LINCOLN NATIONAL CORP
Form 10-Q
October 29, 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 September 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 October 26, 2015, there were 247,470,994 shares of the registrant’s common stock outstanding.

Lincoln National Corporation

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	As of September 30, 2015 (Unaudited)	As of December 31, 2014
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2015 – $80,899; 2014 – $78,609)	$ 85,506	$ 86,240
Variable interest entities' fixed maturity securities (amortized cost: 2015 – $595; 2014 – $587)	598	598
Equity securities (cost: 2015 – $232; 2014 – $216)	242	231
Trading securities	1,914	2,065
Mortgage loans on real estate	8,431	7,574
Real estate	21	20
Policy loans	2,647	2,670
Derivative investments	2,020	1,860
Other investments	1,820	1,709
Total investments	103,199	102,967
Cash and invested cash	3,772	3,919
Deferred acquisition costs and value of business acquired	8,866	8,207
Premiums and fees receivable	383	473
Accrued investment income	1,116	1,049
Reinsurance recoverables	5,559	5,730
Funds withheld reinsurance assets	639	649
Goodwill	2,273	2,273
Other assets	3,450	2,845
Separate account assets	120,275	125,265
Total assets	$ 249,532	$ 253,377
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 20,523	$ 20,057
Other contract holder funds	76,451	75,512
Short-term debt	-	250
Long-term debt	5,604	5,270
Reinsurance related embedded derivatives	116	150
Funds withheld reinsurance liabilities	676	764

Deferred gain on business sold through reinsurance	116	171
Payables for collateral on investments	5,297	4,409
Variable interest entities' liabilities	2	13
Other liabilities	6,071	5,776
Separate account liabilities	120,275	125,265
Total liabilities	235,131	237,637
Contingencies and Commitments (See Note 8)		
Stockholders' Equity		
Preferred stock – 10,000,000 shares authorized	-	-
Common stock – 800,000,000 shares authorized; 247,464,931 and 256,551,440 shares issued and outstanding as of September 30, 2015, and December 31, 2014, respectively	6,380	6,622
Retained earnings	6,358	6,022
Accumulated other comprehensive income (loss)	1,663	3,096
Total stockholders' equity	14,401	15,740
Total liabilities and stockholders' equity	$ 249,532	$ 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 September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues				
Insurance premiums	$ 825	$ 741	$ 2,398	$ 2,236
Fee income	1,469	1,216	3,929	3,448
Net investment income	1,254	1,212	3,627	3,627
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(23)	(6)	(58)	(21)
Portion of loss recognized in other comprehensive income	5	2	20	10
Net other-than-temporary impairment losses on securities recognized in earnings	(18)	(4)	(38)	(11)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	45	93	27	117
Total realized gain (loss)	27	89	(11)	106
Amortization of deferred gain on business sold through reinsurance	18	18	55	55
Other revenues	123	135	402	397
Total revenues	3,716	3,411	10,400	9,869
Expenses				
Interest credited	622	631	1,876	1,900
Benefits	1,327	1,117	3,783	3,275
Commissions and other expenses	1,432	995	3,459	2,929
Interest and debt expense	67	67	204	201
Total expenses	3,448	2,810	9,322	8,305
Income (loss) before taxes	268	601	1,078	1,564
Federal income tax expense (benefit)	41	162	207	398
Net income (loss)	227	439	871	1,166
Other comprehensive income (loss), net of tax	(281)	(277)	(1,433)	1,359
Comprehensive income (loss)	$ (54)	$ 162	$ (562)	$ 2,525
Net Income (Loss) Per Common Share				
Basic	$ 0.91	$ 1.69	$ 3.45	$ 4.45
Diluted	0.87	1.65	3.37	4.34

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited, in millions, except per share data)

	For the Nine Months Ended September 30,	
	2015	2014
Common Stock		
Balance as of beginning-of-year	$ 6,622	$ 6,876
Stock compensation/issued for benefit plans	74	51
Retirement of common stock/cancellation of shares	(316)	(231)
Balance as of end-of-period	6,380	6,696
Retained Earnings		
Balance as of beginning-of-year	6,022	5,013
Net income (loss)	871	1,166
Retirement of common stock	(384)	(219)
Common stock dividends declared (2015 – $0.60; 2014 – $0.48)	(151)	(126)
Balance as of end-of-period	6,358	5,834
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	3,096	1,563
Other comprehensive income (loss), net of tax	(1,433)	1,359
Balance as of end-of-period	1,663	2,922
Total stockholders' equity as of end-of-period	$ 14,401	$ 15,452

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in millions)

	For the Nine Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities		
Net income (loss)	$ 871	$ 1,166
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	(52)	(346)
Trading securities purchases, sales and maturities, net	121	223
Change in premiums and fees receivable	90	(28)
Change in accrued investment income	(67)	(100)
Change in future contract benefits and other contract holder funds	690	224
Change in reinsurance related assets and liabilities	(255)	10
Change in federal income tax accruals	(14)	198
Realized (gain) loss	11	(106)
Amortization of deferred gain on business sold through reinsurance	(55)	(55)
Other	147	(91)
Net cash provided by (used in) operating activities	1,487	1,095
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(6,122)	(6,127)
Sales of available-for-sale securities	635	498
Maturities of available-for-sale securities	3,137	3,607
Purchases of other investments	(11,354)	(2,843)
Sales or maturities of other investments	10,666	2,597
Increase (decrease) in payables for collateral on investments	889	615
Proceeds from sale of subsidiary/business	75	-
Other	(73)	(69)
Net cash provided by (used in) investing activities	(2,147)	(1,722)
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	7,667	7,213
Withdrawals of fixed account values, including the fixed portion of variable	(4,534)	(4,162)
Transfers to and from separate accounts, net	(1,859)	(1,914)
Common stock issued for benefit plans and excess tax benefits	44	23
Repurchase of common stock	(700)	(450)

Dividends paid to common stockholders	(153)	(126)
Net cash provided by (used in) financing activities	513	84
Net increase (decrease) in cash and invested cash	(147)	(543)
Cash and invested cash as of beginning-of-year	3,919	2,364
Cash and invested cash as of end-of-period	$ 3,772	$ 1,821

See accompanying Notes to Consolidated Financial Statements

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LINCOLN NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with 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 nine month period ended September 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 ("FASB") and the impact of the adoption on our financial statements:

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2014-01, 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 disclosures are not required for comparative periods before the effective date.	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.

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Future Adoption of New Accounting Standards

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

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2014-09, Revenue from Contracts with Customers & ASU 2015- 14, Revenue from Contracts with Customers; Deferral of the Effective Date	This standard establishes the core principle of recognizing revenue to depict the transfer of promised goods and services. The amendments define a five-step process that systematically identifies the various components of the revenue recognition process, culminating with the recognition of revenue upon satisfaction of an entity's performance obligation. Retrospective application is required. After performing extensive outreach, the FASB decided to delay the effective date of ASU 2014-09 for one year. Early application is permitted but only for annual reporting periods beginning after December 15, 2016.	January 1, 2018	We will adopt the accounting guidance in this standard for non-insurance related products and services, and are currently evaluating the impact of adoption on our consolidated financial condition and results of operations.
ASU 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	January 1, 2016	We will appropriately classify all of our debt

Simplifying the Presentation of Debt Issuance Costs	sheet. This amendment requires that debt issuance costs be presented 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.		issuance costs in accordance with this ASU as of the required effective date.
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.

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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.
ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements	Given the absence of authoritative accounting guidance in ASU 2015-03 related to debt issuance costs for line-of-credit arrangements, this standard clarifies that the SEC Staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement.	January 1, 2016	We are currently evaluating this SEC Staff Announcement in connection with our adoption of ASU 2015-03 and will make the necessary disclosures as of the effective date.

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 September 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

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The following summarizes the exposure of the CLN structures' underlying reference obligations by industry and rating as of September 30, 2015:

	AAA	AA	A	BBB	BB	B	CCC	Total
Industry								
Financial intermediaries	0.0%	2.1%	5.4%	3.0%	0.0%	0.0%	0.0%	10.5%
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%	1.2%	1.0%	0.7%	0.3%	0.0%	0.0%	3.2%
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%	4.2%	13.7%	17.9%	5.9%	0.7%	0.3%	42.7%
Total	0.6%	13.5%	35.7%	38.5%	10.2%	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 September 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	459	-	1	423	-
Total assets (1)	1	$ 459	$ 598	1	$ 423	$ 598
Liabilities						
Non-qualifying hedges:						
Credit default swaps	2	$ 600	$ 2	2	$ 600	$ 13
Contingent forwards	2	-	-	2	-	-
Total liabilities (2)	4	$ 600	$ 2	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 September 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 September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Non-Qualifying Hedges				
Credit default swaps	$ 1	$ (7)	$ 11	$ 10
Contingent forwards	-	-	-	-
Total non-qualifying hedges (1)	$ 1	$ (7)	$ 11	$ 10

(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 nine months ended September 30, 2015 and 2014. The carrying amounts of our investments in qualified affordable housing projects are recognized in other investments on our Consolidated Balance Sheets and were $51 million and $60 million as of September 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 September 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 September 30, 2015				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI (1)	Value
Fixed maturity securities:					
Corporate bonds	$ 69,836	$ 4,836	$ 1,374	$ 7	$ 73,291
Asset-backed securities ("ABS")	1,089	53	15	(14)	1,141
U.S. government bonds	386	53	1	-	438
Foreign government bonds	466	67	1	-	532
Residential mortgage-backed securities ("RMBS")	3,638	217	21	(15)	3,849
Commercial mortgage-backed securities ("CMBS")	388	15	1	(1)	403
Collateralized loan obligations ("CLOs")	511	3	1	(2)	515
State and municipal bonds	3,778	716	14	-	4,480
Hybrid and redeemable preferred securities	807	93	43	-	857
VIEs' fixed maturity securities	595	3	-	-	598
Total fixed maturity securities	81,494	6,056	1,471	(25)	86,104
Equity securities	232	15	5	-	242
Total AFS securities	$ 81,726	$ 6,071	$ 1,476	$ (25)	$ 86,346

	As of December 31, 2014				
	Amortized	Gross Unrealized		OTTI	Fair
	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 (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 other comprehensive income (loss) ("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 for the prior years.

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

	Amortized Cost	Fair Value
Due in one year or less	$ 2,785	$ 2,833
Due after one year through five years	17,706	18,845
Due after five years through ten years	20,552	20,899
Due after ten years	34,230	37,021
Subtotal	75,273	79,598
Structured securities (ABS, MBS, CLOs)	6,221	6,506
Total fixed maturity AFS securities	$ 81,494	$ 86,104

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

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

	As of September 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	$ 15,865	$ 1,132	$ 1,569	$ 254	$ 17,434	$ 1,386
ABS	119	2	271	27	390	29
U.S. government bonds	14	1	-	-	14	1
Foreign government bonds	37	1	-	-	37	1
RMBS	639	15	210	13	849	28
CMBS	112	2	11	4	123	6
CLOs	96	1	50	-	146	1
State and municipal bonds	159	10	28	4	187	14
Hybrid and redeemable preferred securities	58	1	148	42	206	43
Total fixed maturity securities	17,099	1,165	2,287	344	19,386	1,509
Equity securities	48	5	-	-	48	5
Total AFS securities	$ 17,147	$ 1,170	$ 2,287	$ 344	$ 19,434	$ 1,514
Total number of AFS securities in an unrealized loss position						1,575

	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	$ 207	$ 4,465	$ 244	$ 9,264	$ 451
ABS	91	2	323	41	414	43

RMBS	447	7	241	14	688	21
CMBS	121	1	19	10	140	11
CLOs	110	1	70	1	180	2
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	5,320	354	10,925	572
Equity securities	37	1	-	-	37	1
Total AFS securities	$ 5,642	$ 219	$ 5,320	$ 354	$ 10,962	$ 573
Total number of AFS securities in an unrealized loss position						1,019

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

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

	As of September 30, 2015			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 932	$ 397	$ 3	103
Six months or greater, but less than nine months	45	31	-	3
Nine months or greater, but less than twelve months	8	5	2	7
Twelve months or greater	152	74	19	59
Total	$ 1,137	$ 507	$ 24	172

	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 $941 million for the nine months ended September 30, 2015. As discussed further below, we believe the unrealized loss position as of September 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 September 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 September 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 September 30, 2015, the unrealized losses associated with our mortgage-backed securities ("MBS") and ABS were attributable primarily to credit spreads. We assessed credit impairment using a cash flow model that incorporates key assumptions including default rates, severities and prepayment rates. We estimated losses for a security by forecasting the underlying loans in each transaction. The forecasted loan performance was used to project cash flows to the various tranches in the structure, as applicable. Our forecasted cash flows also considered, as applicable, independent industry analyst reports and forecasts, sector credit ratings and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to our subordination or other credit enhancement, we expected to recover the entire amortized cost basis of each temporarily impaired security.

As of September 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 September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Balance as of beginning-of-period	$ 374	$ 389	$ 380	$ 404
Increases attributable to:				
Credit losses on securities for which an OTTI was not previously recognized	-	1	16	2
Credit losses on securities for which an OTTI was previously recognized	5	4	12	12
Decreases attributable to:				
Securities sold, paid down or matured	(1)	(17)	(30)	(41)
Balance as of end-of-period	$ 378	$ 377	$ 378	$ 377

During the nine months ended September 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 September 30, 2015			
	Amortized Cost	Net Unrealized Gain/(Loss) Position	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 32	$ (7)	$ 25	$ 25
ABS	203	14	217	107
RMBS	385	15	400	193
CMBS	37	1	38	48
CLOs	12	2	14	5
Total	$ 669	$ 25	$ 694	$ 378

	As of December 31, 2014			
	Amortized Cost	Net Unrealized Gain/(Loss) Position	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 38	$ (5)	$ 33	$ 20
ABS	221	7	228	103
RMBS	447	19	466	190
CMBS	46	(6)	40	62
CLOs	11	2	13	5
Total	$ 763	$ 17	$ 780	$ 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 22% and 10%, and 23% and 9%, respectively, of mortgage loans on real estate as of September 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 September 30, 2015	As of December 31, 2014
Current	$ 8,430	$ 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	(2)	(3)
Unamortized premium (discount)	3	4
Total carrying value	$ 8,431	$ 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 September 30, 2015	As of December 31, 2014
Number of impaired mortgage loans on real estate	2	3
Principal balance of impaired mortgage loans on real estate	$ 8	$ 26
Valuation allowance associated with impaired mortgage loans on real estate	(2)	(3)

Carrying value of impaired mortgage loans on real estate	$ 6	$ 23

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

	As of September 30, 2015	As of December 31, 2014
Balance as of beginning-of-year	$ 3	$ 3
Additions	-	-
Charge-offs, net of recoveries	(1)	-
Balance as of end-of-period	$ 2	$ 3

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

	For the Three Months Ended September 30, 2015	2014	For the Nine Months Ended September 30, 2015	2014
Average carrying value for impaired mortgage loans on real estate	$ 14	$ 24	$ 20	$ 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 September 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%	$ 7,432	88.1%	2.05	$ 6,596	87.1%	1.90
65% to 74%	655	7.8%	1.61	631	8.3%	1.55
75% to 100%	338	4.0%	0.83	316	4.2%	0.77
Greater than 100%	6	0.1%	1.03	31	0.4%	0.77
Total mortgage loans on real estate	$ 8,431	100.0%		$ 7,574	100.0%	

Alternative Investments

As of September 30, 2015, and December 31, 2014, alternative investments included investments in 183 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 September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Fixed maturity AFS securities: (1)				
Gross gains	$ 1	$ 4	$ 26	$ 23
Gross losses	(23)	(6)	(51)	(18)
Equity AFS securities:				
Gross gains	1	2	2	5

Gross losses	-	-	-	-
Gain (loss) on other investments	-	-	(7)	3
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(5)	(7)	(21)	(24)
Total realized gain (loss) related to certain investments, pre-tax	$ (26)	$ (7)	$ (51)	$ (11)

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
OTTI Recognized in Net Income (Loss)				
Fixed maturity securities:				
Corporate bonds	$ (16)	$ -	$ (31)	$ -
ABS	(1)	(2)	(6)	(7)
RMBS	(3)	(1)	(5)	(4)
CMBS	-	-	-	(1)
CRE CDOs	-	(2)	-	(2)
Gross OTTI recognized in net income (loss)	(20)	(5)	(42)	(14)
Associated amortization of DAC, VOBA, DSI and DFEL	2	1	4	3
Net OTTI recognized in net income (loss), pre-tax	$ (18)	$ (4)	(38)	(11)
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$ 5	$ 2	$ 23	$ 11
Change in DAC, VOBA, DSI and DFEL	-	-	(3)	(1)
Net portion of OTTI recognized in OCI, pre-tax	$ 5	$ 2	$ 20	$ 10

Determination of Credit Losses on Corporate Bonds and ABS

As of September 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 September 30, 2015, and December 31, 2014, 96% of the fair value of our corporate bond portfolio was rated investment grade. As of September 30, 2015, and December 31, 2014, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $3.5 billion and $3.3 billion, respectively, and a fair value of

$3.3 billion and $3.2 billion, respectively. As of September 30, 2015, and December 31, 2014, 92% and 88%, respectively, of the fair value of our ABS portfolio was rated investment grade. As of September 30, 2015, and December 31, 2014, the portion of our ABS portfolio rated below investment grade had an amortized cost of $182 million and $193 million, respectively, and fair value of $176 million. Based upon the analysis discussed above, we believe as of September 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 September 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 loss severity, we derive the future expected credit losses.

Payables for Collateral on Investments

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

	As of September 30, 2015		As of December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable for derivative investments (1)	$ 2,037	$ 2,037	$ 1,673	$ 1,673
Securities pledged under securities lending agreements (2)	229	221	204	196
Securities pledged under repurchase agreements (3)	926	1,001	607	666
Investments pledged for Federal Home Loan Bank of Indianapolis ("FHLBI") (4)	2,105	3,014	1,925	3,151
Total payables for collateral on investments	$ 5,297	$ 6,273	$ 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 Nine Months Ended September 30,	
	2015	2014
Collateral payable for derivative investments	$ 364	$ 638
Securities pledged under securities lending agreements	25	13
Securities pledged under repurchase agreements	319	(325)
Securities pledged for TALF	-	(36)
Investments pledged for FHLBI	180	325
Total increase (decrease) in payables for collateral on investments	$ 888	$ 615

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

	As of September 30, 2015				
	Overnight and Continuous	Up to 30 Days	30 – 90 Days	Greater Than 90 Days	Total
Repurchase Agreements					
ABS	$ -	$ -	$ 500	$ -	$ 500
Corporate bonds	-	-	275	151	426
Total	-	-	775	151	926
Securities Lending					
Corporate bonds	227	-	-	-	227
Foreign government bonds	2	-	-	-	2
Total	229	-	-	-	229
Total secured borrowings	$ 229	$ -	$ 775	$ 151	$ 1,155
Gross amount of recognized liabilities for repurchase agreements and securities lending:					$ 1,155
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 September 30, 2015, the fair value of collateral received that we are permitted to sell or re-pledge was $151 million. We have not sold or re-pledged this collateral.

Investment Commitments

As of September 30, 2015, our investment commitments were $1.2 billion, which included $658 million of LPs, $364 million of mortgage loans on real estate, and $203 million of private debt investments.

Concentrations of Financial Instruments

As of September 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 $1.9 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 September 30, 2015, and December 31, 2014, our most significant investments in one industry were our investments in securities in the utilities industry with a fair value of $12.8 billion or 12% and 13%, respectively, of our invested assets portfolio, and our investments in securities in the consumer non-cyclical industry with a fair value of $12.0 billion and $11.7 billion, respectively, 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 September 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)	$ 2,816	$ 244	$ 59	$ 3,554	$ 408	$ 198
Foreign currency contracts (1)	717	79	5	642	45	21
Total cash flow hedges	3,533	323	64	4,196	453	219
Fair value hedges:						
Interest rate contracts (1)	1,529	292	214	875	259	-
Non-Qualifying Hedges						
Interest rate contracts (1)	66,085	1,295	383	54,401	989	342
Foreign currency contracts (1)	229	-	-	68	-	-
Equity market contracts (1)	26,879	941	244	24,310	886	243
Credit contracts (2)	103	-	7	126	-	3
Embedded derivatives:						
Guaranteed living benefit reserves (2)	-	-	1,287	-	-	174
Reinsurance related (3)	-	-	116	-	-	150
Indexed annuity and IUL contracts (4)	-	-	1,043	-	-	1,170
Total derivative instruments	$ 98,358	$ 2,851	$ 3,358	$ 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 reinsurance related embedded derivatives on our Consolidated Balance Sheets.

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

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

Remaining Life as of September 30, 2015					
Less					
Than	1 – 5	6 – 10	11 – 30	Over 30	
1 Year	Years	Years	Years	Years	Total

Interest rate contracts (1)	$ 10,290	$ 32,810	$ 12,499	$ 13,548	$ 1,283	$ 70,430
Foreign currency contracts (2)	289	138	283	236	-	946
Equity market contracts	16,731	6,553	3,316	18	261	26,879
Credit contracts	-	103	-	-	-	103
Total derivative instruments with notional amounts	$ 27,310	$ 39,604	$ 16,098	$ 13,802	$ 1,544	$ 98,358

(1) As of September 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 September 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 Nine Months Ended September 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	(255)	(115)
Foreign currency contracts	55	23
Change in foreign currency exchange rate adjustment	35	25
Change in DAC, VOBA, DSI and DFEL	1	2
Income tax benefit (expense)	57	23
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate contracts (1)	(193)	(19)
Interest rate contracts (2)	1	3
Foreign currency contracts (1)	5	4
Associated amortization of DAC, VOBA, DSI and DFEL	2	1
Income tax benefit (expense)	65	4
Balance as of end-of-period	$ 152	$ 221

(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 September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Qualifying Hedges				
Cash flow hedges:				
Interest rate contracts (1)	$ 1	$ (7)	$ 5	$ (18)
Interest rate contracts (2)	-	-	1	-
Foreign currency contracts (1)	2	4	5	3
Total cash flow hedges	3	(3)	11	(15)
Fair value hedges:				
Interest rate contracts (1)	(7)	-	(22)	-
Interest rate contracts (2)	8	9	24	27
Interest rate contracts (3)	(44)	-	(214)	-
Total fair value hedges	(43)	9	(212)	27
Non-Qualifying Hedges				
Interest rate contracts (3)	625	91	435	706
Foreign currency contracts (3)	(6)	3	(12)	4
Equity market contracts (3)	491	247	201	(164)
Equity market contracts (4)	(10)	(3)	(6)	6
Credit contracts (3)	(5)	-	(4)	-
Embedded derivatives:				
Guaranteed living benefit reserves (3)	(1,439)	(365)	(1,113)	(704)
Reinsurance related (3)	4	14	34	(33)
Indexed annuity and IUL contracts (3)	86	6	39	(134)
Total derivative instruments	$ (294)	$ (1)	$ (627)	$ (307)

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

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

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

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Offset to net investment income	$ 3	$ (3)	$ 10	$ (15)
Offset to interest and debt expense	-	1	1	3

As of September 30, 2015, $14 million of the deferred net gains (losses) on derivative instruments in AOCI were expected to be reclassified to earnings during the next 12 months. This reclassification would be due primarily to interest rate variances related to our interest rate swap agreements.

For the nine months ended September 30, 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 September 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	$ (2)	$ 45
3/20/2017 (3)	(4)	(5)	BBB-	3	(5)	58
				5	$ (7)	$ 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 these 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 September 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 $7 million as of September 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 September 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 September 30, 2015, our exposure was $15 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 September 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-	$ 145	$ -	$ 64	$ -
A+	198	(2)	47	-
A	1,512	(79)	1,163	(85)
A-	175	(45)	233	-
BBB+	7	-	27	-
	$ 2,037	$ (126)	$ 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 September 30, 2015		
	Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	$ 2,812	$ -	$ 2,812
Gross amounts offset	(792)	-	(792)
Net amount of assets	2,020	-	2,020
Gross amounts not offset:			

Cash collateral	(2,037)	-	(2,037)
Net amount	$ (17)	$ -	$ (17)
Financial Liabilities			
Gross amount of recognized liabilities	$ 119	$ 2,446	$ 2,565
Gross amounts offset	(38)	-	(38)
Net amount of liabilities	81	2,446	2,527
Gross amounts not offset:			
Cash collateral	(126)	-	(126)
Net amount	$ (45)	$ 2,446	$ 2,401

	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 15% and 19% for the three and nine months ended September 30, 2015, respectively. The effective tax rate was 27% and 25% for the three and nine months ended September 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. The effective tax rate on pre-tax income from continuing operations was lower for the three and nine months ended September 30, 2015, compared to the corresponding periods in 2014 primarily due to a lower level of pre-tax income that caused the tax preference items to have a more significant impact in 2015.

7. Guaranteed Benefit Features

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

	As of September 30, 2015 (1)	As of December 31, 2014 (1)
Return of Net Deposits		
Total account value	$ 83,385	$ 85,917
Net amount at risk (2)	1,296	183
Average attained age of contract holders	62 years	62 years
Minimum Return		
Total account value	$ 111	$ 135
Net amount at risk (2)	27	25
Average attained age of contract holders	74 years	74 years
Guaranteed minimum return	5%	5%
Anniversary Contract Value		
Total account value	$ 24,124	$ 26,021
Net amount at risk (2)	1,881	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 Nine Months Ended September 30,	
	2015	2014
Balance as of beginning-of-year	$ 89	$ 73
Changes in reserves	59	26
Benefits paid	(17)	(13)
Balance as of end-of-period	$ 131	$ 86

Variable Annuity Contracts

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

	As of September 30, 2015	As of December 31, 2014
Asset Type		
Domestic equity	$ 46,446	$ 49,569
International equity	17,826	18,791
Bonds	26,551	26,808
Money market	12,841	12,698
Total	$ 103,664	$ 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 September 30, 2015, and 32% of total sales for the nine months ended September 30, 2015.

8. Contingencies and Commitments

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

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

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

We establish liabilities for litigation and regulatory loss contingencies when information related to the loss contingencies shows both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require us to pay damages or make other expenditures or establish accruals in amounts that could not be estimated as of September 30, 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.

For some matters, the Company is able to estimate a reasonably possible range of loss. For such matters in which a loss is probable, an accrual has been made. For such matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made. Accordingly, the estimate contained in this paragraph reflects two types of matters. For some matters included within this estimate, an accrual has been made, but there is a reasonable possibility that an exposure exists in excess of the amount accrued. In these cases, the estimate reflects the reasonably possible range of loss in excess of the accrued amount. For other matters included within this estimation, no accrual has been made because a loss, while potentially estimable, is believed to be reasonably possible but not probable. In these cases, the estimate reflects the reasonably possible loss or range of loss. As of September 30, 2015, we estimate the aggregate range of reasonably possible losses, including amounts in excess of amounts accrued for these matters as of such date, to be up to approximately $175 million.

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

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. Solely to avoid the costs, risks and uncertainties inherent in litigation, and without admitting any liability or wrongdoing, we reached a settlement with the plaintiff resolving all claims related to this litigation. On September 9, 2015, the litigation was stayed pending court approval of the settlement for the entire class.

See Note 13 in our 2014 Form 10-K for additional discussion of commitments and contingencies.

9. Shares and Stockholders’ Equity

Common Shares

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Common Stock				
Balance as of beginning-of-period	250,918,893	260,831,708	256,551,440	262,896,701
Stock issued for exercise of warrants	188,530	1,199,609	1,168,966	4,299,088
Stock compensation/issued for benefit plans	40,031	601,359	2,028,913	1,501,167
Retirement/cancellation of shares	(3,682,523)	(2,846,230)	(12,284,388)	(8,910,510)
Balance as of end-of-period	247,464,931	259,786,446	247,464,931	259,786,446
Common Stock as of End-of-Period				
Basic basis	247,464,931	259,786,446	247,464,931	259,786,446
Diluted basis	251,220,934	265,527,521	251,220,934	265,527,521

Our common stock is without par value.

Average Shares

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Weighted-average shares, as used in basic calculation	249,227,641	260,371,956	252,167,909	261,785,387
Shares to cover exercise of outstanding warrants	1,219,729	3,485,992	1,476,038	4,929,079
Shares to cover non-vested stock	1,229,031	1,499,529	1,314,445	1,476,448
Average stock options outstanding during the period	2,646,184	3,863,508	3,388,172	3,810,763
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(236,042)	(689,803)	(275,928)	(1,026,460)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(1,870,146)	(2,720,155)	(2,424,332)	(2,657,408)
Shares repurchaseable from measured but unrecognized stock option expense	(33,847)	(63,286)	(53,413)	(84,600)
Average deferred compensation shares	1,028,061	1,037,370	1,024,369	1,036,683
Weighted-average shares, as used in diluted calculation	253,210,611	266,785,111	256,617,260	269,269,892

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 three and nine months ended September 30, 2015 and 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 $7 million and $6 million for the three and nine months ended September 30, 2015, respectively, and $(2) million for the three and nine months ended September 30, 2014, respectively.

AOCI

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

	For the Nine Months Ended September 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	(2,870)	3,100
Change in foreign currency exchange rate adjustment	(35)	(21)
Change in DAC, VOBA, DSI, future contract benefits and other contract holder funds	841	(983)
Income tax benefit (expense)	713	(734)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	175	10
Associated amortization of DAC, VOBA, DSI and DFEL	(23)	(25)
Income tax benefit (expense)	(53)	5
Balance as of end-of-period	$ 1,725	$ 2,872
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	$ 64	$ 31
(Increases) attributable to:		
Gross OTTI recognized in OCI during the period	(23)	(11)
Change in DAC, VOBA, DSI and DFEL	3	1
Income tax benefit (expense)	7	4
Decreases attributable to:		
Sales, maturities or other settlements of AFS securities	31	55
Change in DAC, VOBA, DSI and DFEL	(13)	(7)
Income tax benefit (expense)	(6)	(17)
Balance as of end-of-period	$ 63	$ 56
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 139	$ 256
Unrealized holding gains (losses) arising during the period	(200)	(92)
Change in foreign currency exchange rate adjustment	35	25
Change in DAC, VOBA, DSI and DFEL	1	2
Income tax benefit (expense)	57	23
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(187)	(12)
Associated amortization of DAC, VOBA, DSI and DFEL	2	1
Income tax benefit (expense)	65	4
Balance as of end-of-period	$ 152	$ 221
Foreign Currency Translation Adjustment		

Balance as of beginning-of-year	$ (3)	$ (5)
Foreign currency translation adjustment arising during the period	1	(5)
Balance as of end-of-period	$ (2)	$ (10)
Funded Status of Employee Benefit Plans		
Balance as of beginning-of-year	$ (279)	$ (219)
Adjustment arising during the period	5	2
Income tax benefit (expense)	(1)	-
Balance as of end-of-period	$ (275)	$ (217)

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

	For the Nine Months Ended September 30, 2015	2014	
Unrealized Gain (Loss) on AFS Securities			
Gross reclassification	$ 175	$ 10	Total realized gain (loss)
Associated amortization of DAC, VOBA, DSI and DFEL	(23)	(25)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	152	(15)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	(53)	5	Federal income tax expense (benefit)
Reclassification, net of income tax	$ 99	$ (10)	Net income (loss)
Unrealized OTTI on AFS Securities			
Gross reclassification	$ 31	$ 55	Total realized gain (loss)
Change in DAC, VOBA, DSI and DFEL	(13)	(7)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	18	48	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	(6)	(17)	Federal income tax expense (benefit)
Reclassification, net of income tax	$ 12	$ 31	Net income (loss)
Unrealized Gain (Loss) on Derivative Instruments			
Gross reclassifications:			
Interest rate contracts	$ (193)	$ (19)	Net investment income
Interest rate contracts	1	3	Interest and debt expense
Foreign currency contracts	5	4	Net investment income
Total gross reclassifications	(187)	(12)	
Associated amortization of DAC, VOBA, DSI and DFEL	2	1	Commissions and other expenses
Reclassifications before income tax benefit (expense)	(185)	(11)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	65	4	Federal income tax expense (benefit)
Reclassification, net of income tax	$ (120)	$ (7)	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 September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Total realized gain (loss) related to certain investments (1)	$ (26)	$ (7)	$ (51)	$ (11)
Realized gain (loss) on the mark-to-market on certain instruments (2)	(16)	(18)	(27)	(31)
Indexed annuity and IUL contracts net derivatives results: (3)				
Gross gain (loss)	(32)	21	(64)	(18)
Associated amortization of DAC, VOBA, DSI and DFEL	6	(6)	12	3
Variable annuity net derivatives results: (4)				
Gross gain (loss)	119	116	149	182
Associated amortization of DAC, VOBA, DSI and DFEL	(24)	(17)	(27)	(19)
Realized gain (loss) on sale of subsidiaries/businesses (5)	-	-	(3)	-
Total realized gain (loss)	$ 27	$ 89	$ (11)	$ 106

(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 September 30, 2015	For the Nine Months Ended September 30, 2015
10-year LNC stock options	-	502,664
Performance shares	-	161,255
RSUs	20,086	465,524
Non-employee:		
SARs	-	48,451
Agent stock options	50	90,239
Director DSUs	9,545	25,081

12. Fair Value of Financial Instruments

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

	As of September 30, 2015		As of December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity securities	$ 85,506	$ 85,506	$ 86,240	$ 86,240
VIEs' fixed maturity securities	598	598	598	598
Equity securities	242	242	231	231
Trading securities	1,914	1,914	2,065	2,065
Mortgage loans on real estate	8,431	8,857	7,574	8,038
Derivative investments (1)	2,020	2,020	1,860	1,860
Other investments	1,820	1,820	1,709	1,709
Cash and invested cash	3,772	3,772	3,919	3,919
Other assets – reinsurance recoverable	294	294	154	154
Separate account assets	120,275	120,275	125,265	125,265
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(1,043)	(1,043)	(1,170)	(1,170)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(697)	(697)	(699)	(699)
Account values of certain investment contracts	(30,214)	(34,226)	(29,156)	(33,079)
Short-term debt	-	-	(250)	(253)
Long-term debt	(5,604)	(5,647)	(5,270)	(5,707)
Reinsurance related embedded derivatives	(116)	(116)	(150)	(150)
VIEs' liabilities – derivative instruments	(2)	(2)	(13)	(13)
Other liabilities:				
Credit default swaps	(7)	(7)	(3)	(3)
Derivative liabilities (1)	(74)	(74)	(77)	(77)
GLB reserves embedded derivatives (2)	(1,287)	(1,287)	(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 September 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 September 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 September 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	$ 62	$ 71,227	$ 2,002	$ 73,291
ABS	-	1,095	46	1,141
U.S. government bonds	420	18	-	438
Foreign government bonds	-	417	115	532
RMBS	-	3,848	1	3,849
CMBS	-	392	11	403
CLOs	-	38	477	515
State and municipal bonds	-	4,480	-	4,480
Hybrid and redeemable preferred securities	46	717	94	857
VIEs' fixed maturity securities	-	598	-	598
Equity AFS securities	7	74	161	242
Trading securities	161	1,677	76	1,914
Other investments	151	-	-	151
Derivative investments (1)	-	1,688	1,163	2,851
Cash and invested cash	-	3,772	-	3,772
Other assets – reinsurance recoverable	-	-	294	294
Separate account assets	1,097	119,178	-	120,275
Total assets	$ 1,944	$ 209,219	$ 4,440	$ 215,603
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	$ -	$ -	$ (1,043)	$ (1,043)
Long-term debt	-	(1,203)	-	(1,203)
Reinsurance related embedded derivatives	-	(116)	-	(116)
VIEs' liabilities – derivative instruments	-	-	(2)	(2)
Other liabilities:				

Credit default swaps	-	-	(7)	(7)
Derivative liabilities (1)	-	(641)	(264)	(905)
GLB reserves embedded derivatives	-	-	(1,287)	(1,287)
Total liabilities	$ -	$ (1,960)	$ (2,603)	$ (4,563)

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	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