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

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	As of June 30, 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

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

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LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in millions, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	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

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)

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

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.

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2. New Accounting Standards

Adoption of New Accounting Standards

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

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

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

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

Future Adoption of New Accounting Standards

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

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

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

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-02, Leases	This standard establishes a new accounting model for leases. Lessees will recognize most leases on the balance as a right-of-use asset and a related lease liability. The lease liability is measured as the present value of the lease payments over the lease term with the right-of-use asset measured at the lease liability amount and 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:

	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%	0.3%	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%

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 Ended June 30,		Months Ended 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				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI (1)	Value
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	
	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

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			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)

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,		For the Six Months Ended June 30,	
	2016	2015	2016	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			
	Amortized Cost	Net Unrealized Gain/(Loss) Position	Fair Value	OTTI 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			
	Amortized Cost	Net Unrealized Gain/(Loss) Position	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 31	$ (2)	$ 29	$ 28
ABS	199	13	212	108
RMBS	365	12	377	193
CMBS	34	4	38	48
CLOs	11	3	14	5
Total	$ 640	$ 30	$ 670	$ 382

Mortgage Loans on Real Estate

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

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California, which accounted for 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,		For the Six Months Ended June 30,	
	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,		For the Six Months Ended June 30,	
	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		
Loan-to-Value Ratio	Carrying Value	% of Total	Debt-Service Coverage Ratio	Carrying Value	% of Total	Debt-Service Coverage Ratio
Less than 65%	$ 8,182	88.4%	2.14	$ 7,718	88.9%	2.06

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