LINCOLN NATIONAL CORP
Form 10-Q
July 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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 July 27, 2015, there were 250,951,872 shares of the registrant’s common stock outstanding.

Lincoln National Corporation

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	As of June 30, 2015 (Unaudited)	As of December 31, 2014
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2015 – $80,456; 2014 – $78,609)	$ 85,422	$ 86,240
Variable interest entities’ fixed maturity securities (amortized cost: 2015 – $593; 2014 – $587)	598	598
Equity securities (cost: 2015 – $213; 2014 – $216)	227	231
Trading securities	1,949	2,065
Mortgage loans on real estate	8,171	7,574
Real estate	24	20
Policy loans	2,654	2,670
Derivative investments	1,340	1,860
Other investments	1,624	1,709
Total investments	102,009	102,967
Cash and invested cash	2,327	3,919
Deferred acquisition costs and value of business acquired	9,150	8,207
Premiums and fees receivable	415	473
Accrued investment income	1,064	1,049
Reinsurance recoverables	5,608	5,730
Funds withheld reinsurance assets	642	649
Goodwill	2,273	2,273
Other assets	3,647	2,845
Separate account assets	128,079	125,265
Total assets	$ 255,214	$ 253,377
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities		
Future contract benefits	$ 20,166	$ 20,057
Other contract holder funds	76,243	75,512
Short-term debt	-	250
Long-term debt	5,529	5,270
Reinsurance related embedded derivatives	120	150
Funds withheld reinsurance liabilities	718	764
Deferred gain on business sold through reinsurance	134	171

Payables for collateral on investments	4,587	4,409
Variable interest entities' liabilities	3	13
Other liabilities	4,936	5,776
Separate account liabilities	128,079	125,265
Total liabilities	240,515	237,637
Contingencies and Commitments (See Note 8)		
Stockholders' Equity		
Preferred stock – 10,000,000 shares authorized	-	-
Common stock – 800,000,000 shares authorized; 250,918,893 and 256,551,440 shares issued and outstanding as of June 30, 2015, and December 31, 2014, respectively	6,469	6,622
Retained earnings	6,286	6,022
Accumulated other comprehensive income (loss)	1,944	3,096
Total stockholders' equity	14,699	15,740
Total liabilities and stockholders' equity	$ 255,214	$ 253,377

See accompanying Notes to Consolidated Financial Statements

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LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in millions, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues				
Insurance premiums	$ 782	$ 755	$ 1,572	$ 1,494
Fee income	1,239	1,134	2,460	2,232
Net investment income	1,187	1,207	2,374	2,415
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(14)	(5)	(35)	(15)
Portion of loss recognized in other comprehensive income	7	2	15	8
Net other-than-temporary impairment losses on securities recognized in earnings	(7)	(3)	(20)	(7)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	17	38	(18)	23
Total realized gain (loss)	10	35	(38)	16
Amortization of deferred gain on business sold through reinsurance	18	18	37	37
Other revenues	145	133	280	263
Total revenues	3,381	3,282	6,685	6,457
Expenses				
Interest credited	629	636	1,254	1,269
Benefits	1,220	1,079	2,456	2,157
Commissions and other expenses	1,014	963	2,027	1,934
Interest and debt expense	69	67	137	134
Total expenses	2,932	2,745	5,874	5,494
Income (loss) before taxes	449	537	811	963
Federal income tax expense (benefit)	105	139	167	236
Net income (loss)	344	398	644	727
Other comprehensive income (loss), net of tax	(1,709)	746	(1,152)	1,636
Comprehensive income (loss)	$ (1,365)	$ 1,144	$ (508)	$ 2,363
Net Income (Loss) Per Common Share				
Basic	$ 1.37	$ 1.52	$ 2.54	$ 2.77
Diluted	1.35	1.48	2.50	2.69

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited, in millions, except per share data)

	For the Six Months Ended June 30, 2015	2014
Common Stock		
Balance as of beginning-of-year	$ 6,622	$ 6,876
Stock compensation/issued for benefit plans	68	20
Retirement of common stock/cancellation of shares	(221)	(157)
Balance as of end-of-period	6,469	6,739
Retained Earnings		
Balance as of beginning-of-year	6,022	5,013
Net income (loss)	644	727
Retirement of common stock	(279)	(143)
Common stock dividends declared (2015 – $0.40; 2014 – $0.32)	(101)	(84)
Balance as of end-of-period	6,286	5,513
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	3,096	1,563
Other comprehensive income (loss), net of tax	(1,152)	1,636
Balance as of end-of-period	1,944	3,199
Total stockholders' equity as of end-of-period	$ 14,699	$ 15,451

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in millions)

	For the Six Months Ended June 30, 2015	2014
Cash Flows from Operating Activities		
Net income (loss)	$ 644	$ 727
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	(176)	(213)
Trading securities purchases, sales and maturities, net	86	25
Change in premiums and fees receivable	58	(45)
Change in accrued investment income	(15)	(52)
Change in future contract benefits and other contract holder funds	17	188
Change in reinsurance related assets and liabilities	(14)	(33)
Change in accrued expenses	(118)	(158)
Change in federal income tax accruals	(54)	86
Realized (gain) loss	38	(16)
Amortization of deferred gain on business sold through reinsurance	(37)	(37)
Other	153	(101)
Net cash provided by (used in) operating activities	582	371
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(4,451)	(4,186)
Sales of available-for-sale securities	414	173
Maturities of available-for-sale securities	2,085	2,476
Purchases of other investments	(7,415)	(1,322)
Sales or maturities of other investments	7,109	1,452
Increase (decrease) in payables for collateral on investments	176	333
Other	(52)	(31)
Net cash provided by (used in) investing activities	(2,134)	(1,105)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	(250)	(500)
Issuance of long-term debt, net of issuance costs	298	-
Deposits of fixed account values, including the fixed portion of variable	4,966	4,884
Withdrawals of fixed account values, including the fixed portion of variable	(3,135)	(2,765)
Transfers to and from separate accounts, net	(1,361)	(1,356)
Common stock issued for benefit plans and excess tax benefits	44	-
Repurchase of common stock	(500)	(300)
Dividends paid to common stockholders	(102)	(84)

Net cash provided by (used in) financing activities	(40)	(121)
Net increase (decrease) in cash and invested cash	(1,592)	(855)
Cash and invested cash as of beginning-of-year	3,919	2,364
Cash and invested cash as of end-of-period	$ 2,327	$ 1,509

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("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, 2014 ("2014 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 2014 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 six month period ended June 30, 2015, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2015. 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 ("ASU") issued by the Financial Accounting Standards Board and the impact of the adoption on our financial statements:

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects	This standard permits an entity to make an accounting policy to use the proportional amortization method of accounting to recognize investments in qualified affordable housing projects, if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Entities that previously applied the effective yield method to investments in qualified affordable housing prior to the adoption of this standard may continue to apply the effective yield method to those pre-existing investments.	January 1, 2015	The adoption of this ASU did not have an effect on our consolidated financial condition and results of operations.
ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures	This standard eliminates a distinction in current GAAP related to certain repurchase agreements, and amends current GAAP to require repurchase-to-maturity transactions and linked repurchase financings to be accounted for as secured borrowings; consistent with the accounting for other repurchase agreements. The standard also includes new disclosure requirements related to transfers accounted for as sales that are economically similar to repurchase agreements and information about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The new	January 1, 2015, except for disclosures related to collateral pledged that were adopted for the interim period ended June 30, 2015.	The adoption of this ASU did not have an effect on our consolidated financial condition and results of operations.

disclosures are not required for comparative periods before the effective date.

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	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, and early adoption is not permitted.	January 1, 2017	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 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. Early adoption of this standard is permitted, and application is under a modified retrospective basis to existing hybrid financial instruments that are within the scope of the standard.	January 1, 2016	We are currently evaluating the impact of adopting this standard on our consolidated financial condition and results of operations.
ASU 2015-02, Amendments to the Consolidation Analysis	This standard is intended to improve consolidation accounting guidance related to limited partnerships, limited liability corporations and securitization structures. The new standard includes changes to existing consolidation models that will eliminate the presumption that a general partner should consolidate a limited partnership, clarify when fees paid to a decision maker should be a factor in the variable interest entities ("VIEs") consolidation evaluation and reduce the VIEs consolidation models from two to one by eliminating the indefinite deferral for certain investment funds. Early adoption is permitted, including adoption in an interim period.	January 1, 2016	We are currently evaluating the impact of adopting this standard on our consolidated financial condition and results of operations.
ASU 2015-03,	Under current accounting guidance, debt issuance costs are recognized as a deferred charge in the balance sheet. This amendment requires that debt issuance costs be presented	January 1, 2016	We will appropriately classify all of our debt issuance costs in

Simplifying 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. Early adoption of this standard is permitted, and retrospective application is required for all periods presented in the financial statements.	accordance with this ASU as of the required effective date.

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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. If an entity purchases a software license through a cloud computing arrangement, the software license 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. Early adoption of this standard is permitted, and the amendments can be adopted either prospectively or retrospectively.	January 1, 2016	We are currently evaluating the impact of adopting this standard on our consolidated financial condition and results of operations.

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
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 also 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. Early adoption is permitted, and the disclosures must be provided retrospectively for all periods presented in the financial statements.	January 1, 2016	We are currently evaluating these disclosure changes and will appropriately amend our financial statement disclosures in accordance with this standard as of the adoption date.
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 retrospective application is required for each comparative period presented, except for those requirements that apply only to the current period.	Annual periods beginning January 1, 2016; interim and annual periods beginning January 1, 2017.	We are currently evaluating these disclosure changes and will provide the additional disclosures upon adoption.

3. Variable Interest Entities

Consolidated VIEs

See Note 4 in our 2014 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 June 30, 2015:

	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	BBB+	BB
Current rating of underlying reference obligations	AA - B	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 June 30, 2015:

	AAA	AA	A	BBB	BB	B	CCC	Total
Industry								
Financial intermediaries	0.0%	2.1%	5.4%	3.1%	0.0%	0.0%	0.0%	10.6%
Telecommunications	0.0%	0.0%	3.0%	6.6%	0.9%	0.5%	0.0%	11.0%
Oil and gas	0.3%	2.1%	1.3%	3.4%	0.9%	0.0%	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%	2.3%	1.2%	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%	2.1%	0.9%	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%	0.7%	1.6%	0.7%	0.3%	0.0%	0.0%	3.3%
Conglomerates	0.0%	2.3%	0.9%	0.0%	0.0%	0.0%	0.0%	3.2%
Forest products	0.0%	0.0%	0.5%	1.1%	1.4%	0.0%	0.0%	3.0%
Other	0.0%	4.1%	14.2%	17.4%	5.8%	0.7%	0.3%	42.5%
Total	0.6%	12.9%	36.8%	38.1%	10.1%	1.2%	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 June 30, 2015			As of December 31, 2014		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
Assets						
Fixed maturity securities:						
Asset-backed credit card loans	N/A	$ -	$ 598	N/A	$ -	$ 598
Total return swap	1	438	-	1	423	-
Total assets (1)	1	$ 438	$ 598	1	$ 423	$ 598
Liabilities						
Non-qualifying hedges:						
Credit default swaps	2	$ 600	$ 3	2	$ 600	$ 13
Contingent forwards	2	-	-	2	-	-
Total liabilities (2)	4	$ 600	$ 3	4	$ 600	$ 13

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

(2) Reported in variable interest entities' liabilities on our Consolidated Balance Sheets.

For details related to the fixed maturity available-for-sale ("AFS") securities underlying these VIEs, see Note 4.

As described more fully in Note 1 of our 2014 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 June 30, 2015.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Non-Qualifying Hedges				
Credit default swaps	$ 2	$ 12	$ 10	$ 17
Contingent forwards	-	-	-	-
Total non-qualifying hedges (1)	$ 2	$ 12	$ 10	$ 17

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

Unconsolidated VIEs

See Note 4 in our 2014 Form 10-K for a detailed discussion of our unconsolidated VIEs, which information is incorporated herein by reference.

Qualified Affordable Housing Projects

We invest in certain limited partnerships ("LPs") that operate qualified affordable housing projects that we have concluded are VIEs. We are not the primary beneficiary of these VIEs as we do not have the power to direct the most significant activities of the LPs. We receive returns from the LPs 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 less than $1 million for the six months ended June 30, 2015 and 2014. The carrying amount of our investments in qualified affordable housing projects is recognized in other investments on our Consolidated Balance Sheets and was $54 million and $60 million as of June 30, 2015, and December 31, 2014, respectively. Our exposure to loss is limited to the capital we invest in the LPs, and we do not have any contingent commitments to provide additional capital funding to these LPs. There have been no indicators of impairment that would require us to recognize an impairment loss related to these LPs due to forfeiture, ineligibility of tax credits or for any other circumstances as of June 30, 2015.

4. Investments

AFS Securities

See Note 1 in our 2014 Form 10-K for information regarding our accounting policy relating to AFS securities, which also includes additional disclosures regarding our fair value measurements.

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

	As of June 30, 2015				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI (1)	Value
Fixed maturity securities:					
Corporate bonds	$ 69,149	$ 4,859	$ 968	$ 4	$ 73,036
Asset-backed securities ("ABS")	1,087	50	19	(15)	1,133
U.S. government bonds	388	42	2	-	428
Foreign government bonds	472	68	-	-	540
Residential mortgage-backed securities ("RMBS")	3,815	222	24	(17)	4,030
Commercial mortgage-backed securities ("CMBS")	432	17	3	-	446
Collateralized loan obligations ("CLOs")	496	2	1	(2)	499
State and municipal bonds	3,781	651	14	-	4,418
Hybrid and redeemable preferred securities	836	97	41	-	892
VIEs' fixed maturity securities	593	5	-	-	598
Total fixed maturity securities	81,049	6,013	1,072	(30)	86,020
Equity securities	213	15	1	-	227
Total AFS securities	$ 81,262	$ 6,028	$ 1,073	$ (30)	$ 86,247

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	As of December 31, 2014				
	Amortized	Gross Unrealized			Fair
				OTTI	
	Cost	Gains	Losses	(1)	Value
Fixed maturity securities:					
Corporate bonds	$ 67,153	$ 6,711	$ 443	$ 5	$ 73,416
ABS	1,087	56	20	(7)	1,130
U.S. government bonds	379	56	-	-	435
Foreign government bonds	473	68	-	-	541
RMBS	3,979	242	14	(19)	4,226
CMBS	554	23	1	6	570
CLOs	375	-	2	(2)	375
State and municipal bonds	3,723	874	4	-	4,593
Hybrid and redeemable preferred securities	886	108	40	-	954
VIEs' fixed maturity securities	587	11	-	-	598
Total fixed maturity securities	79,196	8,149	524	(17)	86,838
Equity securities	216	15	-	-	231
Total AFS securities	$ 79,412	$ 8,164	$ 524	$ (17)	$ 87,069

(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.

Certain amounts reported in prior years' consolidated financial statements have been reclassified to conform to the presentation adopted in the current year. Specifically, we reclassified amounts related to subsequent changes in the fair value of AFS securities for which non-credit OTTI was previously recognized in OCI. Historically, these amounts were recognized through unrealized gain (loss) on AFS securities in the Consolidated Statements of Comprehensive Income (Loss). To better reflect the economic position of our AFS fixed maturity securities, these amounts are now recognized through unrealized OTTI on AFS securities in the Consolidated Statements of Comprehensive Income (Loss). These reclassifications had no effect on net income (loss) or stockholders' equity of the prior years.

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) as of June 30, 2015, were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 2,556	$ 2,608
Due after one year through five years	17,498	18,781
Due after five years through ten years	21,062	21,644
Due after ten years	33,510	36,281
Subtotal	74,626	79,314
Structured securities (ABS, MBS, CLOs)	6,423	6,706
Total fixed maturity AFS securities	$ 81,049	$ 86,020

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 June 30, 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	$ 15,420	$ 802	$ 1,508	$ 170	$ 16,928	$ 972
ABS	121	3	403	1	524	4
U.S. government bonds	13	2	-	-	13	2
RMBS	711	20	443	(13)	1,154	7
CMBS	99	2	40	1	139	3
CLOs	85	-	64	(1)	149	(1)
State and municipal bonds	168	10	28	4	196	14
Hybrid and redeemable preferred securities	73	2	146	39	219	41
Total fixed maturity securities	16,690	841	2,632	201	19,322	1,042
Equity securities	35	1	-	-	35	1
Total AFS securities	$ 16,725	$ 842	$ 2,632	$ 201	$ 19,357	$ 1,043
Total number of AFS securities in an unrealized loss position						1,538

	As of December 31, 2014					
	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	$ 4,799	$ 208	$ 4,475	$ 240	$ 9,274	$ 448
ABS	91	2	428	11	519	13

RMBS	447	7	574	(12)	1,021	(5)
CMBS	121	1	41	6	162	7
CLOs	110	-	83	-	193	-
State and municipal bonds	6	-	26	4	32	4
Hybrid and redeemable preferred securities	31	-	176	40	207	40
Total fixed maturity securities	5,605	218	5,803	289	11,408	507
Equity securities	37	-	-	-	37	-
Total AFS securities	$ 5,642	$ 218	$ 5,803	$ 289	$ 11,445	$ 507
Total number of AFS securities in an unrealized loss position						1,019

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 June 30, 2015			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 243	$ 92	$ 2	35
Six months or greater, but less than nine months	11	5	2	7
Nine months or greater, but less than twelve months	41	21	-	9
Twelve months or greater	130	52	20	52
Total	$ 425	$ 170	$ 24	103

	As of December 31, 2014			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 48	$ 19	$ -	12
Six months or greater, but less than nine months	8	7	-	3
Twelve months or greater	242	97	33	82
Total	$ 298	$ 123	$ 33	97

(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 increased by $536 million for the six months ended June 30, 2015. As discussed further below, we believe the unrealized loss position as of June 30, 2015, 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 basis; (iii) the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities; and (iv) we had the ability and intent to hold the equity AFS securities for a period of time sufficient for recovery.

Based upon this evaluation as of June 30, 2015, management believes we have the ability to generate adequate amounts of cash from our normal operations (e.g., insurance premiums and fees and investment income) to meet cash requirements with a prudent margin of safety without requiring the sale of our temporarily-impaired securities.

As of June 30, 2015, 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 security.

As of June 30, 2015, the unrealized losses associated with our mortgage-backed securities ("MBS") and ABS were attributable primarily to collateral losses and 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 basis of each temporarily impaired security.

As of June 30, 2015, 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 security.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Balance as of beginning-of-period	$ 382	$ 408	$ 380	$ 404
Increases attributable to:				
Credit losses on securities for which an OTTI was not previously recognized	3	1	16	2
Credit losses on securities for which an OTTI was previously recognized	4	3	6	7
Decreases attributable to:				
Securities sold, paid down or matured	(15)	(23)	(28)	(24)
Balance as of end-of-period	$ 374	$ 389	$ 374	$ 389

During the six months ended June 30, 2015 and 2014, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover the entire amortized cost basis of the debt security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

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

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

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

	As of June 30, 2015			
	Amortized Cost	Net Unrealized Gain/(Loss) Position	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 86	$ (22)	$ 64	$ 23
ABS	220	17	237	111
RMBS	409	17	426	192
CMBS	40	-	40	48
Total	$ 755	$ 12	$ 767	$ 374

	As of December 31, 2014			
	Amortized Cost	Net Unrealized Gain/(Loss) Position	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 38	$ (4)	$ 34	$ 20
ABS	232	9	241	108
RMBS	447	19	466	190
CMBS	46	(6)	40	62
Total	$ 763	$ 18	$ 781	$ 380

Mortgage Loans on Real Estate

See Note 1 in our 2014 Form 10-K for information regarding our accounting policy relating to mortgage loans on real estate.

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California and Texas, which accounted for 23% and 9%, respectively, of mortgage loans on real estate as of June 30, 2015, and December 31, 2014.

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

	As of June 30, 2015	As of December 31, 2014
Current	$ 8,171	$ 7,565
60 to 90 days past due	-	-
Greater than 90 days past due	-	8
Valuation allowance associated with impaired mortgage loans on real estate	(3)	(3)
Unamortized premium (discount)	3	4
Total carrying value	$ 8,171	$ 7,574

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

	As of June 30, 2015	As of December 31, 2014
Number of impaired mortgage loans on real estate	3	3
Principal balance of impaired mortgage loans on real estate	$ 26	$ 26
Valuation allowance associated with impaired mortgage loans on real estate	(3)	(3)
Carrying value of impaired mortgage loans on real estate	$ 23	$ 23

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

	As of June 30, 2015	As of December 31, 2014
Balance as of beginning-of-year	$ 3	$ 3
Additions	-	-
Charge-offs, net of recoveries	-	-
Balance as of end-of-period	$ 3	$ 3

The average carrying value of the impaired mortgage loans on real estate (in millions) was as follows:

	For the Three Months Ended June 30, 2015	2014	For the Six Months Ended June 30, 2015	2014
Average carrying value for impaired mortgage loans on real estate	$ 23	$ 24	$ 23	$ 24
Interest income recognized on impaired mortgage loans on real estate	-	-	1	1
Interest income collected on impaired mortgage loans on real estate	-	-	1	1

As described in Note 1 in our 2014 Form 10-K, we use the loan-to-value and debt-service coverage ratios as credit quality indicators for our mortgage loans, which were as follows (dollars in millions):

	As of June 30, 2015			As of December 31, 2014		
	Carrying Value	% of Total	Debt-Service Coverage Ratio	Carrying Value	% of Total	Debt-Service Coverage Ratio
Less than 65%	$ 7,250	88.7%	2.02	$ 6,596	87.1%	1.90
65% to 74%	574	7.0%	1.60	631	8.3%	1.55
75% to 100%	317	3.9%	0.81	316	4.2%	0.77
Greater than 100%	30	0.4%	0.77	31	0.4%	0.77
Total mortgage loans on real estate	$ 8,171	100.0%		$ 7,574	100.0%	

Alternative Investments

As of June 30, 2015, and December 31, 2014, alternative investments included investments in 180 and 156 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 June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Fixed maturity AFS securities: (1)				
Gross gains	$ 21	$ 11	$ 23	$ 19
Gross losses	(13)	(6)	(29)	(13)
Equity AFS securities:				
Gross gains	1	3	1	3
Gross losses	-	-	-	-

Gain (loss) on other investments	-	3	(8)	3
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(10)	(10)	(15)	(17)
Total realized gain (loss) related to certain investments, pre-tax	$ (1)	$ 1	$ (28)	$ (5)

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
OTTI Recognized in Net Income (Loss)				
Fixed maturity securities:				
Corporate bonds	$ (4)	$ -	$ (15)	$ -
ABS	(3)	(2)	(5)	(5)
RMBS	-	(1)	(2)	(3)
CMBS	-	(1)	-	(1)
Gross OTTI recognized in net income (loss)	(7)	(4)	(22)	(9)
Associated amortization of DAC, VOBA, DSI and DFEL	-	1	2	2
Net OTTI recognized in net income (loss), pre-tax	$ (7)	$ (3)	(20)	(7)
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$ 9	$ 2	$ 18	$ 9
Change in DAC, VOBA, DSI and DFEL	(2)	-	(3)	(1)
Net portion of OTTI recognized in OCI, pre-tax	$ 7	$ 2	$ 15	$ 8

Determination of Credit Losses on Corporate Bonds and ABS

As of June 30, 2015, and December 31, 2014, we reviewed our corporate bond and ABS portfolios for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. The factors used to determine the amount of credit loss for each individual security, include, but are not limited to, near term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers.

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service ("Moody's"), are generally considered by the rating agencies and market participants to be low credit risk. As of June 30, 2015, and December 31, 2014, 95% and 96%, respectively, of the fair value of our corporate bond portfolio was rated investment grade. As of June 30, 2015, and December 31, 2014, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $3.4 billion and $3.3 billion, respectively, and a fair value of $3.4 billion and $3.2 billion, respectively. As of June 30, 2015, and December 31, 2014, 92% and 88%, respectively, of the fair value of our ABS portfolio was rated investment grade. As of June 30, 2015, and December 31, 2014, the portion of our ABS portfolio rated below investment grade had an amortized cost of $184 million and $193 million, respectively, and fair value of $174 million and $176 million, respectively. Based upon the analysis discussed above, we believe as of June 30, 2015, and December 31, 2014, that we would recover the amortized cost of each fixed maturity security.

Determination of Credit Losses on MBS

As of June 30, 2015, and December 31, 2014, 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 severity, we derive the future expected credit losses.

Payables for Collateral on Investments

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

	As of June 30, 2015		As of December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable for derivative investments (1)	$ 1,071	$ 1,071	$ 1,673	$ 1,673
Securities pledged under securities lending agreements (2)	232	222	204	196
Securities pledged under repurchase agreements (3)	1,034	1,112	607	666
Investments pledged for Federal Home Loan Bank of Indianapolis ("FHLBI") (4)	2,250	3,067	1,925	3,151
Total payables for collateral on investments	$ 4,587	$ 5,472	$ 4,409	$ 5,686

(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 FHLBI overcollateralization requirements for the assets that we pledge are generally 105% to 115% of the fair value for fixed maturity AFS securities and 155% to 175% of the unpaid principal balance for mortgage loans on real estate. The cash received in these transactions is primarily invested in cash and invested cash or fixed maturity AFS securities.

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

	For the Six Months Ended June 30,	
	2015	2014
Collateral payable for derivative investments	$ (602)	$ 319
Securities pledged under securities lending agreements	28	15
Securities pledged under repurchase agreements	427	(325)
Investments pledged for FHLBI	325	325
Total increase (decrease) in payables for collateral on investments	$ 178	$ 334

The remaining contractual maturities of repurchase agreements, repurchase-to-maturity transactions and securities lending transactions accounted for as secured borrowings were as follows:

	As of June 30, 2015				
	Overnight and Continuous	Up to 30 Days	30 – 90 Days	Greater Than 90 Days	Total
Repurchase Agreements and Repurchase-to-Maturity Transactions:					
ABS	$ -	$ -	$ -	$ 500	$ 500
Corporate bonds	-	105	275	154	534
Total	-	105	275	654	1,034
Securities Lending					
Corporate bonds	224	-	-	-	224
Equity securities	3	-	-	-	3
Foreign government bonds	5	-	-	-	5
Total	232	-	-	-	232
Total secured borrowings	$ 232	$ 105	$ 275	$ 654	$ 1,266
Gross amount of recognized liabilities for repurchase agreements and securities lending:					$ 1,266
Amounts related to agreements not included in offsetting disclosures:					$ -

We accept collateral in the form of securities in connection with repurchase agreements that we are permitted to sell or re-pledge in certain cases. In such cases, we report the fair value of the collateral and a related obligation to return the collateral. As of June 30, 2015, the fair value of collateral received that we are permitted to sell or re-pledge was $154 million. We have not sold or re-pledged this collateral.

Investment Commitments

As of June 30, 2015, our investment commitments were $1.3 billion, which included $656 million of LPs, $390 million of mortgage loans on real estate, and $284 million of private debt investments.

Concentrations of Financial Instruments

As of June 30, 2015, and December 31, 2014, 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 $2.0 billion and $2.2 billion, respectively, or 2% of our invested assets portfolio, and our investments in securities issued by Fannie Mae with a fair value of $1.3 billion and $1.4 billion, respectively, or 1% of our invested assets portfolio.

As of June 30, 2015, and December 31, 2014, our most significant investments in one industry were our investment securities in the utilities industry with a fair value of $12.4 billion and $12.8 billion, respectively, or 12% and 13%, respectively, of our invested assets portfolio, and our investment securities in the consumer non-cyclical industry with a fair value of $11.7 billion, or 12% and 11%, respectively, of our invested assets portfolio. These concentrations include both AFS and trading securities.

5. Derivative Instruments

We maintain an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk, equity market risk, default risk, basis risk and credit risk. See Note 1 in our 2014 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments. See Note 6 in our 2014 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 credit exposure. Outstanding derivative instruments with off-balance-sheet risks (in millions) were as follows:

	As of June 30, 2015			As of December 31, 2014		
	Notional	Fair Value		Notional	Fair Value	
	Amounts	Asset	Liability	Amounts	Asset	Liability
Qualifying Hedges						
Cash flow hedges:						
Interest rate contracts (1)	$ 2,950	$ 337	$ 38	$ 3,554	$ 408	$ 198
Foreign currency contracts (1)	642	62	16	642	45	21
Total cash flow hedges	3,592	399	54	4,196	453	219
Fair value hedges:						
Interest rate contracts (1)	1,534	217	170	875	259	-
Non-Qualifying Hedges						
Interest rate contracts (1)	61,902	714	393	54,401	989	342
Foreign currency contracts (1)	143	-	-	68	-	-
Equity market contracts (1)	24,204	799	235	24,310	886	243
Credit contracts (2)	103	-	2	126	-	3
Embedded derivatives:						
Guaranteed living benefit reserves (3)	-	254	-	-	-	-
Guaranteed living benefit reserves (2)	-	-	102	-	-	174
Reinsurance related (4)	-	-	120	-	-	150
Indexed annuity and IUL contracts (5)	-	-	1,155	-	-	1,170
Total derivative instruments	$ 91,478	$ 2,383	$ 2,231	$ 83,976	$ 2,587	$ 2,301

(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 other assets on our Consolidated Balance Sheets.

(4) Reported in reinsurance related embedded derivatives on our Consolidated Balance Sheets.

(5) Reported in future contract benefits on our Consolidated Balance Sheets.

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

Remaining Life as of June 30, 2015

	Less Than 1 Year	1 – 5 Years	6 – 10 Years	11 – 30 Years	Over 30 Years	Total
Interest rate contracts (1)	$ 7,254	$ 35,137	$ 11,030	$ 11,752	$ 1,213	$ 66,386
Foreign currency contracts (2)	173	168	234	210	-	785
Equity market contracts	14,463	5,705	3,766	18	252	24,204
Credit contracts	-	103	-	-	-	103
Total derivative instruments with notional amounts	$ 21,890	$ 41,113	$ 15,030	$ 11,980	$ 1,465	$ 91,478

(1) As of June 30, 2015, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 2067.

(2) As of June 30, 2015, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was December 2029.

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

	For the Six Months Ended June 30,	
	2015	2014
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 139	$ 256
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period:		
Cash flow hedges:		
Interest rate contracts	(121)	(52)
Foreign currency contracts	25	(7)
Change in foreign currency exchange rate adjustment	16	(11)
Income tax benefit (expense)	27	24
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate contracts (1)	(194)	(12)
Interest rate contracts (2)	2	2
Foreign currency contracts (1)	3	-
Associated amortization of DAC, VOBA, DSI and DFEL	-	1
Income tax benefit (expense)	66	3
Balance as of end-of-period	$ 209	$ 216

(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).

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Qualifying Hedges				
Cash flow hedges:				
Interest rate contracts (1)	$ 3	$ (5)	$ 4	$ (11)
Interest rate contracts (2)	(1)	-	(1)	-
Foreign currency contracts (1)	1	(1)	3	-
Total cash flow hedges	3	(6)	6	(11)
Fair value hedges:				
Interest rate contracts (1)	(7)	-	(15)	-
Interest rate contracts (2)	8	9	16	18
Interest rate contracts (3)	60	-	(170)	-
Total fair value hedges	61	9	(169)	18
Non-Qualifying Hedges				
Interest rate contracts (3)	(673)	284	(231)	615
Foreign currency contracts (3)	(4)	(1)	(6)	-
Equity market contracts (3)	(53)	(257)	(283)	(413)
Equity market contracts (4)	-	7	5	8
Credit contracts (3)	1	1	1	1
Embedded derivatives:				
Guaranteed living benefit reserves (3)	704	(58)	326	(340)
Reinsurance related (3)	45	(21)	30	(47)
Indexed annuity and IUL contracts (3)	(9)	(92)	(47)	(140)
Total derivative instruments	$ 75	$ (134)	$ (368)	$ (309)

(1) Reported in net investment income on our Consolidated Statements of Comprehensive Income (Loss).

(2) Reported in interest and debt expense on our Consolidated Statements of Comprehensive Income (Loss).

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

(4) Reported in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Offset to net investment income	$ 4	$ (6)	$ 7	$ (12)
Offset to interest and debt expense	1	1	1	2

As of June 30, 2015, $13 million of the deferred net gains (losses) on derivative instruments in AOCI were expected to be reclassified to earnings during the next 12 months. This reclassification would be due primarily to interest rate variances related to our interest rate swap agreements.

For the six months ended June 30, 2015 and 2014, 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 June 30, 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	$ (1)	$ 45
3/20/2017 (3)	(4)	(5)	BBB-	3	(1)	58
				5	$ (2)	$ 103

As of December 31, 2014

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-	3	$ (2)	$ 68
3/20/2017 (3)	(4)	(5)	BBB-	3	(1)	58
				6	$ (3)	$ 126

(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 credit default swaps.

(3) These credit default swaps were sold to a counterparty of the consolidated VIEs discussed in Note 4 in our 2014 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 June 30, 2015	As of December 31, 2014
Maximum potential payout	$ 103	$ 126
Less: Counterparty thresholds	-	-
Maximum collateral potentially required to post	$ 103	$ 126

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 $2 million as of June 30, 2015, after considering the fair values of the associated investments counterparties' credit ratings as compared to ours and specified thresholds that once exceeded result in the payment of cash.

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 June 30, 2015, the NPR adjustment was less than $1 million. The credit risk associated with such agreements is minimized by entering into agreements with financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring derivative contracts to be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of derivative contracts, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contracts. In certain transactions, we and the counterparty have entered into a credit support annex requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of June 30, 2015, our exposure was $26 million.

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

	As of June 30, 2015		As of December 31, 2014	
S&P Credit Rating of Counterparty	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)
AA-	$ 50	$ (2)	$ 64	$ -
A+	27	-	47	-
A	803	(67)	1,163	(85)
A-	166	-	233	-
BBB+	17	-	27	-
	$ 1,063	$ (69)	$ 1,534	$ (85)

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 June 30, 2015		
	Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	$ 2,095	$ 254	$ 2,349
Gross amounts offset	(755)	-	(755)
Net amount of assets	1,340	254	1,594
Gross amounts not offset:			

Cash collateral	(1,063)	-	(1,063)
Net amount	$ 277	$ 254	$ 531
Financial Liabilities			
Gross amount of recognized liabilities	$ 99	$ 1,377	$ 1,476
Gross amounts offset	(34)	-	(34)
Net amount of liabilities	65	1,377	1,442
Gross amounts not offset:			
Cash collateral	(69)	-	(69)
Net amount	$ (4)	$ 1,377	$ 1,373

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	As of December 31, 2014		
	Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	$ 2,537	$ -	$ 2,537
Gross amounts offset	(677)	-	(677)
Net amount of assets	1,860	-	1,860
Gross amounts not offset:			
Cash collateral	(1,534)	-	(1,534)
Net amount	$ 326	$ -	$ 326
Financial Liabilities			
Gross amount of recognized liabilities	$ 130	$ 1,494	$ 1,624
Gross amounts offset	(50)	-	(50)
Net amount of liabilities	80	1,494	1,574
Gross amounts not offset:			
Cash collateral	(85)	-	(85)
Net amount	$ (5)	$ 1,494	$ 1,489

6. Federal Income Taxes

The effective tax rate is the ratio of tax expense over pre-tax income (loss). The effective tax rate was 23% and 21% for the three and six months ended June 30, 2015, respectively. The effective tax rate was 26% and 25% for the three and six months ended June 30, 2014, 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.

7. Guaranteed Benefit Features

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

	As of June 30, 2015 (1)	As of December 31, 2014 (1)
Return of Net Deposits		
Total account value	$ 87,992	$ 85,917
Net amount at risk (2)	223	183
Average attained age of contract holders	62 years	62 years
Minimum Return		
Total account value	$ 123	$ 135
Net amount at risk (2)	24	25
Average attained age of contract holders	74 years	74 years
Guaranteed minimum return	5%	5%
Anniversary Contract Value		
Total account value	$ 26,012	$ 26,021
Net amount at risk (2)	651	597
Average attained age of contract holders	69 years	68 years

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

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

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

	For the Six Months Ended June 30,	
	2015	2014
Balance as of beginning-of-year	$ 89	$ 73
Changes in reserves	17	12
Benefits paid	(11)	(10)
Balance as of end-of-period	$ 95	$ 75

Variable Annuity Contracts

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

	As of June 30, 2015	As of December 31, 2014
Asset Type		
Domestic equity	$ 50,199	$ 49,569
International equity	19,421	18,791
Bonds	27,454	26,808
Money market	13,234	12,698
Total	$ 110,308	$ 107,866
Percent of total variable annuity separate account values	99%	99%

Secondary Guarantee Products

Future contract benefits and other contract holder funds include reserves for our secondary guarantee products sold through our Life Insurance segment. These UL and VUL products with secondary guarantees represented 34% of total life insurance in-force reserves as of June 30, 2015, and 31% of total sales for the six months ended June 30, 2015.

8. Contingencies and Commitments

Regulatory bodies, such as state insurance and securities departments, the SEC and Financial Industry Regulatory Authority 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 June 30, 2015.

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.

On June 13, 2009, a single named plaintiff filed a putative national class action in the Circuit Court of Allen County ("Court"), Indiana, captioned Peter S. Bezich v. The Lincoln National Life Insurance Company ("LNL"), No. 02C01-0906-PL73, asserting he was charged a cost of insurance fee that exceeded the applicable mortality charge, and that this fee breached the terms of the insurance contract. Plaintiff petitioned the Court to certify a class action, on behalf of all persons who purchased or owned the relevant insurance product between 1999 and 2009, alleging that: (i) LNL breached the contract by including non-mortality factors in cost of insurance rates; (ii) LNL breached the contract when it charged administrative expenses in excess of set amount; and (iii) LNL breached the contract by failing to adjust cost of insurance rates to reflect improving mortality expectations. On June 12, 2014, the Court issued an Order denying certification on all of the Plaintiff's counts and claims except with respect to a single legal issue: whether the contract was breached as alleged in Count III. However, any damages arising from this alleged breach would have to be tried on an individual case-by-case basis. The appellate court granted permission for our interlocutory appeal of the Court's certification of the single issue class, and plaintiff cross-appealed. The appellate court affirmed in part and reversed in part, holding that a class could be certified on all three claims, on the legal issues only, and remanding for further proceedings. This ruling preserves the lower court's denial of class certification on damages, and any damages arising from the alleged breaches would have to be tried on an individual case-by-case basis. We continue to vigorously defend the case and have petitioned to transfer it, on appeal, to the state supreme court.

See Note 13 in our 2014 Form 10-K 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	For the Six Months Ended

	June 30,		June 30,	
	2015	2014	2015	2014
Common Stock				
Balance as of beginning-of-period	252,928,502	263,682,162	256,551,440	262,896,701
Stock issued for exercise of warrants	33,510	54,714	980,436	3,099,479
Stock compensation/issued for benefit plans	515,481	171,293	1,988,882	899,808
Retirement/cancellation of shares	(2,558,600)	(3,076,461)	(8,601,865)	(6,064,280)
Balance as of end-of-period	250,918,893	260,831,708	250,918,893	260,831,708
Common Stock as of End-of-Period				
Basic basis	250,918,893	260,831,708	250,918,893	260,831,708
Diluted basis	254,126,732	267,622,578	254,126,732	267,622,578

Our common stock is without par value.

Average Shares

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Weighted-average shares, as used in basic calculation	251,849,316	262,271,670	253,662,410	262,503,816
Shares to cover exercise of outstanding warrants	1,356,262	4,106,444	1,604,192	5,650,623
Shares to cover non-vested stock	1,220,690	1,370,136	1,357,152	1,464,908
Average stock options outstanding during the period	3,676,185	3,669,928	3,759,166	3,784,391
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(240,814)	(875,064)	(295,871)	(1,194,789)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(2,655,466)	(2,552,316)	(2,701,424)	(2,626,035)
Shares repurchaseable from measured but unrecognized stock option expense	(65,873)	(85,468)	(63,196)	(95,257)
Average deferred compensation shares	-	1,030,237	1,022,523	1,036,339
Weighted-average shares, as used in diluted calculation	255,140,300	268,935,567	258,344,952	270,523,996

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 their deferral amounts. For the six months ended June 30, 2015, and the three and six months ended June 30, 2014, 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 six months ended June 30, 2015, and $(1) million and less than $1 million for the three and six months ended June 30, 2014.

AOCI

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

	For the Six Months Ended June 30,	
	2015	2014
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	$ 3,175	$ 1,500
Unrealized holding gains (losses) arising during the period	(2,492)	3,685
Change in foreign currency exchange rate adjustment	(16)	11
Change in DAC, VOBA, DSI, future contract benefits and other contract holder funds	812	(1,139)
Income tax benefit (expense)	582	(895)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	193	9
Associated amortization of DAC, VOBA, DSI and DFEL	(15)	(18)
Income tax benefit (expense)	(62)	3
Balance as of end-of-period	$ 1,945	$ 3,168
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	$ 64	$ 31
(Increases) attributable to:		
Gross OTTI recognized in OCI during the period	(18)	(9)
Change in DAC, VOBA, DSI and DFEL	3	1
Income tax benefit (expense)	6	3
Decreases attributable to:		
Sales, maturities or other settlements of AFS securities	31	36
Change in DAC, VOBA, DSI and DFEL	(14)	(3)
Income tax benefit (expense)	(6)	(12)
Balance as of end-of-period	$ 66	$ 47
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 139	$ 256
Unrealized holding gains (losses) arising during the period	(96)	(59)
Change in foreign currency exchange rate adjustment	16	(11)
Income tax benefit (expense)	27	24
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(189)	(10)
Associated amortization of DAC, VOBA, DSI and DFEL	-	1
Income tax benefit (expense)	66	3
Balance as of end-of-period	$ 209	$ 216
Foreign Currency Translation Adjustment		
Balance as of beginning-of-year	$ (3)	$ (5)

Foreign currency translation adjustment arising during the period	6	(5)
Balance as of end-of-period	$ 3	$ (10)
Funded Status of Employee Benefit Plans		
Balance as of beginning-of-year	$ (279)	$ (219)
Adjustment arising during the period	1	(3)
Income tax benefit (expense)	(1)	-
Balance as of end-of-period	$ (279)	$ (222)

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

	For the Six Months Ended June 30, 2015	2014	
Unrealized Gain (Loss) on AFS Securities			
Gross reclassification	$ 193	$ 9	Total realized gain (loss)
Associated amortization of DAC, VOBA, DSI and DFEL	(15)	(18)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	178	(9)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	(62)	3	Federal income tax expense (benefit)
Reclassification, net of income tax	$ 116	$ (6)	Net income (loss)
Unrealized OTTI on AFS Securities			
Gross reclassification	$ 31	$ 36	Total realized gain (loss)
Change in DAC, VOBA, DSI and DFEL	(14)	(3)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	17	33	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	(6)	(12)	Federal income tax expense (benefit)
Reclassification, net of income tax	$ 11	$ 21	Net income (loss)
Unrealized Gain (Loss) on Derivative Instruments			
Gross reclassifications:			
Interest rate contracts	$ (194)	$ (12)	Net investment income
Interest rate contracts	2	2	Interest and debt expense
Foreign currency contracts	3	-	Net investment income
Total gross reclassifications	(189)	(10)	
Associated amortization of DAC, VOBA, DSI and DFEL	-	1	Commissions and other expenses
Reclassifications before income tax benefit (expense)	(189)	(9)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	66	3	Federal income tax expense (benefit)
Reclassification, net of income tax	$ (123)	$ (6)	Net income (loss)

10. Realized Gain (Loss)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Total realized gain (loss) related to certain investments (1)	$ (1)	$ 1	$ (28)	$ (5)
Realized gain (loss) on the mark-to-market on certain instruments (2)	(21)	7	(10)	(12)
Indexed annuity and IUL contracts net derivatives results: (3)				
Gross gain (loss)	(5)	(16)	(31)	(39)
Associated amortization of DAC, VOBA, DSI and DFEL	1	3	6	8
Variable annuity net derivatives results: (4)				
Gross gain (loss)	44	35	30	65
Associated amortization of DAC, VOBA, DSI and DFEL	(7)	5	(3)	(1)
Realized gain (loss) on sale of subsidiaries/businesses (5)	(1)	-	(2)	-
Total realized gain (loss)	$ 10	$ 35	$ (38)	$ 16

(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 GDB riders, including the cost of purchasing the hedging instruments.

(5) See Note 3 in our 2014 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 June 30, 2015	For the Six Months Ended June 30, 2015
10-year LNC stock options	7,145	502,664
Performance shares	2,158	161,255
RSUs	22,868	445,438
Non-employee:		
SARs	-	48,451
Agent stock options	535	90,239
Director DSUs	7,653	15,536

12. Fair Value of Financial Instruments

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

	As of June 30, 2015		As of December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity securities	$ 85,422	$ 85,422	$ 86,240	$ 86,240
VIEs' fixed maturity securities	598	598	598	598
Equity securities	227	227	231	231
Trading securities	1,949	1,949	2,065	2,065
Mortgage loans on real estate	8,171	8,513	7,574	8,038
Derivative investments (1)	1,340	1,340	1,860	1,860
Other investments	1,624	1,624	1,709	1,709
Cash and invested cash	2,327	2,327	3,919	3,919
Other assets:				
GLB reserves embedded derivatives (2)	254	254	-	-
Reinsurance recoverable	102	102	154	154
Separate account assets	128,079	128,079	125,265	125,265
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(1,155)	(1,155)	(1,170)	(1,170)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(697)	(697)	(699)	(699)
Account values of certain investment contracts	(30,074)	(32,838)	(29,156)	(33,079)
Short-term debt	-	-	(250)	(253)
Long-term debt	(5,529)	(5,754)	(5,270)	(5,707)
Reinsurance related embedded derivatives	(120)	(120)	(150)	(150)
VIEs' liabilities – derivative instruments	(3)	(3)	(13)	(13)
Other liabilities:				
Credit default swaps	(2)	(2)	(3)	(3)
Derivative liabilities (1)	(63)	(63)	(77)	(77)
GLB reserves embedded derivatives (2)	(102)	(102)	(174)	(174)

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

(2) Portions of our GLB 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 June 30, 2015, and December 31, 2014, the remaining guaranteed interest and similar contracts carrying value approximated fair value. The fair value of the account values of certain investment contracts is based on their approximate surrender value as of the balance sheet date. The inputs used to measure the fair value of our other contract holder funds are classified as Level 3 within the fair value hierarchy.

Short-Term and Long-Term Debt

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

Financial Instruments Carried at Fair Value

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of June 30, 2015, or December 31, 2014, 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 2014 Form 10-K:

	As of June 30, 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	$ 64	$ 70,933	$ 2,039	$ 73,036
ABS	-	1,100	33	1,133
U.S. government bonds	409	19	-	428
Foreign government bonds	-	426	114	540
RMBS	-	4,029	1	4,030
CMBS	-	434	12	446
CLOs	-	38	461	499
State and municipal bonds	-	4,418	-	4,418
Hybrid and redeemable preferred securities	46	750	96	892
VIEs’ fixed maturity securities	-	598	-	598
Equity AFS securities	7	79	141	227
Trading securities	160	1,717	72	1,949
Other investments	154	-	-	154
Derivative investments (1)	-	1,116	1,013	2,129
Cash and invested cash	-	2,327	-	2,327
Other assets:				
GLB reserves embedded derivatives	-	-	254	254
Reinsurance recoverable	-	-	102	102
Separate account assets	670	127,409	-	128,079
Total assets	$ 1,510	$ 215,393	$ 4,338	$ 221,241
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	$ -	$ -	$ (1,155)	$ (1,155)
Long-term debt	-	(1,203)	-	(1,203)
Reinsurance related embedded derivatives	-	(120)	-	(120)

VIEs’ liabilities – derivative instruments	-	-	(3)	(3)
Other liabilities:				
Credit default swaps	-	-	(2)	(2)
Derivative liabilities (1)	-	(579)	(273)	(852)
GLB reserves embedded derivatives	-	-	(102)	(102)
Total liabilities	$ -	$ (1,902)	$ (1,535)	$ (3,437)

	As of December 31, 2014			
	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	$ 63	$ 71,400	$ 1,953	$ 73,416
ABS	-	1,097	33	1,130
U.S. government bonds	399	36	-	435
Foreign government bonds	-	432	109	541
RMBS	-	4,225	1	4,226
CMBS	-	555	15	570
CLOs	-	7	368	375
State and municipal bonds	-	4,593	-	4,593
Hybrid and redeemable preferred securities	45	854	55	954
VIEs' fixed maturity securities	-	598	-	598
Equity AFS securities	7	67	157	231
Trading securities	-	1,992	73	2,065
Other investments	150	-	-	150
Derivative investments (1)	-	1,356	1,231	2,587
Cash and invested cash	-	3,919	-	3,919
Other assets – reinsurance recoverable	-	-	154	154
Separate account assets	1,539	123,726	-	125,265
Total assets	$ 2,203	$ 214,857	$ 4,149	$ 221,209
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	$ -	$ -	$ (1,170)	$ (1,170)
Long-term debt	-	(1,203)	-	(1,203)
Reinsurance related embedded derivatives	-	(150)	-	(150)
VIEs' liabilities – derivative instruments	-	-	(13)	(13)
Other liabilities:				
Credit default swaps	-	-	(3)	(3)
Derivative liabilities (1)	-	(562)	(242)	(804)
GLB reserves embedded derivatives	-	-	(174)	(174)

Total liabilities	$ -	$ (1,915)	$ (1,602)	$ (3,517)

(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.

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

	For the Three Months Ended June 30, 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: (4)						
Fixed maturity AFS securities:						
Corporate bonds	$ 2,033	$ -	$ (58)	$ 61	$ 3	$ 2,039
ABS	33	-	-	-	-	33
Foreign government bonds	113	-	1	-	-	114
RMBS	1	-	-	-	-	1
CMBS	15	1	2	(6)	-	12
CLOs	416	-	-	57	(12)	461
Hybrid and redeemable preferred securities	75	(1)	(1)	-	23	96
Equity AFS securities	135	1	(2)	8	(1)	141
Trading securities	75	-	(4)	1	-	72
Derivative investments	849	122	(123)	(108)	-	740
Other assets: (5)						
GLB reserves embedded derivatives	-	254	-	-	-	254
Reinsurance recoverable	204	(102)	-	-	-	102
Future contract benefits – indexed annuity and universal life contracts embedded derivatives (5)	(1,180)	(9)	-	34	-	(1,155)
VIEs’ liabilities – derivative instruments (6)	(5)	2	-	-	-	(3)
Other liabilities:						
Credit default swaps (7)	(3)	1	-	-	-	(2)
GLB reserves embedded derivatives (5)	(552)	450	-	-	-	(102)
Total, net	$ 2,209	$ 719	$ (185)	$ 47	$ 13	$ 2,803

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	For the Three Months Ended June 30, 2014					
	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: (4)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,946	$ 5	$ 50	$ 132	$ 64	$ 2,197
ABS	12	-	(1)	-	(4)	7
Foreign government bonds	107	-	1	-	-	108
RMBS	1	-	-	-	-	1
CMBS	21	-	-	(2)	-	19
CLOs	195	-	2	17	(4)	210
State and municipal bonds	29	-	-	-	(29)	-
Hybrid and redeemable preferred securities	55	-	2	(5)	-	52
Equity AFS securities	162	3	(3)	(4)	-	158
Trading securities	53	1	3	4	6	67
Derivative investments	811	(42)	80	(69)	-	780
Other assets: (5)						
GLB reserves embedded derivatives	979	(47)	-	-	-	932
Reinsurance recoverable	43	11	-	-	-	54
Future contract benefits – indexed annuity universal life contracts embedded derivatives (5)	(1,090)	(92)	-	15	-	(1,167)
VIEs' liabilities – derivative instruments (6)	(22)	12	-	-	-	(10)
Other liabilities:						
Credit default swaps (7)	(2)	1	-	-	-	(1)
GLB reserves embedded derivatives (5)	(43)	(11)	-	-	-	(54)
Total, net	$ 3,257	$ (159)	$ 134	$ 88	$ 33	$ 3,353

	For the Six Months Ended June 30, 2015					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Purchases, Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers Into or Out of Level 3, Net (2)	Ending Fair Value
Investments: (4)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,953	$ 3	$ (89)	$ 90	$ 82	$ 2,039
ABS	33	-	-	-	-	33
Foreign government bonds	109	-	5	-	-	114
RMBS	1	-	-	-	-	1
CMBS	15	2	4	(9)	-	12
CLOs	368	-	3	102	(12)	461
Hybrid and redeemable preferred securities	55	(1)	(1)	-	43	96
Equity AFS securities	157	1	-	(16)	(1)	141
Trading securities	73	1	(2)	-	-	72
Derivative investments	989	28	(76)	(201)	-	740
Other assets: (5)						
GLB reserves embedded derivatives	-	254	-	-	-	254
Reinsurance recoverable	154	(52)	-	-	-	102
Future contract benefits: (5)						
Indexed annuity and IUL contracts embedded derivatives	(1,170)	(47)	-	62	-	(1,155)
VIEs' liabilities – derivative instruments (6)	(13)	10	-	-	-	(3)
Other liabilities:						
Credit default swaps (7)	(3)	1	-	-	-	(2)
GLB reserves embedded derivatives (5)	(174)	72	-	-	-	(102)
Total, net	$ 2,547	$ 272	$ (156)	$ 28	$ 112	$ 2,803

	For the Six Months Ended June 30, 2014					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Purchases, Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers Into or Out of Level 3, Net (2)(3)	Ending Fair Value
Investments: (4)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,701	$ 9	$ 73	$ 150	$ 264	$ 2,197
ABS	10	-	1	-	(4)	7
Foreign government bonds	79	-	4	-	25	108
RMBS	1	-	-	-	-	1
CMBS	20	-	1	(8)	6	19
CLOs	179	-	3	24	4	210
State and municipal bonds	28	-	1	-	(29)	-
Hybrid and redeemable preferred securities	66	-	1	(5)	(10)	52
Equity AFS securities	161	3	(1)	(5)	-	158
Trading securities	52	2	6	3	4	67
Derivative investments	1,266	(150)	213	(123)	(426)	780
Other assets: (5)						
GLB reserves embedded derivatives	-	(312)	-	-	1,244	932
Reinsurance recoverable	27	27	-	-	-	54
Future contract benefits: (5)						
Indexed annuity and IUL contracts embedded derivatives	(1,048)	(141)	-	22	-	(1,167)
GLB reserves embedded derivatives	1,244	-	-	-	(1,244)	-
VIEs' liabilities – derivative instruments (6)	(27)	17	-	-	-	(10)
Other liabilities:						
Credit default swaps (7)	(2)	1	-	-	-	(1)
GLB reserves embedded derivatives (5)	(27)	(27)	-	-	-	(54)
Total, net	$ 3,730	$ (571)	$ 302	$ 58	$ (166)	$ 3,353

(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) Transfers into or out of Level 3 for GLB reserves embedded derivatives between future contract benefits, other assets and other liabilities on our Consolidated Balance Sheets.

(4) 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).

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

(6) Gains (losses) from sales, maturities, settlements and calls are included in net investment income on our Consolidated Statements of Comprehensive Income (Loss).

(7) 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).

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 June 30, 2015					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 131	$ (19)	$ (15)	$ (25)	$ (11)	$ 61
CMBS	-	-	-	(6)	-	(6)
CLOs	62	-	-	(5)	-	57
Equity AFS securities	10	(2)	-	-	-	8
Trading securities	1	-	-	-	-	1
Derivative investments	47	(49)	(106)	-	-	(108)
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(16)	-	50	-	-	34
Total, net	$ 235	$ (70)	$ (71)	$ (36)	$ (11)	$ 47

	For the Three Months Ended June 30, 2014					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 232	$ (47)	$ (14)	$ (16)	$ (23)	$ 132
CMBS	-	-	-	(1)	(1)	(2)
CLOs	20	-	-	(3)	-	17
Hybrid and redeemable preferred securities	-	(5)	-	-	-	(5)
Equity AFS securities	-	(4)	-	-	-	(4)
Trading securities	4	-	-	-	-	4
Derivative investments	43	(19)	(93)	-	-	(69)
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(24)	-	-	39	-	15
Total, net	$ 275	$ (75)	$ (107)	$ 19	$ (24)	$ 88

	For the Six Months Ended June 30, 2015					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 194	$ (20)	$ (15)	$ (51)	$ (18)	$ 90
CMBS	-	-	-	(8)	(1)	(9)
CLOs	109	-	-	(7)	-	102
Equity AFS securities	10	(26)	-	-	-	(16)
Trading securities	-	-	-	-	-	-
Derivative investments	88	(193)	(96)	-	-	(201)
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(30)	-	-	92	-	62
Total, net	$ 371	$ (239)	$ (111)	$ 26	$ (19)	$ 28

	For the Six Months Ended June 30, 2014					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 377	$ (58)	$ (72)	$ (32)	$ (65)	$ 150
CMBS	-	-	-	(7)	(1)	(8)
CLOs	32	-	-	(8)	-	24
Hybrid and redeemable preferred securities	-	(5)	-	-	-	(5)
Equity AFS securities	-	(5)	-	-	-	(5)
Trading securities	6	-	-	(3)	-	3
Derivative investments	79	(39)	(163)	-	-	(123)
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(49)	-	-	71	-	22
Total, net	$ 445	$ (107)	$ (235)	$ 21	$ (66)	$ 58

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 June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Derivative investments (1)	$ 111	$ (57)	$ 16	$ (170)
VIEs' liabilities – derivative instruments (2)	2	12	10	17
Embedded derivatives: (1)				
Indexed annuity and IUL contracts	(8)	(16)	(34)	(40)
GLB reserves	615	71	454	(72)
Credit default swaps (1)	1	1	1	1
Total, net	$ 721	$ 11	$ 447	$ (264)

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

(2) Included in net investment income 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 June 30, 2015			For the Three Months Ended June 30, 2014		
	Transfers In to Level 3	Transfers Out of Level 3	Total	Transfers In to Level 3	Transfers Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 79	$ (76)	$ 3	$ 144	$ (80)	$ 64
ABS	-	-	-	-	(4)	(4)
CLOs	4	(16)	(12)	-	(4)	(4)
State and municipal bonds	-	-	-	-	(29)	(29)
Hybrid and redeemable preferred securities	23	-	23	-	-	-
Equity AFS securities	-	(1)	(1)	-	-	-
Trading securities	-	-	-	6	-	6
Total, net	$ 106	$ (93)	$ 13	$ 150	$ (117)	$ 33

	For the Six Months Ended June 30, 2015			For the Six Months Ended June 30, 2014		
	Transfers Into Level 3	Transfers Out of Level 3	Total	Transfers In to Level 3	Transfers Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 159	$ (77)	$ 82	$ 404	$ (140)	$ 264
ABS	-	-	-	-	(4)	(4)
Foreign government bonds	-	-	-	25	-	25
CMBS	-	-	-	6	-	6
CLOs	4	(16)	(12)	8	(4)	4
State and municipal bonds	-	-	-	-	(29)	(29)
Hybrid and redeemable preferred						

securities	48	(5)	43	12	(22)	(10)
Equity AFS securities	-	(1)	(1)			-
Trading securities	-	-	-	10	(6)	4
Derivative investments	-	-	-	-	(426)	(426)
Other assets – GLB reserves embedded derivatives	-	-	-	1,244	-	1,244
Future contract benefits – GLB reserves embedded derivatives	-	-	-	-	(1,244)	(1,244)
Total, net	$ 211	$ (99)	$ 112	$ 1,709	$ (1,875)	$ (166)

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 six months ended June 30, 2015 and 2014, transfers in and out were attributable primarily to the securities' observable market information no longer being available or becoming available. Transfers in and out for GLB reserves embedded derivatives represent reclassifications between future contract benefits and other assets or other liabilities. 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 six months ended June 30, 2015, the transfers between Levels 1 and 2 of the fair value hierarchy was $172 million for our financial instruments carried at fair value which was attributable to quoted market prices being available. For the six months ended June 30, 2014, 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.

The following summarizes the fair value (in millions), valuation techniques and significant unobservable inputs of the Level 3 fair value measurements as of June 30, 2015:

	Fair Value	Valuation Technique	Significant Unobservable Inputs	Assumption or Input Ranges
Assets				
Investments:				
Fixed maturity AFS and trading securities:				
Corporate bonds	$ 1,374	Discounted cash flow	Liquidity/duration adjustment (1)	0.8 % - 9.8 %
ABS	26	Discounted cash flow	Liquidity/duration adjustment (1)	2.7 % - 2.7 %
Foreign government bonds	80	Discounted cash flow	Liquidity/duration adjustment (1)	1.7 % - 3.9 %
Hybrid and redeemable preferred securities	20	Discounted cash flow	Liquidity/duration adjustment (1)	1.8 % - 1.8 %
Equity AFS and trading securities	27	Discounted cash flow	Liquidity/duration adjustment (1)	4.3 % - 5.8 %
Other assets – GLB reserves embedded derivatives and reinsurance recoverable	356	Discounted cash flow	Long-term lapse rate (2)	1 % - 30 %
			Utilization of guaranteed withdrawals (3)	90 % - 100 %
			Claims utilization factor (4)	60 % - 100 %
			Premiums utilization factor (4)	70 % - 140 %
			NPR (5)	0.03 % - 0.35 %
			Mortality rate (6)	(8)

			Volatility (7)	1	%	-	29	%
Liabilities								
Future contract benefits – indexed annuity and IUL contracts								
embedded derivatives	(1,155)	Discounted cash flow	Lapse rate (2)	1	%	-	15	%
			Mortality rate (6)				(9)	
Other liabilities – GLB reserves								
embedded derivatives	(102)	Discounted cash flow	Long-term lapse rate (2)	1	%	-	30	%
			Utilization of guaranteed withdrawals (3)	90	%	-	100	%
			Claims utilization factor (4)	60	%	-	100	%
			Premiums utilization factor (4)	70	%	-	140	%
			NPR (5)	0.03	%	-	0.35	%
			Mortality rate (6)(8)				(9)	
			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.

(9) Based on the "Annuity 2000 Mortality Table" developed by the Society of Actuaries Committee on Life Insurance Research that was adopted by the National Association of Insurance Commissioners in 1996 for our mortality input.

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.

- 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 2014 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 22 of our 2014 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 accounted for at fair value, net of the change in the fair value of the derivatives we own to hedge them; 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 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 June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues				
Operating revenues:				
Annuities	$ 991	$ 926	$ 1,981	$ 1,835
Retirement Plan Services	270	270	543	541
Life Insurance	1,443	1,363	2,874	2,700
Group Protection	617	621	1,222	1,231
Other Operations	96	106	191	212
Excluded realized gain (loss), pre-tax	(37)	(5)	(127)	(63)
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	1	1	1	1
Total revenues	$ 3,381	$ 3,282	$ 6,685	$ 6,457

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Net Income (Loss)				
Income (loss) from operations:				
Annuities	$ 255	$ 227	$ 494	$ 443
Retirement Plan Services	30	39	65	78
Life Insurance	105	148	215	268
Group Protection	19	2	13	21
Other Operations	(38)	(22)	(63)	(51)
Excluded realized gain (loss), after-tax	(23)	(3)	(83)	(42)
Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	-	-	1	1
Benefit ratio unlocking, after-tax	(4)	7	2	9
Net income (loss)	$ 344	$ 398	$ 644	$ 727

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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 June 30, 2015, compared with December 31, 2014, and the results of operations for the three and six months ended June 30, 2015, compared with the corresponding periods in 2014 of Lincoln National Corporation and its consolidated subsidiaries. Unless otherwise stated or the context otherwise requires, "LNC," "Company," "we," "our" or "u 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, 2014 ("2014 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 report on Form 10-Q filed in 2015; and our current reports on Form 8-K filed in 2015. 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 2014 Form 10-K as updated by "Item 1A. – Risk Factors" in our first quarter 2015 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 conformity with accounting principles generally accepted in the United States of America ("GAAP"), unless otherwise indicated. See Note 1 in our 2014 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.

Certain reclassifications have been made to prior periods' financial information.

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 in 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") proposed 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 ("Dodd-Frank 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 ("IFRS"), 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 report 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 2014 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 2014 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 2014 Form 10-K as updated by "Item 1A. – Risk Factors" in our first quarter 2015 Form 10-Q.

Critical Accounting Policies and Estimates

The MD&A included in our 2014 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 2014 Form 10-K and, accordingly, should be read in conjunction with the "Critical Accounting Policies and Estimates" discussed in our 2014 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 2014 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. The profitability of our business depends, among other things, on assumptions regarding variable fund returns, investment margins, lapse rates and mortality.

Interest rate fluctuations or prolonged low rates could negatively affect our profitability from interest rate spread businesses and thereby reduce future EGPs. Investment margins are driven by interest rate spreads, or the difference between the interest that we are required to credit to contracts and the yields that we are able to earn on our general account investments supporting our obligations under the contracts. Accordingly, the assumption of the yield that can be earned on new money is critical to the unlocking analysis.

Although interest rates are expected to move higher in the future, new money rates continue to be at historically low levels and as a result, require careful analysis when forecasting the future direction of changes in rates. If we change our view of future new money rates and lower our current long-term yield assumption, then, assuming that all other assumptions remain constant, we estimate the impact of lowering this assumption by 50 basis points would be approximately $(125) million to income (loss) from operations due primarily to unlocking our DAC and VOBA assets. This impact would be most pronounced in our Life Insurance segment. The actual impact of a 50 basis point decline in the yield would be based upon a number of factors existing at the time of the assumption-update, and therefore, the actual amount of the loss may differ from our current estimate. In addition, lower investment margins may also impact the recoverability of intangible assets such as goodwill, require the establishment of additional liabilities or trigger loss recognition events on certain policyholder liabilities. 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 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 2014 Form 10-K.

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 2014 Form 10-K.

Our long-term variable fund growth rate assumption, which is used in the determination of DAC, VOBA, DSI and DFEL amortization for the variable component of our variable annuity and VUL products, is an immediate drop of approximately 11% followed by growth going forward of 7% to 9% depending on the block of business and reflecting differences in contract holder fund allocations between fixed-income and equity-type investments. If we had unlocked our RTM assumption as of June 30, 2015, we would have recorded a favorable unlocking of approximately $260 million, pre-tax, for Annuities, and approximately $25 million, pre-tax, for Retirement Plan Services and Life Insurance, respectively.

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 June 30, 2015:

	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	$ 840	$ 72,088	$ -	$ 72,928
Priced by independent broker quotations	-	-	2,183	2,183
Priced by matrices	-	12,990	-	12,990
Priced by other methods (1)	-	-	1,526	1,526
Total	$ 840	$ 85,078	$ 3,709	$ 89,627
Percent of total	1%	95%	4%	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 2014 Form 10-K and Note 12 herein.

As of June 30, 2015, 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 June 30, 2015, we used broker quotes for 74 securities as our final price source, representing approximately 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 2014 Form 10-K.

Guaranteed Living Benefits

Within our individual annuity business, approximately 68% of our variable annuity account values contained guaranteed living benefits ("GLB") features as of June 30, 2015. Declines in the equity markets increase our exposure to potential benefits with the GLB features, leading to an increase in our existing liability or a decline if in an asset position for those benefits. For example, 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 June 30, 2015 and 2014, 4% and 3%, respectively, of all in-force contracts with a GLB feature were "in the money," and our exposure, after reinsurance, as of June 30, 2015 and 2014, was $287 million and $245 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 2014 Form 10-K.

Acquisitions and Dispositions

On July 16, 2015, we closed on the sale of Lincoln Financial Media Company to Entercom Communications Corp. and Entercom Radio, LLC. We received $105 million, subject to certain purchase price adjustments, consisting of cash and perpetual cumulative convertible preferred stock of Entercom Communications Corp.

For additional information about acquisitions and divestitures, see Note 3 in our 2014 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 June 30,			For the Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
Net Income (Loss)						
Income (loss) from operations:						
Annuities	$ 255	$ 227	12%	$ 494	$ 443	12%
Retirement Plan Services	30	39	-23%	65	78	-17%
Life Insurance	105	148	-29%	215	268	-20%
Group Protection	19	2	NM	13	21	-38%
Other Operations	(38)	(22)	-73%	(63)	(51)	-24%
Excluded realized gain (loss), after-tax	(23)	(3)	NM	(83)	(42)	-98%
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	(4)	7	NM	2	9	-78%
Net income (loss)	$ 344	$ 398	-14%	$ 644	$ 727	-11%

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
Deposits						
Annuities	$ 3,380	$ 3,566	-5%	$ 6,370	$ 6,945	-8%
Retirement Plan Services	1,862	1,814	3%	3,567	3,572	0%
Life Insurance	1,344	1,308	3%	2,655	2,574	3%
Total deposits	$ 6,586	$ 6,688	-2%	$ 12,592	$ 13,091	-4%
Net Flows						
Annuities	$ 397	$ 831	-52%	$ 593	$ 1,526	-61%
Retirement Plan Services	306	366	-16%	422	5	NM
Life Insurance	929	919	1%	1,817	1,748	4%
Total net flows	$ 1,632	$ 2,116	-23%	$ 2,832	$ 3,279	-14%

	As of June 30,		
	2015	2014	Change
Account Values			
Annuities	$ 124,535	$ 121,192	3%
Retirement Plan Services	54,989	53,748	2%
Life Insurance	43,059	41,238	4%
Total account values	$ 222,583	$ 216,178	3%

Comparison of the Three Months Ended June 30, 2015 to 2014

Net income decreased due primarily to the following:

- Higher claims severity in our Life Insurance segment.
- Lower realized gains during 2015.
- Lower prepayment and bond make-whole premiums.
- Spread compression due to average new money rates trailing our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates.

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

- Growth in account values and insurance in force.
- Favorable total non-medical loss ratio experience in our Group Protection segment.

Comparison of the Six Months Ended June 30, 2015 to 2014

Net income decreased due primarily to the following:

- Higher claims severity in our Life Insurance segment.
- Realized losses during 2015 as compared to realized gains during 2014.
- Less favorable investment income on alternative investments.
- Spread compression due to average new money rates trailing our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates.

The decrease in net income was partially offset by growth in account values and insurance in force.

RESULTS OF ANNUITIES

Income (Loss) from Operations

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
Operating Revenues						
Insurance premiums (1)	$ 55	$ 42	31%	$ 135	$ 87	55%
Fee income	531	486	9%	1,041	950	10%
Net investment income	247	258	-4%	494	517	-4%
Operating realized gain (loss) (2)	45	40	13%	87	78	12%
Other revenues (3)	113	100	13%	224	203	10%
Total operating revenues	991	926	7%	1,981	1,835	8%
Operating Expenses						
Interest credited	139	154	-10%	283	308	-8%
Benefits	90	80	13%	218	166	31%
Commissions and other expenses	434	406	7%	859	810	6%
Total operating expenses	663	640	4%	1,360	1,284	6%
Income (loss) from operations before taxes	328	286	15%	621	551	13%
Federal income tax expense (benefit)	73	59	24%	127	108	18%
Income (loss) from operations	$ 255	$ 227	12%	$ 494	$ 443	12%

(1) Includes primarily our income annuities, which have a corresponding offset in benefits for changes in reserves.
(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 and Six Months Ended June 30, 2015 to 2014

Income from operations for this segment increased due primarily to higher fee income driven by higher average daily variable account values as a result of increasing equity markets and positive net flows.

The increase in income from operations was partially offset primarily by higher commissions and other expenses due to higher account values, resulting in higher trail commissions. This increase was partially offset by higher average equity markets than our model projections assumed, resulting in a lower amortization rate.

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.

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 are an important indicator of future profitability. For the three and six months ended June 30, 2015, we increased our variable annuity deposits on products without GLB riders to 28%, respectively, compared to 23% and 21% for the corresponding periods in 2014.

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 withdrawals to the average account values. The overall lapse rate for our annuity products was 7% for the three and six months ended June 30, 2015 and 2014.

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 2014 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 2014 Form 10-K as updated by "Item 1A. – Risk Factors" in our first quarter 2015 Form 10-Q.

For information about regulatory risk including the DOL proposed fiduciary advice regulation, see "Item 1A. Risk Factors – Our businesses are heavily regulated and changes in regulation may affect our insurance subsidiary capital requirements or reduce our profitability – Federal Regulation" in our first quarter 2015 Form 10-Q.

Fee Income

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
Fee Income						
Mortality, expense and other assessments	$ 524	$ 478	10%	$ 1,026	$ 935	10%
Surrender charges	8	7	14%	15	15	0%
DFEL:						
Deferrals	(10)	(8)	-25%	(18)	(16)	-13%
Amortization, net of interest	9	9	0%	18	16	13%
Total fee income	$ 531	$ 486	9%	$ 1,041	$ 950	10%

As of or For the Six

	As of or For the Three Months Ended June 30,			Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
Variable Account Value Information						
Variable annuity deposits (1)	$ 2,302	$ 2,495	-8%	$ 4,189	$ 4,786	-12%
Increases (decreases) in variable annuity account values:						
Net flows (1)	(75)	286	NM	(463)	390	NM
Change in market value (1)	(283)	3,323	NM	1,537	4,111	-63%
Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products	788	680	16%	1,507	1,478	2%
Variable annuity account values (1)	103,408	99,801	4%	103,408	99,801	4%
Average daily variable annuity account values (1)	104,794	96,913	8%	103,389	95,493	8%
Average daily S&P 500	2,102	1,899	11%	2,083	1,868	12%

(1) Excludes the fixed portion of variable.

We charge contract holders mortality and expense assessments on variable annuity accounts to cover insurance and administrative expenses. These assessments are a function of the rates priced into the product and the average daily variable account values. Average daily account values are driven by net flows and variable fund returns. Charges on GLB riders are assessed based on a contractual rate that is applied either to the account value or the guaranteed amount. In addition, for our fixed annuity contracts and for some variable contracts, we collect surrender charges when contract holders surrender their contracts during their surrender charge periods to protect us from premature withdrawals. Fee income includes charges on both our variable and fixed annuity products, but excludes the attributed fees on our GLB products; see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)" in our 2014 Form 10-K for discussion of these attributed fees.

Net Investment Income and Interest Credited

Details underlying net investment income, interest credited (in millions) and our interest rate spread were as follows:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
Net Investment Income						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 206	$ 215	-4%	$ 412	$ 432	-5%
Commercial mortgage loan prepayment and bond make-whole premiums (1)	3	5	-40%	13	9	44%
Surplus investments (2)	38	38	0%	69	76	-9%
Total net investment income	$ 247	$ 258	-4%	$ 494	$ 517	-4%
Interest Credited						
Amount provided to contract holders	$ 138	$ 146	-5%	$ 278	$ 292	-5%
DSI deferrals	(7)	(1)	NM	(12)	(3)	NM
Interest credited before DSI amortization	131	145	-10%	266	289	-8%
DSI amortization	8	9	-11%	17	19	-11%
Total interest credited	$ 139	$ 154	-10%	$ 283	$ 308	-8%

(1) See "Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums" below for additional information.
(2) Represents net investment income on the required statutory surplus for this segment and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities.

	For the Three Months Ended June 30,		Basis Point	For the Six Months Ended June 30,		Basis Point
	2015	2014	Change	2015	2014	Change
Interest Rate Spread						
Fixed maturity securities, mortgage loans on real estate and other, net of						

investment expenses	4.20%	4.49%	(29)	4.22%	4.52%	(30)
Commercial mortgage loan prepayment and bond make-whole premiums	0.06%	0.11%	(5)	0.13%	0.09%	4
Net investment income yield on reserves	4.26%	4.60%	(34)	4.35%	4.61%	(26)
Interest rate credited to contract holders	2.61%	2.79%	(18)	2.63%	2.80%	(17)
Interest rate spread	1.65%	1.81%	(16)	1.72%	1.81%	(9)

	As of or For the Three Months Ended June 30,			As of or For the Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
Fixed Account Value Information						
Fixed annuity deposits (1)	$ 1,078	$ 1,071	1%	$ 2,181	$ 2,159	1%
Increases (decreases) in fixed annuity account values:						
Net flows (1)	472	545	-13%	1,056	1,136	-7%
Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products	(788)	(680)	-16%	(1,507)	(1,478)	-2%
Reinvested interest credited (1)	146	235	-38%	319	427	-25%
Fixed annuity account values (1)	21,127	21,391	-1%	21,127	21,391	-1%
Average fixed account values (1)	21,026	21,355	-2%	21,114	21,295	-1%
Average invested assets on reserves	19,654	19,170	3%	19,604	19,136	2%

(1) Includes the fixed portion of variable.

A portion of our investment income earned is credited to the contract holders of our fixed annuity products, including the fixed portion of variable annuity contracts. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line, including the fixed portion of variable annuity contracts, and what we credit to our fixed annuity contract holders' accounts, including the fixed portion of variable annuity contracts. Changes in commercial mortgage loan prepayments and bond make-whole premiums, investment income on alternative investments and surplus investment income can vary significantly from period to period due to a number of factors and, therefore, may contribute to investment income results that are not indicative of the underlying trends.

Benefits

Benefits for this segment include changes in income annuity reserves driven by premiums, changes in benefit reserves and our expected costs associated with purchases of derivatives used to hedge our benefit ratio unlocking on benefit reserves associated with our guaranteed death benefit riders.

Commissions and Other Expenses

Details underlying commissions and other expenses (in millions) were as follows:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
Commissions and Other Expenses						
Commissions:						
Deferrable	$ 145	$ 156	-7%	$ 274	$ 303	-10%
Non-deferrable	122	114	7%	242	218	11%
General and administrative expenses	111	106	5%	214	211	1%
Inter-segment reimbursement associated with reserve financing and LOC expenses (1)	1	-	NM	3	1	200%
Taxes, licenses and fees	6	6	0%	18	18	0%
Total expenses incurred, excluding broker-dealer	385	382	1%	751	751	0%
DAC deferrals	(165)	(174)	5%	(311)	(339)	8%
Total pre-broker-dealer expenses incurred, excluding amortization, net of interest	220	208	6%	440	412	7%
DAC and VOBA amortization, net of interest:						
Amortization, net of interest, excluding unlocking	101	101	0%	201	202	0%
Unlocking	-	(1)	100%	-	(1)	100%
Broker-dealer expenses incurred	113	98	15%	218	197	11%
Total commissions and other expenses	$ 434	$ 406	7%	$ 859	$ 810	6%
DAC Deferrals						
As a percentage of sales/deposits	4.9%	4.9%		4.9%	4.9%	

(1) Includes reimbursements to Annuities from the Life Insurance segment for reserve financing, net of expenses incurred by Annuities for its use of letters of credit (“LOCs”). The inter-segment amounts are not reported on our Consolidated Statements of Comprehensive Income (Loss).

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to

EGPs. Certain types of commissions, such as trail commissions that are based on account values, are expensed as incurred rather than deferred and amortized.

Broker-dealer expenses that vary with and are related to sales are expensed as incurred and not deferred and amortized. Fluctuations in these expenses correspond with fluctuations in other revenues.

RESULTS OF RETIREMENT PLAN SERVICES

Income (Loss) from Operations

Details underlying the results for Retirement Plan Services (in millions) were as follows:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2015	2014	Change	2015	2014	Change
Operating Revenues						
Fee income	$ 61	$ 62	-2%	$ 123	$ 122	1%
Net investment income	206	204	1%	414	411	1%
Other revenues (1)	3	4	-25%	6	8	-25%
Total operating revenues	270	270	0%	543	541	0%
Operating Expenses						
Interest credited	123	118	4%	245	236	4%
Benefits	1	-	NM	1	-	NM
Commissions and other expenses	107	98	9%	209	198	6%
Total operating expenses	231	216	7%	455	434	5%
Income (loss) from operations before taxes	39	54	-28%	88	107	-18%
Federal income tax expense (benefit)						