

LINCOLN NATIONAL CORP
Form 10-Q
August 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from to

Commission File Number: 1-6028

LINCOLN NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(484) 583-1400

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

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

Smaller reporting company

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

As of August 1, 2016, there were 232,795,337 shares of the registrant’s common stock outstanding.

Lincoln National Corporation

Table of Contents

Item	Page
PART I	
1. <u>Financial Statements</u>	1
2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	47
<u>Forward-Looking Statements – Cautionary Language</u>	47
<u>Introduction</u>	48
<u>Executive Summary</u>	48
<u>Critical Accounting Policies and Estimates</u>	49
<u>Results of Consolidated Operations</u>	50
<u>Results of Annuities</u>	52
<u>Results of Retirement Plan Services</u>	57
<u>Results of Life Insurance</u>	63
<u>Results of Group Protection</u>	69
<u>Results of Other Operations</u>	72
<u>Realized Gain (Loss) and Benefit Ratio</u>	74
<u>Unlocking Consolidated Investments</u>	76

	<u>Review of</u>	
	<u>Consolidated</u>	
	<u>Financial</u>	
	<u>Condition</u>	89
	<u>Liquidity and</u>	
	<u>Capital</u>	
	<u>Resources</u>	89
	<u>Other Matters</u>	93
	<u>Other Factors</u>	
	<u>Affecting Our</u>	
	<u>Business</u>	93
	<u>Recent</u>	
	<u>Accounting</u>	
	<u>Pronouncements</u>	93
3.	<u>Quantitative and</u>	
	<u>Qualitative</u>	
	<u>Disclosures About</u>	
	<u>Market Risk</u>	93
4.	<u>Controls and</u>	
	<u>Procedures</u>	95

PART II

1.	<u>Legal Proceedings</u>	96
	<u>Unregistered Sales of</u>	
2.	<u>Equity Securities and</u>	
	<u>Use of Proceeds</u>	96
6.	<u>Exhibits</u>	96
	<u>Signatures</u>	97
	<u>Exhibit Index for the E-1</u>	
	<u>Report on Form</u>	
	<u>10-Q</u>	

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	As of June 30, 2016 (Unaudited)	As of December 31, 2015
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2016 – \$83,033; 2015 – \$81,993)	\$ 91,461	\$ 84,964
Variable interest entities' fixed maturity securities (amortized cost: 2016 – \$598; 2015 – \$596)	600	598
Equity securities (cost: 2016 – \$259; 2015 – \$226)	277	237
Trading securities	1,812	1,854
Mortgage loans on real estate	9,257	8,678
Real estate	21	17
Policy loans	2,507	2,545
Derivative investments	2,613	1,537
Other investments	2,039	1,778
Total investments	110,587	102,208
Cash and invested cash	4,113	3,146
Deferred acquisition costs and value of business acquired	8,280	9,510
Premiums and fees receivable	370	376
Accrued investment income	1,070	1,070
Reinsurance recoverables	5,540	5,623
Funds withheld reinsurance assets	628	629
Goodwill	2,273	2,273
Other assets	5,134	3,454
Separate account assets	125,033	123,619
Total assets	\$ 263,028	\$ 251,908
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	\$ 22,147	\$ 20,708
Other contract holder funds	77,458	77,362
Short-term debt	250	-
Long-term debt	5,460	5,553
Reinsurance related embedded derivatives	134	87
Funds withheld reinsurance liabilities	2,019	638
Deferred gain on business sold through reinsurance	61	98

Edgar Filing: LINCOLN NATIONAL CORP - Form 10-Q

Payables for collateral on investments	6,297	4,657
Variable interest entities' liabilities	-	4
Other liabilities	8,249	5,565
Separate account liabilities	125,033	123,619
Total liabilities	247,108	238,291

Contingencies and Commitments (See Note 8)

Stockholders' Equity		
Preferred stock – 10,000,000 shares authorized	-	-
Common stock – 800,000,000 shares authorized; 232,784,691 and 243,835,893 shares issued and outstanding as of June 30, 2016, and December 31, 2015, respectively	6,009	6,298
Retained earnings	6,716	6,474
Accumulated other comprehensive income (loss)	3,195	845
Total stockholders' equity	15,920	13,617
Total liabilities and stockholders' equity	\$ 263,028	\$ 251,908

See accompanying Notes to Consolidated Financial Statements

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,	
	2016	2015	2016	2015
Revenues				
Insurance premiums	\$ 728	\$ 782	\$ 1,544	\$ 1,572
Fee income	1,288	1,239	2,523	2,460
Net investment income	1,199	1,187	2,371	2,374
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(36)	(14)	(92)	(35)
Portion of loss recognized in other comprehensive income	8	7	28	15
Net other-than-temporary impairment losses on securities recognized in earnings	(28)	(7)	(64)	(20)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	(17)	17	(95)	(18)
Total realized gain (loss)	(45)	10	(159)	(38)
Amortization of deferred gain on business sold through reinsurance	18	18	37	37
Other revenues	119	145	235	280
Total revenues	3,307	3,381	6,551	6,685
Expenses				
Interest credited	639	629	1,272	1,254
Benefits	1,208	1,220	2,540	2,456
Commissions and other expenses	978	1,014	1,953	2,027
Interest and debt expense	68	69	136	137
Total expenses	2,893	2,932	5,901	5,874
Income (loss) before taxes	414	449	650	811
Federal income tax expense (benefit)	89	105	117	167
Net income (loss)	325	344	533	644
Other comprehensive income (loss), net of tax	1,264	(1,709)	2,350	(1,152)
Comprehensive income (loss)	\$ 1,589	\$ (1,365)	\$ 2,883	\$ (508)
Net Income (Loss) Per Common Share				
Basic	\$ 1.37	\$ 1.37	\$ 2.23	\$ 2.54
Diluted	1.35	1.35	2.17	2.50
Cash Dividends Declared Per Common Share	\$ 0.25	\$ 0.20	\$ 0.50	\$ 0.40

See accompanying Notes to Consolidated Financial Statements

2

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited, in millions, except per share data)

	For the Six Months Ended June 30,	
	2016	2015
Common Stock		
Balance as of beginning-of-year	\$ 6,298	\$ 6,622
Stock compensation/issued for benefit plans	14	68
Retirement of common stock/cancellation of shares	(303)	(221)
Balance as of end-of-period	6,009	6,469
Retained Earnings		
Balance as of beginning-of-year	6,474	6,022
Net income (loss)	533	644
Retirement of common stock	(172)	(279)
Common stock dividends declared	(119)	(101)
Balance as of end-of-period	6,716	6,286
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	845	3,096
Other comprehensive income (loss), net of tax	2,350	(1,152)
Balance as of end-of-period	3,195	1,944
Total stockholders' equity as of end-of-period	\$ 15,920	\$ 14,699

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,	
	2016	2015
Cash Flows from Operating Activities		
Net income (loss)	\$ 533	\$ 644
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	(17)	(176)
Trading securities purchases, sales and maturities, net	113	86
Change in premiums and fees receivable	6	58
Change in accrued investment income	-	(15)
Change in future contract benefits and other contract holder funds	5	17
Change in reinsurance related assets and liabilities	(347)	(14)
Change in accrued expenses	(180)	(118)
Change in federal income tax accruals	(3)	(54)
Realized (gain) loss	159	38
Amortization of deferred gain on business sold through reinsurance	(37)	(37)
Other	301	153
Net cash provided by (used in) operating activities	533	582
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(5,727)	(4,451)
Sales of available-for-sale securities	2,068	414
Maturities of available-for-sale securities	2,579	2,085
Purchases of other investments	(9,956)	(7,415)
Sales or maturities of other investments	9,211	7,109
Increase (decrease) in payables for collateral on investments	1,640	176
Other	(55)	(52)
Net cash provided by (used in) investing activities	(240)	(2,134)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	-	(250)
Issuance of long-term debt, net of issuance costs	-	298
Deposits of fixed account values, including the fixed portion of variable	5,015	4,966
Withdrawals of fixed account values, including the fixed portion of variable	(2,769)	(3,135)
Transfers to and from separate accounts, net	(967)	(1,361)
Common stock issued for benefit plans and excess tax benefits	(8)	44
Repurchase of common stock	(475)	(500)
Dividends paid to common stockholders	(122)	(102)

Edgar Filing: LINCOLN NATIONAL CORP - Form 10-Q

Net cash provided by (used in) financing activities	674	(40)
Net increase (decrease) in cash and invested cash	967	(1,592)
Cash and invested cash as of beginning-of-year	3,146	3,919
Cash and invested cash as of end-of-period	\$ 4,113	\$ 2,327

See accompanying Notes to Consolidated Financial Statements

4

LINCOLN NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions for the Securities and Exchange Commission (“SEC”) Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, the information contained in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 Form 10-K”), should be read in connection with the reading of these interim unaudited consolidated financial statements.

Certain GAAP policies, which significantly affect the determination of financial position, results of operations and cash flows, are summarized in our 2015 Form 10-K.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company’s results. Operating results for the six month period ended June 30, 2016, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016. All material inter-company accounts and transactions have been eliminated in consolidation.

2. New Accounting Standards

Adoption of New Accounting Standards

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

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

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

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements	Given the absence of authoritative accounting guidance in ASU 2015-03 related to debt issuance costs for line-of-credit arrangements, this standard clarifies that the SEC Staff would not object to an entity deferring and presenting these debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement.	January 1, 2016	The adoption of this ASU did not have an effect on our consolidated financial condition or results of operations.

Future Adoption of New Accounting Standards

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

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2014-09, Revenue from Contracts with Customers & ASU 2015-14, Revenue from Contracts with Customers; Deferral of the Effective Date	This standard establishes the core principle of recognizing revenue to depict the transfer of promised goods and services. The amendments define a five-step process that systematically identifies the various components of the revenue recognition process, culminating with the recognition of revenue upon satisfaction of an entity's performance obligation. Retrospective application is required. After performing extensive outreach, the FASB decided to delay the effective date of ASU 2014-09 for one year. Early application is permitted but only for annual reporting periods beginning after December 15, 2016.	January 1, 2018	We will adopt the accounting guidance in this standard for non-insurance related products and services, and are currently evaluating the impact of adoption on our consolidated financial condition and results of operations.
ASU 2015-09, Disclosures about Short-Duration Contracts	This standard enhances the disclosure requirements related to short-duration insurance contracts. The new disclosure requirements focus on providing users of financial statements with more transparent information about an insurance entity's (1) initial claims estimates and subsequent adjustments to those estimates, (2) methodologies and judgments in estimating claims, and (3) timing, frequency and severity of claims. Early application of this standard is permitted, and	Annual periods beginning January 1, 2016; interim periods within annual periods beginning January 1,	We are currently evaluating these disclosure changes and will provide the additional required disclosures if we determine the disclosures are material to our financial

ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	retrospective application is required for each comparative 2017 period presented, except for those requirements that apply only to the current period. These amendments require, among other things, the fair value measurement of investments in equity securities and certain other ownership interests that do not result in consolidation and are not accounted for under the equity method of accounting. The change in fair value of the impacted investments in equity securities must be recognized in net income. In addition, the amendments include certain enhancements to the presentation and disclosure requirements for financial assets and financial liabilities. Early adoption of the ASU is generally not permitted, except as defined in the ASU. The amendments should be adopted in the financial statements through a cumulative-effect adjustment to the beginning balance of retained earnings.	January 1, 2018	statements. We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.
--	---	--------------------	---

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-02, Leases	This standard establishes a new accounting model for leases. Lessees will recognize most leases on the balance as a right-of-use asset and a related lease liability. The lease liability is measured as the present value of the lease payments over the lease term with the right-of-use asset measured at the lease liability amount and including adjustments for certain lease incentives and initial direct costs. Lease expense recognition will continue to differentiate between finance leases and operating leases resulting in a similar pattern of lease expense recognition as under current GAAP. This ASU permits a modified retrospective adoption approach which includes a number of optional practical expedients that entities may elect upon adoption. Early adoption is permitted.	January 1, 2019	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.
ASU 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships	The amendments clarify that a change in the counterparty to a derivative instrument identified in a hedging relationship in and of itself does not require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The ASU may be adopted prospectively or through a modified retrospective approach. Early adoption is permitted.	January 1, 2017	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.
ASU 2016-06, Contingent Put and Call Options in Debt Instruments	The amendments clarify the requirements for assessing whether contingent call and put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. Upon adoption of this ASU, entities will be required to assess embedded call and put options solely in accordance with the four-step decision sequence that was developed by the FASB Derivatives Implementation Group. The ASU should be adopted based on a modified retrospective basis for existing debt instruments. Early adoption is permitted.	January 1, 2017	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.
ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net)	These amendments clarify the implementation guidance on principal versus agent considerations in ASU 2014-09, including how an entity should identify the unit of accounting for the principal versus agent evaluation. In addition, the amendments clarify how to apply the control principle to certain types of arrangements, such as service transactions, by explaining what a principal controls before the good or service is transferred to the customer. Transition requirements are consistent with ASU 2014-09.	January 1, 2018	We are currently evaluating the impact of adopting this ASU, in coordination with ASU 2014-09, on our consolidated financial condition and results of operations.
ASU 2016-09, Improvements to Employee Share-based Payment Accounting	These amendments to current accounting guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled rather than through additional paid in capital in the equity section of the balance sheet. The amendments also permit an employer to repurchase an employee's shares at the maximum statutory tax rate in the employee's applicable jurisdiction for tax withholding purposes without triggering liability accounting. Finally, the amendments	January 1, 2017	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.

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

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-10, Identifying Performance Obligations and Licensing	These amendments clarify, among other things, the accounting guidance in ASU 2014-09 regarding how an entity will determine whether promised goods or services are separately identifiable, which is an important consideration in determining whether to account for goods or services as a separate performance obligation. Transition requirements are consistent with ASU 2014-09.	January 1, 2018	We are currently evaluating the impact of adopting this ASU, in coordination with ASU 2014-09, on our consolidated financial condition and results of operations.
ASU 2016-12, Narrow Scope Improvements and Practical Expedients	The standard update amends the revenue recognition guidance in ASU 2014-09 related to transition, collectability, noncash consideration and the presentation of sales and other similar taxes. The amendments clarify that, for a contract to be considered completed at transition, substantially all of the revenue must have been recognized under current GAAP. The amendments also clarify how an entity should evaluate the collectability threshold and when an entity can recognize nonrefundable consideration received as revenue if an arrangement does not meet the standard's contract criteria. Transition requirements are consistent with ASU 2014-09.	January 1, 2018	We are currently evaluating the impact of adopting this ASU, in coordination with ASU 2014-09, on our consolidated financial condition and results of operations.
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	These amendments adopt a new model to measure and recognize credit losses for most financial assets. The method used to measure estimated credit losses for available-for-sale ("AFS") debt securities will be unchanged from current GAAP; however, the amendments require credit losses to be recognized through an allowance rather than as a reduction to the amortized cost of those debt securities. The amendments will permit entities to recognize improvements in credit loss estimates on AFS debt securities by reducing the allowance account immediately through earnings. The amendments will be adopted through a cumulative effect adjustment to the beginning balance of retained earnings as of the first reporting period in which the amendments are effective. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein.	January 1, 2020	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.

3. Variable Interest Entities

Consolidated VIEs

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

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

	Amount and Date of Issuance	
	\$400 December 2006	\$200 April 2007
Original attachment point (subordination)	5.50%	2.05%
Current attachment point (subordination)	4.21%	1.48%
Maturity	12/20/2016	3/20/2017
Current rating of tranche	A-	BB
Current rating of underlying reference obligations	AA - 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, 2016:

Industry	AAA	AA	A	BBB	BB	B	CCC	Total
Financial intermediaries	0.0%	2.1%	5.4%	3.0%	0.0%	0.0%	0.0%	10.5%
Telecommunications	0.0%	0.3%	1.8%	7.5%	0.9%	0.5%	0.0%	11.0%
Oil and gas	0.3%	1.0%	1.1%	4.4%	0.9%	0.3%	0.0%	8.0%
Utilities	0.0%	0.0%	1.6%	3.0%	0.0%	0.0%	0.0%	4.6%
Chemicals and plastics	0.0%	0.0%	2.6%	0.9%	0.3%	0.0%	0.0%	3.8%

Edgar Filing: LINCOLN NATIONAL CORP - Form 10-Q

Drugs	0.3%	1.6%	1.8%	0.0%	0.0%	0.0%	0.0%	3.7%
Retailers (except food and drug)	0.0%	0.0%	1.6%	1.4%	0.5%	0.0%	0.0%	3.5%
Industrial equipment	0.0%	0.0%	2.1%	0.7%	0.0%	0.0%	0.0%	2.8%
Sovereign	0.0%	1.2%	1.0%	0.7%	0.3%	0.0%	0.0%	3.2%
Conglomerates	0.0%	2.3%	0.9%	0.0%	0.0%	0.0%	0.0%	3.2%
Forest products	0.0%	0.0%	0.5%	1.1%	1.5%	0.0%	0.0%	3.1%
Other	0.0%	4.1%	14.4%	17.6%	5.4%	0.7%	0.4%	42.6%
Total	0.6%	12.6%	34.8%	40.3%	9.8%	1.5%	0.4%	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, 2016			As of December 31, 2015		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
Assets						
Fixed maturity securities:						
Asset-backed credit card loans (1)	N/A	\$ -	\$ 600	N/A	\$ -	\$ 598
Total return swap	1	494	-	1	479	-
Credit default swaps (2)	2	600	1	-	-	-
Total assets	3	\$ 1,094	\$ 601	1	\$ 479	\$ 598
Liabilities						
Non-qualifying hedges:						
Credit default swaps	-	\$ -	\$ -	2	\$ 600	\$ 4
Contingent forwards	2	-	-	2	-	-
Total liabilities (3)	2	\$ -	\$ -	4	\$ 600	\$ 4

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

(2) Reported in other investments on our Consolidated Balance Sheets.

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

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

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

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

For the	
Three	For the Six

	Months		Months	
	Ended		Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Non-Qualifying Hedges				
Credit default swaps	\$ (1)	\$ 2	\$ 5	\$ 10
Contingent forwards	-	-	-	-
Total non-qualifying hedges (1)	\$ (1)	\$ 2	\$ 5	\$ 10

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

Unconsolidated VIEs

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

Limited Partnerships and Limited Liability Companies

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

The carrying amounts of our investments in the LPs and LLCs are recognized in other investments on our Consolidated Balance Sheets and were \$1.3 billion and \$1.2 billion as of June 30, 2016, and December 31, 2015, respectively. Included in these carrying amounts are our investments in qualified affordable housing projects, which were \$43 million and \$47 million as of June 30, 2016, and December 31, 2015, respectively. We do not have any contingent commitments to provide additional capital funding to these qualified affordable housing projects. We receive returns from these qualified affordable housing projects in the form of income tax credits and other tax benefits, which are recognized in federal income tax expense (benefit) on our Consolidated Statements of Comprehensive Income (Loss) and were \$2 million and less than \$1 million for the six months ended June 30, 2016 and 2015, respectively.

Our exposure to loss is limited to the capital we invest in the LPs and LLCs, and there have been no indicators of impairment that would require us to recognize an impairment loss related to the LPs and LLCs as of June 30, 2016.

4. Investments

AFS Securities

See Note 1 in our 2015 Form 10-K for information regarding our accounting policy relating to AFS securities, which also includes additional disclosures regarding our fair value measurements.

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

	As of June 30, 2016				Fair Value
	Amortized Cost	Gross Gains	Unrealized Losses	OTTI (1)	
Fixed maturity securities:					
Corporate bonds	\$ 72,157	\$ 7,508	\$ 599	\$ 15	\$ 79,051
Asset-backed securities ("ABS")	1,041	46	17	(8)	1,078
U.S. government bonds	386	78	-	-	464
Foreign government bonds	454	76	-	-	530
Residential mortgage-backed securities ("RMBS")	3,445	224	32	-	3,637
Commercial mortgage-backed securities ("CMBS")	319	16	-	(3)	338
Collateralized loan obligations ("CLOs")	682	2	1	(4)	687
State and municipal bonds	3,872	1,119	5	1	4,985
Hybrid and redeemable preferred securities	677	71	57	-	691
VIEs' fixed maturity securities	598	2	-	-	600
Total fixed maturity securities	83,631	9,142	711	1	92,061
Equity securities	259	23	5	-	277
Total AFS securities	\$ 83,890	\$ 9,165	\$ 716	\$ 1	\$ 92,338

As of December 31, 2015
Amortized Gross Unrealized Fair

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

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

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) as of June 30, 2016, were as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 2,779	\$ 2,818
Due after one year through five years	18,683	19,932
Due after five years through ten years	18,391	19,381
Due after ten years	37,693	43,590
Subtotal	77,546	85,721
Structured securities (ABS, MBS, CLOs)	6,085	6,340
Total fixed maturity AFS securities	\$ 83,631	\$ 92,061

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, 2016					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	Gross Unrealized Losses and OTTI
	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	\$ 1,605	\$ 67	\$ 4,922	\$ 548	\$ 6,527	\$ 615
ABS	144	3	295	34	439	37
RMBS	250	10	466	35	716	45
CMBS	11	1	10	1	21	2
CLOs	283	1	63	-	346	1
State and municipal bonds	1	-	50	6	51	6
Hybrid and redeemable preferred securities	59	4	167	53	226	57
Total fixed maturity securities	2,353	86	5,973	677	8,326	763

Edgar Filing: LINCOLN NATIONAL CORP - Form 10-Q

Equity securities	23	3	28	2	51	5
Total AFS securities	\$ 2,376	\$ 89	\$ 6,001	\$ 679	\$ 8,377	\$ 768

Total number of AFS securities in an unrealized loss position 918

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

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

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

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

Edgar Filing: LINCOLN NATIONAL CORP - Form 10-Q

Less than six months	\$ 73	\$ 23	\$ 2	23
Six months or greater, but less than nine months	127	45	-	20
Nine months or greater, but less than twelve months	163	64	5	19
Twelve months or greater	265	161	18	74
Total	\$ 628	\$ 293	\$ 25	136

As of December 31, 2015

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

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

We regularly review our investment holdings for OTTI. Our gross unrealized losses, including the portion of OTTI recognized in OCI, on AFS securities decreased by \$1.4 billion for the six months ended June 30, 2016. As discussed further below, we believe the unrealized loss position as of June 30, 2016, did not represent OTTI as (i) we did not intend to sell the fixed maturity AFS securities; (ii) it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost; (iii) the estimated future cash flows were equal to or greater than the amortized cost of the debt securities; and (iv) we had the ability and intent to hold the equity AFS securities for a period of time sufficient for recovery.

Based upon this evaluation as of June 30, 2016, management believes we have the ability to generate adequate amounts of cash from our normal operations (e.g., insurance premiums and fees and investment income) to meet cash requirements with a prudent margin of safety without requiring the sale of our temporarily-impaired securities.

As of June 30, 2016, the unrealized losses associated with our corporate bond securities were attributable primarily to widening credit spreads and rising interest rates since purchase. We performed a detailed analysis of the financial performance of the underlying issuers and determined that we expected to recover the entire amortized cost for each temporarily-impaired security.

As of June 30, 2016, the unrealized losses associated with our mortgage-backed securities (“MBS”) and ABS were attributable primarily to credit spreads. We assessed credit impairment using a cash flow model that incorporates key assumptions including default rates, severities and prepayment rates. We estimated losses for a security by forecasting the underlying loans in each transaction. The forecasted loan performance was used to project cash flows to the various tranches in the structure, as applicable. Our forecasted cash flows also considered, as applicable, independent industry analyst reports and forecasts, sector credit ratings and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to our subordination or other credit enhancement, we expected to recover the entire amortized cost of each temporarily-impaired security.

As of June 30, 2016, the unrealized losses associated with our hybrid and redeemable preferred securities were attributable primarily to wider credit spreads caused by illiquidity in the market and subordination within the capital structure, as well as credit risk of underlying issuers. For our hybrid and redeemable preferred securities, we evaluated the financial performance of the underlying issuers based upon credit performance and investment ratings and determined that we expected to recover the entire amortized cost of each temporarily-impaired security.

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

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
Balance as of beginning-of-period	\$ 413	\$ 382	\$ 382	\$ 380
Increases attributable to:				

Credit losses on securities for which an OTTI was not previously recognized	26	3	61	16
Credit losses on securities for which an OTTI was previously recognized	2	4	7	6
Decreases attributable to:				
Securities sold, paid down or matured	(10)	(15)	(19)	(28)
Balance as of end-of-period	\$ 431	\$ 374	\$ 431	\$ 374

During the six months ended June 30, 2016 and 2015, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover the entire amortized cost of the debt security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

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

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

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

	As of June 30, 2016				
	Net				
	Amortized	Unrealized	Fair	OTTI	
	Cost	Gain/(Loss) Position	Value	in	Credit
				Losses	
Corporate bonds	\$ 91	\$ (15)	\$ 76	\$	\$ 85
ABS	198	8	206		109
RMBS	353	-	353		194
CMBS	32	3	35		37
CLOs	11	4	15		5
State and municipal bonds	4	(1)	3		1
Total	\$ 689	\$ (1)	\$ 688	\$	\$ 431

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

Mortgage Loans on Real Estate

See Note 1 in our 2015 Form 10-K for information regarding our accounting policy relating to mortgage loans on real estate.

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California, which accounted for 21% of mortgage loans on real estate as of June 30, 2016, and December 31, 2015, and Texas, which accounted for 11% and 10%, respectively.

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

	As of June 30, 2016	As of December 31, 2015
Current	\$ 9,255	\$ 8,677
60 to 90 days past due	-	-
Greater than 90 days past due	2	-
Valuation allowance associated with impaired mortgage loans on real estate	(2)	(2)
Unamortized premium (discount)	2	3
Total carrying value	\$ 9,257	\$ 8,678

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

	As of June 30, 2016	As of December 31, 2015
Number of impaired mortgage loans on real estate	2	2
Principal balance of impaired mortgage loans on real estate	\$ 7	\$ 8
Valuation allowance associated with impaired mortgage loans on real estate	(2)	(2)
Carrying value of impaired mortgage loans on real estate	\$ 5	\$ 6

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

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
	2016	2015	2016	2015
Balance as of beginning-of-period	\$ 2	\$ 3	\$ 2	\$ 3
Additions	-	-	-	-
Charge-offs, net of recoveries	-	-	-	-
Balance as of end-of-period	\$ 2	\$ 3	\$ 2	\$ 3

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

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
	2016	2015	2016	2015
Average carrying value for impaired mortgage loans on real estate	\$ 6	\$ 23	\$ 6	\$ 23
Interest income recognized on impaired mortgage loans on real estate	-	-	-	1
Interest income collected on impaired mortgage loans on real estate	-	-	-	1

As described in Note 1 in our 2015 Form 10-K, we use the loan-to-value and debt-service coverage ratios as credit quality indicators for our mortgage loans, which were as follows (dollars in millions):

	As of June 30, 2016			As of December 31, 2015		
	Carrying Value	% of Total	Debt- Service Coverage Ratio	Carrying Value	% of Total	Debt- Service Coverage Ratio
Loan-to-Value Ratio Less than 65%	\$ 8,182	88.4%	2.14	\$ 7,718	88.9%	2.06

Edgar Filing: LINCOLN NATIONAL CORP - Form 10-Q

65% to 74%	814	8.8%	1.82	653	7.5%	1.60
75% to 100%	253	2.7%	0.84	301	3.5%	0.83
Greater than 100%	8	0.1%	1.05	6	0.1%	1.05
Total mortgage loans on real estate	\$ 9,257	100.0%		\$ 8,678	100.0%	

Alternative Investments

As of June 30, 2016, and December 31, 2015, alternative investments included investments in 197 and 190 different partnerships, respectively, and the portfolio represented approximately 1% of our overall invested assets.

Realized Gain (Loss) Related to Certain Investments

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

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
Fixed maturity AFS securities: (1)				
Gross gains	\$ 7	\$ 21	\$ 61	\$ 23
Gross losses	(65)	(13)	(163)	(29)
Equity AFS securities:				
Gross gains	2	1	2	1
Gross losses	(1)	-	(1)	-
Gain (loss) on other investments	(3)	-	(63)	(8)
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(5)	(10)	(8)	(15)
Total realized gain (loss) related to certain investments, pre-tax	\$ (65)	\$ (1)	\$ (172)	\$ (28)

(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, 2016		For the Six Months Ended June 30, 2015	
OTTI Recognized in Net Income (Loss)				
Fixed maturity securities:				
Corporate bonds	\$ (26)	\$ (4)	\$ (62)	\$ (15)
ABS	(1)	(3)	(3)	(5)
RMBS	(1)	-	(3)	(2)
Total fixed maturity securities	(28)	(7)	(68)	(22)
Equity securities	(1)	-	(1)	-
Gross OTTI recognized in net income (loss)	(29)	(7)	(69)	(22)
Associated amortization of DAC, VOBA, DSI and DFEL	1	-	5	2
Net OTTI recognized in net income (loss), pre-tax	\$ (28)	\$ (7)	\$ (64)	\$ (20)
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	\$ 10	\$ 9	\$ 36	\$ 18
Change in DAC, VOBA, DSI and DFEL	(2)	(2)	(8)	(3)
Net portion of OTTI recognized in OCI, pre-tax	\$ 8	\$ 7	\$ 28	\$ 15

Determination of Credit Losses on Corporate Bonds and ABS

As of June 30, 2016, and December 31, 2015, we reviewed our corporate bond and ABS portfolios for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. The factors used to determine the amount of credit loss for each individual security, include, but are not limited to, near term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers.

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service ("Moody's"), are generally considered by the rating agencies and market participants to be low credit risk. As of June 30, 2016, and December 31, 2015, 95% and 96%, respectively, of the fair value of our corporate bond portfolio was rated investment grade. As of June 30, 2016, and December 31, 2015, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of \$4.0 billion and \$3.6 billion, respectively, and a fair value of \$3.7 billion and \$3.3 billion, respectively. As of June 30, 2016, and December 31, 2015, 96% of the fair value of our

ABS portfolio was rated investment grade. As of June 30, 2016, and December 31, 2015, the portion of our ABS portfolio rated below investment grade had an amortized cost of \$103 million and \$107 million, respectively, and a fair value of \$85 million and \$92 million, respectively. Based upon the analysis discussed above, we believe as of June 30, 2016, and December 31, 2015, that we would recover the amortized cost of each fixed maturity security.

Determination of Credit Losses on MBS

As of June 30, 2016, and December 31, 2015, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between approximately 10% to 100% depending on loan type and severity of delinquency status. In addition, we estimate the potential contributions of currently performing loans that may become delinquent in the future based on the change in delinquencies and loan liquidations experienced in the recent history. Finally, we develop a default rate timing curve by aggregating the defaults for all loans in the pool (delinquent loans, foreclosure and real estate owned and new delinquencies from currently performing loans) and the associated loan-level loss severities.

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

Payables for Collateral on Investments

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

	As of June 30, 2016		As of December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable for derivative investments (1)	\$ 3,004	\$ 3,004	\$ 1,387	\$ 1,387
Securities pledged under securities lending agreements (2)	249	240	242	231
Securities pledged under repurchase agreements (3)	689	748	673	739
Investments pledged for Federal Home Loan Bank of Indianapolis (“FHLBI”) (4)	2,355	3,767	2,355	3,391
Total payables for collateral on investments	\$ 6,297	\$ 7,759	\$ 4,657	\$ 5,748

- (1) We obtain collateral based upon contractual provisions with our counterparties. These agreements take into consideration the counterparties’ credit rating as compared to ours, the fair value of the derivative investments and specified thresholds that if exceeded result in the receipt of cash that is typically invested in cash and invested cash. See Note 5 for additional information.
- (2) Our pledged securities under securities lending agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. We value collateral daily and obtain additional collateral when deemed appropriate. The cash received in our securities lending program is typically invested in cash and invested cash or fixed maturity AFS securities.
- (3) Our pledged securities under repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount equal to 95% of the fair value of the securities, and our agreements with third parties contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received in our repurchase program is typically invested in fixed maturity AFS securities.
- (4) Our pledged investments for FHLBI are included in fixed maturity AFS securities and mortgage loans on real estate on our Consolidated Balance Sheets. The collateral requirements are generally 105% to 115% of the fair value for fixed maturity AFS securities and 155% to 175% of the fair value of mortgage loans on real estate. The cash received in these transactions is primarily invested in cash and invested cash or fixed maturity AFS securities.

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

	For the Six Months Ended June 30,	
	2016	2015
Collateral payable for derivative investments	\$ 1,617	\$ (602)
Securities pledged under securities lending agreements	7	28
Securities pledged under repurchase agreements	16	427
Investments pledged for FHLBI	-	325
Total increase (decrease) in payables for collateral on investments	\$ 1,640	\$ 178

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

	As of June 30, 2016				Total
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater Than 90 Days	
Repurchase Agreements					
Corporate bonds	\$ -	\$ -	\$ 290	\$ 149	\$ 439
RMBS	-	-	-	250	250
Total	-	-	290	399	689
Securities Lending					
Corporate bonds	249	-	-	-	249
Total	249	-	-	-	249
Total gross secured borrowings	\$ 249	\$ -	\$ 290	\$ 399	\$ 938

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

We accept collateral in the form of securities in connection with repurchase agreements. In instances where we are permitted to sell or re-pledge the securities received, we record the fair value of the collateral received and a related obligation to return the collateral in the financial statements. In addition, we receive securities in connection with securities borrowing agreements that we are permitted to sell or re-pledge. As of June 30, 2016, the fair value of all collateral received that we are permitted to sell or re-pledge was \$176 million. As of June 30, 2016, we have not sold or re-pledged this collateral.

Investment Commitments

As of June 30, 2016, our investment commitments were \$1.4 billion, which included \$752 million of LPs, \$479 million of mortgage loans on real estate and \$146 million of private placement securities.

Concentrations of Financial Instruments

As of June 30, 2016, and December 31, 2015, our most significant investments in one issuer were our investments in securities issued by the Federal Home Loan Mortgage Corporation with a fair value of \$1.7 billion and \$1.8 billion, respectively, or 2% of our invested assets portfolio, and our investments in securities issued by Fannie Mae with a fair value of \$1.2 billion, or 1% of our invested assets portfolio.

As of June 30, 2016, and December 31, 2015, our most significant investments in one industry were our investments in securities in the consumer non-cyclical industry with a fair value of \$14.0 billion and \$12.0 billion, respectively, or 13% and 12%, respectively, of our invested assets portfolio, and our investments in securities in the utilities industry with a fair value of \$13.8 billion and \$12.8 billion, respectively, or 13% 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 2015 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments. See Note 6 in our 2015 Form 10-K for a detailed discussion of our derivative instruments and use of them in our overall risk management strategy, which information is incorporated herein by reference. See Note 12 for additional disclosures related to the fair value of our derivative instruments and Note 3 for derivative instruments related to our consolidated VIEs.

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

	As of June 30, 2016			As of December 31, 2015		
	Notional Amounts	Fair Value Asset	Liability	Notional Amounts	Fair Value Asset	Liability
Qualifying Hedges						
Cash flow hedges:						
Interest rate contracts (1)	\$ 2,860	\$ 259	\$ 350	\$ 2,937	\$ 192	\$ 46
Foreign currency contracts (1)	1,007	144	6	910	84	2
Total cash flow hedges	3,867	403	356	3,847	276	48
Fair value hedges:						
Interest rate contracts (1)	1,514	423	284	1,529	269	198
Non-Qualifying Hedges						
Interest rate contracts (1)	69,248	2,436	317	71,898	1,088	330
Foreign currency contracts (1)	283	-	-	74	-	-
Equity market contracts (1)	30,450	661	475	27,882	680	269
Credit contracts (2)	103	-	16	103	-	9
Embedded derivatives:						
GLB reserves (2)	-	-	2,458	-	-	953
Reinsurance related (3)	-	-	134	-	-	87
Indexed annuity and IUL contracts (4)	-	-	1,102	-	-	1,100
Total derivative instruments	\$ 105,465	\$ 3,923	\$ 5,142	\$ 105,333	\$ 2,313	\$ 2,994

(1) Reported in derivative investments and other liabilities on our Consolidated Balance Sheets.

(2) Reported in other liabilities on our Consolidated Balance Sheets.

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

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

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

	Remaining Life as of June 30, 2016					Total
	Less Than 1 Year	1 - 5 Years	6 - 10 Years	11 - 30 Years	Over 30 Years	
Interest rate contracts (1)	\$ 5,230	\$ 33,709	\$ 19,936	\$ 13,109	\$ 1,638	\$ 73,622
Foreign currency contracts (2)	329	120	327	514	-	1,290
Equity market contracts	19,346	8,825	1,972	17	290	30,450
Credit contracts	103	-	-	-	-	103

Total derivative instruments with notional amounts	\$ 25,008	\$ 42,654	\$ 22,235	\$ 13,640	\$ 1,928	\$ 105,465
---	-----------	-----------	-----------	-----------	----------	------------

- (1) As of June 30, 2016, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 2067.
- (2) As of June 30, 2016, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was December 2045.

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

	For the Six Months Ended June 30,	
	2016	2015
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	\$ 132	\$ 139
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period:		
Cash flow hedges:		
Interest rate contracts	(240)	(121)
Foreign currency contracts	32	25
Change in foreign currency exchange rate adjustment	35	16
Change in DAC, VOBA, DSI and DFEL	(6)	-
Income tax benefit (expense)	62	27
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate contracts (1)	4	(194)
Interest rate contracts (2)	(2)	2
Foreign currency contracts (1)	3	3
Foreign currency contracts (3)	4	-
Associated amortization of DAC, VOBA, DSI and DFEL	(1)	-
Income tax benefit (expense)	(3)	66
Balance as of end-of-period	\$ 10	\$ 209

- (1) The OCI offset is reported within net investment income on our Consolidated Statements of Comprehensive Income (Loss).
- (2) The OCI offset is reported within interest and debt expense on our Consolidated Statements of Comprehensive Income (Loss).
- (3) The OCI offset is reported within realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

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

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
Qualifying Hedges				
Cash flow hedges:				
Interest rate contracts (1)	\$ 3	\$ 3	\$ 4	\$ 4
Interest rate contracts (2)	(2)	(1)	(2)	(1)
Foreign currency contracts (1)	1	1	3	3
Foreign currency contracts (3)	-	-	4	-
Total cash flow hedges	2	3	9	6
Fair value hedges:				
Interest rate contracts (1)	(7)	(7)	(15)	(15)
Interest rate contracts (2)	8	8	16	16
Interest rate contracts (3)	(32)	60	(86)	(170)
Total fair value hedges	(31)	61	(85)	(169)
Non-Qualifying Hedges				
Interest rate contracts (3)	614	(673)	1,590	(231)
Foreign currency contracts (3)	(7)	(4)	(3)	(6)
Equity market contracts (3)	(252)	(53)	(582)	(283)
Equity market contracts (4)	3	-	2	5
Credit contracts (3)	(4)	1	(7)	1
Embedded derivatives:				
GLB reserves (3)	(542)	704	(1,505)	326
Reinsurance related (3)	(23)	45	(47)	30
Indexed annuity and IUL contracts (3)	(19)	(9)	(12)	(47)
Total derivative instruments	\$ (259)	\$ 75	\$ (640)	\$ (368)

- (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, 2016		For the Six Months Ended June 30, 2015	
Offset to net investment income	\$ 4	\$ 4	\$ 7	\$ 7
Offset to realized gain (loss)	-	-	4	-
Offset to interest and debt expense	(2)	1	(2)	1

As of June 30, 2016, \$1 million of the deferred net gains (losses) on derivative instruments in AOCI were expected to be reclassified to earnings during the next 12 months. This reclassification would be due primarily to interest rate variances related to our interest rate swap agreements.

For the six months ended June 30, 2016 and 2015, there were no material reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged forecasted transactions that had not occurred by the end of the originally specified time period.

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

As of June 30, 2016

	Reason for	Nature of	Credit Rating of Underlying Obligation	Number of	Fair Value	Maximum Potential Payout
Maturity	Entering	Recourse	(1)	Instruments	(2)	
12/20/2016 (3)	(4)	(5)	BB	2	\$ (1)	\$ 45
3/20/2017 (3)	(4)	(5)	BB-	3	(15)	58
				5	\$ (16)	\$ 103

As of December 31, 2015

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

- (1) Represents average credit ratings based on the midpoint of the applicable ratings among Moody's, S&P and Fitch Ratings, as scaled to the corresponding S&P ratings.
- (2) Broker quotes are used to determine the market value of these credit default swaps.
- (3) These credit default swaps were sold to a counterparty of the consolidated VIEs discussed in Note 4 in our 2015 Form 10-K.
- (4) Credit default swaps were entered into in order to generate income by providing default protection in return for a quarterly payment.
- (5) Sellers do not have the right to demand indemnification or compensation from third parties in case of a loss (payment) on the contract.

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

As of As of

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

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. If these netting agreements were not in place, we would have been required to post \$16 million as of June 30, 2016.

Credit Risk

We are exposed to credit loss in the event of non-performance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or non-performance risk (“NPR”). The NPR is based upon assumptions for each counterparty’s credit spread over the estimated weighted average life of the counterparty exposure less collateral held. As of June 30, 2016, the NPR adjustment was less than \$1 million. The credit risk associated with such agreements is minimized by entering into agreements with financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring derivative contracts to be governed by an International Swaps and Derivatives Association (“ISDA”) Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of derivative contracts, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contracts. In certain transactions, we and the counterparty have entered into a credit support annex requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of June 30, 2016, our exposure was \$15 million.

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

S&P Credit Rating of Counterparty	As of June 30, 2016		As of December 31, 2015	
	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-	\$ 289	\$ -	\$ 92	\$ -
A+	136	(2)	67	-
A	1,871	(317)	866	(143)
A-	5	-	11	-
BBB+	703	(72)	351	-
	\$ 3,004	\$ (391)	\$ 1,387	\$ (143)

Balance Sheet Offsetting

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

	As of June 30, 2016		
	Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	\$ 3,793	\$ -	\$ 3,793
Gross amounts offset	(1,180)	-	(1,180)
Net amount of assets	2,613	-	2,613
Gross amounts not offset:			

Edgar Filing: LINCOLN NATIONAL CORP - Form 10-Q

Cash collateral	(3,004)	-	(3,004)
Net amount	\$ (391)	\$ -	\$ (391)

Financial Liabilities

Gross amount of recognized liabilities	\$ 268	\$ 3,694	\$ 3,962
Gross amounts offset	(130)	-	(130)
Net amount of liabilities	138	3,694	3,832
Gross amounts not offset:			
Cash collateral	(391)	-	(391)
Net amount	\$ (253)	\$ 3,694	\$ 3,441

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

6. Federal Income Taxes

The effective tax rate is the ratio of tax expense over pre-tax income (loss). The effective tax rate was 21% and 18% for the three and six months ended June 30, 2016, respectively. The effective tax rate was 23% and 21% for the three and six months ended June 30, 2015, respectively. The effective tax rate on pre-tax income from continuing operations was lower than the prevailing corporate federal income tax rate. Differences in the effective rates and the U.S. statutory rate of 35% were the result of certain tax preferred investment income, separate account dividends-received deductions, foreign tax credits and other tax preference items.

7. Guaranteed Benefit Features

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

	As of June 30, 2016 (1)	As of December 31, 2015 (1)
Return of Net Deposits		
Total account value	\$ 86,056	\$ 85,345
Net amount at risk (2)	1,211	1,201
Average attained age of contract holders	63 years	63 years
Minimum Return		
Total account value	\$ 105	\$ 111
Net amount at risk (2)	23	24
Average attained age of contract holders	75 years	75 years
Guaranteed minimum return	5%	5%
Anniversary Contract Value		
Total account value	\$ 24,495	\$ 24,659
Net amount at risk (2)	1,104	1,345
Average attained age of contract holders	69 years	69 years

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

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

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,	
	2016	2015
Balance as of beginning-of-year	\$ 115	\$ 89
Changes in reserves	22	17
Benefits paid	(24)	(11)
Balance as of end-of-period	\$ 113	\$ 95

Variable Annuity Contracts

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

Asset Type	As of June 30, 2016	As of December 31, 2015
Domestic equity	\$ 49,570	\$ 48,362
International equity	18,552	18,382
Bonds	28,560	26,492
Money market	10,516	13,057
Total	\$ 107,198	\$ 106,293
Percent of total variable annuity separate account values	99%	99%

Secondary Guarantee Products

Future contract benefits and other contract holder funds include reserves for our secondary guarantee products sold through our Life Insurance segment. These UL and VUL products with secondary guarantees represented 35% of total life insurance in-force reserves as of June 30, 2016, and 31% of total sales for the six months ended June 30, 2016.

8. Contingencies and Commitments

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

LNC 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, 2016.

While the potential future charges could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known by management, management does not believe any such charges are likely to have a material adverse effect on LNC's financial condition.

For some matters, the Company is able to estimate a reasonably possible range of loss. For such matters in which a loss is probable, an accrual has been made. For such matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made. Accordingly, the estimate contained in this paragraph reflects two types of matters. For some matters included within this estimate, an accrual has been made, but there is a reasonable possibility that an exposure exists in excess of the amount accrued. In these cases, the estimate reflects the reasonably possible range of loss in excess of the accrued amount. For other matters included within this estimation, no accrual has been made because a loss, while potentially estimable, is believed to be reasonably possible but not probable. In these cases, the estimate reflects the reasonably possible loss or range of loss. As of June 30, 2016, 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 \$50 million.

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

Glover v. Connecticut General Life Insurance Company and The Lincoln National Life Insurance Company, filed in the U.S. District Court for the District of Connecticut, No. 3:16cv00827, is a putative class action that was served on The Lincoln National Life Insurance Company ("LNL") on June 8, 2016. Plaintiff is the owner of a universal life insurance policy who alleges that LNL charged more for cost of insurance than permitted by the policy. Plaintiff seeks to represent all universal life and variable universal life policyholders who owned policies containing cost of insurance provisions that are similar to those of Plaintiff's policy, and seeks damages on behalf of all such policyholders. We are vigorously defending this matter.

See Note 13 in our 2015 Form 10-K and Note 8 in our Form 10-Q for the quarter ended March 31, 2016, for additional discussion of commitments and contingencies, which information is incorporated herein by reference.

9. Shares and Stockholders' Equity

Common Shares

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Common Stock				
Balance as of beginning-of-period	239,005,252	252,928,502	243,835,893	256,551,440
Stock issued for exercise of warrants	13,335	33,510	38,148	980,436
Stock compensation/issued for benefit plans	9,537	515,481	670,142	1,988,882
Retirement/cancellation of shares	(6,243,433)	(2,558,600)	(11,759,492)	(8,601,865)
Balance as of end-of-period	232,784,691	250,918,893	232,784,691	250,918,893
Common Stock as of End-of-Period				
Basic basis	232,784,691	250,918,893	232,784,691	250,918,893
Diluted basis	236,268,119	254,126,732	236,268,119	254,126,732

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,	
	2016	2015	2016	2015
Weighted-average shares, as used in basic calculation	236,463,183	251,849,316	239,069,774	253,662,410
Shares to cover exercise of outstanding warrants	1,098,405	1,356,262	1,100,176	1,604,192
Shares to cover non-vested stock	939,526	1,220,690	1,030,627	1,357,152
Average stock options outstanding during the period	2,110,327	3,676,185	1,958,486	3,759,166
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(265,103)	(240,814)	(278,312)	(295,871)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(1,523,490)	(2,655,466)	(1,428,150)	(2,701,424)
Shares repurchasable from measured but unrecognized stock option expense	(38,377)	(65,873)	(19,740)	(63,196)
Average deferred compensation shares	1,101,384	-	1,070,657	1,022,523
Weighted-average shares, as used in diluted calculation	239,885,855	255,140,300	242,503,518	258,344,952

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

We have participants in our deferred compensation plans who selected LNC stock as the measure for the investment return attributable to all or a portion of their deferral amounts. For the three and six months ended June 30, 2016, and the six months ended June 30, 2015, the effect of settling this obligation in LNC stock (“equity classification”) was more dilutive than the scenario of settling in cash (“liability classification”). Therefore, for our EPS calculation for these periods, we added the 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 less than \$1 million and \$7 million for the three and six months ended June 30, 2016, respectively, and \$(1) million for the six months ended June 30, 2015.

AOCI

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

	For the Six Months Ended June 30,	
	2016	2015
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	\$ 991	\$ 3,213
Unrealized holding gains (losses) arising during the period	5,394	(2,492)
Change in foreign currency exchange rate adjustment	(33)	