I.R.S. Employer Identification No.)
150 N. Radnor Chester Road, Suite A305, Radnor, Pennsylvania (Address of principal executive offices)	19087 (Zip Code)

(484) 583-1400

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 31, 2017, there were 221,444,368 shares of the registrant's common stock outstanding.

Lincoln National Corporation

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	As of June 30, 2017 (Unaudited)	As of December 31, 2016
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2017 – $86,194; 2016 – $84,287)	$ 93,014	$ 89,013
Variable interest entities’ fixed maturity securities (amortized cost: 2017 – $0; 2016 – $200)	-	200
Equity securities (cost: 2017 – $262; 2016 – $260)	275	275
Trading securities	1,678	1,712
Mortgage loans on real estate	10,023	9,889
Real estate	23	24
Policy loans	2,416	2,451
Derivative investments	1,054	927
Other investments	2,156	2,230
Total investments	110,639	106,721
Cash and invested cash	1,978	2,722
Deferred acquisition costs and value of business acquired	8,555	9,134
Premiums and fees receivable	365	430
Accrued investment income	1,082	1,062
Reinsurance recoverables	5,228	5,265
Funds withheld reinsurance assets	607	617
Goodwill	2,273	2,273
Other assets	5,099	5,006
Separate account assets	135,825	128,397
Total assets	$ 271,651	$ 261,627
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities		
Future contract benefits	$ 22,293	$ 21,576
Other contract holder funds	79,216	78,903
Short-term debt	450	-
Long-term debt	4,901	5,345
Reinsurance related embedded derivatives	53	53
Funds withheld reinsurance liabilities	1,862	1,976
Deferred gain on business sold through reinsurance	2	24
Payables for collateral on investments	4,952	4,995

Other liabilities	6,101	5,880
Separate account liabilities	135,825	128,397
Total liabilities	255,655	247,149
Contingencies and Commitments (See Note 8)		
Stockholders' Equity		
Preferred stock – 10,000,000 shares authorized	-	-
Common stock – 800,000,000 shares authorized; 222,237,262 and 226,335,105 shares issued and outstanding as of June 30, 2017, and December 31, 2016, respectively	5,774	5,869
Retained earnings	7,511	7,043
Accumulated other comprehensive income (loss)	2,711	1,566
Total stockholders' equity	15,996	14,478
Total liabilities and stockholders' equity	$ 271,651	$ 261,627

See accompanying Notes to Consolidated Financial Statements

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LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in millions, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues				
Insurance premiums	$ 801	$ 728	$ 1,608	$ 1,544
Fee income	1,393	1,288	2,747	2,523
Net investment income	1,262	1,199	2,499	2,371
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(4)	(36)	(8)	(92)
Portion of loss recognized in other comprehensive income	-	8	-	28
Net other-than-temporary impairment losses on securities recognized in earnings	(4)	(28)	(8)	(64)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	(6)	(17)	(41)	(95)
Total realized gain (loss)	(10)	(45)	(49)	(159)
Amortization of deferred gain on business sold through reinsurance	4	18	22	37
Other revenues	127	119	250	235
Total revenues	3,577	3,307	7,077	6,551
Expenses				
Interest credited	646	639	1,293	1,272
Benefits	1,287	1,208	2,578	2,540
Commissions and other expenses	1,034	978	2,048	1,953
Interest and debt expense	63	68	127	136
Strategic digitization expense	14	-	23	-
Total expenses	3,044	2,893	6,069	5,901
Income (loss) before taxes	533	414	1,008	650
Federal income tax expense (benefit)	122	89	162	114
Net income (loss)	411	325	846	536
Other comprehensive income (loss), net of tax	864	1,264	1,145	2,350
Comprehensive income (loss)	$ 1,275	$ 1,589	$ 1,991	$ 2,886
Net Income (Loss) Per Common Share				
Basic	$ 1.84	$ 1.37	$ 3.77	$ 2.24
Diluted	1.81	1.35	3.70	2.18
Cash Dividends Declared Per Common Share	$ 0.29	$ 0.25	$ 0.58	$ 0.50

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited, in millions, except per share data)

	For the Six Months Ended June 30, 2017	2016
Common Stock		
Balance as of beginning-of-year	$ 5,869	$ 6,298
Stock compensation/issued for benefit plans	58	11
Retirement of common stock/cancellation of shares	(153)	(303)
Balance as of end-of-period	5,774	6,006
Retained Earnings		
Balance as of beginning-of-year	7,043	6,474
Net income (loss)	846	536
Retirement of common stock	(247)	(172)
Common stock dividends declared	(131)	(119)
Balance as of end-of-period	7,511	6,719
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	1,566	845
Other comprehensive income (loss), net of tax	1,145	2,350
Balance as of end-of-period	2,711	3,195
Total stockholders' equity as of end-of-period	$ 15,996	$ 15,920

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in millions)

	For the Six Months Ended June 30, 2017	2016
Cash Flows from Operating Activities		
Net income (loss)	$ 846	$ 536
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads deferrals and interest, net of amortization	30	(17)
Trading securities purchases, sales and maturities, net	60	113
Change in premiums and fees receivable	65	6
Change in accrued investment income	(20)	-
Change in future contract benefits and other contract holder funds	(864)	5
Change in reinsurance related assets and liabilities	(92)	(347)
Change in accrued expenses	(96)	(180)
Change in federal income tax accruals	162	(3)
Realized (gain) loss	49	159
Amortization of deferred gain on business sold through reinsurance	(22)	(37)
Other	84	301
Net cash provided by (used in) operating activities	202	536
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(5,513)	(5,727)
Sales of available-for-sale securities	842	2,068
Maturities of available-for-sale securities	2,840	2,579
Purchases of alternative investments	(124)	(129)
Sales and repayments of alternative investments	100	95
Issuance of mortgage loans on real estate	(705)	(956)
Repayment and maturities of mortgage loans on real estate	571	376
Issuance and repayment of policy loans, net	34	38
Net change in collateral on investments and derivatives	(12)	1,474
Other	(37)	(58)
Net cash provided by (used in) investing activities	(2,004)	(240)
Cash Flows from Financing Activities		
Proceeds from sales leaseback transaction	45	-
Deposits of fixed account values, including the fixed portion of variable	5,216	5,015
Withdrawals of fixed account values, including the fixed portion of variable	(2,934)	(2,769)
Transfers to and from separate accounts, net	(770)	(967)
Common stock issued for benefit plans	33	(11)

Repurchase of common stock	(400)	(475)
Dividends paid to common stockholders	(132)	(122)
Net cash provided by (used in) financing activities	1,058	671
Net increase (decrease) in cash and invested cash	(744)	967
Cash and invested cash as of beginning-of-year	2,722	3,146
Cash and invested cash as of end-of-period	$ 1,978	$ 4,113

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Lincoln National Corporation and its majority-owned subsidiaries ("LNC" or the "Company," which also may be referred to as "we," "our" or "us") operate multiple insurance businesses through four business segments. See Note 13 for additional details. The collective group of businesses uses "Lincoln Financial Group" as its marketing identity. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products and solutions. These products include fixed and indexed annuities, variable annuities, universal life insurance ("UL"), variable universal life insurance ("VUL"), linked-benefit UL, indexed universal life insurance ("IUL"), term life insurance, employer-sponsored retirement plans and services, and group life, disability and dental.

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for the Securities and Exchange Commission ("SEC") Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, the information contained in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 ("2016 Form 10-K"), should be read in connection with the reading of these interim unaudited consolidated financial statements.

Certain GAAP policies, which significantly affect the determination of financial condition, results of operations and cash flows, are summarized in our 2016 Form 10-K.

Certain amounts reported in prior year's consolidated financial statements have been reclassified to conform to the presentation adopted in the current year. Specifically, we reclassified cash flows from certain investing activities into their own respective line items within the Consolidated Statements of Cash Flows. Previously, these amounts were reported within purchases of other investments or sales or maturities of other investments line items, as applicable, within cash flows from investing activities. These reclassifications had no effect on net income (loss), net cash provided by (used in) investing activities, or stockholders' equity for the prior year.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company's results. Operating results for the six month period ended June 30, 2017, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2017. All material inter-company accounts and transactions have been eliminated in consolidation.

2. New Accounting Standards

Adoption of New Accounting Standards

The following table provides a description of our adoption of new Accounting Standard Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB") and the impact of the adoption on our financial statements:

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships	The amendments clarify that a change in the counterparty to a derivative instrument identified in a hedging relationship in and of itself does not require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. We adopted the guidance in this ASU prospectively.	January 1, 2017	The adoption of this ASU did not have an effect on our consolidated financial condition or results of operations.
ASU 2016-06, Contingent Put and Call Options in Debt Instruments	The amendments clarify the requirements for assessing whether contingent call and put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. Upon adoption of this ASU, entities will be required to assess embedded call and put options solely in accordance with the four-step decision sequence that was developed by the FASB Derivatives Implementation Group. We adopted this ASU using a modified retrospective basis applied to existing debt instruments.	January 1, 2017	The adoption of this ASU did not have an effect on our consolidated financial condition or results of operations.

Future Adoption of New Accounting Standards

The following table provides a description of future adoptions of new accounting standards that may have an impact on our financial statements when adopted:

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2014-09, Revenue from Contracts with Customers & ASU 2015-14, Revenue from Contracts with Customers; Deferral of the Effective Date	This standard establishes the core principle of recognizing revenue to depict the transfer of promised goods and services. The amendments define a five-step process that systematically identifies the various components of the revenue recognition process, culminating with the recognition of revenue upon satisfaction of an entity's performance obligation. Retrospective application is required. After performing extensive outreach, the FASB decided to delay the effective date of ASU 2014-09 for one year.	January 1, 2018	Our primary revenue sources will continue to be recognized in accordance with ASC Topic 944, Financial Services – Insurance. Our analysis indicates that approximately $1 billion of our revenue reported in fee income and other revenue in our Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31, 2016, is within the scope of this ASU. We continue to evaluate the impact of adopting this ASU on our consolidated financial condition and results of operations.

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Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	These amendments require, among other things, the fair value measurement of investments in equity securities and certain other ownership interests that do not result in consolidation and are not accounted for under the equity method of accounting. The change in fair value of the impacted investments in equity securities must be recognized in net income. In addition, the amendments include certain enhancements to the presentation and disclosure requirements for financial assets and financial liabilities. Early adoption of the ASU is generally not permitted, except as defined in the ASU. The amendments should be adopted in the financial statements through a cumulative-effect adjustment to the beginning balance of retained earnings.	January 1, 2018	We hold equity securities and hybrid preferred securities classified as available-for-sale ("AFS") securities that are currently measured at fair value with changes in fair value recognized through other comprehensive income (loss) ("OCI"). We are currently evaluating these two classifications of securities to determine those securities that meet the definition of an equity security as defined in this ASU. See Note 4 for details regarding our equity and hybrid preferred securities currently classified as AFS.
ASU 2016-02, Leases	This standard establishes a new accounting model for leases. Lessees will recognize most leases on the balance sheet as a right-of-use asset and a related lease liability. The lease liability is measured as the present value of the lease payments over the lease term with the right-of-use asset measured at the lease liability amount and including adjustments for certain lease incentives and initial direct costs. Lease expense recognition will continue to differentiate between finance leases and operating leases resulting in a similar pattern of lease expense recognition as under current GAAP. This ASU permits a modified retrospective adoption approach that includes a number of optional practical expedients that entities may elect upon adoption. Early adoption is permitted.	January 1, 2019	We are currently identifying all of our leases that will be within the scope of this standard; as such, we continue to evaluate the quantitative impact of adopting this ASU on our Consolidated Balance Sheets. Based on our initial assessment, we do not expect there to be a significant difference in our pattern of lease expense recognition under this ASU.
ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net)	These amendments clarify the implementation guidance on principal versus agent considerations in ASU 2014-09, including how an entity should identify the unit of accounting for the principal versus agent evaluation. In addition, the amendments clarify how to apply the control principle to certain types of arrangements, such as service transactions, by explaining what a principal controls before the good or service is transferred to the customer. Transition requirements are consistent with ASU 2014-09.	January 1, 2018	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations. See comments under ASU 2014-09 for more information.
ASU 2016-10, Identifying Performance	These amendments clarify, among other things, the accounting guidance in ASU 2014-09 regarding how an entity will determine whether promised	January 1, 2018	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and

Obligations and Licensing	goods or services are separately identifiable, which is an important consideration in determining whether to account for goods or services as a separate performance obligation. Transition requirements are consistent with ASU 2014-09.	results of operations. See comments under ASU 2014-09 for more information.

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-12, Narrow Scope Improvements and Practical Expedients	The standard update amends the revenue recognition guidance in ASU 2014-09 related to transition, collectability, noncash consideration and the presentation of sales and other similar taxes. The amendments clarify that, for a contract to be considered completed at transition, substantially all of the revenue must have been recognized under current GAAP. The amendments also clarify how an entity should evaluate the collectability threshold and when an entity can recognize nonrefundable consideration received as revenue if an arrangement does not meet the standard's contract criteria. Transition requirements are consistent with ASU 2014-09.	January 1, 2018	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations. See comments under ASU 2014-09 for more information.
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	These amendments adopt a new model to measure and recognize credit losses for most financial assets. The method used to measure estimated credit losses for AFS debt securities will be unchanged from current GAAP; however, the amendments require credit losses to be recognized through an allowance rather than as a reduction to the amortized cost of those debt securities. The amendments will permit entities to recognize improvements in credit loss estimates on AFS debt securities by reducing the allowance account immediately through earnings. The amendments will be adopted through a cumulative effect adjustment to the beginning balance of retained earnings as of the first reporting period in which the amendments are effective. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein.	January 1, 2020	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations, with a primary focus on our fixed maturity securities (see Note 4). We currently reduce the amortized cost of the individual security when recognizing other-than-temporary impairment ("OTTI") on these securities. Upon adoption of ASU 2016-13, we will no longer reduce the amortized cost of each individual security; rather we will establish a valuation allowance, and any declines or improvements in credit quality will be recognized through the valuation allowance.
ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments	These amendments clarify the classification of eight specific cash flow issues in an entity's statement of cash flows where it was determined by the FASB that there is diversity in practice. Early adoption of the amendments is permitted, and retrospective transition is required for each period presented in the statement of cash flows.	January 1, 2018	We are currently evaluating these disclosure requirements and will amend classifications in our Consolidated Statements of Cash Flows upon adoption as applicable.
ASU 2016-16, Intra-Entity Asset Transfers	This amendment requires an entity to recognize current and deferred income taxes for an intra-entity asset transfer, other than inventory,	January 1, 2018	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of

Other Than Inventory	when the transfer occurs, thereby eliminating the current GAAP exception that prohibits the recognition of income taxes until the asset has been sold to an outside party. Early adoption is permitted as of the beginning of the annual reporting period for which financial statements have not been issued.	operations.

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Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-18, Restricted Cash	This amendment requires that amounts generally described as restricted cash and restricted cash equivalents should be included within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Early adoption is permitted using a retrospective transition method applied to each period presented.	January 1, 2018	We will provide these additional disclosures in our Consolidated Statements of Cash Flows upon the adoption date as applicable.
ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers	These amendments clarify 13 issues related to the adoption of ASU 2014-09. The most significant issue of these amendments for us is the clarification that all contracts within the scope of Topic 944 are excluded from the scope of ASU 2014-09, rather than just insurance contracts as described in ASU 2014-09. Transition requirements are consistent with ASU 2014-09.	January 1, 2018	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations. See comments under ASU 2014-09 for more information.
ASU 2017-04, Simplifying the Test for Goodwill Impairment	These amendments eliminate the requirement in current GAAP to perform Step 2 of the goodwill impairment test in favor of only applying Step 1. Under Step 1, the fair value of the reporting unit is compared with its carrying value, and an impairment charge is recognized when the carrying value exceeds the reporting unit's fair value. An entity still has the option to first perform a qualitative assessment of an individual reporting unit to determine if the quantitative assessment in Step 1 is necessary. ASU 2017-04 should be adopted prospectively, and early adoption is permitted on impairment testing dates after January 1, 2017.	Impairment tests performed after January 1, 2020	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.
ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	These amendments require that an entity report the service cost component of employee pension and postretirement benefit plans in the same line item as other compensation costs from services rendered by the applicable employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. ASU 2017-07 requires retrospective adoption related to the presentation of net periodic pension cost and postretirement benefit cost.	January 1, 2018	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.
ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities	These amendments require an entity to shorten the amortization period for certain callable debt securities held at a premium so that the premium is amortized to the earliest call date. Early adoption is permitted, and the ASU requires adoption under a modified retrospective basis through a cumulative-effect	January 1, 2019	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.

	adjustment to the beginning balance of retained earnings.		
ASU 2017-09, Compensation – Stock Compensation: Scope of Modification Accounting	These amendments provide guidance when changes to the terms or conditions of a share-based payment award would require modification accounting. An entity should account for the effects of a modification unless the following are the same immediately before and after the modification: (a) the fair value of the award, (b) the vesting conditions of the award and (c) the classification of the award as an equity instrument or a liability instrument. These amendments are to be applied prospectively to awards modified on or after the effective date. Early adoption is permitted.	January 1, 2018	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.

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3. Variable Interest Entities ("VIEs")

Consolidated VIEs

See Note 4 in our 2016 Form 10-K for a detailed discussion of our consolidated VIEs, which information is incorporated herein by reference.

As of March 2017 and December 2016, our $200 million and $400 million credit-linked notes ("CLNs") matured, respectively, and we no longer reflect the assets and liabilities associated with these VIEs on our Consolidated Balance Sheets or recognize the results of operations of these VIEs on our Consolidated Statements of Comprehensive Income (Loss). We no longer have any exposure related to these VIEs.

Asset and liability information (dollars in millions) for the consolidated VIEs included on our Consolidated Balance Sheets was as follows:

	As of June 30, 2017			As of December 31, 2016		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
Assets						
Fixed maturity securities:						
Asset-backed credit card loans (1)	N/A	$ -	$ -	N/A	$ -	$ 200
Total return swap	1	542	-	1	533	-
Credit default swaps	-	-	-	1	200	-
Total assets	1	$ 542	$ -	2	$ 733	$ 200

(1) Reported in variable interest entities' fixed maturity securities on our Consolidated Balance Sheets.

As of June 30, 2017, and December 31, 2016, we did not recognize any liabilities from consolidated VIEs on our Consolidated Balance Sheets. We did hold one contingent forward instrument as of December 31, 2016; however, the instrument had a zero notional and carrying value.

The gains (losses) for the consolidated VIEs (in millions) recorded on our Consolidated Statements of Comprehensive Income (Loss) were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Non-Qualifying Hedges				
Credit default swaps	$ -	$ (1)	$ -	$ 5
Contingent forwards	-	-	-	-
Total non-qualifying hedges (1)	$ -	$ (1)	$ -	$ 5

(1) Reported in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

Unconsolidated VIEs

See Note 4 in our 2016 Form 10-K for a detailed discussion of our unconsolidated VIEs, which information is incorporated herein by reference.

Limited Partnerships and Limited Liability Companies

We invest in certain limited partnerships ("LPs") and limited liability companies ("LLCs"), including qualified affordable housing projects, that we have concluded are VIEs. We do not hold any substantive kick-out or participation rights in the LPs and LLCs, and we do not receive any performance fees or decision maker fees from the LPs and LLCs. Based on our analysis of the LPs and LLCs, we are not the primary beneficiary of the VIEs as we do not have the power to direct the most significant activities of the LPs and LLCs.

The carrying amounts of our investments in the LPs and LLCs are recognized in other investments on our Consolidated Balance Sheets and were $1.4 billion and $1.3 billion as of June 30, 2017, and December 31, 2016, respectively. Included in these carrying amounts are our investments in qualified affordable housing projects, which were $34 million and $37 million as of June 30, 2017, and December 31, 2016, respectively. We do not have any contingent commitments to provide additional capital funding to these qualified affordable housing projects. We received returns from these qualified affordable housing projects in the form of income tax credits and other tax

benefits of $2 million for the six months ended June 30, 2017, and 2016, respectively, which were recognized in federal income tax expense (benefit) on our Consolidated Statements of Comprehensive Income (Loss).

Our exposure to loss is limited to the capital we invest in the LPs and LLCs, and there have been no indicators of impairment that would require us to recognize an impairment loss related to the LPs and LLCs as of June 30, 2017.

4. Investments

AFS Securities

See Note 1 in our 2016 Form 10-K for information regarding our accounting policy relating to AFS securities, which also includes additional disclosures regarding our fair value measurements.

The amortized cost, gross unrealized gains, losses and OTTI and fair value of AFS securities (in millions) were as follows:

	As of June 30, 2017				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI (1)	Value
Fixed maturity securities:					
Corporate bonds	$ 74,934	$ 6,108	$ 500	$ (6)	$ 80,548
Asset-backed securities ("ABS")	996	46	12	(20)	1,050
U.S. government bonds	536	44	2	-	578
Foreign government bonds	397	58	-	-	455
Residential mortgage-backed securities ("RMBS")	3,412	160	38	(18)	3,552
Commercial mortgage-backed securities ("CMBS")	466	10	2	(2)	476
Collateralized loan obligations ("CLOs")	697	4	2	(4)	703
State and municipal bonds	4,172	850	12	-	5,010
Hybrid and redeemable preferred securities	584	85	27	-	642
Total fixed maturity securities	86,194	7,365	595	(50)	93,014
Equity securities	262	19	6	-	275
Total AFS securities	$ 86,456	$ 7,384	$ 601	$ (50)	$ 93,289

	As of December 31, 2016				
	Amortized	Gross Unrealized		OTTI	Fair
	Cost	Gains	Losses	(1)	Value
Fixed maturity securities:					
Corporate bonds	$ 73,275	$ 4,754	$ 970	$ (5)	$ 77,064
ABS	1,047	39	14	(13)	1,085
U.S. government bonds	384	37	2	-	419
Foreign government bonds	449	58	1	-	506
RMBS	3,534	147	73	(6)	3,614
CMBS	345	8	4	(1)	350
CLOs	742	1	3	(4)	744
State and municipal bonds	3,929	718	20	-	4,627
Hybrid and redeemable preferred securities	582	70	48	-	604
VIEs' fixed maturity securities	200	-	-	-	200
Total fixed maturity securities	84,487	5,832	1,135	(29)	89,213
Equity securities	260	19	4	-	275
Total AFS securities	$ 84,747	$ 5,851	$ 1,139	$ (29)	$ 89,488

(1) Includes unrealized (gains) and losses on impaired securities related to changes in the fair value of such securities subsequent to the impairment measurement date.

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) as of June 30, 2017, were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 3,559	$ 3,750
Due after one year through five years	16,854	18,006
Due after five years through ten years	15,756	16,742
Due after ten years	44,454	48,735
Subtotal	80,623	87,233
Structured securities (ABS, MBS, CLOs)	5,571	5,781
Total fixed maturity AFS securities	$ 86,194	$ 93,014

Actual maturities may differ from contractual maturities because issuers may have the right to call or pre-pay obligations.

The fair value and gross unrealized losses, including the portion of OTTI recognized in OCI, of AFS securities (dollars in millions), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	As of June 30, 2017					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed maturity securities:						
Corporate bonds	$ 8,521	$ 223	$ 2,417	$ 279	$ 10,938	$ 502
ABS	84	3	260	21	344	24
U.S. government bonds	172	2	-	-	172	2
RMBS	805	35	146	5	951	40
CMBS	92	2	8	2	100	4
CLOs	227	2	19	-	246	2
State and municipal bonds	132	7	47	5	179	12
Hybrid and redeemable preferred securities	22	1	151	26	173	27
Total fixed maturity securities	10,055	275	3,048	338	13,103	613

Equity securities		10		4		15		1		25		5
Total AFS securities	$	10,065	$	279	$	3,063	$	339	$	13,128	$	618
Total number of AFS securities in an unrealized loss position												1,155

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	As of December 31, 2016					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed maturity securities:						
Corporate bonds	$ 15,820	$ 569	$ 3,187	$ 403	$ 19,007	$ 972
ABS	201	4	298	25	499	29
U.S. government bonds	18	2	-	-	18	2
Foreign government bonds	29	1	-	-	29	1
RMBS	989	58	392	23	1,381	81
CMBS	190	4	19	2	209	6
CLOs	259	3	25	-	284	3
State and municipal bonds	227	12	47	8	274	20
Hybrid and redeemable preferred securities	76	4	143	44	219	48
Total fixed maturity securities	17,809	657	4,111	505	21,920	1,162
Equity securities	4	2	44	2	48	4
Total AFS securities	$ 17,813	$ 659	$ 4,155	$ 507	$ 21,968	$ 1,166
Total number of AFS securities in an unrealized loss position						1,744

The fair value, gross unrealized losses, the portion of OTTI recognized in OCI (in millions) and number of AFS securities where the fair value had declined and remained below amortized cost by greater than 20% were as follows:

	As of June 30, 2017			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 64	$ 26	$ -	21
Six months or greater, but less than nine months	41	14	-	5
Nine months or greater, but less than twelve months	2	1	1	3
Twelve months or greater	253	110	9	51

Total	$ 360	$ 151	$ 10	80

	As of December 31, 2016			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 174	$ 52	$ 2	19
Nine months or greater, but less than twelve months	1	1	-	2
Twelve months or greater	364	167	10	62
Total	$ 539	$ 220	$ 12	83

(1) We may reflect a security in more than one aging category based on various purchase dates.

We regularly review our investment holdings for OTTI. Our gross unrealized losses, including the portion of OTTI recognized in OCI, on AFS securities decreased by $548 million for the six months ended June 30, 2017. As discussed further below, we believe the unrealized loss position as of June 30, 2017, did not represent OTTI as (i) we did not intend to sell these fixed maturity AFS securities; (ii) it is not more likely than not that we will be required to sell these fixed maturity AFS securities before recovery of their amortized cost basis; (iii) the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities; and (iv) we had the ability and intent to hold the equity AFS securities for a period of time sufficient for recovery.

Based upon this evaluation as of June 30, 2017, management believes we have the ability to generate adequate amounts of cash from our normal operations (e.g., insurance premiums and fees and investment income) to meet cash requirements with a prudent margin of safety without requiring the sale of our temporarily-impaired securities.

As of June 30, 2017, the unrealized losses associated with our corporate bond securities were attributable primarily to widening credit spreads and rising interest rates since purchase. We performed a detailed analysis of the financial performance of the underlying issuers and determined that we expected to recover the entire amortized cost for each temporarily-impaired security.

As of June 30, 2017, the unrealized losses associated with our mortgage-backed securities ("MBS") and ABS were attributable primarily to widening credit spreads and rising interest rates since purchase. We assessed for credit impairment using a cash flow model that incorporates key assumptions including default rates, severities and prepayment rates. We estimated losses for a security by forecasting the underlying loans in each transaction. The forecasted loan performance was used to project cash flows to the various tranches in the structure, as applicable. Our forecasted cash flows also considered, as applicable, independent industry analyst reports and forecasts and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to our subordination or other credit enhancement, we expected to recover the entire amortized cost of each temporarily-impaired security.

As of June 30, 2017, the unrealized losses associated with our hybrid and redeemable preferred securities were attributable primarily to wider credit spreads caused by illiquidity in the market and subordination within the capital structure, as well as credit risk of underlying issuers. For our hybrid and redeemable preferred securities, we evaluated the financial performance of the underlying issuers based upon credit performance and investment ratings and determined that we expected to recover the entire amortized cost of each temporarily-impaired security.

Changes in the amount of credit loss of OTTI recognized in net income (loss) where the portion related to other factors was recognized in OCI (in millions) on fixed maturity AFS securities were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Balance as of beginning-of-period	$ 393	$ 413	$ 430	$ 382
Increases attributable to:				
Credit losses on securities for which an OTTI was not previously recognized	4	26	5	61
Credit losses on securities for which an OTTI was previously recognized	-	2	3	7
Decreases attributable to:				
Securities sold, paid down or matured	(7)	(10)	(48)	(19)

Balance as of end-of-period	$ 390	$ 431	$ 390	$ 431

During the six months ended June 30, 2017 and 2016, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover the entire amortized cost basis of the debt security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

- Failure of the issuer of the security to make scheduled payments;
- Deterioration of creditworthiness of the issuer;
- Deterioration of conditions specifically related to the security;
- Deterioration of fundamentals of the industry in which the issuer operates; and
- Deterioration of the rating of the security by a rating agency.

We recognize the OTTI attributed to the noncredit portion as a separate component in OCI referred to as unrealized OTTI on AFS securities.

Details of the amount of credit loss of OTTI recognized in net income (loss) for which a portion related to other factors was recognized in OCI (in millions), were as follows:

	As of June 30, 2017			
	Amortized Cost	Net Unrealized Gain/(Loss) Position	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 22	$ 6	$ 28	$ 43
ABS	199	20	219	112
RMBS	292	18	310	188
CMBS	18	2	20	39
CLOs	11	4	15	5
State and municipal bonds	-	-	-	3
Total	$ 542	$ 50	$ 592	$ 390

	As of December 31, 2016			
	Amortized Cost	Net Unrealized Gain/(Loss) Position	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 80	$ 5	$ 85	$ 77
ABS	212	13	225	112
RMBS	332	6	338	194
CMBS	29	1	30	39
CLOs	11	4	15	5
State and municipal bonds	2	-	2	3
Total	$ 666	$ 29	$ 695	$ 430

Mortgage Loans on Real Estate

See Note 1 in our 2016 Form 10-K for information regarding our accounting policy relating to mortgage loans on real estate.

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California and Texas, which accounted for 20% and 11%, respectively, of mortgage loans on real estate as of June 30, 2017, and December 31, 2016.

The following provides the current and past due composition of our mortgage loans on real estate (in millions):

	As of June 30, 2017	As of December 31, 2016
Current	$ 10,023	$ 9,888
60 to 90 days past due	-	-
Greater than 90 days past due	2	2
Valuation allowance associated with impaired mortgage loans on real estate	(2)	(2)
Unamortized premium (discount)	-	1
Total carrying value	$ 10,023	$ 9,889

The number of impaired mortgage loans on real estate, each of which had an associated specific valuation allowance, and the carrying value of impaired mortgage loans on real estate (dollars in millions) were as follows:

	As of June 30, 2017	As of December 31, 2016
Number of impaired mortgage loans on real estate	2	2
Principal balance of impaired mortgage loans on real estate	$ 7	$ 7
Valuation allowance associated with impaired mortgage loans on real estate	(2)	(2)
Carrying value of impaired mortgage loans on real estate	$ 5	$ 5

The changes in the valuation allowance associated with impaired mortgage loans on real estate (in millions) were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Balance as of beginning-of-period	$ 2	$ 2	$ 2	$ 2
Additions	-	-	-	-
Charge-offs, net of recoveries	-	-	-	-
Balance as of end-of-period	$ 2	$ 2	$ 2	$ 2

Additional information related to impaired mortgage loans on real estate (in millions) was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Average carrying value for impaired mortgage loans on real estate	$ 5	$ 6	$ 5	$ 6
Interest income recognized on impaired mortgage loans on real estate	-	-	-	-
Interest income collected on impaired mortgage loans on real estate	-	-	-	-

As described in Note 1 in our 2016 Form 10-K, we use the loan-to-value and debt-service coverage ratios as credit quality indicators for our mortgage loans, which were as follows (dollars in millions):

	As of June 30, 2017			As of December 31, 2016		
Loan-to-Value Ratio	Carrying Value	% of Total	Debt-Service Coverage Ratio	Carrying Value	% of Total	Debt-Service Coverage Ratio

Less than 65%	$ 8,993	89.7%	2.22	$ 8,709	88.0%	2.16
65% to 74%	892	8.9%	1.89	1,009	10.2%	1.87
75% to 100%	133	1.3%	0.82	166	1.7%	0.82
Greater than 100%	5	0.1%	1.04	5	0.1%	1.04
Total mortgage loans on real estate	$ 10,023	100.0%		$ 9,889	100.0%	

Alternative Investments

As of June 30, 2017, and December 31, 2016, alternative investments included investments in 206 and 202 different partnerships, respectively, and the portfolios represented approximately 1% of our overall invested assets.

Realized Gain (Loss) Related to Certain Investments

The detail of the realized gain (loss) related to certain investments (in millions) was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Fixed maturity AFS securities: (1)				
Gross gains	$ 3	$ 7	$ 11	$ 61
Gross losses	(13)	(65)	(25)	(163)
Equity AFS securities:				
Gross gains	-	2	1	2
Gross losses	-	(1)	-	(1)
Gain (loss) on other investments	(2)	(3)	(5)	(63)
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(6)	(5)	(13)	(8)
Total realized gain (loss) related to certain investments, pre-tax	$ (18)	$ (65)	$ (31)	$ (172)

(1) These amounts are represented net of related fair value hedging activity. See Note 5 for more information.

Details underlying write-downs taken as a result of OTTI (in millions) that were recognized in net income (loss) and included in realized gain (loss) on AFS securities above, and the portion of OTTI recognized in OCI (in millions) were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
OTTI Recognized in Net Income (Loss)				
Fixed maturity securities:				
Corporate bonds	$ (4)	$ (26)	$ (5)	$ (62)
ABS	-	(1)	(1)	(3)
RMBS	-	(1)	(1)	(3)
State and municipal bonds	-	-	(1)	-
Total fixed maturity securities	(4)	(28)	(8)	(68)
Equity securities	-	(1)	-	(1)
Gross OTTI recognized in net income (loss)	(4)	(29)	(8)	(69)
Associated amortization of DAC, VOBA, DSI and DFEL	-	1	-	5
Net OTTI recognized in net income (loss), pre-tax	$ (4)	$ (28)	$ (8)	$ (64)
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$ -	$ 10	$ -	$ 36
Change in DAC, VOBA, DSI and DFEL	-	(2)	-	(8)
Net portion of OTTI recognized in OCI, pre-tax	$ -	$ 8	$ -	$ 28

Determination of Credit Losses on Corporate Bonds and ABS

As of June 30, 2017, and December 31, 2016, we reviewed our corporate bond and ABS portfolios for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. The factors used to determine the amount of credit loss for each individual security, include, but are not limited to, near term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers.

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service ("Moody's"), are generally considered by the rating agencies and market participants to be low credit risk. As of June 30, 2017, and December 31, 2016, 96% and 95%, respectively, of the fair value of our corporate bond portfolio was rated investment grade. As of June 30, 2017, and December 31, 2016, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $3.5 billion and $3.8 billion, respectively, and a fair value of $3.4 billion and $3.7 billion, respectively. As of June 30, 2017, and December 31, 2016, 96% of the fair value of our ABS portfolio was rated investment grade. As of June 30, 2017, and December 31, 2016, the portion of our ABS portfolio rated below investment grade had an amortized cost of $86 million and $91 million, respectively, and a fair value of $73 million and $75 million, respectively. Based upon the analysis discussed above, we believe as of June 30, 2017, and December 31, 2016, that we would recover the amortized cost of each fixed maturity security.

Determination of Credit Losses on MBS

As of June 30, 2017, and December 31, 2016, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between 10% to 100% depending on loan type and severity of delinquency status. In addition, we estimate the potential contributions of currently performing loans that may become delinquent in the future based on the change in delinquencies and loan liquidations experienced in the recent history. Finally, we develop a default rate timing curve by aggregating the defaults for all loans in the pool (delinquent loans, foreclosure and real estate owned and new delinquencies from currently performing loans) and the associated loan-level loss severities.

We use certain available loan characteristics such as lien status, loan sizes and occupancy to estimate the loss severity of loans. Second lien loans are assigned 100% severity, if defaulted. For first lien loans, we assume a minimum of 30% severity with higher severity assumed for investor properties and further adjusted by housing price assumptions. With the default rate timing curve and loan-level loss severity, we derive the future expected credit losses.

Payables for Collateral on Investments

The carrying value of the payables for collateral on investments (in millions) included on our Consolidated Balance Sheets and the fair value of the related investments or collateral consisted of the following:

	As of June 30, 2017		As of December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable for derivative investments (1)	$ 1,054	$ 1,054	$ 894	$ 894
Securities pledged under securities lending agreements (2)	208	200	216	209
Securities pledged under repurchase agreements (3)	540	587	535	589
Investments pledged for Federal Home Loan Bank of Indianapolis ("FHLBI") (4)	3,150	4,654	3,350	4,947
Total payables for collateral on investments	$ 4,952	$ 6,495	$ 4,995	$ 6,639

(1) We obtain collateral based upon contractual provisions with our counterparties. These agreements take into consideration the counterparties' credit rating as compared to ours, the fair value of the derivative investments and specified thresholds that if exceeded result in the receipt of cash that is typically invested in cash and invested cash. See Note 5 for additional information.

(2) Our pledged securities under securities lending agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. We value collateral daily and obtain additional collateral when deemed appropriate. The cash received in our securities lending program is typically invested in cash and invested cash or fixed maturity AFS securities.

(3) Our pledged securities under repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount equal to 95% of the fair value of the securities, and our agreements with third parties contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received in our repurchase program is typically invested in fixed maturity AFS securities.

(4) Our pledged investments for FHLBI are included in fixed maturity AFS securities and mortgage loans on real estate on our Consolidated Balance Sheets. The collateral requirements are generally 105% to 115% of the fair value for fixed maturity AFS securities and 155% to 175% of the fair value for mortgage loans on real estate. The cash received in these transactions is primarily invested in cash and invested cash or fixed maturity AFS securities.

Increase (decrease) in payables for collateral on investments (in millions) consisted of the following:

	For the Six Months Ended June 30,	
	2017	2016
Collateral payable for derivative investments	$ 160	$ 1,617
Securities pledged under securities lending agreements	(8)	7
Securities pledged under repurchase agreements	5	16
Investments pledged for FHLBI	(200)	-
Total increase (decrease) in payables for collateral on investments	$ (43)	$ 1,640

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We have elected not to offset our repurchase agreements and securities lending transactions in our financial statements. The remaining contractual maturities of repurchase agreements and securities lending transactions accounted for as secured borrowings were as follows:

	As of June 30, 2017				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater Than 90 Days	Total
Repurchase Agreements					
Corporate bonds	$ -	$ 100	$ 290	$ 150	$ 540
Total	-	100	290	150	540
Securities Lending					
Corporate bonds	208	-	-	-	208
Total	208	-	-	-	208
Total gross secured borrowings	$ 208	$ 100	$ 290	$ 150	$ 748

	As of December 31, 2016				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater Than 90 Days	Total
Repurchase Agreements					
Corporate bonds	$ -	$ -	$ 389	$ 146	$ 535
Total	-	-	389	146	535
Securities Lending					
Corporate bonds	212	-	-	-	212
Foreign government bonds	4	-	-	-	4
Total	216	-	-	-	216
Total gross secured borrowings	$ 216	$ -	$ 389	$ 146	$ 751

We accept collateral in the form of securities in connection with repurchase agreements. In instances where we are permitted to sell or re-pledge the securities received, we report the fair value of the collateral received and a related obligation to return the collateral in the financial statements. In addition, we receive securities in connection with securities borrowing agreements, which we are permitted to sell or re-pledge. As of June 30, 2017, the fair value of all collateral received that we are permitted to sell or re-pledge was $177 million. As of June 30, 2017, we have re-pledged $80 million of this collateral to cover initial margin on certain derivative investments.

Investment Commitments

As of June 30, 2017, our investment commitments were $1.7 billion, which included $794 million of LPs, $443 million of mortgage loans on real estate and $466 million of private placement securities.

Concentrations of Financial Instruments

As of June 30, 2017, and December 31, 2016, our most significant investments in one issuer were our investments in securities issued by the Federal Home Loan Mortgage Corporation with a fair value of $1.4 billion and $1.5 billion, respectively, or 1% of our invested assets portfolio, and our investments in securities issued by Federal National Mortgage Association with a fair value of $1.0 billion and $1.1 billion, respectively, or 1% of our invested assets portfolio. These concentrations include both AFS and trading securities.

As of June 30, 2017, and December 31, 2016, our most significant investments in one industry were our investment securities in the consumer non-cyclical industry with a fair value of $14.7 billion and $13.7 billion, respectively, or 13% of our invested assets portfolio, and our investment securities in the utilities industry with a fair value of $13.8 billion and $13.2 billion, respectively, or 12% of our invested assets portfolio. These concentrations include both AFS and trading securities.

5. Derivative Instruments

We maintain an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk, equity market risk, default risk, basis risk and credit risk. See Note 1 in our 2016 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments. See Note 6 in our 2016 Form 10-K for a detailed discussion of our derivative instruments and use of them in our overall risk management strategy, which information is incorporated herein by reference. See Note 12 for additional disclosures related to the fair value of our derivative instruments and Note 3 for derivative instruments related to our consolidated VIEs.

We have derivative instruments with off-balance-sheet risks whose notional or contract amounts exceed the related credit exposure. Outstanding derivative instruments with off-balance-sheet risks (in millions) were as follows:

	As of June 30, 2017			As of December 31, 2016		
	Notional	Fair Value		Notional	Fair Value	
	Amounts	Asset	Liability	Amounts	Asset	Liability
Qualifying Hedges						
Cash flow hedges:						
Interest rate contracts (1)	$ 3,607	$ 47	$ 92	$ 3,552	$ 68	$ 122
Foreign currency contracts (1)	1,512	116	21	1,177	153	10
Total cash flow hedges	5,119	163	113	4,729	221	132
Fair value hedges:						
Interest rate contracts (1)	1,477	263	182	1,512	258	182
Non-Qualifying Hedges						
Interest rate contracts (1)	78,622	766	151	70,290	985	701
Foreign currency contracts (1)	8	-	-	14	-	-
Equity market contracts (1)	29,704	529	390	28,315	541	616
Credit contracts (1)	63	-	-	66	-	-
Embedded derivatives:						
Guaranteed living benefit ("GLB") (2)	-	298	-	-	-	-
GLB (3)	-	-	-	-	-	371
Reinsurance related (4)	-	-	53	-	-	53
Indexed annuity and IUL contracts (5)	-	-	1,268	-	-	1,139
Total derivative instruments	$ 114,993	$ 2,019	$ 2,157	$ 104,926	$ 2,005	$ 3,194

(1) Reported in derivative investments and other liabilities on our Consolidated Balance Sheets.
(2) Reported in other assets on our Consolidated Balance Sheets.
(3) Reported in other liabilities on our Consolidated Balance Sheets.
(4) Reported in reinsurance related embedded derivatives on our Consolidated Balance Sheets.
(5) Reported in future contract benefits on our Consolidated Balance Sheets.

Beginning in the first quarter 2017, consistent with changes enacted by the Chicago Mercantile Exchange (“CME”), the Company offset the variation margin payments with the derivative balances that are cleared through CME.

The maturity of the notional amounts of derivative instruments (in millions) was as follows:

Remaining Life as of June 30, 2017

	Less Than 1 Year	1 - 5 Years	6 - 10 Years	11 - 30 Years	Over 30 Years	Total
Interest rate contracts (1)	$ 15,024	$ 22,369	$ 30,174	$ 14,926	$ 1,213	$ 83,706
Foreign currency contracts (2)	19	151	378	962	10	1,520
Equity market contracts	17,594	9,784	869	15	1,442	29,704
Credit contracts	-	63	-	-	-	63
Total derivative instruments with notional amounts	$ 32,637	$ 32,367	$ 31,421	$ 15,903	$ 2,665	$ 114,993

(1) As of June 30, 2017, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 2067.
(2) As of June 30, 2017, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was September 2049.

The change in our unrealized gain (loss) on derivative instruments in accumulated OCI ("AOCI") (in millions) was as follows:

	For the Six Months Ended June 30, 2017	2016
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 49	$ 132
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period:		
Cash flow hedges:		
Interest rate contracts	1	(240)
Foreign currency contracts	45	32
Change in foreign currency exchange rate adjustment	(75)	35
Change in DAC, VOBA, DSI and DFEL	(8)	(6)
Income tax benefit (expense)	13	62
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate contracts (1)	2	4
Interest rate contracts (2)	(9)	(2)
Foreign currency contracts (1)	9	3
Foreign currency contracts (3)	5	4
Associated amortization of DAC, VOBA, DSI and DFEL	(2)	(1)
Income tax benefit (expense)	(2)	(3)
Balance as of end-of-period	$ 22	$ 10

(1) The OCI offset is reported within net investment income on our Consolidated Statements of Comprehensive Income (Loss).

(2) The OCI offset is reported within interest and debt expense on our Consolidated Statements of Comprehensive Income (Loss).

(3) The OCI offset is reported within realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

The gains (losses) on derivative instruments (in millions) recorded within income (loss) from continuing operations on our Consolidated Statements of Comprehensive Income (Loss) were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Qualifying Hedges				
Cash flow hedges:				
Interest rate contracts (1)	$ 1	$ 3	$ 2	$ 4
Interest rate contracts (2)	(5)	(2)	(9)	(2)
Foreign currency contracts (1)	4	1	9	3
Foreign currency contracts (3)	-	-	5	4
Total cash flow hedges	-	2	7	9
Fair value hedges:				
Interest rate contracts (1)	(6)	(7)	(13)	(15)
Interest rate contracts (2)	7	8	15	16
Interest rate contracts (3)	(9)	(32)	-	(86)
Total fair value hedges	(8)	(31)	2	(85)
Non-Qualifying Hedges				
Interest rate contracts (3)	193	614	143	1,590
Foreign currency contracts (3)	(2)	(7)	1	(3)
Equity market contracts (3)	(289)	(252)	(817)	(582)
Equity market contracts (4)	5	3	14	2
Credit contracts (3)	-	(4)	-	(7)
Embedded derivatives:				
GLB (3)	72	(542)	669	(1,505)
Reinsurance related (3)	(3)	(23)	-	(47)
Indexed annuity and IUL contracts (3)	(64)	(19)	(184)	(12)
Total derivative instruments	$ (96)	$ (259)	$ (165)	$ (640)

(1) Reported in net investment income on our Consolidated Statements of Comprehensive Income (Loss).
(2) Reported in interest and debt expense on our Consolidated Statements of Comprehensive Income (Loss).
(3) Reported in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).
(4) Reported in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).

Gains (losses) recognized as a component of OCI (in millions) on derivative instruments designated and qualifying as cash flow hedges were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Offset to net investment income	$ 5	$ 4	$ 11	$ 7
Offset to realized gain (loss)	-	-	5	4
Offset to interest and debt expense	(5)	(2)	(9)	(2)

As of June 30, 2017, $6 million of the deferred net gains (losses) on derivative instruments in AOCI were expected to be reclassified to earnings during the next 12 months. This reclassification would be due primarily to interest rate variances related to our interest rate swap agreements.

For the six months ended June 30, 2017 and 2016, there were no material reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged forecasted transactions that had not occurred by the end of the originally specified time period.

Information related to our credit default swaps for which we are the seller (dollars in millions) was as follows:

As of June 30, 2017

Credit Contract Type	Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
Basket credit default swaps	6/20/2022	(3)	(4)	BBB+	1	$ 1	$ 63
					1	$ 1	$ 63

As of December 31, 2016

Credit Contract Type	Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
Single name credit default swaps	3/20/2017 (5)	(6)	(4)	BBB+	2	$ -	$ 40
					2	$ -	$ 40

(1) Represents average credit ratings based on the midpoint of the applicable ratings among Moody's, S&P and Fitch Ratings, as scaled to the corresponding S&P ratings.
(2) Broker quotes are used to determine the market value of our credit default swaps.
(3) Credit default swaps were entered into in order to hedge the liability exposure on certain variable annuity products.
(4) Sellers do not have the right to demand indemnification or compensation from third parties in case of a loss (payment) on the contract.
(5) These credit default swaps were sold to a counterparty of the consolidated VIEs discussed in Note 4 in our 2016 Form 10-K.
(6) Credit default swaps were entered into in order to generate income by providing default protection in return for a quarterly payment.

Details underlying the associated collateral of our credit default swaps for which we are the seller if credit risk-related contingent features were triggered (in millions) were as follows:

As of June 30,	As of

		December 31,
	2017	2016
Maximum potential payout	$ 63	$ 40
Less: Counterparty thresholds	-	-
Maximum collateral potentially required to post	$ 63	$ 40

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. If these netting agreements were not in place, we would have been required to post collateral if the market value was less than zero. As of June 30, 2017 the market value was $1 million.

Credit Risk

We are exposed to credit losses in the event of non-performance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or non-performance risk (“NPR”). The NPR is based upon assumptions for each counterparty’s credit spread over the estimated weighted average life of the counterparty exposure less collateral held. As of June 30, 2017, the NPR adjustment was less than $1 million. The credit risk associated with such agreements is minimized by entering into agreements with financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring derivative contracts to be governed by an International Swaps and Derivatives Association (“ISDA”) Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of derivative contracts, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contracts. In certain transactions, we and the counterparty have entered into a credit support annex requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of June 30, 2017, our exposure was $4 million.

The amounts recognized (in millions) by S&P credit rating of counterparty, for which we had the right to reclaim cash collateral or were obligated to return cash collateral, were as follows:

	As of June 30, 2017		As of December 31, 2016	
S&P Credit Rating of Counterparty	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)
AA-	$ 96	$ -	$ 53	$ (32)
A+	39	(235)	10	(217)
A	579	(287)	466	(381)
A-	39	-	67	-
BBB+	301	(5)	298	-
	$ 1,054	$ (527)	$ 894	$ (630)

Balance Sheet Offsetting

Information related to the effects of offsetting on our Consolidated Balance Sheets (in millions) was as follows:

	As of June 30, 2017		
	Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	$ 1,600	$ 298	$ 1,898
Gross amounts offset	(546)	-	(546)
Net amount of assets	1,054	298	1,352
Gross amounts not offset:			
Cash collateral	(1,054)	-	(1,054)
Net amount	$ -	$ 298	$ 298

Financial Liabilities			
Gross amount of recognized liabilities	$ 611	$ 1,321	$ 1,932
Gross amounts offset	(121)	-	(121)
Net amount of liabilities	490	1,321	1,811
Gross amounts not offset:			
Cash collateral	(527)	-	(527)
Net amount	$ (37)	$ 1,321	$ 1,284

	As of December 31, 2016		
	Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	$ 1,470	$ -	$ 1,470
Gross amounts offset	(543)	-	(543)
Net amount of assets	927	-	927
Gross amounts not offset:			
Cash collateral	(894)	-	(894)
Net amount	$ 33	$ -	$ 33
Financial Liabilities			
Gross amount of recognized liabilities	$ 1,089	$ 1,563	$ 2,652
Gross amounts offset	(536)	-	(536)
Net amount of liabilities	553	1,563	2,116
Gross amounts not offset:			
Cash collateral	(630)	-	(630)
Net amount	$ (77)	$ 1,563	$ 1,486

6. Federal Income Taxes

The effective tax rate is the ratio of tax expense over pre-tax income (loss). The effective tax rate was 23% and 16% for the three and six months ended June 30, 2017, respectively. The effective tax rate was 21% and 18% for the three and six months ended June 30, 2016, respectively. The effective tax rate was significantly lower than the prevailing corporate federal income tax rate. Differences in the effective rates and the U.S. statutory rate of 35% were the result of the separate accounts dividends-received deduction, certain tax preferred investment income, foreign tax credits and other tax preference items.

7. Guaranteed Benefit Features

Information on the guaranteed death benefit (“GDB”) features outstanding (dollars in millions) was as follows:

	As of June 30, 2017 (1)	As of December 31, 2016 (1)
Return of Net Deposits		
Total account value	$ 92,182	$ 87,707
Net amount at risk (2)	179	824
Average attained age of contract holders	64 years	63 years
Minimum Return		
Total account value	$ 107	$ 105
Net amount at risk (2)	19	22
Average attained age of contract holders	76 years	75 years
Guaranteed minimum return	5%	5%
Anniversary Contract Value		
Total account value	$ 25,666	$ 24,605
Net amount at risk (2)	482	782
Average attained age of contract holders	70 years	69 years

(1) Our variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive.

(2) Represents the amount of death benefit in excess of the account balance that is subject to market fluctuations.

The determination of GDB liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates and mortality experience. The following summarizes the balances of and changes in the liabilities for GDBs (in millions), which were recorded in future contract benefits on our Consolidated Balance Sheets:

	For the Six Months Ended June 30,	
	2017	2016
Balance as of beginning-of-year	$ 110	$ 115
Changes in reserves	(2)	22
Benefits paid	(11)	(24)
Balance as of end-of-period	$ 97	$ 113

Variable Annuity Contracts

Account balances of variable annuity contracts, including those with guarantees, (in millions) were invested in separate account investment options as follows:

	As of June 30, 2017	As of December 31, 2016
Asset Type		
Domestic equity	$ 55,453	$ 52,244
International equity	18,610	17,396
Bonds	27,829	27,532
Money market	13,327	12,010
Total	$ 115,219	$ 109,182
Percent of total variable annuity separate account values	99%	99%

Secondary Guarantee Products

Future contract benefits and other contract holder funds include reserves for our secondary guarantee products sold through our Life Insurance segment. These UL and VUL products with secondary guarantees represented 34% and 35% of total life insurance in-force reserves as of June 30, 2017, and December 31, 2016, respectively. UL and VUL products with secondary guarantees represented 28% and 27% of total sales for the three and six months ended June 30, 2017, respectively, compared to 33% and 31% for the corresponding periods in 2016.

8. Contingencies and Commitments

Regulatory bodies, such as state insurance departments, the SEC, Financial Industry Regulatory Authority and other regulatory bodies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, laws governing the activities of broker-dealers, registered investment advisors and unclaimed property laws.

LNC is involved in various pending or threatened legal or regulatory proceedings, including purported class actions, arising from the conduct of business both in the ordinary course and otherwise. In some of the matters, very large and/or indeterminate amounts, including punitive and treble damages, are sought. Modern pleading practice in the U.S. permits considerable variation in the assertion of monetary damages or other relief. Jurisdictions may permit claimants not to specify the monetary damages sought or may permit claimants to state only that the amount sought is sufficient to invoke the jurisdiction of the trial court. In addition, jurisdictions may permit plaintiffs to allege monetary damages in amounts well exceeding verdicts obtained in the jurisdiction for similar matters. This variability in pleadings, together with the actual experiences of LNC in litigating or resolving through settlement numerous claims over an extended period of time, demonstrates to management that the monetary relief which may be specified in a lawsuit or claim bears little relevance to its merits or disposition value.

Due to the unpredictable nature of litigation, the outcome of a litigation matter and the amount or range of potential loss at particular points in time is normally difficult to ascertain. Uncertainties can include how fact finders will evaluate documentary evidence and the credibility and effectiveness of witness testimony, and how trial and appellate courts will apply the law in the context of the pleadings or evidence presented, whether by motion practice, or at trial or on appeal. Disposition valuations are also subject to the uncertainty of how opposing parties and their counsel will themselves view the relevant evidence and applicable law.

We establish liabilities for litigation and regulatory loss contingencies when information related to the loss contingencies shows both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require us to pay damages or make other expenditures or establish accruals in amounts that could not be estimated as of June 30, 2017. While the potential future charges could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known by management, management does not believe any such charges are likely to have a material adverse effect on LNC's financial condition.

For some matters, the Company is able to estimate a reasonably possible range of loss. For such matters in which a loss is probable, an accrual has been made. For such matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made. Accordingly, the estimate contained in this paragraph reflects two types of matters. For some matters included within this estimate, an accrual has been made, but there is a reasonable possibility that an exposure exists in excess of the amount accrued. In these cases, the estimate reflects the reasonably possible range of loss in excess of the accrued amount. For other matters included within this estimation, no accrual has been made because a loss, while potentially estimable, is believed to be reasonably possible but not probable. In these cases, the estimate reflects the reasonably possible loss or range of loss. As of June 30, 2017, we estimate the aggregate range of reasonably possible losses to be up to approximately $50 million.

For other matters, we are not currently able to estimate the reasonably possible loss or range of loss. We are often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by the court on motions or appeals, analysis by experts and the progress of settlement negotiations. On a quarterly and annual basis, we review relevant information with respect to litigation contingencies and update our accruals, disclosures and estimates of reasonably possible losses or ranges of loss based on such reviews.

See Note 13 in our 2016 Form 10-K and Note 8 in our Form 10-Q for the quarter ended March 31, 2017, for additional discussion of commitments and contingencies, which information is incorporated herein by reference.

9. Shares and Stockholders' Equity

Common Shares

The changes in our common stock (number of shares) were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Common Stock				
Balance as of beginning-of-period	224,888,259	239,005,252	226,335,105	243,835,893
Stock issued for exercise of warrants	289,636	13,335	334,930	38,148
Stock compensation/issued for benefit plans	89,455	9,537	1,461,286	670,142
Retirement/cancellation of shares	(3,030,088)	(6,243,433)	(5,894,059)	(11,759,492)
Balance as of end-of-period	222,237,262	232,784,691	222,237,262	232,784,691
Common Stock as of End-of-Period				
Basic basis	222,237,262	232,784,691	222,237,262	232,784,691
Diluted basis (1)	226,044,165	236,179,176	226,044,165	236,179,176

(1) Effective October 1, 2016, we early adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. We have updated certain previously reported interim results and metrics as of January 1, 2016, in accordance with this guidance. For more information, see Note 1 – Earnings Per Share in our 2016 Form 10-K.

Our common stock is without par value.

Average Shares

A reconciliation of the denominator (number of shares) in the calculations of basic and diluted earnings (loss) per common share was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Weighted-average shares, as used in basic calculation	223,555,299	236,463,183	224,581,848	239,069,774
Shares to cover exercise of outstanding warrants	694,403	1,098,405	858,916	1,100,176
Shares to cover non-vested stock (1)	1,426,550	872,481	1,551,173	967,816
Average stock options outstanding during the period (1)	2,339,558	2,090,988	2,510,344	1,948,817
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(105,156)	(265,103)	(127,696)	(278,312)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period) (1)	(1,464,321)	(1,429,907)	(1,541,738)	(1,364,709)
Shares repurchasable from measured but unrecognized stock option expense (1)	(59,959)	(34,492)	(68,519)	(17,797)
Average deferred compensation shares	927,508	1,101,384	938,661	1,070,657
Weighted-average shares, as used in diluted calculation (1)	227,313,882	239,896,939	228,702,989	242,496,422

(1) Effective October 1, 2016, we early adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. We have updated certain previously reported interim results and metrics as of January 1, 2016, in accordance with this guidance. For more information, see Note 1 – Earnings Per Share in our 2016 Form 10-K.

In the event the average market price of LNC common stock exceeds the issue price of stock options and the options have a dilutive effect to our earnings per share (“EPS”), such options will be shown in the table above.

We have participants in our deferred compensation plans who selected LNC stock as the measure for the investment return attributable to all or a portion of their deferral amounts. For the three and six months ended June 30, 2017 and 2016, the effect of settling this obligation in LNC stock (“equity classification”) was more dilutive than the scenario of settling in cash (“liability classification”). Therefore, for our EPS calculation for these periods, we added these shares to the denominator and adjusted the numerator to present net income as if the shares had been accounted for under equity classification by removing the mark-to-market adjustment included in net income attributable to these deferred units of LNC stock. The amount of this adjustment was $(1) million for the three and six months ended June 30, 2017, respectively, and less than $1 million and $7 million for the three and six months ended June 30, 2016, respectively.

AOCI

The following summarizes the components and changes in AOCI (in millions):

	For the Six Months Ended June 30, 2017	2016
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	$ 1,784	$ 991
Unrealized holding gains (losses) arising during the period	2,058	5,394
Change in foreign currency exchange rate adjustment	69	(33)
Change in DAC, VOBA, DSI, future contract benefits and other contract holder funds	(356)	(1,620)
Income tax benefit (expense)	(626)	(1,321)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(13)	(101)
Associated amortization of DAC, VOBA, DSI and DFEL	(11)	(7)
Income tax benefit (expense)	8	38
Balance as of end-of-period	$ 2,945	$ 3,481
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	$ 25	$ 26
(Increases) attributable to:		
Gross OTTI recognized in OCI during the period	-	(36)
Change in DAC, VOBA, DSI and DFEL	-	8
Income tax benefit (expense)	-	10
Decreases attributable to:		
Changes in fair value, sales, maturities or other settlements of AFS securities	21	5
Change in DAC, VOBA, DSI and DFEL	(4)	(1)
Income tax benefit (expense)	(6)	(2)
Balance as of end-of-period	$ 36	$ 10
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 49	$ 132
Unrealized holding gains (losses) arising during the period	46	(208)
Change in foreign currency exchange rate adjustment	(75)	35
Change in DAC, VOBA, DSI and DFEL	(8)	(6)
Income tax benefit (expense)	13	62
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	7	9
Associated amortization of DAC, VOBA, DSI and DFEL	(2)	(1)
Income tax benefit (expense)	(2)	(3)
Balance as of end-of-period	$ 22	$ 10
Foreign Currency Translation Adjustment		

Balance as of beginning-of-year	$ (27)	$ (5)
Foreign currency translation adjustment arising during the period	7	(13)
Balance as of end-of-period	$ (20)	$ (18)
Funded Status of Employee Benefit Plans		
Balance as of beginning-of-year	$ (265)	$ (299)
Adjustment arising during the period	(7)	11
Balance as of end-of-period	$ (272)	$ (288)

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The following summarizes the reclassifications out of AOCI (in millions) and the associated line item in the Consolidated Statements of Comprehensive Income (Loss):

	For the Six Months Ended June 30,		
	2017	2016	
Unrealized Gain (Loss) on AFS Securities			
Gross reclassification	$ (13)	$ (101)	Total realized gain (loss)
Associated amortization of DAC, VOBA, DSI and DFEL	(11)	(7)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	(24)	(108)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	8	38	Federal income tax expense (benefit)
Reclassification, net of income tax	$ (16)	$ (70)	Net income (loss)
Unrealized OTTI on AFS Securities			
Gross reclassification	$ (1)	$ 1	Total realized gain (loss)
Change in DAC, VOBA, DSI and DFEL	-	-	Total realized gain (loss)
Reclassification before income tax benefit (expense)	(1)	1	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	-	-	Federal income tax expense (benefit)
Reclassification, net of income tax	$ (1)	$ 1	Net income (loss)
Unrealized Gain (Loss) on Derivative Instruments			
Gross reclassifications:			
Interest rate contracts	$ 2	$ 4	Net investment income
Interest rate contracts	(9)	(2)	Interest and debt expense
Foreign currency contracts	9	7	Net investment income
Foreign currency contracts	5	-	Total realized gain (loss)
Total gross reclassifications	7	9	
Associated amortization of DAC, VOBA, DSI and DFEL	(2)	(1)	Commissions and other expenses
Reclassifications before income tax benefit (expense)	5	8	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	(2)	(3)	Federal income tax expense (benefit)
Reclassifications, net of income tax	$ 3	$ 5	Net income (loss)

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10. Realized Gain (Loss)

Details underlying realized gain (loss) (in millions) reported on our Consolidated Statements of Comprehensive Income (Loss) were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Total realized gain (loss) related to certain investments (1)	$ (18)	$ (65)	$ (31)	$ (172)
Realized gain (loss) on the mark-to-market on certain instruments (2)	(5)	(8)	5	-
Indexed annuity and IUL contracts net derivatives results: (3)				
Gross gain (loss)	(7)	(9)	(17)	(33)
Associated amortization of DAC, VOBA, DSI and DFEL	2	4	1	6
Variable annuity net derivatives results: (4)				
Gross gain (loss)	23	37	(5)	48
Associated amortization of DAC, VOBA, DSI and DFEL	(5)	(4)	(2)	(8)
Total realized gain (loss)	$ (10)	$ (45)	$ (49)	$ (159)

(1) See “Realized Gain (Loss) Related to Certain Investments” section in Note 4.

(2) Represents changes in the fair values of certain derivative investments (not including those associated with our variable and indexed annuity and IUL contracts net derivatives results), reinsurance related embedded derivatives and trading securities.

(3) Represents the net difference between the change in the fair value of the S&P 500 Index ® call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity and IUL contracts along with changes in the fair value of embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products.

(4) Includes the net difference in the change in embedded derivative reserves of our GLB riders and the change in the fair value of the derivative instruments we own to hedge the change in embedded derivative reserves on our GLB riders and the benefit ratio unlocking on our GLB and GDB riders, including the cost of purchasing the hedging instruments.

11. Stock-Based Compensation Plans

We sponsor stock-based compensation plans for our employees and directors and for the employees and agents of our subsidiaries that provide for the grant of stock options, performance shares (performance-vested shares as opposed to service-vested shares), stock appreciation rights ("SARs"), restricted stock units ("RSUs") and deferred stock units ("DSUs"). We issue new shares to satisfy option exercises.

LNC stock-based awards granted were as follows:

	For the Three Months Ended June 30, 2017	For the Six Months Ended June 30, 2017
10-year LNC stock options	15,270	407,637
Performance shares	5,126	154,351
RSUs	37,365	435,865
Non-employee:		
SARs	-	26,494
Agent stock options	-	102,638
Director DSUs	7,059	14,534

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12. Fair Value of Financial Instruments

The carrying values and estimated fair values of our financial instruments (in millions) were as follows:

	As of June 30, 2017		As of December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity securities	$ 93,014	$ 93,014	$ 89,013	$ 89,013
VIEs' fixed maturity securities	-	-	200	200
Equity securities	275	275	275	275
Trading securities	1,678	1,678	1,712	1,712
Mortgage loans on real estate	10,023	10,157	9,889	9,853
Derivative investments (1)	1,054	1,054	927	927
Other investments	2,156	2,156	2,230	2,230
Cash and invested cash	1,978	1,978	2,722	2,722
Other assets:				
GLB direct embedded derivatives (2)	298	298	-	-
GLB ceded embedded derivatives	85	85	203	203
Separate account assets	135,825	135,825	128,397	128,397
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(1,268)	(1,268)	(1,139)	(1,139)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(625)	(625)	(629)	(629)
Account values of certain investment contracts	(31,982)	(36,201)	(31,516)	(35,647)
Short-term debt	(450)	(457)	-	-
Long-term debt	(4,901)	(5,485)	(5,345)	(5,679)
Reinsurance related embedded derivatives	(53)	(53)	(53)	(53)
Other liabilities:				
Derivative liabilities (1)	(169)	(169)	(553)	(553)
GLB direct embedded derivatives (2)	-	-	(371)	(371)

(1) We have master netting agreements with each of our derivative counterparties, which allow for the netting of our derivative asset and liability positions by counterparty.

(2) Portions of our GLB direct embedded derivatives are ceded to third-party reinsurance counterparties. Refer to Note 5 for additional detail.

Valuation Methodologies and Associated Inputs for Financial Instruments Not Carried at Fair Value

The following discussion outlines the methodologies and assumptions used to determine the fair value of our financial instruments not carried at fair value on our Consolidated Balance Sheets. Considerable judgment is required to develop these assumptions used to measure fair value. Accordingly, the estimates shown are not necessarily indicative of the amounts that would be realized in a one-time, current market exchange of all of our financial instruments.

Mortgage Loans on Real Estate

The fair value of mortgage loans on real estate is established using a discounted cash flow method based on credit rating, maturity and future income. The ratings for mortgages in good standing are based on property type, location, market conditions, occupancy, debt-service coverage, loan-to-value, quality of tenancy, borrower and payment record. The fair value for impaired mortgage loans is based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price or the fair value of the collateral if the loan is collateral dependent. The inputs used to measure the fair value of our mortgage loans on real estate are classified as Level 2 within the fair value hierarchy.

Other Investments

The carrying value of our assets classified as other investments approximates fair value. Other investments includes primarily LPs and other privately held investments that are accounted for using the equity method of accounting and the carrying value is based on our proportional share of the net assets of the LPs. The inputs used to measure the fair value of our LPs and other privately held investments are classified as Level 3 within the fair value hierarchy. Other investments also includes securities that are not LPs or other privately held investments and the inputs used to measure the fair value of these securities are classified as Level 1 within the fair value hierarchy.

Other Contract Holder Funds

Other contract holder funds include remaining guaranteed interest and similar contracts and account values of certain investment contracts. The fair value for the remaining guaranteed interest and similar contracts is estimated using discounted cash flow calculations as of the balance sheet date. These calculations are based on interest rates currently offered on similar contracts with maturities that are consistent with those remaining for the contracts being valued. As of June 30, 2017, and December 31, 2016, the remaining guaranteed interest and similar contracts carrying value approximated fair value. The fair value of the account values of certain investment contracts is based on their approximate surrender value as of the balance sheet date. The inputs used to measure the fair value of our other contract holder funds are classified as Level 3 within the fair value hierarchy.

Short-Term and Long-Term Debt

The fair value of short-term and long-term debt is based on quoted market prices. The inputs used to measure the fair value of our short-term and long-term debt are classified as Level 2 within the fair value hierarchy.

Financial Instruments Carried at Fair Value

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of June 30, 2017, or December 31, 2016, and we noted no changes in our valuation methodologies between these periods.

The following summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the fair value hierarchy levels described in “Summary of Significant Accounting Policies” in Note 1 of our 2016 Form 10-K:

	As of June 30, 2017		
	Quoted Prices in Active Markets for	Significant	Significant

	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$ -	$ 78,031	$ 2,517	$ 80,548
ABS	-	1,007	43	1,050
U.S. government bonds	564	9	5	578
Foreign government bonds	-	346	109	455
RMBS	-	3,545	7	3,552
CMBS	-	455	21	476
CLOs	-	675	28	703
State and municipal bonds	-	5,010	-	5,010
Hybrid and redeemable preferred securities	67	493	82	642
Equity AFS securities	13	79	183	275
Trading securities	73	1,546	59	1,678
Derivative investments (1)	-	1,150	571	1,721
Other investments	150	-	-	150
Cash and invested cash	-	1,978	-	1,978
Other assets:				
GLB direct embedded derivatives	-	-	298	298
GLB ceded embedded derivatives	-	-	85	85
Separate account assets	772	135,053	-	135,825
Total assets	$ 1,639	$ 229,377	$ 4,008	$ 235,024
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	$ -	$ -	$ (1,268)	$ (1,268)
Long-term debt	-	(1,135)	-	(1,135)
Reinsurance related embedded derivatives	-	(53)	-	(53)
Other liabilities – derivative liabilities (1)	-	(420)	(416)	(836)
Total liabilities	$ -	$ (1,608)	$ (1,684)	$ (3,292)

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	As of December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$ -	$ 74,659	$ 2,405	$ 77,064
ABS	-	1,052	33	1,085
U.S. government bonds	408	11	-	419
Foreign government bonds	-	395	111	506
RMBS	-	3,611	3	3,614
CMBS	-	343	7	350
CLOs	-	676	68	744
State and municipal bonds	-	4,627	-	4,627
Hybrid and redeemable preferred securities	60	468	76	604
VIEs’ fixed maturity securities	-	200	-	200
Equity AFS securities	17	81	177	275
Trading securities	102	1,545	65	1,712
Derivative investments (1)	-	1,406	599	2,005
Other investments	146	-	-	146
Cash and invested cash	-	2,722	-	2,722
Other assets – GLB ceded embedded derivatives	-	-	203	203
Separate account assets	863	127,534	-	128,397
Total assets	$ 1,596	$ 219,330	$ 3,747	$ 224,673
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	$ -	$ -	$ (1,139)	$ (1,139)
Long-term debt	-	(1,203)	-	(1,203)
Reinsurance related embedded derivatives	-	(53)	-	(53)
Other liabilities:				
Derivative liabilities (1)	-	(939)	(692)	(1,631)
GLB direct embedded derivatives	-	-	(371)	(371)
Total liabilities	$ -	$ (2,195)	$ (2,202)	$ (4,397)

(1) Derivative investment assets and liabilities presented within the fair value hierarchy are presented on a gross basis by derivative type and not on a master netting basis by counterparty.

The following summarizes changes to our financial instruments carried at fair value (in millions) and classified within Level 3 of the fair value hierarchy. This summary excludes any effect of amortization of deferred acquisition costs (“DAC”), value of business acquired (“VOBA”), deferred sales inducements (“DSI”) and deferred front-end loads (“DFEL”). The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	For the Three Months Ended June 30, 2017					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers Into or Out of Level 3, Net (2)	Ending Fair Value
Investments: (3)						
Fixed maturity AFS securities:						
Corporate bonds	$ 2,403	$ 5	$ 53	$ 57	$ (1)	$ 2,517
ABS	29	-	-	-	14	43
U.S. government bonds	5	-	-	-	-	5
Foreign government bonds	110	-	(1)	-	-	109
RMBS	7	-	-	-	-	7
CMBS	44	-	1	14	(38)	21
CLOs	88	-	-	13	(73)	28
State and municipal bonds	1	-	-	-	(1)	-
Hybrid and redeemable preferred securities	79	-	8	-	(5)	82
Equity AFS securities	182	-	-	1	-	183
Trading securities	60	1	1	-	(3)	59
Derivative investments	112	58	65	(80)	-	155
Other assets: (5)						