LINCOLN NATIONAL CORP
Form 10-Q
November 03, 2016

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 September 30, 2016

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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

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 October 31, 2016, there were 228,560,352 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 September 30, 2016 (Unaudited)	As of December 31, 2015
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2016 – $83,713; 2015 – $81,993)	$ 92,632	$ 84,964
Variable interest entities' fixed maturity securities (amortized cost: 2016 – $599; 2015 – $596)	600	598
Equity securities (cost: 2016 – $259; 2015 – $226)	273	237
Trading securities	1,808	1,854
Mortgage loans on real estate	9,430	8,678
Real estate	23	17
Policy loans	2,471	2,545
Derivative investments	2,170	1,537
Other investments	2,184	1,778
Total investments	111,591	102,208
Cash and invested cash	3,444	3,146
Deferred acquisition costs and value of business acquired	8,020	9,510
Premiums and fees receivable	355	376
Accrued investment income	1,117	1,070
Reinsurance recoverables	5,432	5,623
Funds withheld reinsurance assets	628	629
Goodwill	2,273	2,273
Other assets	5,152	3,454
Separate account assets	128,593	123,619
Total assets	$ 266,605	$ 251,908
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 22,120	$ 20,708
Other contract holder funds	77,963	77,362
Short-term debt	250	-
Long-term debt	5,457	5,553
Reinsurance related embedded derivatives	137	87
Funds withheld reinsurance liabilities	1,999	638

Deferred gain on business sold through reinsurance	43	98
Payables for collateral on investments	5,654	4,657
Variable interest entities' liabilities	-	4
Other liabilities	8,066	5,565
Separate account liabilities	128,593	123,619
Total liabilities	250,282	238,291
Contingencies and Commitments (See Note 8)		
Stockholders' Equity		
Preferred stock – 10,000,000 shares authorized	-	-
Common stock – 800,000,000 shares authorized; 228,529,287 and 243,835,893 shares issued and outstanding as of September 30, 2016, and December 31, 2015, respectively	5,909	6,298
Retained earnings	7,037	6,474
Accumulated other comprehensive income (loss)	3,377	845
Total stockholders' equity	16,323	13,617
Total liabilities and stockholders' equity	$ 266,605	$ 251,908

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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Insurance premiums	$ 708	$ 825	$ 2,252	$ 2,398
Fee income	1,376	1,469	3,899	3,929
Net investment income	1,259	1,254	3,630	3,627
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(22)	(23)	(113)	(58)
Portion of loss recognized in other comprehensive income	9	5	37	20
Net other-than-temporary impairment losses on securities recognized in earnings	(13)	(18)	(76)	(38)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	50	45	(45)	27
Total realized gain (loss)	37	27	(121)	(11)
Amortization of deferred gain on business sold through reinsurance	18	18	55	55
Other revenues	127	123	361	402
Total revenues	3,525	3,716	10,076	10,400
Expenses				
Interest credited	642	622	1,914	1,876
Benefits	922	1,327	3,462	3,783
Commissions and other expenses	1,283	1,432	3,236	3,459
Interest and debt expense	66	67	202	204
Total expenses	2,913	3,448	8,814	9,322
Income (loss) before taxes	612	268	1,262	1,078
Federal income tax expense (benefit)	145	41	263	207
Net income (loss)	467	227	999	871
Other comprehensive income (loss), net of tax	182	(281)	2,532	(1,433)
Comprehensive income (loss)	$ 649	$ (54)	$ 3,531	$ (562)
Net Income (Loss) Per Common Share				
Basic	$ 2.02	$ 0.91	$ 4.23	$ 3.45
Diluted	2.00	0.87	4.16	3.37
Cash Dividends Declared Per Common Share	$ 0.25	$ 0.20	$ 0.75	$ 0.60

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited, in millions, except per share data)

	For the Nine Months Ended September 30,	
	2016	2015
Common Stock		
Balance as of beginning-of-year	$ 6,298	$ 6,622
Stock compensation/issued for benefit plans	26	74
Retirement of common stock/cancellation of shares	(415)	(316)
Balance as of end-of-period	5,909	6,380
Retained Earnings		
Balance as of beginning-of-year	6,474	6,022
Net income (loss)	999	871
Retirement of common stock	(260)	(384)
Common stock dividends declared	(176)	(151)
Balance as of end-of-period	7,037	6,358
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	845	3,096
Other comprehensive income (loss), net of tax	2,532	(1,433)
Balance as of end-of-period	3,377	1,663
Total stockholders' equity as of end-of-period	$ 16,323	$ 14,401

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in millions)

	For the Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities		
Net income (loss)	$ 999	$ 871
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	183	(52)
Trading securities purchases, sales and maturities, net	128	121
Change in premiums and fees receivable	21	90
Change in accrued investment income	(47)	(67)
Change in future contract benefits and other contract holder funds	(807)	690
Change in reinsurance related assets and liabilities	(276)	(255)
Change in accrued expenses	(124)	-
Change in federal income tax accruals	143	(14)
Realized (gain) loss	121	11
Amortization of deferred gain on business sold through reinsurance	(55)	(55)
Other	391	147
Net cash provided by (used in) operating activities	677	1,487
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(8,278)	(6,122)
Sales of available-for-sale securities	2,411	635
Maturities of available-for-sale securities	4,001	3,137
Purchases of other investments	(14,620)	(11,354)
Sales or maturities of other investments	13,951	10,666
Increase (decrease) in payables for collateral on investments	998	889
Proceeds from sale of subsidiary/business	-	75
Other	(75)	(73)
Net cash provided by (used in) investing activities	(1,612)	(2,147)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	-	(250)
Issuance of long-term debt, net of issuance costs	-	298
Deposits of fixed account values, including the fixed portion of variable	7,432	7,667
Withdrawals of fixed account values, including the fixed portion of variable	(4,138)	(4,534)
Transfers to and from separate accounts, net	(1,200)	(1,859)
Common stock issued for benefit plans and excess tax benefits	(6)	44

Repurchase of common stock	(675)	(700)
Dividends paid to common stockholders	(180)	(153)
Net cash provided by (used in) financing activities	1,233	513
Net increase (decrease) in cash and invested cash	298	(147)
Cash and invested cash as of beginning-of-year	3,146	3,919
Cash and invested cash as of end-of-period	$ 3,444	$ 3,772

See accompanying Notes to Consolidated Financial Statements

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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, 2015 ("2015 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 position, results of operations and cash flows, are summarized in our 2015 Form 10-K.

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 nine month period ended September 30, 2016, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016. All material inter-company accounts and transactions have been eliminated in consolidation.

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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 2014-16, Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity	This standard clarifies that when considering the nature of the host contract in a hybrid financial instrument issued in the form of a share; an entity must consider all of the stated and implied substantive terms of the hybrid instrument, including the embedded derivative feature that is being considered for separate accounting from the host contract.	January 1, 2016	The adoption of this ASU did not have an effect on our consolidated financial condition or results of operations.
ASU 2015-02, Amendments to the Consolidation Analysis	This standard addresses consolidation accounting guidance related to limited partnerships, limited liability companies and securitization structures. The new standard includes changes to existing consolidation models that eliminates the presumption that a general partner should consolidate a limited partnership, clarifies when fees paid to a decision maker should be a factor in the variable interest entities ("VIEs") consolidation evaluation and reduces the VIE consolidation models from two to one by eliminating the indefinite deferral for certain investment funds.	January 1, 2016	The adoption of this ASU did not have an effect on our consolidated financial condition or results of operations. We have provided additional financial statement disclosures related to our limited partnerships in Note 3.
ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs	Debt issuance costs were previously recognized as a deferred charge in the balance sheet. This amendment requires the presentation of debt issuance costs in the balance sheet as a direct deduction from the carrying amount of that debt. This standard does not change the recognition and measurement requirements related to debt issuance costs. Retrospective application of the amendments in this ASU is required.	January 1, 2016	We have retrospectively reclassified approximately $29 million of our debt issuance costs from other assets to long-term debt on the Consolidated

			Balance Sheets as of December 31, 2015. See ASU 2015-15 for debt issuance costs associated with line-of-credit arrangements.
ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	This standard clarifies the accounting requirements for recognizing cloud computing arrangements. Software licenses purchased through cloud computing arrangements should be accounted for in a manner consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the arrangement should be accounted for as a service contract.	January 1, 2016	The adoption of this ASU did not have an effect on our consolidated financial condition or results of operations.
ASU 2015-07, Disclosures for Certain Investments That Calculate Net Asset Value per Share (or its Equivalent)	This standard removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. In addition, the standard removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient, and limits those disclosures only to those investments for which the practical expedient has been elected.	January 1, 2016	The adoption of this ASU did not result in a change to our financial statement disclosures.

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements	Given the absence of authoritative accounting guidance in ASU 2015-03 related to debt issuance costs for line-of-credit arrangements, this standard clarifies that the SEC Staff would not object to an entity deferring and presenting these debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement.	January 1, 2016	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. Early application is permitted but only for annual reporting periods beginning after December 15, 2016.	January 1, 2018	We will adopt the accounting guidance in this standard for non-insurance related products and services and are currently evaluating the impact of adoption on our consolidated financial condition and results of operations.
ASU 2015-09, Disclosures about Short-Duration Contracts	This standard enhances the disclosure requirements related to short-duration insurance contracts. The new disclosure requirements focus on providing users of financial statements with more transparent information about an insurance entity's (1) initial claims estimates and subsequent adjustments to those estimates, (2) methodologies and judgments in estimating claims, and (3) timing, frequency and severity of claims. Early application of this standard is permitted, and	Annual periods beginning January 1, 2016; interim periods within annual periods beginning January 1,	We are currently evaluating these disclosure changes and will provide the additional required disclosures if we determine they are material to our financial statements.

	retrospective application is required for each comparative period presented, except for those requirements that apply only to the current period.	2017	
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 are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-02, Leases	This standard establishes a new accounting model for leases. Lessees will recognize most leases on the balance 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 includes 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 evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.
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. The ASU may be adopted prospectively or through a modified retrospective approach. Early adoption is permitted.	January 1, 2017	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and 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. The ASU should be adopted based on a modified retrospective basis for existing debt instruments. Early adoption is permitted.	January 1, 2017	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.
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, in coordination with ASU 2014-09, on our consolidated financial condition and results of operations.
ASU 2016-09, Improvements to Employee Share-based Payment Accounting	These amendments will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled rather than through additional paid in capital in the equity section of the balance sheet. The amendments also permit an employer to repurchase an employee’s shares at the maximum statutory tax rate in the employee’s applicable jurisdiction for tax withholding purposes without triggering	January 1, 2017	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.

liability accounting. Finally, the amendments permit entities to make a one-time accounting policy election to account for forfeitures as they occur. Specific adoption methods depend on the issue being adopted and range from prospective to retrospective adoption. Early adoption is permitted; however, all amendments must be adopted in the same period.

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-10, Identifying Performance Obligations and Licensing	These amendments clarify, among other things, the accounting guidance in ASU 2014-09 regarding how an entity will determine whether promised 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.	January 1, 2018	We are currently evaluating the impact of adopting this ASU, in coordination with ASU 2014-09, on our consolidated financial condition and results of operations.
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, in coordination with ASU 2014-09, on our consolidated financial condition and results of operations.
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 available-for-sale ("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.
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 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 Statement of Cash Flows upon adoption as applicable.

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3. Variable Interest Entities

Consolidated VIEs

See Note 4 in our 2015 Form 10-K for a detailed discussion of our consolidated VIEs, which information is incorporated herein by reference.

The following summarizes information regarding the credit-linked note (“CLN”) structures (dollars in millions) as of September 30, 2016:

	Amount and Date of Issuance	
	\$400 December 2006	\$200 April 2007
Original attachment point (subordination)	5.50%	2.05%
Current attachment point (subordination)	4.21%	1.48%
Maturity	12/20/2016	3/20/2017
Current rating of tranche	A-	BB
Current rating of underlying reference obligations	AA - CCC	AAA - CCC
Number of defaults in underlying reference obligations	3	2
Number of entities	123	99
Number of countries	20	21

The following summarizes the exposure of the CLN structures’ underlying reference obligations by industry and rating as of September 30, 2016:

	AAA	AA	A	BBB	BB	B	CCC	Total
Industry								
Financial intermediaries	0.0%	2.1%	5.1%	3.4%	0.0%	0.0%	0.0%	10.6%
Telecommunications	0.0%	0.3%	1.8%	7.5%	0.9%	0.5%	0.0%	11.0%
Oil and gas	0.3%	1.0%	1.1%	3.9%	1.4%	0.3%	0.0%	8.0%
Utilities	0.0%	0.0%	1.6%	3.0%	0.0%	0.0%	0.0%	4.6%
Chemicals and plastics	0.0%	0.0%	2.6%	0.9%	0.3%	0.0%	0.0%	3.8%

Drugs	0.3%	1.6%	1.8%	0.0%	0.0%	0.0%	0.0%	3.7%
Retailers (except food and drug)	0.0%	0.0%	1.6%	1.4%	0.5%	0.0%	0.0%	3.5%
Industrial equipment	0.0%	0.0%	2.1%	0.7%	0.0%	0.0%	0.0%	2.8%
Sovereign	0.0%	1.2%	1.0%	0.7%	0.3%	0.0%	0.0%	3.2%
Conglomerates	0.0%	2.0%	1.2%	0.0%	0.0%	0.0%	0.0%	3.2%
Forest products	0.0%	0.0%	0.5%	1.1%	1.5%	0.0%	0.0%	3.1%
Other	0.0%	4.1%	14.4%	17.3%	5.7%	0.7%	0.3%	42.5%
Total	0.6%	12.3%	34.8%	39.9%	10.6%	1.5%	0.3%	100.0%

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

	As of September 30, 2016			As of December 31, 2015		
	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	$ -	$ 600	N/A	$ -	$ 598
Total return swap	1	514	-	1	479	-
Credit default swaps (2)	2	600	1	-	-	-
Total assets	3	$ 1,114	$ 601	1	$ 479	$ 598
Liabilities						
Non-qualifying hedges:						
Credit default swaps	-	$ -	$ -	2	$ 600	$ 4
Contingent forwards	2	-	-	2	-	-
Total liabilities (3)	2	$ -	$ -	4	$ 600	$ 4

(1) Reported in variable interest entities' fixed maturity securities on our Consolidated Balance Sheets.
(2) Reported in other investments on our Consolidated Balance Sheets.
(3) Reported in variable interest entities' liabilities on our Consolidated Balance Sheets.

For details related to the fixed maturity AFS securities underlying these VIEs, see Note 4.

As described more fully in Note 1 of our 2015 Form 10-K, we regularly review our investment holdings for other-than-temporary impairment ("OTTI"). Based upon this review, we believe that the AFS fixed maturity securities were not other-than-temporarily impaired as of September 30, 2016.

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

For the Three	For the Nine

	Months Ended September 30,		Months Ended September 30,	
	2016	2015	2016	2015
Non-Qualifying Hedges				
Credit default swaps	$ -	$ 1	$ 5	$ 11
Contingent forwards	-	-	-	-
Total non-qualifying hedges (1)	$ -	$ 1	$ 5	$ 11

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

Unconsolidated VIEs

See Note 4 in our 2015 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 $1.3 billion and $1.2 billion as of September 30, 2016, and December 31, 2015, respectively. Included in these carrying amounts are our investments in qualified affordable housing projects, which were $40 million and $47 million as of September 30, 2016, and December 31, 2015, respectively. We do not have any contingent commitments to provide additional capital funding to these qualified affordable housing projects. We receive returns from these qualified affordable housing projects in the form of income tax credits and other tax benefits, which are recognized in federal income tax expense (benefit) on our Consolidated Statements of Comprehensive Income (Loss) and were $3 million and less than $1 million for the nine months ended September 30, 2016 and 2015, respectively.

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 September 30, 2016.

4. Investments

AFS Securities

See Note 1 in our 2015 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 and losses, OTTI and fair value of AFS securities (in millions) were as follows:

	As of September 30, 2016				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI (1)	Value
Fixed maturity securities:					
Corporate bonds	$ 72,863	$ 7,822	$ 431	$ 1	$ 80,253
Asset-backed securities ("ABS")	1,058	57	11	(12)	1,116
U.S. government bonds	386	72	-	-	458
Foreign government bonds	451	79	-	-	530
Residential mortgage-backed securities ("RMBS")	3,505	214	23	(7)	3,703
Commercial mortgage-backed securities ("CMBS")	298	17	-	(1)	316
Collateralized loan obligations ("CLOs")	682	1	1	(4)	686
State and municipal bonds	3,874	1,070	4	1	4,939
Hybrid and redeemable preferred securities	596	84	49	-	631
VIEs' fixed maturity securities	599	1	-	-	600
Total fixed maturity securities	84,312	9,417	519	(22)	93,232
Equity securities	259	18	4	-	273
Total AFS securities	$ 84,571	$ 9,435	$ 523	$ (22)	$ 93,505

As of December 31, 2015

	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI (1)	Value
Fixed maturity securities:					
Corporate bonds	$ 70,993	$ 3,924	$ 1,984	$ 2	$ 72,931
ABS	1,064	41	17	(13)	1,101
U.S. government bonds	386	45	2	-	429
Foreign government bonds	464	61	1	-	524
RMBS	3,566	186	36	(12)	3,728
CMBS	364	10	2	(4)	376
CLOs	588	1	3	(3)	589
State and municipal bonds	3,806	686	12	-	4,480
Hybrid and redeemable preferred securities	762	88	44	-	806
VIEs’ fixed maturity securities	596	2	-	-	598
Total fixed maturity securities	82,589	5,044	2,101	(30)	85,562
Equity securities	226	17	6	-	237
Total AFS securities	$ 82,815	$ 5,061	$ 2,107	$ (30)	$ 85,799

(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 September 30, 2016, were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 2,600	$ 2,640
Due after one year through five years	18,821	20,082
Due after five years through ten years	18,024	19,120
Due after ten years	38,725	44,969
Subtotal	78,170	86,811
Structured securities (ABS, MBS, CLOs)	6,142	6,421
Total fixed maturity AFS securities	$ 84,312	$ 93,232

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 other comprehensive income (loss) ("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 September 30, 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	$ 2,089	$ 40	$ 3,419	$ 394	$ 5,508	$ 434
ABS	92	1	295	27	387	28
RMBS	265	4	434	26	699	30
CMBS	19	1	17	1	36	2
CLOs	264	1	74	-	338	1
State and municipal bonds	45	1	52	4	97	5
Hybrid and redeemable preferred securities	12	-	166	49	178	49
Total fixed maturity securities	2,786	48	4,457	501	7,243	549

Equity securities	10	1	49	3	59	4
Total AFS securities	$ 2,796	$ 49	$ 4,506	$ 504	$ 7,302	$ 553
Total number of AFS securities in an unrealized loss position						844

	As of December 31, 2015					
	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	$ 20,380	$ 1,364	$ 2,383	$ 623	$ 22,763	$ 1,987
ABS	213	4	274	29	487	33
U.S. government bonds	15	2	-	-	15	2
Foreign government bonds	37	1	-	-	37	1
RMBS	627	21	371	22	998	43
CMBS	116	2	11	2	127	4
CLOs	271	2	49	1	320	3
State and municipal bonds	129	8	27	4	156	12
Hybrid and redeemable preferred securities	38	1	148	43	186	44
Total fixed maturity securities	21,826	1,405	3,263	724	25,089	2,129
Equity securities	47	6	-	-	47	6
Total AFS securities	$ 21,873	$ 1,411	$ 3,263	$ 724	$ 25,136	$ 2,135
Total number of AFS securities in an unrealized loss position						2,007

For information regarding our investments in VIEs, see Note 3.

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 September 30, 2016			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)

Less than six months	$ 93	$ 29	$ 2	18
Six months or greater, but less than nine months	4	1	1	4
Nine months or greater, but less than twelve months	92	36	-	13
Twelve months or greater	326	162	12	71
Total	$ 515	$ 228	$ 15	106

	As of December 31, 2015			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 1,584	$ 701	$ 2	138
Six months or greater, but less than nine months	76	85	-	19
Nine months or greater, but less than twelve months	39	38	-	2
Twelve months or greater	153	83	15	60
Total	$ 1,852	$ 907	$ 17	219

(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 $1.6 billion for the nine months ended September 30, 2016. As discussed further below, we believe the unrealized loss position as of September 30, 2016, did not represent OTTI as (i) we did not intend to sell the fixed maturity AFS securities; (ii) it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost; (iii) the estimated future cash flows were equal to or greater than the amortized cost 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 September 30, 2016, 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 September 30, 2016, 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 September 30, 2016, the unrealized losses associated with our mortgage-backed securities ("MBS") and ABS were attributable primarily to credit spreads. We assessed 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, sector credit ratings 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 September 30, 2016, 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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance as of beginning-of-period	$ 431	$ 374	$ 382	$ 380
Increases attributable to:				

Credit losses on securities for which an OTTI was not previously recognized	6	-	67	16
Credit losses on securities for which an OTTI was previously recognized	5	5	12	12
Decreases attributable to:				
Securities sold, paid down or matured	(6)	(1)	(25)	(30)
Balance as of end-of-period	$ 436	$ 378	$ 436	$ 378

During the nine months ended September 30, 2016 and 2015, 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 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 September 30, 2016			
	Amortized Cost	Net Unrealized Gain/(Loss) Position	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 86	$ (1)	$ 85	$ 91
ABS	218	12	230	110
RMBS	333	7	340	190
CMBS	31	1	32	39
CLOs	11	4	15	5
State and municipal bonds	4	(1)	3	1
Total	$ 683	$ 22	$ 705	$ 436

	As of December 31, 2015			
	Amortized Cost	Net Unrealized Gain/(Loss) Position	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 31	$ (2)	$ 29	$ 28
ABS	199	13	212	108
RMBS	365	12	377	193
CMBS	34	4	38	48
CLOs	11	3	14	5
Total	$ 640	$ 30	$ 670	$ 382

Mortgage Loans on Real Estate

See Note 1 in our 2015 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, which accounted for 20% and 21%, respectively, and Texas, which accounted for 11% and 10%, respectively, of mortgage loans on real estate as of September 30, 2016, and December 31, 2015.

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

	As of September 30, 2016	As of December 31, 2015
Current	$ 9,423	$ 8,677
60 to 90 days past due	6	-
Greater than 90 days past due	2	-
Valuation allowance associated with impaired mortgage loans on real estate	(3)	(2)
Unamortized premium (discount)	2	3
Total carrying value	$ 9,430	$ 8,678

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 September 30, 2016	As of December 31, 2015
Number of impaired mortgage loans on real estate	3	2
Principal balance of impaired mortgage loans on real estate	$ 13	$ 8
Valuation allowance associated with impaired mortgage loans on real estate	(3)	(2)
Carrying value of impaired mortgage loans on real estate	$ 10	$ 6

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance as of beginning-of-period	$ 2	$ 3	$ 2	$ 3
Additions	1	-	1	-
Charge-offs, net of recoveries	-	(1)	-	(1)
Balance as of end-of-period	$ 3	$ 2	$ 3	$ 2

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Average carrying value for impaired mortgage loans on real estate	$ 8	$ 14	$ 6	$ 20
Interest income recognized on impaired mortgage loans on real estate	-	-	-	1
Interest income collected on impaired mortgage loans on real estate	-	-	-	1

As described in Note 1 in our 2015 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 September 30, 2016		As of December 31, 2015	
	Debt-Service		Debt-Service

Loan-to-Value Ratio	Carrying Value	% of Total	Coverage Ratio	Carrying Value	% of Total	Coverage Ratio
Less than 65%	$ 8,239	87.4%	2.14	$ 7,718	88.9%	2.06
65% to 74%	954	10.1%	1.84	653	7.5%	1.60
75% to 100%	227	2.4%	0.93	301	3.5%	0.83
Greater than 100%	10	0.1%	1.10	6	0.1%	1.05
Total mortgage loans on real estate	$ 9,430	100.0%		$ 8,678	100.0%	

Alternative Investments

As of September 30, 2016, and December 31, 2015, alternative investments included investments in 198 and 190 different partnerships, respectively, and the portfolio 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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Fixed maturity AFS securities: (1)				
Gross gains	$ 2	$ 1	$ 64	$ 26
Gross losses	(37)	(23)	(200)	(51)
Equity AFS securities:				
Gross gains	4	1	6	2
Gross losses	-	-	(1)	-
Gain (loss) on other investments	(4)	-	(67)	(7)
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(7)	(5)	(15)	(21)
Total realized gain (loss) related to certain investments, pre-tax	$ (42)	$ (26)	$ (213)	$ (51)

(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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
OTTI Recognized in Net Income (Loss)				
Fixed maturity securities:				
Corporate bonds	$ (6)	$ (16)	$ (68)	$ (31)
ABS	(1)	(1)	(4)	(6)
RMBS	(3)	(3)	(6)	(5)
CMBS	(1)	-	(1)	-
Total fixed maturity securities	(11)	(20)	(79)	(42)
Equity securities	-	-	(1)	-
Gross OTTI recognized in net income (loss)	(11)	(20)	(80)	(42)
Associated amortization of DAC, VOBA, DSI and DFEL	(2)	2	4	4
Net OTTI recognized in net income (loss), pre-tax	$ (13)	$ (18)	$ (76)	$ (38)
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$ 12	$ 5	$ 48	$ 23
Change in DAC, VOBA, DSI and DFEL	(3)	-	(11)	(3)
Net portion of OTTI recognized in OCI, pre-tax	$ 9	$ 5	$ 37	$ 20

Determination of Credit Losses on Corporate Bonds and ABS

As of September 30, 2016, and December 31, 2015, 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 September 30, 2016, and December 31, 2015, 95% and 96%, respectively, of the fair value of our corporate bond portfolio was rated investment grade. As of September 30, 2016, and December 31, 2015, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $4.0 billion and $3.6 billion, respectively, and a fair value of $3.8 billion and $3.3 billion, respectively. As of September 30, 2016, and December 31, 2015, 96% of the fair value of our ABS portfolio was rated investment grade. As of September 30, 2016, and December 31, 2015, the portion of our ABS portfolio rated below investment grade had an amortized cost of $103 million and $107 million, respectively, and a fair value of $88 million and $92 million, respectively. Based upon the analysis discussed above, we believe as of September 30, 2016, and December 31, 2015, that we would recover the amortized cost of each fixed maturity security.

Determination of Credit Losses on MBS

As of September 30, 2016, and December 31, 2015, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between approximately 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 September 30, 2016		As of December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable for derivative investments (1)	$ 2,382	$ 2,382	$ 1,387	$ 1,387
Securities pledged under securities lending agreements (2)	239	230	242	231
Securities pledged under repurchase agreements (3)	783	848	673	739
Investments pledged for Federal Home Loan Bank of Indianapolis ("FHLBI") (4)	2,250	3,615	2,355	3,391
Total payables for collateral on investments	$ 5,654	$ 7,075	$ 4,657	$ 5,748

(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 of 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 Nine Months Ended September 30,	
	2016	2015
Collateral payable for derivative investments	$ 995	$ 364
Securities pledged under securities lending agreements	(3)	25
Securities pledged under repurchase agreements	110	319
Investments pledged for FHLBI	(105)	180
Total increase (decrease) in payables for collateral on investments	$ 997	$ 888

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 September 30, 2016				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater Than 90 Days	Total
Repurchase Agreements					
Corporate bonds	$ -	$ -	$ 385	$ 148	$ 533
RMBS	-	250	-	-	250
Total	-	250	385	148	783
Securities Lending					
Corporate bonds	239	-	-	-	239
Total	239	-	-	-	239
Total gross secured borrowings	$ 239	$ 250	$ 385	$ 148	$ 1,022

	As of December 31, 2015				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater Than 90 Days	Total
Repurchase Agreements					
Corporate bonds	$ -	$ -	$ 275	$ 148	$ 423
RMBS	-	-	-	250	250
Total	-	-	275	398	673
Securities Lending					
Corporate bonds	242	-	-	-	242
Total	242	-	-	-	242
Total gross secured borrowings	$ 242	$ -	$ 275	$ 398	$ 915

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 record 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 that we are permitted to sell or re-pledge. As of September 30, 2016, the fair value of all collateral received that we are permitted to sell or re-pledge was $175 million. As of September 30, 2016, we have not sold or re-pledged this collateral.

Investment Commitments

As of September 30, 2016, our investment commitments were $1.4 billion, which included $727 million of LPs, $503 million of mortgage loans on real estate and $186 million of private placement securities.

Concentrations of Financial Instruments

As of September 30, 2016, and December 31, 2015, 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 $1.7 billion and $1.8 billion, respectively, or 2% of our invested assets portfolio, and our investments in securities issued by Fannie Mae with a fair value of $1.2 billion, or 1% of our invested assets portfolio.

As of September 30, 2016, and December 31, 2015, our most significant investments in one industry were our investments in securities in the consumer non-cyclical industry with a fair value of $14.4 billion and $12.0 billion, respectively, or 13% and 12%, respectively, of our invested assets portfolio, and our investments in securities in the utilities industry with a fair value of $14.0 billion and $12.8 billion, respectively, or 13% and 12%, respectively, of our invested assets portfolio. These concentrations include both AFS and trading securities.

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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 2015 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments. See Note 6 in our 2015 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 September 30, 2016			As of December 31, 2015		
	Notional	Fair Value		Notional	Fair Value	
	Amounts	Asset	Liability	Amounts	Asset	Liability
Qualifying Hedges						
Cash flow hedges:						
Interest rate contracts (1)	$ 2,694	$ 206	$ 377	$ 2,937	$ 192	$ 46
Foreign currency contracts (1)	1,038	140	12	910	84	2
Total cash flow hedges	3,732	346	389	3,847	276	48
Fair value hedges:						
Interest rate contracts (1)	1,512	420	279	1,529	269	198
Non-Qualifying Hedges						
Interest rate contracts (1)	67,740	2,092	307	71,898	1,088	330
Foreign currency contracts (1)	204	-	-	74	-	-
Equity market contracts (1)	29,637	567	492	27,882	680	269
Credit contracts (2)	91	-	-	103	-	9
Embedded derivatives:						
GLB reserves (2)	-	-	1,877	-	-	953
Reinsurance related (3)	-	-	137	-	-	87
Indexed annuity and IUL contracts (4)	-	-	1,125	-	-	1,100
Total derivative instruments	$ 102,916	$ 3,425	$ 4,606	$ 105,333	$ 2,313	$ 2,994

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

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

	Remaining Life as of September 30, 2016					
	Less Than 1 Year	1 - 5 Years	6 - 10 Years	11 - 30 Years	Over 30 Years	Total
Interest rate contracts (1)	$ 10,629	$ 25,755	$ 21,506	$ 12,843	$ 1,213	$ 71,946
Foreign currency contracts (2)	229	120	277	616	-	1,242
Equity market contracts	18,556	8,742	1,872	17	450	29,637
Credit contracts	85	-	6	-	-	91
Total derivative instruments with notional amounts	$ 29,499	$ 34,617	$ 23,661	$ 13,476	$ 1,663	$ 102,916

(1) As of September 30, 2016, 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 September 30, 2016, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was December 2045.

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

	For the Nine Months Ended September 30, 2016	2015
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 132	$ 139
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period:		
Cash flow hedges:		
Interest rate contracts	(319)	(255)
Foreign currency contracts	22	55
Change in foreign currency exchange rate adjustment	42	35
Change in DAC, VOBA, DSI and DFEL	-	1
Income tax benefit (expense)	89	57
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate contracts (1)	4	(193)
Interest rate contracts (2)	(6)	1
Interest rate contracts (3)	1	-
Foreign currency contracts (1)	7	5
Foreign currency contracts (3)	6	-
Associated amortization of DAC, VOBA, DSI and DFEL	(1)	2
Income tax benefit (expense)	(4)	65
Balance as of end-of-period	$ (41)	$ 152

(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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Qualifying Hedges				
Cash flow hedges:				
Interest rate contracts (1)	$ 1	$ 1	$ 4	$ 5
Interest rate contracts (2)	(4)	-	(6)	1
Interest rate contracts (3)	1	-	1	-
Foreign currency contracts (1)	4	2	7	5
Foreign currency contracts (3)	3	-	6	-
Total cash flow hedges	5	3	12	11
Fair value hedges:				
Interest rate contracts (1)	(8)	(7)	(22)	(22)
Interest rate contracts (2)	8	8	24	24
Interest rate contracts (3)	5	(44)	(81)	(214)
Total fair value hedges	5	(43)	(79)	(212)
Non-Qualifying Hedges				
Interest rate contracts (3)	19	625	1,609	435
Foreign currency contracts (3)	(2)	(6)	(5)	(12)
Equity market contracts (3)	(519)	491	(1,100)	201
Equity market contracts (4)	7	(10)	9	(6)
Credit contracts (3)	1	(5)	(6)	(4)
Embedded derivatives:				
GLB reserves (3)	581	(1,439)	(924)	(1,113)
Reinsurance related (3)	(3)	4	(50)	34
Indexed annuity and IUL contracts (3)	(64)	86	(76)	39
Total derivative instruments	$ 30	$ (294)	$ (610)	$ (627)

(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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Offset to net investment income	$ 5	$ 3	$ 11	$ 10
Offset to realized gain (loss)	4	-	7	-
Offset to interest and debt expense	(4)	-	(6)	1

As of September 30, 2016, $(1) 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 nine months ended September 30, 2016 and 2015, 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 open credit default swaps for which we are the seller (dollars in millions) was as follows:

As of September 30, 2016

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
12/20/2016 (3)	(4)	(5)	BB	2	$ -	$ 45
3/20/2017 (3)	(4)	(5)	BBB+	2	-	40
				4	$ -	$ 85

As of December 31, 2015

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
12/20/2016 (3)	(4)	(5)	BBB-	2	$ (2)	$ 45
3/20/2017 (3)	(4)	(5)	BBB-	3	(7)	58
				5	$ (9)	$ 103

(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 these credit default swaps.
(3) These credit default swaps were sold to a counterparty of the consolidated VIEs discussed in Note 4 in our 2015 Form 10-K.
(4) Credit default swaps were entered into in order to generate income by providing default protection in return for a quarterly payment.
(5) Sellers do not have the right to demand indemnification or compensation from third parties in case of a loss (payment) on the contract.

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

As of As of

	September 30, 2016	December 31, 2015
Maximum potential payout	$ 85	$ 103
Less: Counterparty thresholds	-	-
Maximum collateral potentially required to post	$ 85	$ 103

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 less than $1 million as of September 30, 2016.

Credit Risk

We are exposed to credit loss 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 September 30, 2016, 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 September 30, 2016, 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:

S&P Credit Rating of Counterparty	As of September 30, 2016 Collateral Posted by Counter-Party (Held by LNC)	As of September 30, 2016 Collateral Posted by LNC (Held by Counter-Party)	As of December 31, 2015 Collateral Posted by Counter-Party (Held by LNC)	As of December 31, 2015 Collateral Posted by LNC (Held by Counter-Party)
AA-	$ 145	$ -	$ 92	$ -
A+	57	(15)	67	-
A	1,574	(427)	866	(143)
A-	5	-	11	-
BBB+	600	(82)	351	-
	$ 2,381	$ (524)	$ 1,387	$ (143)

Balance Sheet Offsetting

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

	As of September 30, 2016 Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	$ 3,103	$ -	$ 3,103
Gross amounts offset	(933)	-	(933)
Net amount of assets	2,170	-	2,170
Gross amounts not offset:			

Cash collateral	(2,381)	-	(2,381)
Net amount	$ (211)	$ -	$ (211)
Financial Liabilities			
Gross amount of recognized liabilities	$ 534	$ 3,139	$ 3,673
Gross amounts offset	(322)	-	(322)
Net amount of liabilities	212	3,139	3,351
Gross amounts not offset:			
Cash collateral	(524)	-	(524)
Net amount	$ (312)	$ 3,139	$ 2,827

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	As of December 31, 2015		
	Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	$ 2,250	$ -	$ 2,250
Gross amounts offset	(713)	-	(713)
Net amount of assets	1,537	-	1,537
Gross amounts not offset:			
Cash collateral	(1,387)	-	(1,387)
Net amount	$ 150	$ -	$ 150
Financial Liabilities			
Gross amount of recognized liabilities	$ 139	$ 2,140	$ 2,279
Gross amounts offset	(61)	-	(61)
Net amount of liabilities	78	2,140	2,218
Gross amounts not offset:			
Cash collateral	(143)	-	(143)
Net amount	$ (65)	$ 2,140	$ 2,075

6. Federal Income Taxes

The effective tax rate is the ratio of tax expense over pre-tax income (loss). The effective tax rate was 24% and 21% for the three and nine months ended September 30, 2016, respectively. The effective tax rate was 15% and 19% for the three and nine months ended September 30, 2015, respectively. The effective tax rate on pre-tax income from continuing operations was 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 certain tax preferred investment income, separate account dividends-received deductions, foreign tax credits and other tax preference items. The effective tax rate on the pre-tax income from continuing operations was higher for the three and nine months ended September 30, 2016, compared to the corresponding periods in 2015. This increase was due primarily to a higher level of pre-tax income that caused the tax preference items to have a less significant impact in 2016, partially offset by higher tax benefits primarily attributable to the release of reserves associated with prior tax years that closed in the third quarter of 2016.

7. Guaranteed Benefit Features

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

	As of September 30, 2016 (1)	As of December 31, 2015 (1)
Return of Net Deposits		
Total account value	$ 88,134	$ 85,345
Net amount at risk (2)	807	1,201
Average attained age of contract holders	63 years	63 years
Minimum Return		
Total account value	$ 107	$ 111
Net amount at risk (2)	22	24
Average attained age of contract holders	75 years	75 years
Guaranteed minimum return	5%	5%
Anniversary Contract Value		
Total account value	$ 24,969	$ 24,659
Net amount at risk (2)	745	1,345
Average attained age of contract holders	69 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.

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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 Nine Months Ended September 30,	
	2016	2015
Balance as of beginning-of-year	$ 115	$ 89
Changes in reserves	22	59
Benefits paid	(31)	(17)
Balance as of end-of-period	$ 106	$ 131

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 September 30, 2016	As of December 31, 2015
Asset Type		
Domestic equity	$ 50,974	$ 48,362
International equity	19,155	18,382
Bonds	29,022	26,492
Money market	10,774	13,057
Total	$ 109,925	$ 106,293
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 35% of total life insurance in-force reserves as of September 30, 2016, and December 31, 2015. UL and VUL products with secondary guarantees represented 35% and 33% of total sales for the three and nine months ended September 30, 2016, respectively, compared to 33% and 32% for the corresponding periods in 2015.

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 and its subsidiaries are 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 reasonably possible verdicts 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 September 30, 2016.

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 September 30, 2016, 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.

Helen Hanks v. The Lincoln Life and Annuity Company of New York ("LLANY") and Voya Retirement Insurance and Annuity Company ("Voya"), filed in the U.S. District Court for the Southern District of New York, No. 16cv6399, is a putative class action that was served on LLANY on August 12, 2016. Plaintiff owns a universal life policy originally issued by Aetna (now Voya) and alleges that (i) Voya breached the terms of the policy when it increased cost of insurance ("COI") rates on plaintiff's policy; and (ii) LLANY, as reinsurer and administrator of Plaintiff's policy, engaged in wrongful conduct related to the COI increase, and was unjustly enriched as a result. Plaintiff seeks to represent all owners of Aetna life insurance policies that were subject to COI rate increases in 2016 and seeks damages on their behalf. We are vigorously defending this matter.

See Note 13 in our 2015 Form 10-K and Note 8 in our Form 10-Q for the quarters ended March 31, 2016, and June 30, 2016, 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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Common Stock				
Balance as of beginning-of-period	232,784,691	250,918,893	243,835,893	256,551,440
Stock issued for exercise of warrants	16,767	188,530	54,915	1,168,966
Stock compensation/issued for benefit plans	46,267	40,031	716,409	2,028,913
Retirement/cancellation of shares	(4,318,438)	(3,682,523)	(16,077,930)	(12,284,388)
Balance as of end-of-period	228,529,287	247,464,931	228,529,287	247,464,931
Common Stock as of End-of-Period				
Basic basis	228,529,287	247,464,931	228,529,287	247,464,931
Diluted basis	231,277,156	251,220,934	231,277,156	251,220,934

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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Weighted-average shares, as used in basic calculation	231,041,085	249,227,641	236,374,010	252,167,909
Shares to cover exercise of outstanding warrants	1,088,717	1,219,729	1,096,356	1,476,038
Shares to cover non-vested stock	1,110,342	1,229,031	1,057,199	1,314,445
Average stock options outstanding during the period	2,405,396	2,646,184	2,107,456	3,388,172
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(247,909)	(236,042)	(268,177)	(275,928)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(1,721,612)	(1,870,146)	(1,525,970)	(2,424,332)
Shares repurchasable from measured but unrecognized stock option expense	(87,623)	(33,847)	(42,368)	(53,413)
Average deferred compensation shares	-	1,028,061	1,080,205	1,024,369
Weighted-average shares, as used in diluted calculation	233,588,396	253,210,611	239,878,711	256,617,260

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 nine months ended September 30, 2016, and the three and nine months ended September 30, 2015, 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 nine months ended September 30, 2016, and $7 million and $6 million for the three and nine months ended September 30, 2015, respectively.

AOCI

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

	For the Nine Months Ended September 30,	
	2016	2015
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	$ 991	$ 3,175
Unrealized holding gains (losses) arising during the period	5,827	(2,870)
Change in foreign currency exchange rate adjustment	(47)	(35)
Change in DAC, VOBA, DSI, future contract benefits and other contract holder funds	(1,733)	841
Income tax benefit (expense)	(1,429)	713
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(131)	175
Associated amortization of DAC, VOBA, DSI and DFEL	(14)	(23)
Income tax benefit (expense)	51	(53)
Balance as of end-of-period	$ 3,703	$ 1,725
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	$ 26	$ 64
(Increases) attributable to:		
Gross OTTI recognized in OCI during the period	(48)	(23)
Change in DAC, VOBA, DSI and DFEL	11	3
Income tax benefit (expense)	12	7
Decreases attributable to:		
Changes in fair value, sales, maturities or other settlements of AFS securities	40	31
Change in DAC, VOBA, DSI and DFEL	(8)	(13)
Income tax benefit (expense)	(11)	(6)
Balance as of end-of-period	$ 22	$ 63
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 132	$ 139
Unrealized holding gains (losses) arising during the period	(297)	(200)
Change in foreign currency exchange rate adjustment	42	35
Change in DAC, VOBA, DSI and DFEL	-	1
Income tax benefit (expense)	89	57
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	12	(187)
Associated amortization of DAC, VOBA, DSI and DFEL	(1)	2
Income tax benefit (expense)	(4)	65
Balance as of end-of-period	$ (41)	$ 152
Foreign Currency Translation Adjustment		

Balance as of beginning-of-year	$ (5)	$ (3)
Foreign currency translation adjustment arising during the period	(15)	1
Balance as of end-of-period	$ (20)	$ (2)
Funded Status of Employee Benefit Plans		
Balance as of beginning-of-year	$ (299)	$ (279)
Adjustment arising during the period	12	5
Income tax benefit (expense)	-	(1)
Balance as of end-of-period	$ (287)	$ (275)

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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 Nine Months Ended September 30, 2016	2015	
Unrealized Gain (Loss) on AFS Securities			
Gross reclassification	$ (131)	$ 175	Total realized gain (loss)
Associated amortization of DAC, VOBA, DSI and DFEL	(14)	(23)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	(145)	152	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	51	(53)	Federal income tax expense (benefit)
Reclassification, net of income tax	$ (94)	$ 99	Net income (loss)
Unrealized OTTI on AFS Securities			
Gross reclassification	$ 1	$ 31	Total realized gain (loss)
Change in DAC, VOBA, DSI and DFEL	-	(13)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	1	18	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	-	(6)	Federal income tax expense (benefit)
Reclassification, net of income tax	$ 1	$ 12	Net income (loss)
Unrealized Gain (Loss) on Derivative Instruments			
Gross reclassifications:			
Interest rate contracts	$ 4	$ (193)	Net investment income
Interest rate contracts	(6)	1	Interest and debt expense
Interest rate contracts	1	-	Total realized gain (loss)
Foreign currency contracts	7	5	Net investment income
Foreign currency contracts	6	-	Total realized gain (loss)
Total gross reclassifications	12	(187)	
Associated amortization of DAC, VOBA, DSI and DFEL	(1)	2	Commissions and other expenses
Reclassifications before income tax benefit (expense)	11	(185)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	(4)	65	Federal income tax expense (benefit)
Reclassification, net of income tax	$ 7	$ (120)	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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Total realized gain (loss) related to certain investments (1)	$ (42)	$ (26)	$ (213)	$ (51)
Realized gain (loss) on the mark-to-market on certain instruments (2)	(2)	(16)	(2)	(27)
Indexed annuity and IUL contracts net derivatives results: (3)				
Gross gain (loss)	9	(32)	(24)	(64)
Associated amortization of DAC, VOBA, DSI and DFEL	(4)	6	2	12
Variable annuity net derivatives results: (4)				
Gross gain (loss)	90	119	138	149
Associated amortization of DAC, VOBA, DSI and DFEL	(14)	(24)	(22)	(27)
Realized gain (loss) on sale of subsidiaries/businesses (5)	-	-	-	(3)
Total realized gain (loss)	$ 37	$ 27	$ (121)	$ (11)

(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 guaranteed living benefits ("GLB") riders and the change in the fair value of the derivative investments 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.
(5) See Note 3 in our 2015 Form 10-K for more information.

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 September 30, 2016	For the Nine Months Ended September 30, 2016
10-year LNC stock options	-	776,895
Performance shares	-	291,298
RSUs	-	764,237
Non-employee:		
SARs	-	63,807
Agent stock options	160	92,310
Director DSUs	9,642	31,233

12. Fair Value of Financial Instruments

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

	As of September 30, 2016		As of December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity securities	$ 92,632	$ 92,632	$ 84,964	$ 84,964
VIEs' fixed maturity securities	600	600	598	598
Equity securities	273	273	237	237
Trading securities	1,808	1,808	1,854	1,854
Mortgage loans on real estate	9,430	9,889	8,678	8,936
Derivative investments (1)	2,170	2,170	1,537	1,537
Other investments (2)	2,184	2,184	1,778	1,778
Cash and invested cash	3,444	3,444	3,146	3,146
Other assets – reinsurance recoverable	474	474	268	268
Separate account assets	128,593	128,593	123,619	123,619
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(1,125)	(1,125)	(1,100)	(1,100)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(641)	(641)	(687)	(687)
Account values of certain investment contracts	(31,413)	(38,218)	(30,392)	(34,618)
Short-term debt (3)	(250)	(250)	-	-
Long-term debt	(5,457)	(5,389)	(5,553)	(5,505)
Reinsurance related embedded derivatives	(137)	(137)	(87)	(87)
VIEs' liabilities – derivative instruments	-	-	(4)	(4)
Other liabilities:				
Credit default swaps	-	-	(9)	(9)
Derivative liabilities (1)	(212)	(212)	(69)	(69)
GLB reserves embedded derivatives (4)	(1,877)	(1,877)	(953)	(953)

(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) Includes credit default swaps in an asset position associated with consolidated VIEs.

(3)

The difference between the carrying value and fair value of short-term debt as of September 30, 2016, related to current maturities of long-term debt.

(4) Portions of our GLB reserves 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 September 30, 2016, and December 31, 2015, 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 September 30, 2016, or December 31, 2015, 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 2015 Form 10-K:

	As of September 30, 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	$ -	77,822	$ 2,431	$ 80,253
ABS	-	1,081	35	1,116
U.S. government bonds	446	4	8	458
Foreign government bonds	-	417	113	530
RMBS	-	3,649	54	3,703
CMBS	-	278	38	316
CLOs	-	612	74	686
State and municipal bonds	-	4,939	-	4,939
Hybrid and redeemable preferred securities	63	480	88	631
VIEs' fixed maturity securities	-	600	-	600
Equity AFS securities	13	97	163	273
Trading securities	103	1,629	76	1,808
Derivative investments (1)	-	2,668	758	3,426
Other investments (2)	148	-	1	149
Cash and invested cash	-	3,444	-	3,444
Other assets – reinsurance recoverable	-	-	474	474
Separate account assets	858	127,735	-	128,593
Total assets	$ 1,631	$ 225,455	$ 4,313	$ 231,399
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	$ -	$ -	$ (1,125)	$ (1,125)
Long-term debt	-	(1,203)	-	(1,203)
Reinsurance related embedded derivatives	-	(137)	-	(137)
Other liabilities:				
Derivative liabilities (1)	-	(974)	(494)	(1,468)

GLB reserves embedded derivatives	-	-	(1,877)	(1,877)
Total liabilities	$ -	$ (2,314)	$ (3,496)	$ (5,810)

	As of December 31, 2015			
	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	$ 60	$ 70,878	$ 1,993	$ 72,931
ABS	-	1,056	45	1,101
U.S. government bonds	412	17	-	429
Foreign government bonds	-	413	111	524
RMBS	-	3,727	1	3,728
CMBS	-	366	10	376
CLOs	-	38	551	589
State and municipal bonds	-	4,480	-	4,480
Hybrid and redeemable preferred securities	48	664	94	806
VIEs’ fixed maturity securities	-	598	-	598
Equity AFS securities	8	65	164	237
Trading securities	160	1,621	73	1,854
Other investments	148	-	-	148
Derivative investments (1)	-	1,459	853	2,312
Cash and invested cash	-	3,146	-	3,146
Other assets – reinsurance recoverable	-	-	268	268
Separate account assets	1,053	122,566	-	123,619
Total assets	$ 1,889	$ 211,094	$ 4,163	$ 217,146
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	$ -	$ -	$ (1,100)	$ (1,100)
Long-term debt	-	(1,203)	-	(1,203)
Reinsurance related embedded derivatives	-	(87)	-	(87)
VIEs’ liabilities – derivative instruments	-	-	(4)	(4)
Other liabilities:				
Credit default swaps	-	-	(9)	(9)
Derivative liabilities (1)	-	(546)	(298)	(844)
GLB reserves embedded derivatives	-	-	(953)	(953)

Total liabilities	$ -	$ (1,836)	$ (2,364)	$ (4,200)

(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.
(2) Includes credit default swaps in an asset position associated with consolidated VIEs.

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 September 30, 2016					
	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	$ 2,425	$ (1)	$ 15	$ (74)	$ 66	$ 2,431
ABS	62	-	-	-	(27)	35
U.S. government bonds	10	-	-	(2)	-	8
Foreign government bonds	112	-	1	-	-	113
RMBS	16	-	-	51	(13)	54
CMBS	8	-	-	30	-	38
CLOs	45	-	(1)	35	(5)	74
Hybrid and redeemable preferred securities	89	-	(1)	-	-	88
Equity AFS securities	170	3	(6)	(4)	-	163
Trading securities	65	1	4	6	-	76
Derivative investments	423	(89)	(1)	(69)	-	264
Other investments (4)	1	-	-	-	-	1
Other assets – reinsurance recoverable (5)	539	(65)	-	-	-	474
Future contract benefits – indexed annuity and IUL contracts embedded derivatives (5)	(1,102)	(64)	-	41	-	(1,125)
Other liabilities:						
Credit default swaps (4)	(16)	1	-	15	-	-
GLB reserves embedded derivatives (5)	(2,458)	581	-	-	-	(1,877)
Total, net	$ 389	$ 367	$ 11	$ 29	$ 21	$ 817

	For the Three Months Ended September 30, 2015					
	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	$ 2,039	$ 3	$ (34)	$ 60	$ (66)	$ 2,002
ABS	33	-	-	13	-	46
Foreign government bonds	114	-	(3)	-	4	115
RMBS	1	-	-	-	-	1
CMBS	12	1	2	(4)	-	11
CLOs	461	-	1	15	-	477
Hybrid and redeemable preferred securities	96	-	(2)	-	-	94
Equity AFS securities	141	1	-	19	-	161
Trading securities	72	1	1	-	2	76
Derivative investments	740	158	53	(52)	-	899
Other assets: (5)						
GLB reserves embedded derivatives	254	(254)	-	-	-	-
Reinsurance recoverable	102	192	-	-	-	294
Future contract benefits – indexed annuity and IUL contracts embedded derivatives (5)	(1,155)	86	-	26	-	(1,043)
VIEs' liabilities – derivative instruments (4)	(3)	1	-	-	-	(2)
Other liabilities:						
Credit default swaps (4)	(2)	(5)	-	-	-	(7)
GLB reserves embedded derivatives (5)	(102)	(1,185)	-	-	-	(1,287)
Total, net	$ 2,803	$ (1,001)	$ 18	$ 77	$ (60)	$ 1,837

	For the Nine Months Ended September 30, 2016					
	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	$ 1,993	$ (1)	$ 79	$ 72	$ 288	$ 2,431
ABS	45	-	(1)	14	(23)	35
U.S. government bonds	-	-	-	8	-	8
Foreign government bonds	111	-	2	-	-	113
RMBS	1	-	-	66	(13)	54
CMBS	10	2	(1)	27	-	38
CLOs	551	-	1	113	(591)	74
Hybrid and redeemable preferred securities	94	-	(6)	-	-	88
Equity AFS securities	164	3	(4)	-	-	163
Trading securities	73	3	5	5	(10)	76
Derivative investments	555	(346)	170	(115)	-	264
Other investments (4)	-	1	-	-	-	1
Other assets – reinsurance recoverable (5)	268	206	-	-	-	474
Future contract benefits – indexed annuity and IUL contracts embedded derivatives (5)	(1,100)	(76)	-	51	-	(1,125)
VIEs’ liabilities – derivative instruments (4)	(4)	4	-	-	-	-
Other liabilities:						
Credit default swaps (4)	(9)	(6)	-	15	-	-
GLB reserves embedded derivatives (5)	(953)	(924)	-	-	-	(1,877)
Total, net	$ 1,799	$ (1,134)	$ 245	$ 256	$ (349)	$ 817

	For the Nine Months Ended September 30, 2015					
	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	$ 1,953	$ 6	$ (123)	$ 150	$ 16	$ 2,002
ABS	33	-	-	13	-	46
Foreign government bonds	109	-	2	-	4	115
RMBS	1	-	-	-	-	1
CMBS	15	3	6	(13)	-	11
CLOs	368	-	4	117	(12)	477
Hybrid and redeemable preferred securities	55	(1)	(3)	-	43	94
Equity AFS securities	157	2	-	3	(1)	161
Trading securities	73	2	(1)	-	2	76
Derivative investments	989	185	(22)	(253)	-	899
Other assets – reinsurance recoverable (5)	154	140	-	-	-	294
Future contract benefits – indexed annuity and IUL contracts embedded derivatives (5)	(1,170)	39	-	88	-	(1,043)
VIEs' liabilities – derivative instruments (4)	(13)	11	-	-	-	(2)
Other liabilities:						
Credit default swaps (4)	(3)	(4)	-	-	-	(7)
GLB reserves embedded derivatives (5)	(174)	(1,113)	-	-	-	(1,287)
Total, net	$ 2,547	$ (730)	$ (137)	$ 105	$ 52	$ 1,837

(1) The changes in fair value of the interest rate swaps are offset by an adjustment to derivative investments (see Note 5).

(2) Transfers into or out of Level 3 for AFS and trading securities are displayed at amortized cost as of the beginning-of-period. For AFS and trading securities, the difference between beginning-of-period amortized cost and beginning-of-period fair value was included in OCI and earnings, respectively, in the prior period.

(3) Amortization and accretion of premiums and discounts are included in net investment income on our Consolidated Statements of Comprehensive Income (Loss). Gains (losses) from sales, maturities, settlements and calls and OTTI are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

(4) The changes in fair value of the credit default swaps and contingency forwards are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

(5) Gains (losses) from sales, maturities, settlements and calls are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

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The following provides the components of the items included in issuances, sales, maturities, settlements and calls, net, excluding any effect of amortization of DAC, VOBA, DSI and DFEL and changes in future contract benefits, (in millions) as reported above:

	For the Three Months Ended September 30, 2016					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 92	$ (20)	$ (18)	$ (50)	$ (78)	$ (74)
U.S. government bonds	-	-	-	(2)	-	(2)
RMBS	51	-	-	-	-	51
CMBS	31	-	-	(1)	-	30
CLOs	35	-	-	-	-	35
Equity AFS securities	-	(4)	-	-	-	(4)
Trading securities	7	-	-	(1)	-	6
Derivative investments	47	(46)	(70)	-	-	(69)
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(13)	-	-	54	-	41
Other liabilities – credit default swaps	-	15	-	-	-	15
Total, net	$ 250	$ (55)	$ (88)	$ -	$ (78)	$ 29

	For the Three Months Ended September 30, 2015					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 93	$ (3)	$ -	$ (30)	$ -	$ 60
ABS	13	-	-	-	-	13
CMBS	-	-	-	(4)	-	(4)
CLOs	30	-	-	(15)	-	15
Equity AFS securities	33	(14)	-	-	-	19
Derivative investments	52	(28)	(76)	-	-	(52)
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(24)	-	-	50	-	26
Total, net	$ 197	$ (45)	$ (76)	$ 1	$ -	$ 77

	For the Nine Months Ended September 30, 2016					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 381	$ (19)	$ (22)	$ (133)	$ (135)	$ 72
ABS	15	-	-	(1)	-	14
U.S. government bonds	-	-	-	8	-	8
RMBS	66	-	-	-	-	66
CMBS	31	(2)	-	(2)	-	27
CLOs	115	-	-	(2)	-	113
Equity AFS securities	4	(4)	-	-	-	-
Trading securities	6	-	-	(1)	-	5
Derivative investments	132	(133)	(114)	-	-	(115)
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(58)	-	-	109	-	51
Other liabilities – credit default swaps	-	15	-	-	-	15
Total, net	$ 692	$ (143)	$ (136)	$ (22)	$ (135)	$ 256

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	For the Nine Months Ended September 30, 2015					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 287	$ (24)	$ (15)	$ (80)	$ (18)	$ 150
ABS	13	-	-	-	-	13
CMBS	-	-	-	(12)	(1)	(13)
CLOs	139	-	-	(22)	-	117
Equity AFS securities	43	(40)	-	-	-	3
Derivative investments	140	(124)	(269)	-	-	(253)
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(54)	-	-	142	-	88
Total, net	$ 568	$ (188)	$ (284)	$ 28	$ (19)	$ 105

The following summarizes changes in unrealized gains (losses) included in net income, excluding any effect of amortization of DAC, VOBA, DSI and DFEL and changes in future contract benefits, related to financial instruments carried at fair value classified within Level 3 that we still held (in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Derivative investments	$ (94)	$ 162	$ (271)	$ 177
Other investments	-	-	1	-
Embedded derivatives:				
Indexed annuity and IUL contracts	(1)	(35)	(24)	(69)
GLB reserves	712	(1,297)	(521)	(712)
VIEs' liabilities – derivative instruments	-	1	4	12
Credit default swaps	9	(5)	2	(4)
Total, net (1)	$ 626	$ (1,174)	$ (809)	$ (596)

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

The following provides the components of the transfers into and out of Level 3 (in millions) as reported above:

	For the Three Months Ended September 30, 2016			For the Three Months Ended September 30, 2015		
	Transfers Into Level 3	Transfers Out of Level 3	Total	Transfers Into Level 3	Transfers Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 147	$ (81)	$ 66	$ -	$ (66)	$ (66)
ABS	-	(27)	(27)	-	-	-
Foreign government bonds	-	-	-	4	-	4
RMBS	3	(16)	(13)	-	-	-
CLOs	-	(5)	(5)	-	-	-
Trading securities	-	-	-	3	(1)	2
Total, net	$ 150	$ (129)	$ 21	$ 7	$ (67)	$ (60)

	For the Nine Months Ended September 30, 2016			For the Nine Months Ended September 30, 2015		
	Transfers Into Level 3	Transfers Out of Level 3	Total	Transfers Into Level 3	Transfers Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 476	$ (188)	$ 288	$ 159	$ (143)	$ 16
ABS	4	(27)	(23)	-	-	-
Foreign government bonds	-	-	-	4	-	4
RMBS	3	(16)	(13)	-	-	-
CLOs	-	(591)	(591)	4	(16)	(12)
Hybrid and redeemable preferred securities	-	-	-	48	(5)	43
Equity AFS securities	-	-	-	-	(1)	(1)

Trading securities	1	(11)	(10)	3	(1)	2
Total, net	$ 484	$ (833)	$ (349)	$ 218	$ (166)	$ 52

Transfers into and out of Level 3 are generally the result of observable market information on a security no longer being available or becoming available to our pricing vendors. For the nine months ended September 30, 2016 and 2015, transfers in and out of Level 3 were attributable primarily to the securities' observable market information no longer being available or becoming available. Transfers into and out of Levels 1 and 2 are generally the result of a change in the type of input used to measure the fair value of an asset or liability at the end of the reporting period. When quoted prices in active markets become available, transfers from Level 2 to Level 1 will result. When quoted prices in active markets become unavailable, but we are able to employ a valuation methodology using significant observable inputs, transfers from Level 1 to Level 2 will result. For the nine months ended September 30, 2016, the transfers between Levels 1 and 2 of the fair value hierarchy were less than $1 million for our financial instruments carried at fair value. For the nine months ended September 30, 2015, the transfers between Levels 1 and 2 of the fair value hierarchy were $172 million for our financial instruments carried at fair value, which was attributable to quoted market prices being available.

The following summarizes the fair value (in millions), valuation techniques and significant unobservable inputs of the Level 3 fair value measurements as of September 30, 2016:

	Fair Value	Valuation Technique	Significant Unobservable Inputs	Assumption or Input Ranges
Assets				
Investments:				
Fixed maturity AFS and trading securities:				
Corporate bonds	$ 1,836	Discounted cash flow	Liquidity/duration adjustment (1)	0.7 % - 29.8 %
ABS	25	Discounted cash flow	Liquidity/duration adjustment (1)	3.8 % - 3.8 %
U.S. government bonds	8	Discounted cash flow	Liquidity/duration adjustment (1)	0.5 % - 0.5 %
Foreign government bonds	79	Discounted cash flow	Liquidity/duration adjustment (1)	1.6 % - 4.1 %
Hybrid and redeemable preferred securities	20	Discounted cash flow	Liquidity/duration adjustment (1)	2.2 % - 2.2 %
Equity AFS securities	26	Discounted cash flow	Liquidity/duration adjustment (1)	4.5 % - 5.1 %
Other assets – reinsurance recoverable	474	Discounted cash flow	Long-term lapse rate (2)	1 % - 30 %
			Utilization of guaranteed withdrawals (3)	85 % - 100 %
			Claims utilization factor (4)	60 % - 100 %
			Premiums utilization	80 % - 115 %

			factor (4)		
			NPR (5)	0.03%	- 0.51%
			Mortality rate (6)		(8)
			Volatility (7)	1 %	- 29 %
Liabilities					
Future contract benefits – indexed annuity and IUL contracts					
embedded derivatives	$ (1,125)	Discounted cash flow	Lapse rate (2)	1 %	- 9 %
			Mortality rate (6)		(8)
Other liabilities – GLB reserves					
embedded derivatives	(1,877)	Discounted cash flow	Long-term lapse rate (2)	1 %	- 30 %
			Utilization of guaranteed withdrawals (3)	85 %	- 100 %
			Claims utilization factor (4)	60 %	- 100 %
			Premiums utilization factor (4)	80 %	- 115 %
			NPR (5)	0.03%	- 0.51%
			Mortality rate (6)		(8)
			Volatility (7)	1 %	- 29 %

(1) The liquidity/duration adjustment input represents an estimated market participant composite of adjustments attributable to liquidity premiums, expected durations, structures and credit quality that would be applied to the market observable information of an investment.

(2) The lapse rate input represents the estimated probability of a contract surrendering during a year, and thereby forgoing any future benefits. The range for indexed annuity and IUL contracts represents the lapse rates during the surrender charge period.

(3) The utilization of guaranteed withdrawals input represents the estimated percentage of contract holders that utilize the guaranteed withdrawal feature.

(4) The utilization factors are applied to the present value of claims or premiums, as appropriate, in the GLB reserve calculation to estimate the impact of inefficient withdrawal behavior, including taking less than or more than the maximum guaranteed withdrawal.

(5) The NPR input represents the estimated additional credit spread that market participants would apply to the market observable discount rate when pricing a contract.

(6) The mortality rate input represents the estimated probability of when an individual belonging to a particular group, categorized according to age or some other factor such as gender, will die.

(7) The volatility input represents overall volatilities assumed for the underlying variable annuity funds, which include a mixture of equity and fixed-income assets. Fair value of the variable annuity GLB embedded derivatives would increase if higher volatilities were used for valuation.

(8) The mortality rate is based on a combination of company and industry experience, adjusted for improvement factors.

From the table above, we have excluded Level 3 fair value measurements obtained from independent, third-party pricing sources. We do not develop the significant inputs used to measure the fair value of these assets and liabilities, and the information regarding the significant inputs is not readily available to us. Independent broker-quoted fair values are non-binding quotes developed by market makers or broker-dealers obtained from third-party sources recognized as market participants. The fair value of a broker-quoted asset or liability is based solely on the receipt of an updated quote from a single market maker or a broker-dealer recognized as a market participant as we do not adjust broker quotes when used as the fair value measurement for an asset or liability. Significant increases or decreases in any of the quotes received from a third-party broker-dealer may result in a significantly higher or lower fair value measurement.

Changes in any of the significant inputs presented in the table above may result in a significant change in the fair value measurement of the asset or liability as follows:

- Investments – An increase in the liquidity/duration adjustment input would result in a decrease in the fair value measurement.
- Reinsurance recoverable asset – An increase in our lapse rate, NPR or mortality rate inputs would result in a decrease in the fair value measurement; and an increase in the utilization of guarantee withdrawal or volatility inputs would result in an increase in the fair value measurement.
- Indexed annuity and IUL contracts embedded derivatives – An increase in the lapse rate or mortality rate inputs would result in a decrease in the fair value measurement.
- GLB reserves embedded derivatives – Assuming our GLB reserves embedded derivatives are in a liability position: an increase in our lapse rate, NPR or mortality rate inputs would result in a decrease in the fair value measurement; and an increase in the utilization of guarantee withdrawal or volatility inputs would result in an increase in the fair value measurement.

For each category discussed above, the unobservable inputs are not inter-related; therefore, a directional change in one input will not affect the other inputs.

As part of our ongoing valuation process, we assess the reasonableness of our valuation techniques or models and make adjustments as necessary. For more information, see "Summary of Significant Accounting Policies" in Note 1 of our 2015 Form 10-K.

13. Segment Information

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. See Note 21 of our 2015 Form 10-K for a brief description of these segments and Other Operations.

Segment operating revenues and income (loss) from operations are internal measures used by our management and Board of Directors to evaluate and assess the results of our segments. Income (loss) from operations is GAAP net income excluding the after-tax effects of the following items, as applicable:

· Realized gains and losses associated with the following ("excluded realized gain (loss)"):
§ Sales or disposals and impairments of securities;
§ Changes in the fair value of derivatives, embedded derivatives within certain reinsurance arrangements and trading securities;
§ Changes in the fair value of the derivatives we own to hedge our GDB riders within our variable annuities;
§ Changes in the fair value of the embedded derivatives of our GLB riders reflected within variable annuity net derivative results accounted for at fair value;
§ Changes in the fair value of the derivatives we own to hedge our GLB riders reflected within variable annuity net derivative results; and
§ Changes in the fair value of the 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 accounted for at fair value;
· Changes in reserves resulting from benefit ratio unlocking on our GDB and GLB riders;
· Income (loss) from reserve changes, net of related amortization, on business sold through reinsurance;
· Gains (losses) on early extinguishment of debt;
· Losses from the impairment of intangible assets;
· Income (loss) from discontinued operations; and
· Income (loss) from the initial adoption of new accounting standards.

Operating revenues represent GAAP revenues excluding the pre-tax effects of the following items, as applicable:

· Excluded realized gain (loss);
· Revenue adjustments from the initial adoption of new accounting standards;
· Amortization of DFEL arising from changes in GDB and GLB benefit ratio unlocking; and
· Amortization of deferred gains arising from reserve changes on business sold through reinsurance.

We use our prevailing corporate federal income tax rate of 35% while taking into account any permanent differences for events recognized differently in our financial statements and federal income tax returns when reconciling our non-GAAP measures to the most

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comparable GAAP measure. Operating revenues and income (loss) from operations do not replace revenues and net income as the GAAP measures of our consolidated results of operations.

Segment information (in millions) was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Operating revenues:				
Annuities	$ 1,000	$ 1,060	$ 3,023	$ 3,041
Retirement Plan Services	282	282	819	826
Life Insurance	1,630	1,727	4,646	4,600
Group Protection	534	570	1,593	1,792
Other Operations	84	96	244	287
Excluded realized gain (loss), pre-tax	(7)	(18)	(252)	(146)
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	1	1	2	2
Amortization of DFEL associated with benefit ratio unlocking, pre-tax	1	(2)	1	(2)
Total revenues	$ 3,525	$ 3,716	$ 10,076	$ 10,400

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Income (Loss)				
Income (loss) from operations:				
Annuities	$ 240	$ 259	$ 693	$ 753
Retirement Plan Services	32	42	94	107
Life Insurance	167	36	361	251
Group Protection	28	17	49	29
Other Operations	(26)	(65)	(69)	(127)

Excluded realized gain (loss), after-tax	(4)	(11)	(164)	(95)
Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	-	-	1	1
Benefit ratio unlocking, after-tax	30	(51)	34	(48)
Net income (loss)	$ 467	$ 227	$ 999	$ 871

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the financial condition as of September 30, 2016, compared with December 31, 2015, and the results of operations for the three and nine months ended September 30, 2016, compared with the corresponding periods in 2015 of Lincoln National Corporation and its consolidated subsidiaries. Unless otherwise stated or the context otherwise requires, "LNC," "Company," "we," "our" or "us" refers to Lincoln National Corporation and its consolidated subsidiaries. The MD&A is provided as a supplement to, and should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements ("Notes") presented in "Part I – Item 1. Financial Statements"; our Form 10-K for the year ended December 31, 2015 ("2015 Form 10-K"), including the sections entitled "Part I – Item 1A. Risk Factors," "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II – Item 8. Financial Statements and Supplementary Data"; our quarterly reports on Form 10-Q filed in 2016; and our current reports on Form 8-K filed in 2016. For more detailed information on the risks and uncertainties associated with the Company's business activities, see the risks described in "Part I – Item 1A. Risk Factors" in our 2015 Form 10-K as updated by "Item 1A. Risk Factors" in our first quarter 2016 Form 10-Q.

In this report, in addition to providing consolidated revenues and net income (loss), we also provide segment operating revenues and income (loss) from operations because we believe they are meaningful measures of revenues and the profitability of our operating segments. Financial information that follows is presented in accordance with United States of America generally accepted accounting principles ("GAAP"), unless otherwise indicated. See Note 1 in our 2015 Form 10-K for a discussion of GAAP.

Operating revenues and income (loss) from operations are the financial performance measures we use to evaluate and assess the results of our segments. Accordingly, we define and report operating revenues and income (loss) from operations by segment in Note 13. Our management believes that operating revenues and income (loss) from operations explain the results of our ongoing businesses in a manner that allows for a better understanding of the underlying trends in our current businesses because the excluded items are unpredictable and not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in many instances, decisions regarding these items do not necessarily relate to the operations of the individual segments. In addition, we believe that our definitions of operating revenues and income (loss) from operations will provide investors with a more valuable measure of our performance because it better reveals trends in our business.

FORWARD-LOOKING STATEMENTS – CAUTIONARY LANGUAGE

Certain statements made in this report and in other written or oral statements made by us or on our behalf are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"). A forward-looking statement is a statement that is not a historical fact and, without limitation, includes any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words like: "believe," "anticipate," "expect," "estimate," "project," "will," "shall" and other words or phrases with similar meaning i connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, trends in our businesses, prospective services or products, future performance or financial results and the outcome of contingencies, such as legal proceedings. We claim the protection afforded by the safe harbor for forward-looking statements provided by the PSLRA.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the results contained in the forward-looking statements. Risks and uncertainties that may cause actual results to vary materially, some of which are described within the forward-looking statements, include, among others:

· Deterioration in general economic and business conditions that may affect account values, investment results, guaranteed benefit liabilities, premium levels, claims experience and the level of pension benefit costs, funding and investment results;
· Adverse global capital and credit market conditions could affect our ability to raise capital, if necessary, and may cause us to realize impairments on investments and certain intangible assets, including goodwill and the valuation allowance against deferred tax assets, which may reduce future earnings and/or affect our financial condition and ability to raise additional capital or refinance existing debt as it matures;
· Because of our holding company structure, the inability of our subsidiaries to pay dividends to the holding company in sufficient amounts could harm the holding company's ability to meet its obligations;
· Legislative, regulatory or tax changes, both domestic and foreign, that affect: the cost of, or demand for, our subsidiaries' products; the required amount of reserves and/or surplus; our ability to conduct business and our captive reinsurance arrangements as well as restrictions on revenue sharing and 12b 1 payments; the potential for U.S. federal tax reform; and the effect of the Department of Labor's ("DOL") regulation defining fiduciary;
· Actions taken by reinsurers to raise rates on in-force business;
· Declines in or sustained low interest rates causing a reduction in investment income, the interest margins of our businesses, estimated gross profits ("EGPs") and demand for our products;
· Rapidly increasing interest rates causing contract holders to surrender life insurance and annuity policies, thereby causing realized investment losses, and reduced hedge performance related to variable annuities;
· Uncertainty about the effect of rules and regulations to be promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act on us and the economy and financial services sector in particular;
· The initiation of legal or regulatory proceedings against us, and the outcome of any legal or regulatory proceedings, such as: adverse actions related to present or past business practices common in businesses in which we compete; adverse decisions in significant

actions including, but not limited to, actions brought by federal and state authorities and class action cases; new decisions that result in changes in law; and unexpected trial court rulings;

· A decline in the equity markets causing a reduction in the sales of our subsidiaries' products, a reduction of asset-based fees that our subsidiaries charge on various investment and insurance products, an acceleration of the net amortization of deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("DFEL") and an increase in liabilities related to guaranteed benefit features of our subsidiaries' variable annuity products;
· Ineffectiveness of our risk management policies and procedures, including various hedging strategies used to offset the effect of changes in the value of liabilities due to changes in the level and volatility of the equity markets and interest rates;
· A deviation in actual experience regarding future persistency, mortality, morbidity, interest rates or equity market returns from the assumptions used in pricing our subsidiaries' products, in establishing related insurance reserves and in the net amortization of DAC, VOBA, DSI and DFEL, which may reduce future earnings;
· Changes in GAAP, including convergence with International Financial Reporting Standards, that may result in unanticipated changes to our net income;
· Lowering of one or more of our debt ratings issued by nationally recognized statistical rating organizations and the adverse effect such action may have on our ability to raise capital and on our liquidity and financial condition;
· Lowering of one or more of the insurer financial strength ratings of our insurance subsidiaries and the adverse effect such action may have on the premium writings, policy retention, profitability of our insurance subsidiaries and liquidity;
· Significant credit, accounting, fraud, corporate governance or other issues that may adversely affect the value of certain investments in our portfolios, as well as counterparties to which we are exposed to credit risk, requiring that we realize losses on investments;
· Inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others;
· Interruption in telecommunication, information technology or other operational systems or failure to safeguard the confidentiality or privacy of sensitive data on such systems from cyberattacks or other breaches of our data security systems;
· The effect of acquisitions and divestitures, restructurings, product withdrawals and other unusual items;
· The adequacy and collectability of reinsurance that we have purchased;
· Acts of terrorism, a pandemic, war or other man-made and natural catastrophes that may adversely affect our businesses and the cost and availability of reinsurance;
· Competitive conditions, including pricing pressures, new product offerings and the emergence of new competitors, that may affect the level of premiums and fees that our subsidiaries can charge for their products;
· The unknown effect on our subsidiaries' businesses resulting from changes in the demographics of their client base, as aging baby-boomers move from the asset-accumulation stage to the asset-distribution stage of life; and
· Loss of key management, financial planners or wholesalers.

The risks included here are not exhaustive. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other documents filed with the Securities and Exchange Commission ("SEC") include additional factors that could affect our businesses and financial performance. Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

Further, it is not possible to assess the effect of all risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. In addition, we disclaim any obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this report.

INTRODUCTION

Executive Summary

We are a holding company that operates multiple insurance and retirement businesses through subsidiary companies. 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.

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations. These segments and Other Operations are described in "Part I – Item 1. Business" of our 2015 Form 10-K.

For information on how we derive our revenues, see the discussion in results of operations by segment below.

Our current market conditions, significant operational matters, industry trends, issues and outlook are described in "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary" of our 2015 Form 10-K.

For factors that could cause actual results to differ materially from those set forth in this section, see "Forward-Looking Statements – Cautionary Language" above and "Part I – Item 1A. Risk Factors" in our 2015 Form 10-K as updated by "Item 1A. Risk Factors" in our first quarter 2016 Form 10-Q.

Critical Accounting Policies and Estimates

The MD&A included in our 2015 Form 10-K contains a detailed discussion of our critical accounting policies and estimates. The following information updates the "Critical Accounting Policies and Estimates" provided in our 2015 Form 10-K and, accordingly, should be read in conjunction with the "Critical Accounting Policies and Estimates" discussed in our 2015 Form 10-K.

DAC, VOBA, DSI and DFEL

Unlocking

As stated in "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – Unlocking" in our 2015 Form 10-K, we conduct our annual comprehensive review of the assumptions and projection models underlying the amortization of DAC, VOBA, DSI, DFEL, embedded derivatives and reserves for life insurance and annuity products in the third quarter of each year. As a result of this review, we recorded unlocking on an annual basis that resulted in increases and decreases to the carrying values of these items. See "DAC, VOBA, DSI and DFEL" in Note 1 of our 2015 Form 10-K for a detailed discussion of our unlocking process.

Details underlying the effect to income (loss) from continuing operations from our unlocking as a result of our annual comprehensive review (in millions) were as follows:

	For the Three Months Ended September 30,		
	2016	2015	Change
Income (loss) from operations:			
Annuities	$ (10)	$ 1	NM
Retirement Plan Services	(2)	2	NM

Life Insurance	14	(117)	112%
Excluded realized gain (loss)	48	33	45%
Income (loss) from continuing operations	$ 50	$ (81)	162%

Unlocking was driven primarily by the following:

2016

- For Annuities, we modified our capital markets and interest rate assumptions and other items, partially offset by modifying our policyholder behavior assumptions.
- For Retirement Plan Services, we modified our policyholder behavior, capital markets and interest rate assumptions, partially offset by modifying other items.
- For Life Insurance, we modified certain in-force policy charges, expense assumptions and other items, partially offset by updating our interest rate and mortality assumptions.
- For excluded realized gain (loss), we modified our policyholder behavior and capital markets assumptions, partially offset by modifying other items.

2015

As part of our annual comprehensive review in the third quarter of 2015, we lowered our long-term new money investment yield assumption to reflect the current new money rates and lower anticipated future interest rates. This reduction in the interest rate assumption resulted in resetting the path of new money investment rates, reflecting a gradual annual recovery over five years to a rate 50 basis points below our prior ultimate long-term assumption. As a result of lowering the ultimate long-term assumption 50 basis points, we recorded unfavorable unlocking of $118 million, after-tax, for Life Insurance, $2 million, after-tax, for Annuities, and $1 million, after-tax, for Retirement Plan Services.

- For Annuities, we modified our policyholder behavior and variable annuity expense assessments assumptions, substantially offset by modifying our capital markets and interest rate assumptions.
- For Retirement Plan Services, we modified our policyholder behavior assumptions, substantially offset by modifying our capital markets and interest rate assumptions and other items.
- For Life Insurance, we modified our interest rate and mortality assumptions, partially offset by modifying our premium persistency and policyholder behavior assumptions and other items.

- For excluded realized gain (loss), we modified our variable annuity expense assessments and capital markets assumptions, partially offset by modifying our policyholder behavior assumptions and other items.

Reversion to the Mean

As variable fund returns do not move in a systematic manner, we reset the baseline of account values from which EGPs are projected, which we refer to as our reversion to the mean ("RTM") process, as discussed in our 2015 Form 10-K.

If we had unlocked our RTM assumption as of September 30, 2016, we would have recorded a favorable unlocking of approximately $135 million, pre-tax, for Annuities, approximately $20 million, pre-tax, for Retirement Plan Services, and approximately $20 million, pre-tax, for Life Insurance.

Investments

Investment Valuation

The following summarizes our available-for-sale ("AFS") and trading securities and derivative investments carried at fair value by pricing source and fair value hierarchy level (in millions) as of September 30, 2016:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Priced by third-party pricing services	$ 773	$ 80,614	$ -	$ 81,387
Priced by independent broker quotations	-	-	1,351	1,351
Priced by matrices	-	12,688	-	12,688
Priced by other methods (1)	-	-	1,994	1,994
Total	$ 773	$ 93,302	$ 3,345	$ 97,420

Percent of total	1%	96%	3%	100%

(1) Represents primarily securities for which pricing models were used to compute fair value.

For more information about the valuation of our financial instruments carried at fair value, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Investments – Investment Valuation" in our 2015 Form 10-K and Note 12 herein.

As of September 30, 2016, we evaluated the markets that our securities trade in and concluded that none were inactive. We will continue to re-evaluate this conclusion, as needed, based on market conditions. We use unobservable inputs to measure the fair value of securities trading in less liquid or illiquid markets with limited or no pricing information. We obtain broker quotes for securities such as synthetic convertibles, index-linked certificates of deposit and collateralized debt obligations ("CDOs") when sufficient security structure or other market information is not available to produce an evaluation. For broker-quoted only securities, non-binding quotes from market makers or broker-dealers are obtained from sources recognized as market participants. Broker-quoted securities are based solely on receipt of updated quotes from a single market maker or a broker-dealer recognized as a market participant. Our broker-quoted only securities are generally classified as Level 3 of the fair value hierarchy. As of September 30, 2016, we used broker quotes for 21 securities as our final price source, representing less than 1% of total securities owned.

Derivatives

Our accounting policies for derivatives and the potential effect on interest spreads in a falling rate environment are discussed in Note 5 of this report and "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2015 Form 10-K.

Guaranteed Living Benefits

Within our individual annuity business, approximately 66% of our variable annuity account values contained guaranteed living benefits ("GLB") features as of September 30, 2016. Underperforming equity markets increase our exposure to potential benefits with the GLB features. A contract with a GLB feature is "in the money" if the contract holder's account balance falls below the present value of guaranteed withdrawal or income benefits, assuming no lapses. As of September 30, 2016 and 2015, 9% and 11%, respectively, of all in-force contracts with a GLB feature were "in the money," and our exposure, after reinsurance, as of September 30, 2016 and 2015, was $624 million and $639 million, respectively. However, the only way the contract holder can realize the excess of the present value of benefits over the account value of the contract is through a series of withdrawals or income payments that do not exceed a maximum amount. If, after the series of withdrawals or income payments, the account value is exhausted, the contract holder will continue to receive a series of annuity payments. The account value can also fluctuate with equity market returns on a daily basis resulting in increases or decreases in the excess of the present value of benefits over account value.

For information on our variable annuity hedge program performance, see our discussion in "Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results" below.

For information on our estimates of the potential instantaneous effect to net income, which could result from sudden changes that may occur in equity markets, interest rates and implied market volatilities, see our discussion in "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Derivatives – GLB" in our 2015 Form 10-K.

RESULTS OF CONSOLIDATED OPERATIONS

Details underlying the consolidated results, deposits, net flows and account values (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Net Income (Loss)						
Income (loss) from operations:						
Annuities	$ 240	$ 259	-7%	$ 693	$ 753	-8%
Retirement Plan Services	32	42	-24%	94	107	-12%
Life Insurance	167	36	NM	361	251	44%
Group Protection	28	17	65%	49	29	69%
Other Operations	(26)	(65)	60%	(69)	(127)	46%
Excluded realized gain (loss), after-tax	(4)	(11)	64%	(164)	(95)	-73%
Income (expense) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	-	-	NM	1	1	0%
Benefit ratio unlocking, after-tax	30	(51)	159%	34	(48)	171%
Net income (loss)	$ 467	$ 227	106%	$ 999	$ 871	15%

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Deposits						
Annuities	$ 1,938	$ 3,304	-41%	$ 6,404	$ 9,675	-34%
Retirement Plan Services	1,799	1,884	-5%	5,251	5,450	-4%
Life Insurance	1,490	1,400	6%	4,120	4,055	2%
Total deposits	$ 5,227	$ 6,588	-21%	$ 15,775	$ 19,180	-18%
Net Flows						
Annuities	$ (868)	$ 536	NM	$ (1,354)	$ 1,129	NM
Retirement Plan Services	97	251	-61%	180	673	-73%
Life Insurance	1,102	1,019	8%	2,910	2,836	3%
Total net flows	$ 331	$ 1,806	-82%	$ 1,736	$ 4,638	-63%

	As of September 30,		
	2016	2015	Change
Account Values			
Annuities	$ 125,510	$ 118,607	6%
Retirement Plan Services	57,268	52,844	8%
Life Insurance	45,182	42,868	5%
Total account values	$ 227,960	$ 214,319	6%

Comparison of the Three Months Ended September 30, 2016 to 2015

Net income increased due primarily to the following:

- The effect of unlocking.
- Favorable variable annuity net derivatives results.
- Increase in average account values due to higher average equity markets.
- Higher legal expenses in 2015.
- Growth in business in force.
- More favorable total non-medical loss ratio experience in our Group Protection segment.
- Higher tax benefits attributable to the release of reserves associated with prior tax years that closed in the third quarter of 2016.

The increase in net income was partially offset by spread compression due to average new money rates trailing our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates.

Comparison of the Nine Months Ended September 30, 2016 to 2015

Net income increased due primarily to the following:

- The effect of unlocking.
- Favorable variable annuity net derivatives results.
- Legal accrual releases during 2016 as compared to legal expenses during 2015.
- Growth in business in force.
- More favorable total non-medical loss ratio experience in our Group Protection segment.

The increase in net income was partially offset by the following:

- Higher realized losses driven by asset disposals and an increase in other-than-temporary impairment (“OTTI”) attributable to individual credit risks within our corporate bond holdings.
- Higher legal expenses related to certain investments.
- Less favorable investment income on alternative investments.
- Decline in average account values due to lower average equity markets.
- Spread compression due to average new money rates trailing our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates.

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RESULTS OF ANNUITIES

Income (Loss) from Operations

Details underlying the results for Annuities (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Operating Revenues						
Insurance premiums (1)	$ 45	$ 129	-65%	$ 264	$ 264	0%
Fee income	535	520	3%	1,539	1,561	-1%
Net investment income	268	257	4%	777	751	3%
Operating realized gain (loss) (2)	45	45	0%	132	133	-1%
Other revenues (3)	107	109	-2%	311	332	-6%
Total operating revenues	1,000	1,060	-6%	3,023	3,041	-1%
Operating Expenses						
Interest credited	148	134	10%	432	416	4%
Benefits (1)	112	219	-49%	465	437	6%
Commissions and other expenses	437	379	15%	1,255	1,239	1%
Total operating expenses	697	732	-5%	2,152	2,092	3%
Income (loss) from operations before taxes	303	328	-8%	871	949	-8%
Federal income tax expense (benefit)	63	69	-9%	178	196	-9%
Income (loss) from operations	$ 240	$ 259	-7%	$ 693	$ 753	-8%

(1) Insurance premiums include primarily our income annuities that have a corresponding offset in benefits. Benefits include changes in income annuity reserves driven by premiums.
(2) See “Realized Gain (Loss) and Benefit Ratio Unlocking” below.
(3) Consists primarily of revenues attributable to broker-dealer services that are subject to market volatility.

Comparison of the Three Months Ended September 30, 2016 to 2015

Income from operations for this segment decreased due primarily to higher commissions and other expenses due to the effect of unlocking; and higher account values resulting in higher trail commissions.

The decrease in income from operations was partially offset primarily by the following:

- Lower benefits due to the effect of unlocking.
- Higher fee income driven by higher average daily variable account values as a result of higher average equity markets.

Comparison of the Nine Months Ended September 30, 2016 to 2015

Income from operations for this segment decreased due primarily to the following:

- Higher benefits attributable to an increase in the growth in benefit reserves due to lower average equity markets, partially offset by the effect of unlocking.
- Lower fee income driven by lower average daily variable account values as a result of lower average equity markets and negative net flows.
- Higher commissions and other expenses due to the effect of unlocking; and higher asset-based commission rates resulting in higher trail commissions. This increase was partially offset by a decrease in amortization expense as a result of lower actual gross profits and amortization rates and lower incentive compensation as a result of production performance.

The decrease in income from operations was partially offset primarily by higher net investment income, net of interest credited, driven by higher average fixed account values as a result of positive net flows.

We provide information about this segment's operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below.

See the Variable Account Value Information table within "Fee Income" below for drivers of changes in our variable account values and the Fixed Account Value Information table within "Net Investment Income and Interest Credited" below for drivers of changes in our fixed account values.

See "Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking" for more information about unlocking.

Additional Information

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect current period income from operations, they can significantly impact future income from operations. For the three and nine months ended September 30, 2016, 31% and 28% of our variable annuity deposits were on products without GLB riders, respectively, compared to 27% for the corresponding periods in 2015. As a result of market uncertainty and low interest rates, our variable annuity deposits for the three and nine months ended September 30, 2016, were significantly lower than the corresponding periods in 2015 resulting in negative net flows.

The other component of net flows relates to the retention of the business. An important measure of retention is the lapse rate, which compares the amount of full and partial withdrawals to the average account values. The overall lapse rate for our annuity products was 7% and 6% for the three and nine months ended September 30, 2016, respectively, compared to 7% for the corresponding periods in 2015.

Our fixed annuity business includes products with discretionary crediting rates that are reset on an annual basis and are not subject to surrender charges. Our ability to retain annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and interest rate risk, see "Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk" herein and "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" and "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" in our 2015 Form 10-K.

On April 8, 2016, the DOL released the final fiduciary advice regulation that provides for a phased implementation, the first of which will be effective April 10, 2017, with full implementation by January 1, 2018. For information about regulatory risk including the potential impact of the DOL regulation, see "Department of Labor regulation defining fiduciary could cause changes to the manner in which we deliver products and services as well as changes in nature and amount of compensation and fees" in "Item 1A. Risk Factors" in our first quarter 2016 Form 10-Q.

For factors that could cause actual results to differ materially from those set forth in this section, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2015 Form 10-K as updated by “Item 1A. Risk Factors” in our first quarter 2016 Form 10-Q.

Fee Income

Details underlying fee income, account values and net flows (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Fee Income						
Mortality, expense and other assessments	$ 523	$ 514	2%	$ 1,517	$ 1,541	-2%
Surrender charges	7	8	-13%	23	22	5%
DFEL:						
Deferrals	(10)	(10)	0%	(29)	(28)	-4%
Amortization, net of interest:						
Amortization, net of interest, excluding unlocking	8	4	100%	21	22	-5%
Unlocking	7	4	75%	7	4	75%
Total fee income	$ 535	$ 520	3%	$ 1,539	$ 1,561	-1%

	As of or For the Three Months Ended September 30,			As of or For the Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Variable Account Value Information						
Variable annuity deposits (1)	$ 1,130	$ 2,045	-45%	$ 3,421	$ 6,236	-45%
Increases (decreases) in variable annuity						