

LINCOLN NATIONAL CORP  
Form 10-Q  
May 03, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2018

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

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LINCOLN NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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|  |   |
|--|---|
| Indiana<br>(State or other jurisdiction of<br>incorporation or organization)                             | 35-1140070<br>(I.R.S. Employer<br>Identification No.) |
| 150 N. Radnor Chester Road, Suite A305, Radnor, Pennsylvania<br>(Address of principal executive offices) | 19087<br>(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Smaller reporting company    Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 30, 2018, there were 218,706,881 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<br>March 31,<br>2018<br>(Unaudited) | As of<br>December 31,<br>2017 |
|--|---|-------------------------------|
| <b>ASSETS</b>  |   |                               |
| Investments:   |   |                               |
| Available-for-sale securities, at fair value:                                |   |                               |
| Fixed maturity securities (amortized cost: 2018 – \$87,267; 2017 – \$86,993) | \$ 92,059                                 | \$ 94,840                     |
| Equity securities (cost: 2017 – \$247)                                       | -   | 246                           |
| Trading securities   | 1,553                                     | 1,620                         |
| Equity securities  | 112                                       | -                             |
| Mortgage loans on real estate  | 11,047                                    | 10,762                        |
| Real estate  | 11  | 11                            |
| Policy loans   | 2,389                                     | 2,399                         |
| Derivative investments   | 827                                       | 915                           |
| Other investments  | 2,049                                     | 2,296                         |
| Total investments  | 110,047                                   | 113,089                       |
| Cash and invested cash   | 2,257                                     | 1,628                         |
| Deferred acquisition costs and value of business acquired                    | 9,289                                     | 8,403                         |
| Premiums and fees receivable   | 480                                       | 396                           |
| Accrued investment income  | 1,137                                     | 1,078                         |
| Reinsurance recoverables   | 5,009                                     | 4,907                         |
| Funds withheld reinsurance assets  | 576                                       | 593                           |
| Goodwill   | 1,368                                     | 1,368                         |
| Other assets   | 6,313                                     | 6,082                         |
| Separate account assets  | 142,761                                   | 144,219                       |
| Total assets   | \$ 279,237                                | \$ 281,763                    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                  |   |                               |
| Liabilities  |   |                               |
| Future contract benefits   | \$ 22,923                                 | \$ 22,887                     |
| Other contract holder funds  | 80,710                                    | 80,209                        |
| Short-term debt  | 250                                       | 450                           |
| Long-term debt   | 5,648                                     | 4,894                         |
| Reinsurance related embedded derivatives                                     | 34  | 57                            |
| Funds withheld reinsurance liabilities                                       | 1,726                                     | 1,761                         |
| Deferred gain on business sold through reinsurance                           | 1   | 1                             |
| Payables for collateral on investments                                       | 4,265                                     | 4,417                         |

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|                              |         |         |
|------------------------------|---------|---------|
| Other liabilities            | 4,934   | 5,546   |
| Separate account liabilities | 142,761 | 144,219 |
| Total liabilities            | 263,252 | 264,441 |

Contingencies and Commitments (See Note 10)

Stockholders' Equity

|   |            |            |
|---|------------|------------|
| Preferred stock – 10,000,000 shares authorized  | -          | -          |
| Common stock – 800,000,000 shares authorized; 218,695,476 and 218,090,114 shares issued and outstanding as of March 31, 2018, and December 31, 2017, respectively | 5,700      | 5,693      |
| Retained earnings   | 8,052      | 8,399      |
| Accumulated other comprehensive income (loss)   | 2,233      | 3,230      |
| Total stockholders' equity  | 15,985     | 17,322     |
| Total liabilities and stockholders' equity  | \$ 279,237 | \$ 281,763 |

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<br>Months Ended<br>March 31, |         |
|--|--|---------|
|  | 2018                                       | 2017    |
| Revenues   |  |         |
| Insurance premiums   | \$ 777                                     | \$ 807  |
| Fee income   | 1,456                                      | 1,354   |
| Net investment income  | 1,233                                      | 1,238   |
| Realized gain (loss):  |  |         |
| Total other-than-temporary impairment losses on securities                           | (2 )                                       | (4 )    |
| Portion of loss recognized in other comprehensive income                             | -  | -       |
| Net other-than-temporary impairment losses on securities recognized in earnings      | (2 )                                       | (4 )    |
| Realized gain (loss), excluding other-than-temporary impairment losses on securities | 14   | (35 )   |
| Total realized gain (loss)   | 12   | (39 )   |
| Amortization of deferred gain on business sold through reinsurance                   | -  | 18      |
| Other revenues   | 131  | 122     |
| Total revenues   | 3,609                                      | 3,500   |
| Expenses   |  |         |
| Interest credited  | 653  | 647     |
| Benefits   | 1,358                                      | 1,290   |
| Commissions and other expenses   | 1,057                                      | 1,015   |
| Interest and debt expense  | 91   | 64      |
| Strategic digitization expense   | 15   | 9       |
| Total expenses   | 3,174                                      | 3,025   |
| Income (loss) before taxes   | 435  | 475     |
| Federal income tax expense (benefit)   | 68   | 40      |
| Net income (loss)  | 367  | 435     |
| Other comprehensive income (loss), net of tax  | (1,639)                                    | 281     |
| Comprehensive income (loss)  | \$ (1,272)                                 | \$ 716  |
| Net Income (Loss) Per Common Share   |  |         |
| Basic  | \$ 1.68                                    | \$ 1.93 |
| Diluted  | 1.64                                       | 1.89    |
| Cash Dividends Declared Per Common Share   | \$ 0.33                                    | \$ 0.29 |



See accompanying Notes to Consolidated Financial Statements

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## LINCOLN NATIONAL CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited, in millions, except per share data)

|   | For the Three<br>Months Ended<br>March 31, |           |
|---|--|-----------|
|   | 2018                                       | 2017      |
| <b>Common Stock</b>   |  |           |
| Balance as of beginning-of-year                             | \$ 5,693                                   | \$ 5,869  |
| Stock compensation/issued for benefit plans                 | 7  | 44        |
| Retirement of common stock/cancellation of shares           | -  | (74 )     |
| Balance as of end-of-period                                 | 5,700                                      | 5,839     |
| <b>Retained Earnings</b>                                    |  |           |
| Balance as of beginning-of-year                             | 8,399                                      | 7,043     |
| Cumulative effect from adoption of new accounting standards | (642 )                                     | -         |
| Net income (loss)   | 367  | 435       |
| Retirement of common stock                                  | -  | (126 )    |
| Common stock dividends declared                             | (72 )                                      | (65 )     |
| Balance as of end-of-period                                 | 8,052                                      | 7,287     |
| <b>Accumulated Other Comprehensive Income (Loss)</b>        |  |           |
| Balance as of beginning-of-year                             | 3,230                                      | 1,566     |
| Cumulative effect from adoption of new accounting standards | 642  | -         |
| Other comprehensive income (loss), net of tax               | (1,639 )                                   | 281       |
| Balance as of end-of-period                                 | 2,233                                      | 1,847     |
| Total stockholders' equity as of end-of-period              | \$ 15,985                                  | \$ 14,973 |

See accompanying Notes to Consolidated Financial Statements



## LINCOLN NATIONAL CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in millions)

|   | For the Three<br>Months Ended<br>March 31, |         |
|---|--|---------|
|   | 2018                                       | 2017    |
| <b>Cash Flows from Operating Activities</b>   |  |         |
| Net income (loss)   | \$ 367                                     | \$ 435  |
| 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 | 6  | 15      |
| Trading securities purchases, sales and maturities, net   | 39   | 23      |
| Change in premiums and fees receivable  | (84 )                                      | (35 )   |
| Change in accrued investment income   | (59 )                                      | (62 )   |
| Change in future contract benefits and other contract holder funds  | (104 )                                     | (281 )  |
| Change in reinsurance related assets and liabilities  | (113 )                                     | (13 )   |
| Change in federal income tax accruals   | 68   | 40      |
| Realized (gain) loss  | (12 )                                      | 39      |
| Amortization of deferred gain on business sold through reinsurance  | -  | (18 )   |
| Other   | 32   | (34 )   |
| Net cash provided by (used in) operating activities   | 140  | 109     |
| <b>Cash Flows from Investing Activities</b>   |  |         |
| Purchases of available-for-sale securities and equity securities  | (2,020)                                    | (3,158) |
| Sales of available-for-sale securities and equity securities  | 427  | 503     |
| Maturities of available-for-sale securities   | 1,368                                      | 1,298   |
| Purchases of alternative investments  | (63 )                                      | (53 )   |
| Sales and repayments of alternative investments   | 31   | 53      |
| Issuance of mortgage loans on real estate   | (546 )                                     | (341 )  |
| Repayment and maturities of mortgage loans on real estate   | 261  | 229     |
| Issuance and repayment of policy loans, net   | 11   | 18      |
| Net change in collateral on investments, derivatives and related settlements  | (32 )                                      | (32 )   |
| Other   | (32 )                                      | (16 )   |
| Net cash provided by (used in) investing activities   | (595 )                                     | (1,499) |
| <b>Cash Flows from Financing Activities</b>   |  |         |
| Payment of long-term debt, including current maturities   | (487 )                                     | -       |
| Issuance of long-term debt, net of issuance costs   | 1,094                                      | -       |
| Payment related to early extinguishment of debt   | (23 )                                      | -       |
| Deposits of fixed account values, including the fixed portion of variable   | 2,765                                      | 2,713   |
| Withdrawals of fixed account values, including the fixed portion of variable  | (1,498)                                    | (1,530) |
| Transfers to and from separate accounts, net  | (686 )                                     | (356 )  |

|  |          |          |
|--|----------|----------|
| Common stock issued for benefit plans                              | (9 )     | 29       |
| Repurchase of common stock   | -        | (200 )   |
| Dividends paid to common stockholders                              | (72 )    | (65 )    |
| Net cash provided by (used in) financing activities                | 1,084    | 591      |
| Net increase (decrease) in cash, invested cash and restricted cash | 629      | (799 )   |
| Cash, invested cash and restricted cash as of beginning-of-year    | 1,628    | 2,722    |
| Cash, invested cash and restricted cash as of end-of-period        | \$ 2,257 | \$ 1,923 |

## 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 15 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 primarily 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, 2017 (“2017 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 condition, results of operations and cash flows, are summarized in our 2017 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 three months ended March 31, 2018, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2018. 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 Standards Updates (“ASUs”) issued by the Financial Accounting Standards Board and the impact of the adoption on our financial statements. ASUs not listed below were assessed and determined to be either not applicable or not material in presentation or amount.

| Standard  | Description  | Date of Adoption | Effect on Financial Statements or Other Significant Matters  |
|---|--|------------------|--|
| ASU 2014-09, Revenue from Contracts with Customers and all related amendments | This standard establishes the core principle of recognizing revenue to depict the transfer of promised goods and services and defines 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. Although the standard and all related amendments supersede nearly all existing revenue recognition guidance under GAAP, the guidance does not amend the accounting for insurance and investment contracts recognized in accordance with Accounting Standards Codification™ (“ASC”) Topic 944, Financial Services – Insurance, leases, financial instruments and guarantees. | January 1, 2018  | We adopted the standard and all related amendments using the modified retrospective method. Our primary sources of revenue are recognized in accordance with ASC Topic 944, Financial Services – Insurance; as such, revenue within the scope of the new standard primarily includes commissions and advisory fees earned by our broker dealer operation. The adoption did not have a material impact on our consolidated financial condition, results of operations, stockholders’ equity or cash flows. There were no material changes in the timing or measurement of revenues based upon the guidance. As a result, there is no cumulative effect on retained earnings. For more information, see Note 15. |
| ASU 2016-01, Recognition and Measurement of Financial Assets and Financial    | 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  | January 1, 2018  | At the time of adoption, we had equity securities classified as available-for-sale (“AFS”) with a total carrying value of \$246 million. We classified, prospectively, \$110 million   |

|  |   |  |
|--|---|--|
| Liabilities  | <p>accounting. The change in fair value of the impacted investments in equity securities must be recognized in net income in the period of the change in fair value. In addition, the amendments include certain enhancements to the presentation and disclosure requirements for financial assets and financial liabilities. The guidance does not apply to Federal Home Loan Bank (“FHLB”) Stock. Early adoption of the ASU is generally not permitted, except as defined in the ASU. The amendments were adopted in the financial statements through a cumulative-effect adjustment to the beginning balance of retained earnings in the period of adoption.</p> | <p>of equity securities within the scope of this ASU in a separate line on our Consolidated Balance Sheets. The remaining securities, consisting of \$136 million of FHLB stock, are classified in other investments on our Consolidated Balance Sheet and carried at cost. The cumulative-effect adjustment of adopting this ASU was \$1 million.</p> |
| ASU 2018-02, Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income | <p>These amendments require a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects associated with the change in the federal corporate income tax rate in the Tax Cuts and Jobs Act (“Tax Act”) of 2017. The amount of the reclassification is equal to the impact of the change in deferred taxes related to amounts recorded in accumulated other comprehensive income (loss) (“AOCI”) resulting from the change in the statutory corporate tax rate from 35% to 21%. Early adoption is permitted and retrospective application is required.</p>  | <p>January 1, 2018, We retrospectively reclassified \$641 million of stranded tax effects from AOCI to retained earnings in the period of adoption.</p>  |



## 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 2016-02, Leases   | This standard establishes a new accounting model for leases. Lessees will recognize most leases on the balance sheet 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 that includes a number of optional practical expedients that entities may elect upon adoption. Early adoption is permitted.   | January 1, 2019            | We continue to gather information to determine our leases that are within the scope of this standard. We do not expect there to be a significant difference in our pattern of lease expense recognition under this ASU.            |
| 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 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, with a primary focus on our fixed maturity securities, mortgage loans and reinsurance recoverables. |
| ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities | These amendments require an entity to shorten the amortization period for certain callable debt securities held at a premium so that the premium is amortized to the earliest call date. Early adoption is permitted, and the ASU requires adoption under a modified retrospective basis through a cumulative-effect adjustment to the beginning balance of retained earnings.   | January 1, 2019            | We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.   |

|  |   |  |
|--|---|--|
| <p>ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities</p> | <p>These amendments change both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. These amendments retain the threshold of highly effective for hedging relationships, remove the requirement to bifurcate between the portions of the hedging relationship that are effective and ineffective, record hedge item and hedging instrument results in the same financial statement line item, require quantitative assessment initially for all hedging relationships unless the hedging relationship meets the definition of either the shortcut method or critical terms match method and allow the contractual specified index rate to be designated as the hedged risk in a cash flow hedge of interest rate risk of a variable rate financial instrument. These amendments also eliminate the benchmark interest rate concept for variable rate instruments. Early adoption is permitted.</p> | <p>January 1, 2019</p> <p>We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.</p> |
|--|---|--|

### 3. Acquisition

As previously announced, on May 1, 2018, The Lincoln National Life Insurance Company (“LNL”) and LNC completed the previously disclosed acquisition of all of the issued and outstanding capital stock of Liberty Life Assurance Company of Boston (“Liberty Life”), which operated Liberty’s group benefits business (the “Liberty Group Business”) and individual life and individual and group annuity business (the “Liberty Life Business”).

The acquisition was completed pursuant to a Master Transaction Agreement (the “Master Transaction Agreement”) with Liberty Mutual Insurance Company (“LMIC”), Liberty Mutual Fire Insurance Company (together with LMIC, “Sellers”), for the limited purposes set forth therein, Liberty Mutual Group Inc. (“Liberty”), Protective Life Insurance Company (“Reinsurer”), and for the limited purposes set forth therein, Protective Life Corporation, which Master Transaction Agreement was attached as Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on January 22, 2018.

Additionally, pursuant to the Master Transaction Agreement, Liberty Life entered into reinsurance agreements (the “Reinsurance Agreements”) and related ancillary documents with each of Reinsurer and Protective Life and Annuity Insurance Company (together with Reinsurer, “Reinsurers”) at the closing of the transaction. On the terms and subject to the conditions of the Reinsurance Agreements, Liberty Life ceded to Reinsurers, effective as of May 1, certain insurance policies relating to the Liberty Life Business. To support their obligations under the Reinsurance Agreements, Reinsurers have established trust accounts for the benefit of LNL.

### 4. Variable Interest Entities

Consolidated VIEs

See Note 4 in our 2017 Form 10-K for a detailed discussion of our consolidated variable interest entities (“VIEs”), which information is incorporated herein by reference.

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

|                   | As of March 31, 2018        |                     |                   | As of December 31, 2017     |                     |                   |
|-------------------|-----------------------------|---------------------|-------------------|-----------------------------|---------------------|-------------------|
|                   | Number<br>of<br>Instruments | Notional<br>Amounts | Carrying<br>Value | Number<br>of<br>Instruments | Notional<br>Amounts | Carrying<br>Value |
| Assets            |                             |                     |                   |                             |                     |                   |
| Total return swap | 1                           | 562                 | -                 | 1                           | 573                 | -                 |
| Total assets      | 1                           | \$ 562              | \$ -              | 1                           | \$ 573              | \$ -              |

As of March 31, 2018 and December 31, 2017, there were no gains or losses for consolidated VIEs recognized on our Consolidated Statements of Comprehensive Income (Loss).

#### Unconsolidated VIEs

See Note 4 in our 2017 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 \$1.6 billion and \$1.5 billion as of March 31, 2018 and December 31, 2017, respectively. Included in these carrying amounts are our investments in qualified affordable housing projects, which were \$29 million and \$31 million as of March 31, 2018, and December 31, 2017, respectively. We do not have any contingent commitments to provide additional capital funding to these qualified affordable housing projects. We received returns from these qualified affordable housing projects in the form of income tax credits and other tax benefits of less than \$1 million for the three months ended March 31, 2018 and 2017, which were recognized in federal income tax expense (benefit) on our Consolidated Statements of Comprehensive Income (Loss).

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 March 31, 2018.

## 5. Investments

## AFS Securities

See Note 1 in our 2017 Form 10-K for information regarding our accounting policy relating to AFS securities, which also includes additional disclosures regarding our fair value measurements. In addition, we adopted ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, in 2018 that resulted in a new classification and measurement of our equity securities. See Note 2 for additional information.

The amortized cost, gross unrealized gains, losses and other-than-temporary impairment (“OTTI”) and fair value of AFS securities (in millions) were as follows:

|   | As of March 31, 2018 |          |            |             |           |
|---|----------------------|----------|------------|-------------|-----------|
|   | Amortized            | Gross    | Unrealized |             | Fair      |
|   | Cost                 | Gains    | Losses     | OTTI<br>(1) | Value     |
| Fixed maturity AFS securities:                  |                      |          |            |             |           |
| Corporate bonds                                 | \$ 76,036            | \$ 4,647 | \$ 932     | \$ (8 )     | \$ 79,759 |
| Asset-backed securities ("ABS")                 | 868                  | 46       | 8          | (15)        | 921       |
| U.S. government bonds                           | 373                  | 31       | 3          | -           | 401       |
| Foreign government bonds                        | 394                  | 46       | -          | -           | 440       |
| Residential mortgage-backed securities ("RMBS") | 3,291                | 132      | 72         | (23)        | 3,374     |
| Commercial mortgage-backed securities ("CMBS")  | 669                  | 5        | 14         | (3 )        | 663       |
| Collateralized loan obligations ("CLOs")        | 872                  | 1        | 3          | (5 )        | 875       |
| State and municipal bonds                       | 4,190                | 820      | 10         | -           | 5,000     |
| Hybrid and redeemable preferred securities      | 574                  | 72       | 20         | -           | 626       |
| Total AFS securities                            | \$ 87,267            | \$ 5,800 | \$ 1,062   | \$ (54)     | \$ 92,059 |

|                                | As of December 31, 2017 |          |            |             |           |
|--------------------------------|-------------------------|----------|------------|-------------|-----------|
|                                | Amortized               | Gross    | Unrealized |             | Fair      |
|                                | Cost                    | Gains    | Losses     | OTTI<br>(1) | Value     |
| Fixed maturity AFS securities: |                         |          |            |             |           |
| Corporate bonds                | \$ 75,701               | \$ 6,862 | \$ 354     | \$ (7 )     | \$ 82,216 |
| ABS                            | 903                     | 51       | 7          | (27)        | 974       |
| U.S. government bonds          | 527                     | 41       | 1          | -           | 567       |

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|  |           |          |        |         |           |
|--|-----------|----------|--------|---------|-----------|
| Foreign government bonds                   | 395       | 56       | -      | -       | 451       |
| RMBS                                       | 3,327     | 155      | 39     | (22)    | 3,465     |
| CMBS                                       | 590       | 10       | 2      | (2 )    | 600       |
| CLOs                                       | 803       | 2        | 2      | (5 )    | 808       |
| State and municipal bonds                  | 4,172     | 953      | 6      | -       | 5,119     |
| Hybrid and redeemable preferred securities | 575       | 87       | 22     | -       | 640       |
| Total fixed maturity securities            | 86,993    | 8,217    | 433    | (63)    | 94,840    |
| Equity AFS securities                      | 247       | 16       | 17     | -       | 246       |
| Total AFS securities                       | \$ 87,240 | \$ 8,233 | \$ 450 | \$ (63) | \$ 95,086 |

(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.

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The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) as of March 31, 2018, were as follows:

|  | Amortized<br>Cost | Fair<br>Value |
|--|-------------------|---------------|
| Due in one year or less                | \$ 3,468          | \$ 3,503      |
| Due after one year through five years  | 18,142            | 18,473        |
| Due after five years through ten years | 16,434            | 16,626        |
| Due after ten years                    | 43,523            | 47,624        |
| Subtotal                               | 81,567            | 86,226        |
| Structured securities (ABS, MBS, CLOs) | 5,700             | 5,833         |
| Total fixed maturity AFS securities    | \$ 87,267         | \$ 92,059     |

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 March 31, 2018                   |   |                               |   |               |   |
|---|--|---|-------------------------------|---|---------------|---|
|   | Less Than or Equal<br>to Twelve Months |   | Greater Than<br>Twelve Months |   | Total         | Gross<br>Unrealized<br>Losses and<br>OTTI |
|   | Fair<br>Value                          | Gross<br>Unrealized<br>Losses and<br>OTTI | Fair<br>Value                 | Gross<br>Unrealized<br>Losses and<br>OTTI | Fair<br>Value | Gross<br>Unrealized<br>Losses and<br>OTTI |
| Fixed maturity AFS securities:                |  |   |                               |   |               |   |
| Corporate bonds                               | \$ 20,141                              | \$ 510                                    | \$ 4,547                      | \$ 424                                    | \$ 24,688     | \$ 934                                    |
| ABS   | 107                                    | 2   | 141                           | 14  | 248           | 16  |
| U.S. government bonds                         | 100                                    | 1   | 18                            | 2   | 118           | 3   |
| RMBS  | 700                                    | 20  | 608                           | 53  | 1,308         | 73  |
| CMBS  | 450                                    | 10  | 59                            | 4   | 509           | 14  |
| CLOs  | 547                                    | 3   | 75                            | -   | 622           | 3   |
| State and municipal bonds                     | 107                                    | 2   | 100                           | 8   | 207           | 10  |
| Hybrid and redeemable<br>preferred securities | 36                                     | 1   | 124                           | 19  | 160           | 20  |
| Total AFS securities                          | \$ 22,188                              | \$ 549                                    | \$ 5,672                      | \$ 524                                    | \$ 27,860     | \$ 1,073                                  |

Total number of AFS securities in an unrealized loss position

2,208

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|  | As of December 31, 2017                   |   |                               |   |           |   |
|--|---|---|-------------------------------|---|-----------|---|
|  | Less Than or<br>Equal<br>to Twelve Months |   | Greater Than<br>Twelve Months |   | Total     | Gross<br>Unrealized<br>Losses and<br>OTTI |
|  | Fair<br>Value                             | Gross<br>Unrealized<br>Losses and<br>OTTI | Fair<br>Value                 | Gross<br>Unrealized<br>Losses and<br>OTTI |           |   |
| Fixed maturity AFS securities:                                   |   |   |                               |   |           |   |
| Corporate bonds  | \$ 4,854                                  | \$ 68                                     | \$ 4,893                      | \$ 288                                    | \$ 9,747  | \$ 356                                    |
| ABS  | 62  | 1   | 151                           | 15  | 213       | 16  |
| U.S. government bonds  | 156                                       | -   | 19                            | 1   | 175       | 1   |
| RMBS   | 302                                       | 4   | 641                           | 36  | 943       | 40  |
| CMBS   | 113                                       | -   | 60                            | 3   | 173       | 3   |
| CLOs   | 281                                       | 2   | 72                            | -   | 353       | 2   |
| State and municipal bonds  | 34  | -   | 93                            | 6   | 127       | 6   |
| Hybrid and redeemable<br>preferred securities                    | 20  | -   | 126                           | 22  | 146       | 22  |
| Total fixed maturity securities                                  | 5,822                                     | 75  | 6,055                         | 371                                       | 11,877    | 446                                       |
| Equity AFS securities  | 22  | 14  | 8                             | 3   | 30        | 17  |
| Total AFS securities   | \$ 5,844                                  | \$ 89                                     | \$ 6,063                      | \$ 374                                    | \$ 11,907 | \$ 463                                    |
| Total number of AFS securities in an unrealized<br>loss position |   |   |                               |   |           | 1,128                                     |

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 March 31, 2018 |                     |      |                                   |
|---|----------------------|---------------------|------|-----------------------------------|
|   | Fair<br>Value        | Gross<br>Unrealized |      | Number<br>of<br>Securities<br>(1) |
|   |                      | Losses              | OTTI |                                   |
| Less than six months                                | \$ 102               | \$ 33               | \$ 2 | 18                                |
| Six months or greater, but less than nine months    | 17                   | 8                   | -    | 4                                 |
| Nine months or greater, but less than twelve months | -                    | -                   | -    | 3                                 |
| Twelve months or greater                            | 182                  | 63                  | 8    | 30                                |

|       |        |        |       |    |
|-------|--------|--------|-------|----|
| Total | \$ 301 | \$ 104 | \$ 10 | 55 |
|-------|--------|--------|-------|----|

|   | As of December 31, 2017 |                  |       |                          |
|---|-------------------------|------------------|-------|--------------------------|
|   | Fair Value              | Gross Unrealized |       | Number of Securities (1) |
|   |                         | Losses           | OTTI  |                          |
| Less than six months                                | \$ 156                  | \$ 57            | \$ 1  | 26                       |
| Six months or greater, but less than nine months    | 2                       | 1                | -     | 4                        |
| Nine months or greater, but less than twelve months | 15                      | 8                | -     | 7                        |
| Twelve months or greater                            | 215                     | 78               | 10    | 49                       |
| Total   | \$ 388                  | \$ 144           | \$ 11 | 86                       |

(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 fixed maturity AFS securities increased by \$627 million for the three months ended March 31, 2018. As discussed further below, we believe the unrealized loss position as of March 31, 2018, did not represent OTTI as (i) we did not intend to sell these fixed maturity AFS securities; (ii) it is not more likely than not that we will be required to sell these fixed maturity AFS securities before recovery of their amortized cost basis; and (iii) the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities.

Based upon this evaluation as of March 31, 2018, 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 March 31, 2018, 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 March 31, 2018, the unrealized losses associated with our mortgage-backed securities ("MBS") and ABS were attributable primarily to widening credit spreads and rising interest rates since purchase. We assessed for 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 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 March 31, 2018, 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<br>Months<br>Ended<br>March 31, |        |
|---|---|--------|
|   | 2018  | 2017   |
| Balance as of beginning-of-year   | \$ 378  | \$ 430 |
| Increases attributable to:  |   |        |
| Credit losses on securities for which an OTTI was not previously recognized | 2   | 1      |
| Credit losses on securities for which an OTTI was previously recognized     | -   | 3      |
| Decreases attributable to:  |   |        |
| Securities sold, paid down or matured                                       | (2 )  | (41 )  |
| Balance as of end-of-period   | \$ 378  | \$ 393 |

During the three months ended March 31, 2018 and 2017, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover the entire amortized cost basis of the debt security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

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

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

#### Mortgage Loans on Real Estate

See Note 1 in our 2017 Form 10-K for information regarding our accounting policy relating to mortgage loans on real estate.

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California, which accounted for 20% and 21% of mortgage loans on real estate as of March 31, 2018, and December 31, 2017, respectively, and Texas which accounted for 12% of mortgage loans on real estate as of March 31, 2018, and December 31, 2017.

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

|  | As of<br>March 31,<br>2018 | As of<br>December<br>31,<br>2017 |
|--|----------------------------|----------------------------------|
| Current  | \$ 11,047                  | \$ 10,762                        |
| 60 to 90 days past due   | -                          | -                                |
| Greater than 90 days past due  | 3                          | 3                                |
| Valuation allowance associated with impaired mortgage loans on real estate | (3 )                       | (3 )                             |
| Unamortized premium (discount)   | -                          | -                                |
| Total carrying value   | \$ 11,047                  | \$ 10,762                        |

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<br>March<br>31,<br>2018 | As of<br>December<br>31,<br>2017 |
|--|-------------------------------|----------------------------------|
| Number of impaired mortgage loans on real estate                           | 3                             | 3                                |
| Principal balance of impaired mortgage loans on real estate                | \$ 11                         | \$ 11                            |
| Valuation allowance associated with impaired mortgage loans on real estate | (3 )                          | (3 )                             |
| Carrying value of impaired mortgage loans on real estate                   | \$ 8                          | \$ 8                             |

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

For the  
Three  
Months  
Ended

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|                                 | March 31, |      |
|---------------------------------|-----------|------|
|                                 | 2018      | 2017 |
| Balance as of beginning-of-year | \$ 3      | \$ 2 |
| Additions                       | -         | -    |
| Charge-offs, net of recoveries  | -         | -    |
| Balance as of end-of-period     | \$ 3      | \$ 2 |

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

|  | For the<br>Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |      |
|--|---|------|
| Average carrying value for impaired mortgage loans on real estate    | \$ 8  | \$ 5 |
| Interest income recognized on impaired mortgage loans on real estate | -   | -    |
| Interest income collected on impaired mortgage loans on real estate  | -   | -    |

As described in Note 1 in our 2017 Form 10-K, we use the loan-to-value and debt-service coverage ratios as credit quality indicators for our mortgage loans on real estate, which were as follows (dollars in millions):

|                                     | As of March 31, 2018 |               |                                       | As of December 31, 2017 |               |                                       |
|-------------------------------------|----------------------|---------------|---------------------------------------|-------------------------|---------------|---------------------------------------|
|                                     | Carrying<br>Value    | % of<br>Total | Debt-<br>Service<br>Coverage<br>Ratio | Carrying<br>Value       | % of<br>Total | Debt-<br>Service<br>Coverage<br>Ratio |
| Loan-to-Value Ratio                 |                      |               |                                       |                         |               |                                       |
| Less than 65%                       | \$ 9,939             | 90.0%         | 2.27                                  | \$ 9,642                | 89.6%         | 2.26                                  |
| 65% to 74%                          | 996                  | 9.0%          | 1.93                                  | 1,000                   | 9.3%          | 1.94                                  |
| 75% to 100%                         | 104                  | 0.9%          | 0.97                                  | 112                     | 1.0%          | 0.97                                  |
| Greater than 100%                   | 8                    | 0.1%          | 0.82                                  | 8                       | 0.1%          | 0.82                                  |
| Total mortgage loans on real estate | \$ 11,047            | 100.0%        |                                       | \$ 10,762               | 100.0%        |                                       |

## Alternative Investments

As of March 31, 2018, and December 31, 2017, alternative investments included investments in 228 and 224 different partnerships, respectively, and the portfolios 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<br>Months<br>Ended<br>March 31,<br>2018 2017 |         |
|--|--|---------|
| Fixed maturity AFS securities: (1)   |  |         |
| Gross gains  | \$ 14  | \$ 8    |
| Gross losses   | (32)   | (12)    |
| Equity AFS securities:   |  |         |
| Gross gains  | -  | 1       |
| Gross losses   | -  | -       |
| Gain (loss) on other investments (2)   | 2  | (3 )    |
| Associated amortization of DAC, VOBA, DSI and DFEL<br>and changes in other contract holder funds | (5 )   | (7 )    |
| Total realized gain (loss) related to certain investments, pre-tax                               | \$ (21)  | \$ (13) |

(1) These amounts are represented net of related fair value hedging activity. See Note 6 for more information.

(2) Includes market adjustments on equity securities still held as of March 31, 2018 of less than \$1 million.

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  
March 31,  
2018 2017

OTTI Recognized in Net Income (Loss)

Fixed maturity AFS securities:

|  |         |         |
|--|---------|---------|
| Corporate bonds                                    | \$ (2 ) | \$ (2 ) |
| ABS  | -       | (1 )    |
| RMBS   | -       | (1 )    |
| Gross OTTI recognized in net income (loss)         | (2 )    | (4 )    |
| Associated amortization of DAC, VOBA, DSI and DFEL | -       | -       |
| Net OTTI recognized in net income (loss), pre-tax  | \$ (2 ) | \$ (4 ) |

Portion of OTTI Recognized in OCI

|  |      |      |
|--|------|------|
| Gross OTTI recognized in OCI                   | \$ - | \$ - |
| Change in DAC, VOBA, DSI and DFEL              | -    | -    |
| Net portion of OTTI recognized in OCI, pre-tax | \$ - | \$ - |

Determination of Credit Losses on Corporate Bonds and ABS

As of March 31, 2018, and December 31, 2017, 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 March 31, 2018, and December 31, 2017, 96% of the fair value of our corporate bond portfolio was rated investment grade. As of March 31, 2018, and December 31, 2017, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of \$3.4 billion and \$3.5 billion, respectively, and a fair value of \$3.3 billion and \$3.5 billion, respectively. As of March 31, 2018, and December 31, 2017, 98% of the fair value of our ABS portfolio was rated investment grade. As of March 31, 2018, and December 31, 2017, the portion of our ABS portfolio rated below investment grade had an amortized cost of \$46 million and a fair value of \$43 million. Based upon the analysis discussed above, we believe as of March 31, 2018, and December 31, 2017, that we would recover the amortized cost of each investment grade corporate bond and ABS security.

Determination of Credit Losses on MBS



As of March 31, 2018, and December 31, 2017, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between 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 March 31,<br>2018 |               | As of December<br>31, 2017 |               |
|---|-------------------------|---------------|----------------------------|---------------|
|   | Carrying<br>Value       | Fair<br>Value | Carrying<br>Value          | Fair<br>Value |
| Collateral payable for derivative investments (1)                               | \$ 682                  | \$ 682        | \$ 765                     | \$ 765        |
| Securities pledged under securities lending agreements (2)                      | 154                     | 149           | 222                        | 213           |
| Securities pledged under repurchase agreements (3)                              | 529                     | 586           | 530                        | 588           |
| Investments pledged for Federal Home Loan Bank of<br>Indianapolis ("FHLBI") (4) | 2,900                   | 4,206         | 2,900                      | 4,235         |
| Total payables for collateral on investments                                    | \$ 4,265                | \$ 5,623      | \$ 4,417                   | \$ 5,801      |

- (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 6 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 for mortgage loans on real estate. The cash received in these transactions is primarily invested in cash and invested cash or fixed maturity AFS securities.

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

|   | For the Three<br>Months Ended<br>March 31, |       |
|---|--|-------|
|   | 2018                                       | 2017  |
| Collateral payable for derivative investments                       | \$ (83 )                                   | \$ 29 |
| Securities pledged under securities lending agreements              | (68 )                                      | (89 ) |
| Securities pledged under repurchase agreements                      | (1 )                                       | 1     |
| Investments pledged for FHLBI                                       | -  | 150   |
| Total increase (decrease) in payables for collateral on investments | \$ (152)                                   | \$ 91 |

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 March 31, 2018 |          |         |                 |        |
|--------------------------------|----------------------|----------|---------|-----------------|--------|
|                                | Overnight            | Up to 30 | 30 - 90 | Greater Than 90 | Total  |
|                                | and 30               | Days     | Days    | Days            |        |
|                                | Continued            | Days     | Days    | Days            | Total  |
| Repurchase Agreements          |                      |          |         |                 |        |
| Corporate bonds                | \$ -                 | \$ 100   | \$ 280  | \$ 149          | \$ 529 |
| Total                          | -                    | 100      | 280     | 149             | 529    |
| Securities Lending             |                      |          |         |                 |        |
| Corporate bonds                | 154                  | -        | -       | -               | 154    |
| Total                          | 154                  | -        | -       | -               | 154    |
| Total gross secured borrowings | \$ 154               | \$ 100   | \$ 280  | \$ 149          | \$ 683 |

|                                | As of December 31, 2017 |          |         |                 |        |
|--------------------------------|-------------------------|----------|---------|-----------------|--------|
|                                | Overnight               | Up to 30 | 30 - 90 | Greater Than 90 | Total  |
|                                | and 30                  | Days     | Days    | Days            |        |
|                                | Continued               | Days     | Days    | Days            | Total  |
| Repurchase Agreements          |                         |          |         |                 |        |
| Corporate bonds                | \$ -                    | \$ 100   | \$ 280  | \$ 150          | \$ 530 |
| Total                          | -                       | 100      | 280     | 150             | 530    |
| Securities Lending             |                         |          |         |                 |        |
| Corporate bonds                | 222                     | -        | -       | -               | 222    |
| Total                          | 222                     | -        | -       | -               | 222    |
| Total gross secured borrowings | \$ 222                  | \$ 100   | \$ 280  | \$ 150          | \$ 752 |

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 report 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, which we are permitted to sell or re-pledge. As of March 31, 2018, the fair value of all collateral received that we are permitted to sell or re-pledge was \$629 million. As of March 31, 2018, we have re-pledged \$337 million of this collateral to cover initial margin on certain derivative investments.

## Investment Commitments

As of March 31, 2018, our investment commitments were \$1.6 billion, which included \$735 million of LPs, \$582 million of mortgage loans on real estate and \$280 million of private placement securities.

## Concentrations of Financial Instruments

As of March 31, 2018, and December 31, 2017, 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 \$1.5 billion and \$1.3 billion, respectively, or 1% of our invested assets portfolio, and our investments in securities issued by the Federal National Mortgage Association with a fair value of \$1.2 billion and \$1.0 billion, respectively, or 1% of our invested assets portfolio. These concentrations include fixed maturity AFS, trading and equity securities.

As of March 31, 2018, and December 31, 2017, our most significant investments in one industry were our investments in securities in the consumer non-cyclical industry with a fair value of \$14.3 billion and \$15.0 billion, respectively, or 13% of our invested assets portfolio, and our investments in securities in the utilities industry with a fair value of \$13.9 billion and \$14.3 billion, respectively, or 13% of our invested assets portfolio. These concentrations include fixed maturity AFS, trading and equity securities.

## 6. 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, basis risk and credit risk. See Note 1 in our 2017 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments. See Note 6 in our 2017 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 14 for additional disclosures related to the fair value of our derivative instruments.

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 March 31, 2018 |                     |           | As of December 31, 2017 |                     |           |
|---|----------------------|---------------------|-----------|-------------------------|---------------------|-----------|
|   | Notional<br>Amounts  | Fair Value<br>Asset | Liability | Notional<br>Amounts     | Fair Value<br>Asset | Liability |
| <b>Qualifying Hedges</b>                  |                      |                     |           |                         |                     |           |
| <b>Cash flow hedges:</b>                  |                      |                     |           |                         |                     |           |
| Interest rate contracts (1)               | \$ 3,137             | \$ 49               | \$ 37     | \$ 3,007                | \$ 46               | \$ 84     |
| Foreign currency contracts (1)            | 1,887                | 47                  | 139       | 1,804                   | 79                  | 79        |
| Total cash flow hedges                    | 5,024                | 96                  | 176       | 4,811                   | 125                 | 163       |
| <b>Fair value hedges:</b>                 |                      |                     |           |                         |                     |           |
| Interest rate contracts (1)               | 1,439                | 200                 | 142       | 1,438                   | 254                 | 174       |
| <b>Non-Qualifying Hedges</b>              |                      |                     |           |                         |                     |           |
| Interest rate contracts (1)               | 99,814               | 498                 | 165       | 72,937                  | 657                 | 127       |
| Foreign currency contracts (1)            | 114                  | -                   | -         | 22                      | -                   | -         |
| Equity market contracts (1)               | 30,604               | 656                 | 374       | 31,090                  | 562                 | 557       |
| Credit contracts (1)                      | -                    | -                   | -         | 52                      | -                   | -         |
| <b>Embedded derivatives:</b>              |                      |                     |           |                         |                     |           |
| <b>Guaranteed living benefit ("GLB")</b>  |                      |                     |           |                         |                     |           |
| direct (2)                                | -                    | 1,110               | -         | -                       | 903                 | -         |
| GLB ceded (2) (3)                         | -                    | 45                  | 111       | -                       | 51                  | 67        |
| Reinsurance related (4)                   | -                    | -                   | 34        | -                       | -                   | 57        |
| Indexed annuity and IUL contracts (2) (5) | -                    | 17                  | 1,346     | -                       | 11                  | 1,418     |
| Total derivative instruments              | \$ 136,995           | \$ 2,622            | \$ 2,348  | \$ 110,350              | \$ 2,563            | \$ 2,563  |

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

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

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

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

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

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

|                             | Remaining Life as of March 31, 2018 |                |                 |                  |                  | Total      |
|-----------------------------|-------------------------------------|----------------|-----------------|------------------|------------------|------------|
|                             | Less Than<br>1 Year                 | 1 - 5<br>Years | 6 - 10<br>Years | 11 - 30<br>Years | Over 30<br>Years |            |
| Interest rate contracts (1) | \$ 25,386                           | \$ 13,592      | \$ 45,940       | \$ 18,259        | \$ 1,213         | \$ 104,390 |

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|   |           |           |           |           |          |            |
|---|-----------|-----------|-----------|-----------|----------|------------|
| Foreign currency contracts (2)                        | 114       | 290       | 426       | 1,161     | 10       | 2,001      |
| Equity market contracts                               | 18,923    | 8,618     | 385       | 14        | 2,664    | 30,604     |
| Total derivative instruments<br>with notional amounts | \$ 44,423 | \$ 22,500 | \$ 46,751 | \$ 19,434 | \$ 3,887 | \$ 136,995 |

- (1) As of March 31, 2018, 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 March 31, 2018, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was September 2049.

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

|  | For the Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |       |
|--|--|-------|
| Unrealized Gain (Loss) on Derivative Instruments                                 |  |       |
| Balance as of beginning-of-year  | \$ (29)  | \$ 49 |
| Other comprehensive income (loss):   |  |       |
| Unrealized holding gains (losses) arising during the period:                     |  |       |
| Cumulative effect from adoption of<br>new accounting standard                    | (6 )   | -     |
| Cash flow hedges:  |  |       |
| Interest rate contracts  | 53   | 9     |
| Foreign currency contracts   | (37)   | 11    |
| Change in foreign currency exchange rate adjustment                              | (50)   | (20)  |
| Change in DAC, VOBA, DSI and DFEL  | 4  | (2 )  |
| Income tax benefit (expense)   | 7  | 1     |
| Less:  |  |       |
| Reclassification adjustment for gains (losses)<br>included in net income (loss): |  |       |
| Cash flow hedges:  |  |       |
| Interest rate contracts (1)  | 1  | 2     |
| Interest rate contracts (2)  | (3 )   | (4 )  |
| Interest rate contracts (3)  | -  | -     |
| Foreign currency contracts (1)   | 5  | 4     |
| Foreign currency contracts (3)   | -  | 5     |
| Associated amortization of DAC, VOBA, DSI and DFEL                               | (1 )   | -     |
| Income tax benefit (expense)   | -  | (2 )  |
| Balance as of end-of-period  | \$ (60)  | \$ 43 |

- (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<br>Months Ended<br>March 31, |          |
|---------------------------------------|--|----------|
|                                       | 2018                                       | 2017     |
| Qualifying Hedges                     |  |          |
| Cash flow hedges:                     |  |          |
| Interest rate contracts (1)           | \$ 1                                       | \$ 2     |
| Interest rate contracts (2)           | (3 )                                       | (4 )     |
| Foreign currency contracts (1)        | 5  | 4        |
| Foreign currency contracts (3)        | -  | 5        |
| Total cash flow hedges                | 3  | 7        |
| Fair value hedges:                    |  |          |
| Interest rate contracts (1)           | (4 )                                       | (7 )     |
| Interest rate contracts (2)           | 6  | 8        |
| Interest rate contracts (3)           | 33   | 8        |
| Total fair value hedges               | 35   | 9        |
| Non-Qualifying Hedges                 |  |          |
| Interest rate contracts (3)           | (314)                                      | (50 )    |
| Foreign currency contracts (3)        | 2  | 3        |
| Equity market contracts (3)           | 7  | (528)    |
| Equity market contracts (4)           | (2 )                                       | 10       |
| Embedded derivatives:                 |  |          |
| GLB (3)                               | 157  | 597      |
| Reinsurance related (3)               | 23   | 3        |
| Indexed annuity and IUL contracts (3) | 52   | (120)    |
| Total derivative instruments          | \$ (37 )                                   | \$ (69 ) |

- (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<br>Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |      |
|-------------------------------------|---|------|
| Offset to net investment income     | \$ 6  | \$ 6 |
| Offset to realized gain (loss)      | -   | 5    |
| Offset to interest and debt expense | (3 )  | (4 ) |

As of March 31, 2018, \$21 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 three months ended March 31, 2018 and 2017, 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.

As of March 31, 2018, we did not have any exposure related to credit default swaps for which we are the seller.

As of December 31, 2017 information related to our credit default swaps for which we are the seller (dollars in millions) was as follows:

As of December 31, 2017

| Credit Contract Type        | Maturity   | Reason for Entering | Nature of Recourse | Credit Rating of Underlying Obligation (1) | Number of Instruments | Fair Value (2) | Maximum Potential Payout |
|-----------------------------|------------|---------------------|--------------------|--|-----------------------|----------------|--------------------------|
| Basket credit default swaps | 12/20/2022 | (3)                 | (4)                | BBB+                                       | 1                     | \$ 1           | \$ 52                    |
|                             |            |                     |                    |  | 1                     | \$ 1           | \$ 52                    |

- (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 our credit default swaps.
- (3) Credit default swaps were entered into in order to hedge the liability exposure on certain variable annuity products.
- (4) 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 credit default swaps for which we are the seller if credit risk-related contingent features were triggered (in millions) were as follows:

|   | As of March 31, 2018 | As of December 31, 2017 |
|---|----------------------|-------------------------|
| Maximum potential payout                        | \$ -                 | \$ 52                   |
| Less: Counterparty thresholds                   | -                    | -                       |
| Maximum collateral potentially required to post | \$ -                 | \$ 52                   |

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 collateral if the market value was less than zero.

## Credit Risk

We are exposed to credit losses 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 March 31, 2018, 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 March 31, 2018 and December 31, 2017, our exposure was zero.

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<br>Credit<br>Rating of<br>Counterparty | As of March 31,<br>2018  |  | As of December<br>31, 2017   |  |
|--|--|--|--|--|
|  | Collateral<br>Posted<br>by<br>Counter-<br>Party<br>(Held<br>by<br>LNC) | Collateral<br>Posted<br>by<br>Counter-<br>Party<br>(Held<br>by<br>LNC) | Collateral<br>Posted<br>by<br>Counter-<br>Party<br>(Held<br>by<br>LNC) | Collateral<br>Posted<br>by<br>Counter-<br>Party<br>(Held<br>by<br>LNC) |
| AA-  | \$ 79  | \$ (4 )  | \$ 116   | \$ (1 )  |
| A+   | 181  | (109 )   | 242  | (453 )   |
| A  | 184  | (34 )  | 170  | (120 )   |
| A-   | 237  | -  | 237  | (3 )   |
| BBB+                                       | -  | (11 )  | -  | (4 )   |
|  | \$ 681   | \$ (158 )  | \$ 765   | \$ (581 )  |

#### Balance Sheet Offsetting

Information related to the effects of offsetting (in millions) was as follows:

|                                   | As of March 31, 2018      |                                       | Total    |
|-----------------------------------|---------------------------|---------------------------------------|----------|
|                                   | Derivative<br>Instruments | Embedded<br>Derivative<br>Instruments |          |
| Financial Assets                  |                           |                                       |          |
| Gross amount of recognized assets | \$ 1,172                  | \$ 1,172                              | \$ 2,344 |
| Gross amounts offset              | (345 )                    | -                                     | (345 )   |
| Net amount of assets              | 827                       | 1,172                                 | 1,999    |
| Gross amounts not offset:         |                           |                                       |          |
| Cash collateral                   | (681 )                    | -                                     | (681 )   |
| Non-cash collateral               | (80 )                     | -                                     | (80 )    |

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|  |        |          |          |
|--|--------|----------|----------|
| Net amount                             | \$ 66  | \$ 1,172 | \$ 1,238 |
| <b>Financial Liabilities</b>           |        |          |          |
| Gross amount of recognized liabilities | \$ 634 | \$ 1,491 | \$ 2,125 |
| Gross amounts offset                   | (278 ) | -        | (278 )   |
| Net amount of liabilities              | 356    | 1,491    | 1,847    |
| <b>Gross amounts not offset:</b>       |        |          |          |
| Cash collateral                        | (158 ) | -        | (158 )   |
| Non-cash collateral                    | (198 ) | -        | (198 )   |
| <br>                                   |        |          |          |
| Net amount                             | \$ -   | \$ 1,491 | \$ 1,491 |

|  | As of December 31, 2017   |                                       |          |
|--|---------------------------|---------------------------------------|----------|
|  | Derivative<br>Instruments | Embedded<br>Derivative<br>Instruments | Total    |
| <b>Financial Assets</b>                |                           |                                       |          |
| Gross amount of recognized assets      | \$ 1,301                  | \$ 965                                | \$ 2,266 |
| Gross amounts offset                   | (386 )                    | -                                     | (386 )   |
| Net amount of assets                   | 915                       | 965                                   | 1,880    |
| Gross amounts not offset:              |                           |                                       |          |
| Cash collateral                        | (765 )                    | -                                     | (765 )   |
| Net amount                             | \$ 150                    | \$ 965                                | \$ 1,115 |
| <b>Financial Liabilities</b>           |                           |                                       |          |
| Gross amount of recognized liabilities | \$ 955                    | \$ 1,542                              | \$ 2,497 |
| Gross amounts offset                   | (296 )                    | -                                     | (296 )   |
| Net amount of liabilities              | 659                       | 1,542                                 | 2,201    |
| Gross amounts not offset:              |                           |                                       |          |
| Cash collateral                        | (581 )                    | -                                     | (581 )   |
| Net amount                             | \$ 78                     | \$ 1,542                              | \$ 1,620 |

## 7. Federal Income Taxes

The effective tax rate is the ratio of tax expense over pre-tax income (loss). The effective tax rate was 16% and 8% for the three months ended March 31, 2018 and 2017, respectively. The effective tax rate on pre-tax income was lower than the prevailing corporate federal income tax rate. Differences in the effective rates and the U.S. statutory rates of 21% and 35% for the three months ended March 31, 2018 and 2017, respectively, were the result of the separate account dividends-received deduction, certain tax preferred investment income, foreign tax credits and other tax preference items.

The SEC previously issued rules that allow for a one year measurement period after the enactment of the Tax Act to finalize calculations and recording of the related tax impacts. Subsequent to the Tax Act, we have continued to review and analyze the provisions of the Tax Act, including the actual and potential impact of the reduction in the U.S. federal corporate income tax rate and the impact of specific life insurance provisions on our financial statements. While we do not anticipate any significant changes to amounts currently recorded, any additional adjustments to amounts recorded as a result of the Tax Act will be made during 2018.

## 8. Guaranteed Benefit Features

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

|  | As of<br>March 31,<br>2018 (1) | As of<br>December 31,<br>2017 (1) |
|--|--------------------------------|-----------------------------------|
| <b>Return of Net Deposits</b>            |                                |                                   |
| Total account value                      | \$ 95,959                      | \$ 96,941                         |
| Net amount at risk (2)                   | 119                            | 81                                |
| Average attained age of contract holders | 64 years                       | 64 years                          |
| <b>Minimum Return</b>                    |                                |                                   |
| Total account value                      | \$ 104                         | \$ 108                            |
| Net amount at risk (2)                   | 17                             | 18                                |
| Average attained age of contract holders | 76 years                       | 76 years                          |
| Guaranteed minimum return                | 5%                             | 5%                                |
| <b>Anniversary Contract Value</b>        |                                |                                   |
| Total account value                      | \$ 26,071                      | \$ 26,596                         |
| Net amount at risk (2)                   | 543                            | 417                               |
| Average attained age of contract holders | 70 years                       | 70 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 Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |        |
|---------------------------------|--|--------|
| Balance as of beginning-of-year | \$ 100   | \$ 110 |
| Changes in reserves             | 11   | (5 )   |
| Benefits paid                   | (3 )   | (6 )   |
| Balance as of end-of-period     | \$ 108   | \$ 99  |

#### 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<br>March 31,<br>2018 | As of<br>December 31,<br>2017 |
|--|----------------------------|-------------------------------|
| Domestic equity  | \$ 58,549                  | \$ 59,647                     |
| International equity   | 20,609                     | 20,837                        |
| Fixed income   | 40,443                     | 40,626                        |
| Total  | \$ 119,601                 | \$ 121,110                    |
| Percent of total variable annuity<br>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 March 31, 2018 and December 31, 2017. UL and VUL products with secondary guarantees represented 35%

and 26% of total sales for the three months ended March 31, 2018 and 2017, respectively.

## 9. Long-Term Debt

Changes in long-term debt, excluding current portion, (in millions) were as follows:

|  | For the<br>Three<br>Months<br>Ended<br>March<br>31,<br>2018 |
|--|---|
| Balance as of beginning-of-year                | \$ 4,894  |
| Senior notes issued:                           |   |
| 4.00% notes, due 2023                          | 150   |
| 3.80% notes, due 2028                          | 500   |
| 4.35% notes, due 2048                          | 450   |
| Early extinguishment of 8.75% notes, due 2019  | (287 )  |
| Unamortized premiums (discount)                | 4   |
| Unamortized debt issuance costs                | (9 )  |
| Fair value hedge-interest rate swap agreements | (54 )   |
| Balance as of end-of-period                    | \$ 5,648  |

Details underlying the recognition of a gain (loss) on the early extinguishment of debt (in millions) reported within interest expense on our Consolidated Statements of Comprehensive Income (Loss) were as follows:

|   | For the<br>Three<br>Months<br>Ended<br>March<br>31,<br>2018 |
|---|---|
| Principal balance outstanding prior to payoff (1)             | \$ 287  |
| Unamortized debt issuance costs and discounts prior to payoff | (1 )  |
| Amount paid to retire debt                                    | (309)   |
| Gain (loss) on early extinguishment of debt, pre-tax          | \$ (23 )  |

(1) During the first quarter of 2018, we repurchased \$287 million of our 8.75% senior notes due 2019.

## 10. 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 is 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 verdicts obtained 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 March 31, 2018. 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 March 31, 2018, we estimate the aggregate range of reasonably possible losses to be up to approximately \$50 million.

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

Certain reinsurers have sought rate increases on certain yearly renewable term treaties. We are disputing the requested rate increases under these treaties. We have initiated and will initiate arbitration proceedings, as necessary, under these treaties in order to protect our contractual rights. Additionally, reinsurers may initiate arbitration proceedings against us. We believe it is unlikely the outcome of these disputes will have a material adverse effect on our financial condition. For more information about reinsurance, see Note 9 in our 2017 Form 10-K.

Cost of Insurance Litigation

Tutor v. Lincoln National Corporation and The Lincoln National Life Insurance Company, No. 2:17-cv-04150, filed in the U.S. District Court for the Eastern District of Pennsylvania, is a putative class action filed on September 18, 2017. In March 2018, the Tutor case was consolidated with a newly-filed matter captioned Trinchero, et al. v. Lincoln National Corporation and The Lincoln National Life Insurance Company, filed in the same court, No. 18-cv-00765. The consolidated case is captioned In re: Lincoln National 2017 COI Rate Litigation, Master File No. 17-cv-04150. Plaintiffs own universal life insurance policies originally issued by former Jefferson-Pilot (now LNL). Plaintiffs allege that LNL and LNC breached the terms of policyholders' contracts by increasing non-guaranteed cost of insurance rates beginning in 2017. Plaintiffs seek to represent classes of policyholders and seek damages on their behalf. We are vigorously defending this matter.

Iwanski v. First Penn-Pacific Life Insurance Company ("FPP"), No. 2:18-cv-01573 filed in the U.S. District Court for the District Court, Eastern District of Pennsylvania is a putative class action that was filed April 13, 2018. Plaintiff alleges that defendant FPP breached the terms of his life insurance policy by deducting non-guaranteed cost of insurance charges in excess of what is permitted by the policies. Plaintiff seeks to represent all owners of universal life insurance policies issued by FPP containing non-guaranteed cost of insurance provisions that are similar to those of Plaintiff's policy and seeks damages on their behalf. Breach of contract is the only cause of action asserted. We dispute the allegations and will vigorously defend this matter.

See Note 13 in our 2017 Form 10-K for additional discussion of commitments and contingencies, which information is incorporated herein by reference.

## 11. Shares and Stockholders' Equity

### Common Shares

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

|                                 | For the Three<br>Months Ended<br>March 31, |             |
|---------------------------------|--|-------------|
|                                 | 2018                                       | 2017        |
| Common Stock                    |  |             |
| Balance as of beginning-of-year | 218,090,114                                | 226,335,105 |

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|   |             |              |
|---|-------------|--------------|
| Stock issued for exercise of warrants       | 20,040      | 45,294       |
| Stock compensation/issued for benefit plans | 585,322     | 1,371,831    |
| Retirement/cancellation of shares           | -           | (2,863,971 ) |
| Balance as of end-of-period                 | 218,695,476 | 224,888,259  |
| Common Stock as of End-of-Period            |             |              |
| Basic basis                                 | 218,695,476 | 224,888,259  |
| Diluted basis                               | 222,379,443 | 228,934,631  |

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<br>Months Ended<br>March 31, |              |
|---|--|--------------|
|   | 2018                                       | 2017         |
| Weighted-average shares, as used in basic calculation   | 218,368,994                                | 225,619,803  |
| Shares to cover exercise of outstanding warrants  | 642,787                                    | 1,023,429    |
| Shares to cover non-vested stock  | 1,592,959                                  | 1,675,799    |
| Average stock options outstanding during the period   | 1,969,591                                  | 2,681,129    |
| Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants  | (81,088 )                                  | (150,236 )   |
| Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period) | (1,103,154 )                               | (1,619,156 ) |
| Shares repurchasable from measured but unrecognized stock option expense  | (24,578 )                                  | (77,078 )    |
| Average deferred compensation shares  | 922,061                                    | 949,815      |
| Weighted-average shares, as used in diluted calculation   | 222,287,572                                | 230,103,505  |

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 months ended March 31, 2018 and 2017, the effect of settling this obligation in LNC stock ("equity classification") was more dilutive than the scenario of settling in cash ("liability classification"). Therefore, for our EPS calculation for these periods, we added these shares to the denominator and adjusted the numerator to present net income as if the shares had been accounted for under equity classification by removing the mark-to-market adjustment included in net income attributable to these deferred units of LNC stock. The amount of this adjustment was \$2 million and less than \$1 million for the three months ended March 31, 2018 and 2017, respectively.

## AOCI

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

|  | For the Three<br>Months Ended<br>March 31, |          |
|--|--|----------|
|  | 2018                                       | 2017     |
| Unrealized Gain (Loss) on AFS Securities   |  |          |
| Balance as of beginning-of-year  | \$ 3,486                                   | \$ 1,784 |
| Cumulative effect from adoption of new accounting standards                        | 674  | -        |
| Unrealized holding gains (losses) arising during the period                        | (3,063)                                    | 530      |
| Change in foreign currency exchange rate adjustment                                | 52   | 19       |
| Change in DAC, VOBA, DSI, future contract benefits and other contract holder funds | 958  | (121 )   |
| Income tax benefit (expense)   | 432  | (151 )   |
| Less:  |  |          |
| Reclassification adjustment for gains (losses) included in net income (loss)       | (18 )                                      | (3 )     |
| Associated amortization of DAC, VOBA, DSI and DFEL                                 | (4 )                                       | (7 )     |
| Income tax benefit (expense)   | 5  | 4        |
| Balance as of end-of-period  | \$ 2,556                                   | \$ 2,067 |
| Unrealized OTTI on AFS Securities  |  |          |
| Balance as of beginning-of-year  | \$ 44                                      | \$ 25    |
| (Increases) attributable to:   |  |          |
| Cumulative effect from adoption of new accounting standards                        | 9  | -        |
| Gross OTTI recognized in OCI during the period                                     | -  | -        |
| Change in DAC, VOBA, DSI and DFEL  | -  | -        |
| Income tax benefit (expense)   | -  | -        |
| Decreases attributable to:   |  |          |
| Changes in fair value, sales, maturities or other settlements of AFS securities    | (9 )                                       | 7        |
| Change in DAC, VOBA, DSI and DFEL  | (10 )                                      | (1 )     |
| Income tax benefit (expense)   | 4  | (2 )     |
| Balance as of end-of-period  | \$ 38                                      | \$ 29    |
| Unrealized Gain (Loss) on Derivative Instruments                                   |  |          |
| Balance as of beginning-of-year  | \$ (29 )                                   | \$ 49    |
| Cumulative effect from adoption of new accounting standard                         | (6 )                                       | -        |
| Unrealized holding gains (losses) arising during the period                        | 16   | 20       |
| Change in foreign currency exchange rate adjustment                                | (50 )                                      | (20 )    |
| Change in DAC, VOBA, DSI and DFEL  | 4  | (2 )     |
| Income tax benefit (expense)   | 7  | 1        |
| Less:  |  |          |
| Reclassification adjustment for gains (losses) included in net income (loss)       | 3  | 7        |
| Associated amortization of DAC, VOBA, DSI and DFEL                                 | (1 )                                       | -        |



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|   |           |           |
|---|-----------|-----------|
| Income tax benefit (expense)                                      | -         | (2 )      |
| Balance as of end-of-period                                       | \$ (60 )  | \$ 43     |
| Foreign Currency Translation Adjustment                           |           |           |
| Balance as of beginning-of-year                                   | \$ (14 )  | \$ (27 )  |
| Foreign currency translation adjustment arising during the period | 5         | 2         |
| Balance as of end-of-period                                       | \$ (9 )   | \$ (25 )  |
| Funded Status of Employee Benefit Plans                           |           |           |
| Balance as of beginning-of-year                                   | \$ (257 ) | \$ (265 ) |
| Cumulative effect from adoption of new accounting standard        | (35 )     | -         |
| Adjustment arising during the period                              | -         | (2 )      |
| Balance as of end-of-period                                       | \$ (292 ) | \$ (267 ) |

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

|  | For the Three<br>Months Ended<br>March 31, |         |  |
|--|--|---------|--|
|  | 2018                                       | 2017    |  |
| <b>Unrealized Gain (Loss) on AFS Securities</b>          |  |         |  |
| Gross reclassification                                   | \$ (18)                                    | \$ (3 ) | Total realized gain (loss)                               |
| Associated amortization of DAC,<br>VOBA, DSI and DFEL    | (4 )                                       | (7 )    | Total realized gain (loss)                               |
| Reclassification before income<br>tax benefit (expense)  | (22)                                       | (10)    | Income (loss) from continuing<br>operations before taxes |
| Income tax benefit (expense)                             | 5  | 4       | Federal income tax expense (benefit)                     |
| Reclassification, net of income tax                      | \$ (17)                                    | \$ (6 ) | Net income (loss)  |
| <b>Unrealized OTTI on AFS Securities</b>                 |  |         |  |
| Gross reclassification                                   | \$ -                                       | \$ -    | Total realized gain (loss)                               |
| Change in DAC, VOBA, DSI and DFEL                        | -  | -       | Total realized gain (loss)                               |
| Reclassification before income<br>tax benefit (expense)  | -  | -       | Income (loss) from continuing<br>operations before taxes |
| Income tax benefit (expense)                             | -  | -       | Federal income tax expense (benefit)                     |
| Reclassification, net of income tax                      | \$ -                                       | \$ -    | Net income (loss)  |
| <b>Unrealized Gain (Loss) on Derivative Instruments</b>  |  |         |  |
| Gross reclassifications:                                 |  |         |  |
| Interest rate contracts                                  | \$ 1                                       | \$ 2    | Net investment income                                    |
| Interest rate contracts                                  | (3 )                                       | (4 )    | Interest and debt expense                                |
| Foreign currency contracts                               | 5  | 4       | Net investment income                                    |
| Foreign currency contracts                               | -  | 5       | Total realized gain (loss)                               |
| Total gross reclassifications                            | 3  | 7       |  |
| Associated amortization of DAC,<br>VOBA, DSI and DFEL    | (1 )                                       | -       | Commissions and other expenses                           |
| Reclassifications before income<br>tax benefit (expense) | 2  | 7       | Income (loss) from continuing<br>operations before taxes |
| Income tax benefit (expense)                             | -  | (2 )    | Federal income tax expense (benefit)                     |
| Reclassifications, net of income tax                     | \$ 2                                       | \$ 5    | Net income (loss)  |



## 12. Realized Gain (Loss)

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

|   | For the Three<br>Months<br>Ended<br>March 31, |         |
|---|---|---------|
|   | 2018  | 2017    |
| Total realized gain (loss) related to certain investments (1)         | \$ (21)                                       | \$ (13) |
| Realized gain (loss) on the mark-to-market on certain instruments (2) | 1   | 11      |
| Indexed annuity and IUL contracts net derivatives results: (3)        |   |         |
| Gross gain (loss)   | (1 )  | (10)    |
| Associated amortization of DAC, VOBA, DSI and DFEL                    | -   | (2 )    |
| Variable annuity net derivatives results: (4)                         |   |         |
| Gross gain (loss)   | 33  | (28)    |
| Associated amortization of DAC, VOBA, DSI and DFEL                    | -   | 3       |
| Total realized gain (loss)  | \$ 12   | \$ (39) |

(1) See “Realized Gain (Loss) Related to Certain Investments” section in Note 5.

(2) Represents changes in the fair values of certain derivative investments (not including those associated with our variable and indexed annuity and IUL contracts net derivatives results), reinsurance related embedded derivatives and trading securities.

(3) Represents the net difference between the change in the fair value of the S&P 500 Index ® call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity and IUL contracts along with changes in the fair value of embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products.

(4) Includes the net difference in the change in embedded derivative reserves of our GLB riders and the change in the fair value of the derivative instruments we own to hedge the change in embedded derivative reserves on our GLB riders and the benefit ratio unlocking on our GLB and GDB riders, including the cost of purchasing the hedging instruments.

## 13. Stock-Based Incentive Compensation Plans

We sponsor stock-based incentive compensation plans for our employees and directors and for the employees and agents of our subsidiaries that provide for the issuance of stock options, performance shares (performance-vested shares as opposed to service-vested shares), stock appreciation rights (“SARs”), restricted stock units (“RSUs”) and deferred stock units (“DSUs”). We issue new shares to satisfy option exercises and vested performance shares and RSUs.

LNC stock-based awards granted were as follows:

|                           | For the<br>Three<br>Months<br>Ended<br>March 31,<br>2018 |
|---------------------------|--|
| 10-year LNC stock options | 453,941  |
| Performance shares        | 156,245  |
| RSUs                      | 590,500  |
| Non-employee:             |  |
| SARs                      | 14,692   |
| Agent stock options       | 32,400   |
| Director DSUs             | 6,653  |

## 14. Fair Value of Financial Instruments

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

|   | As of March 31, 2018 |            | As of December 31, 2017 |            |
|---|----------------------|------------|-------------------------|------------|
|   | Carrying Value       | Fair Value | Carrying Value          | Fair Value |
| <b>Assets</b>   |                      |            |                         |            |
| AFS securities:   |                      |            |                         |            |
| Fixed maturity securities   | \$ 92,059            | \$ 92,059  | \$ 94,840               | \$ 94,840  |
| Equity securities   | -                    | -          | 246                     | 246        |
| Trading securities  | 1,553                | 1,553      | 1,620                   | 1,620      |
| Equity securities   | 112                  | 112        | -                       | -          |
| Mortgage loans on real estate   | 11,047               | 10,995     | 10,762                  | 10,877     |
| Derivative investments (1)  | 827                  | 827        | 915                     | 915        |
| Other investments   | 2,049                | 2,049      | 2,296                   | 2,296      |
| Cash and invested cash  | 2,257                | 2,257      | 1,628                   | 1,628      |
| Other assets:   |                      |            |                         |            |
| GLB direct embedded derivatives   | 1,110                | 1,110      | 903                     | 903        |
| GLB ceded embedded derivatives  | 45                   | 45         | 51                      | 51         |
| Indexed annuity ceded embedded derivatives  | 17                   | 17         | 11                      | 11         |
| Separate account assets   | 142,761              | 142,761    | 144,219                 | 144,219    |
| <b>Liabilities</b>  |                      |            |                         |            |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | (1,346 )             | (1,346 )   | (1,418 )                | (1,418 )   |
| Other contract holder funds:  |                      |            |                         |            |
| Remaining guaranteed interest and similar contracts                               | (580 )               | (580 )     | (592 )                  | (592 )     |
| Account values of certain investment contracts                                    | (32,472 )            | (35,007 )  | (32,370 )               | (36,200 )  |
| Short-term debt   | (250 )               | (250 )     | (450 )                  | (452 )     |
| Long-term debt  | (5,648 )             | (5,724 )   | (4,894 )                | (5,042 )   |
| Reinsurance related embedded derivatives  | (34 )                | (34 )      | (57 )                   | (57 )      |
| Other liabilities:  |                      |            |                         |            |
| Derivative liabilities (1)  | (234 )               | (234 )     | (338 )                  | (338 )     |
| GLB ceded embedded derivatives  | (111 )               | (111 )     | (67 )                   | (67 )      |

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

## Valuation Methodologies and Associated Inputs for Financial Instruments Not Carried at Fair Value

The following discussion outlines the methodologies and assumptions used to determine the fair value of our financial instruments not carried at fair value on our Consolidated Balance Sheets. Considerable judgment is required to develop these assumptions used to measure fair value. Accordingly, the estimates shown are not necessarily indicative of the amounts that would be realized in a one-time, current market exchange of all of our financial instruments.

### Mortgage Loans on Real Estate

The fair value of mortgage loans on real estate is established using a discounted cash flow method based on credit rating, maturity and future income. The ratings for mortgages in good standing are based on property type, location, market conditions, occupancy, debt-service coverage, loan-to-value, quality of tenancy, borrower and payment record. The fair value for impaired mortgage loans is based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price or the fair value of the collateral if the loan is collateral dependent. The inputs used to measure the fair value of our mortgage loans on real estate are classified as Level 2 within the fair value hierarchy.

### Other Investments

The carrying value of our assets classified as other investments approximates fair value. Other investments includes primarily LPs and other privately held investments that are accounted for using the equity method of accounting and the carrying value is based on our proportional share of the net assets of the LPs. Other investments also include FHLB stock carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. The inputs used to measure the fair value of our LPs, other privately held investments and FHLB stock are classified as Level 3 within the fair value hierarchy. The remaining assets in other investments include cash collateral receivables and securities that are not LPs or other privately held investments. The inputs used to measure the fair value of these assets are classified as Level 1 within the fair value hierarchy.

### Other Contract Holder Funds

Other contract holder funds include remaining guaranteed interest and similar contracts and account values of certain investment contracts. The fair value for the remaining guaranteed interest and similar contracts is estimated using discounted cash flow calculations as of the balance sheet date. These calculations are based on interest rates currently offered on similar contracts with maturities that are consistent with those remaining for the contracts being valued. As of March 31, 2018, and December 31, 2017, the remaining guaranteed interest and similar contracts carrying value approximated fair value. The fair value of the account values of certain investment contracts is based on their

approximate surrender value as of the balance sheet date. The inputs used to measure the fair value of our other contract holder funds are classified as Level 3 within the fair value hierarchy.

### Short-Term and Long-Term Debt

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

### Financial Instruments Carried at Fair Value

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of March 31, 2018, or December 31, 2017, and we noted no changes in our valuation methodologies between these periods.

The following summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the fair value hierarchy levels described in “Summary of Significant Accounting Policies” in Note 1 of our 2017 Form 10-K:

|                                | As of March 31, 2018  |  |  |                        |
|--------------------------------|---|--|--|------------------------|
|                                | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value |
| Assets                         |   |  |  |                        |
| Investments:                   |   |  |  |                        |
| Fixed maturity AFS securities: |   |  |  |                        |
| Corporate bonds                | \$ -  | \$ 76,567  | \$ 3,192   | \$ 79,759              |
| ABS                            | -   | 895  | 26   | 921                    |
| U.S. government bonds          | 392   | 4  | 5  | 401                    |
| Foreign government bonds       | -   | 332  | 108  | 440                    |
| RMBS                           | -   | 3,374  | -  | 3,374                  |



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|  |          |            |          |            |
|--|----------|------------|----------|------------|
| CMBS                                       | -        | 636        | 27       | 663        |
| CLOs                                       | -        | 873        | 2        | 875        |
| State and municipal bonds                  | -        | 5,000      | -        | 5,000      |
| Hybrid and redeemable preferred securities | 70       | 479        | 77       | 626        |
| Trading securities                         | 73       | 1,433      | 47       | 1,553      |
| Equity securities                          | 29       | 56         | 27       | 112        |
| Derivative investments (1)                 | -        | 761        | 689      | 1,450      |
| Other investments                          | 149      | -          | -        | 149        |
| Cash and invested cash                     | -        | 2,257      | -        | 2,257      |
| Other assets:                              |          |            |          |            |
| GLB direct embedded derivatives            | -        | -          | 1,110    | 1,110      |
| GLB ceded embedded derivatives             | -        | -          | 45       | 45         |
| Indexed annuity ceded embedded derivatives | -        | -          | 17       | 17         |
| Separate account assets                    | 966      | 141,795    | -        | 142,761    |
| Total assets                               | \$ 1,679 | \$ 234,462 | \$ 5,372 | \$ 241,513 |

Liabilities

|   |      |             |             |             |
|---|------|-------------|-------------|-------------|
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | \$ - | \$ -        | \$ (1,346 ) | \$ (1,346 ) |
| Long-term debt  | -    | (1,072 )    | -           | (1,072 )    |
| Reinsurance related embedded derivatives  | -    | (34 )       | -           | (34 )       |
| Other liabilities:  |      |             |             |             |
| Derivative liabilities (1)  | -    | (447 )      | (410 )      | (857 )      |
| GLB ceded embedded derivatives  | -    | -           | (111 )      | (111 )      |
| Total liabilities   | \$ - | \$ (1,553 ) | \$ (1,867 ) | \$ (3,420 ) |

|  | As of December 31, 2017   |  |  |                        |
|--|---|--|--|------------------------|
|  | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value |
| <b>Assets</b>  |   |  |  |                        |
| <b>Investments:</b>  |   |  |  |                        |
| <b>Fixed maturity AFS securities:</b>  |   |  |  |                        |
| Corporate bonds  | \$ -  | \$ 79,125  | \$ 3,091   | \$ 82,216              |
| ABS  | -   | 947  | 27   | 974                    |
| U.S. government bonds  | 556   | 6  | 5  | 567                    |
| Foreign government bonds   | -   | 341  | 110  | 451                    |
| RMBS   | -   | 3,453  | 12   | 3,465                  |
| CMBS   | -   | 594  | 6  | 600                    |
| CLOs   | -   | 717  | 91   | 808                    |
| State and municipal bonds  | -   | 5,119  | -  | 5,119                  |
| Hybrid and redeemable preferred securities   | 71  | 493  | 76   | 640                    |
| Equity AFS securities  | 28  | 56   | 162  | 246                    |
| Trading securities   | 73  | 1,498  | 49   | 1,620                  |
| Derivative investments (1)   | -   | 994  | 603  | 1,597                  |
| Other investments  | 150   | -  | -  | 150                    |
| Cash and invested cash   | -   | 1,628  | -  | 1,628                  |
| <b>Other assets:</b>   |   |  |  |                        |
| GLB direct embedded derivatives  | -   | -  | 903  | 903                    |
| GLB ceded embedded derivatives   | -   | -  | 51   | 51                     |
| Indexed annuity ceded embedded derivatives   | -   | -  | 11   | 11                     |
| Separate account assets  | 814   | 143,405  | -  | 144,219                |
| <b>Total assets</b>  | <b>\$ 1,692</b>   | <b>\$ 238,376</b>                                | <b>\$ 5,197</b>                                    | <b>\$ 245,265</b>      |
| <b>Liabilities</b>   |   |  |  |                        |
| Future contract benefits – indexed annuity<br>and IUL contracts embedded derivatives | \$ -  | \$ -   | \$ (1,418 )  | \$ (1,418 )            |
| Long-term debt   | -   | (1,127 )   | -  | (1,127 )               |
| Reinsurance related embedded derivatives   | -   | (57 )  | -  | (57 )                  |
| <b>Other liabilities:</b>  |   |  |  |                        |
| Derivative liabilities (1)   | -   | (447 )   | (573 )   | (1,020 )               |
| GLB ceded embedded derivatives   | -   | -  | (67 )  | (67 )                  |
| <b>Total liabilities</b>   | <b>\$ -</b>   | <b>\$ (1,631 )</b>                               | <b>\$ (2,058 )</b>                                 | <b>\$ (3,689 )</b>     |

(1) Derivative investment assets and liabilities presented within the fair value hierarchy are presented on a gross basis by derivative type and not on a master netting basis by counterparty.

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

|   | For the Three Months Ended March 31, 2018 |          |           |              |            |          |
|---|---|----------|-----------|--------------|------------|----------|
|   | Beginning in                              | Items    | Gains     | Issuances,   | Transfers  | Ending   |
|   | Fair                                      | Included | (Losses)  | Sales,       | Into or    | Fair     |
|   | Value                                     | Net      | in        | Maturities,  | Level 3,   | Value    |
|   |   | Income   | OCI       | Settlements, | Net (2)(3) |          |
|   |   |          | and       | Calls,       |            |          |
|   |   |          | Other (1) | Net          |            |          |
| Investments: (4)  |   |          |           |              |            |          |
| Fixed maturity AFS securities:  |   |          |           |              |            |          |
| Corporate bonds   | \$ 3,091                                  | \$ 3     | \$ 17     | \$ 74        | \$ 7       | \$ 3,192 |
| ABS   | 27  | -        | (1 )      | -            | -          | 26       |
| U.S. government bonds   | 5   | -        | -         | -            | -          | 5        |
| Foreign government bonds  | 110                                       | -        | (2 )      | -            | -          | 108      |
| RMBS  | 12  | -        | -         | -            | (12 )      | -        |
| CMBS  | 6   | 1        | -         | 20           | -          | 27       |
| CLOs  | 91  | -        | -         | 2            | (91 )      | 2        |
| Hybrid and redeemable preferred securities  | 76  | -        | 1         | -            | -          | 77       |
| Equity AFS securities   | 162                                       | -        | -         | -            | (162 )     | -        |
| Trading securities  | 49  | (2 )     | -         | -            | -          | 47       |
| Equity securities   | -   | -        | -         | 1            | 26         | 27       |
| Derivative investments  | 30  | 329      | (19 )     | (61 )        | -          | 279      |
| Other assets: (5)   |   |          |           |              |            |          |
| GLB direct embedded derivatives   | 903                                       | 207      | -         | -            | -          | 1,110    |
| GLB ceded embedded derivatives  | 51  | (6 )     | -         | -            | -          | 45       |
| Indexed annuity ceded embedded derivatives  | 11  | -        | -         | 6            | -          | 17       |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives (5) | (1,418)                                   | 52       | -         | 20           | -          | (1,346)  |
| Other liabilities – GLB ceded embedded derivatives (5)                                | (67 )                                     | (44 )    | -         | -            | -          | (111 )   |
| Total, net  | \$ 3,139                                  | \$ 540   | \$ (4 )   | \$ 62        | \$ (232 )  | \$ 3,505 |



|   | For the Three Months Ended March 31, 2017 |                              |                                     |  |   |                   |
|---|---|------------------------------|-------------------------------------|--|---|-------------------|
|   | Beginning Fair Value                      | Items Included in Net Income | Gains (Losses) in OCI and Other (1) | Issuances, Sales Maturities, Settlements, Calls, Net | Transfers Into or Out of Level 3, Net (2) | Ending Fair Value |
| Investments: (4)  |   |                              |                                     |  |   |                   |
| Fixed maturity AFS securities:  |   |                              |                                     |  |   |                   |
| Corporate bonds   | \$ 2,405                                  | \$ 6                         | \$ 65                               | \$ (204 )  | \$ 131                                    | \$ 2,403          |
| ABS   | 33  | -                            | 1                                   | -  | (5 )                                      | 29                |
| U.S. government bonds   | -   | -                            | -                                   | -  | 5   | 5                 |
| Foreign government bonds  | 111                                       | -                            | (1 )                                | -  | -   | 110               |
| RMBS  | 3   | -                            | -                                   | 4  | -   | 7                 |
| CMBS  | 7   | -                            | -                                   | 41   | (4 )                                      | 44                |
| CLOs  | 68  | -                            | -                                   | 5  | 15  | 88                |
| State and municipal bonds   | -   | (1 )                         | -                                   | -  | 2   | 1                 |
| Hybrid and redeemable preferred securities  | 76  | -                            | 3                                   | -  | -   | 79                |
| Equity AFS securities   | 177                                       | 1                            | (1 )                                | 5  | -   | 182               |
| Trading securities  | 65  | 1                            | 7                                   | (16 )  | 3   | 60                |
| Derivative investments  | (93 )                                     | (69 )                        | 23                                  | 251  | -   | 112               |
| Other assets: (5)   |   |                              |                                     |  |   |                   |
| GLB direct embedded derivatives   | -   | 226                          | -                                   | -  | -   | 226               |
| GLB ceded embedded derivatives  | 203                                       | (87 )                        | -                                   | -  | -   | 116               |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives (5) | (1,139)                                   | (120 )                       | -                                   | 21   | -   | (1,238)           |
| Other liabilities – GLB direct embedded derivatives (5)                               | (371 )                                    | 371                          | -                                   | -  | -   | -                 |
| Total, net  | \$ 1,545                                  | \$ 328                       | \$ 97                               | \$ 107   | \$ 147                                    | \$ 2,224          |

- (1) The changes in fair value of the interest rate swaps are offset by an adjustment to derivative investments (see Note 5).
- (2) Transfers into or out of Level 3 for AFS and trading securities are displayed at amortized cost as of the beginning-of-year. For AFS and trading securities, the difference between beginning-of-year amortized cost and beginning-of-year fair value was included in OCI and earnings, respectively, in the prior period.
- (3) Transfers into or out of Level 3 for FHLB stock between equity securities and other investments at cost on our Consolidated Balance Sheets.
- (4) Amortization and accretion of premiums and discounts are included in net investment income on our Consolidated Statements of Comprehensive Income (Loss). Gains (losses) from sales, maturities, settlements and calls and OTTI are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).
- (5)

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

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

|   | For the Three Months Ended March 31, 2018 |         |            |             |       |       |
|---|---|---------|------------|-------------|-------|-------|
|   | Issuances                                 | Sales   | Maturities | Settlements | Calls | Total |
| Investments:  |   |         |            |             |       |       |
| Fixed maturity AFS securities:  |   |         |            |             |       |       |
| Corporate bonds   | \$ 223                                    | \$ (53) | \$ (2 )    | \$ (94 )    | \$ -  | \$ 74 |
| CMBS  | 21  | -       | -          | (1 )        | -     | 20    |
| CLOs  | 2   | -       | -          | -           | -     | 2     |
| Equity securities   | 1   | -       | -          | -           | -     | 1     |
| Derivative investments  | 68  | (6 )    | (123 )     | -           | -     | (61 ) |
| Other assets – indexed annuity ceded embedded derivatives                         | 6   | -       | -          | -           | -     | 6     |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | (27 )                                     | -       | -          | 47          | -     | 20    |
| Total, net  | \$ 294                                    | \$ (59) | \$ (125 )  | \$ (48 )    | \$ -  | \$ 62 |

|   | For the Three Months Ended March 31, 2017 |         |            |             |         |          |
|---|---|---------|------------|-------------|---------|----------|
|   | Issuances                                 | Sales   | Maturities | Settlements | Calls   | Total    |
| Investments:  |   |         |            |             |         |          |
| Fixed maturity AFS securities:  |   |         |            |             |         |          |
| Corporate bonds   | \$ 38                                     | \$ (62) | \$ (22 )   | \$ (63 )    | \$ (95) | \$ (204) |
| RMBS  | 4   | -       | -          | -           | -       | 4        |
| CMBS  | 41  | -       | -          | -           | -       | 41       |
| CLOs  | 5   | -       | -          | -           | -       | 5        |
| Equity AFS securities   | 7   | (2 )    | -          | -           | -       | 5        |
| Trading securities  | 2   | (17)    | -          | (1 )        | -       | (16 )    |
| Derivative investments  | 47  | 294     | (90 )      | -           | -       | 251      |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | (18)                                      | -       | -          | 39          | -       | 21       |
| Total, net  | \$ 126                                    | \$ 213  | \$ (112 )  | \$ (25 )    | \$ (95) | \$ 107   |



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

|                                   | For the Three<br>Months<br>Ended<br>March 31, |          |
|-----------------------------------|---|----------|
|                                   | 2018  | 2017     |
| Derivative investments            | \$ 281  | \$ (74 ) |
| Embedded derivatives:             |   |          |
| Indexed annuity and IUL contracts | (4 )  | (14 )    |
| GLB                               | 376   | 747      |
| Total, net (1)                    | \$ 653  | \$ 659   |

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

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

|                                | For the Three<br>Months Ended<br>March 31, 2018 |                                |          | For the Three<br>Months Ended<br>March 31, 2017 |                                |        |
|--------------------------------|---|--------------------------------|----------|---|--------------------------------|--------|
|                                | Transfers<br>Into<br>Level<br>3                 | Transfers<br>Out of<br>Level 3 | Total    | Transfers<br>Into<br>Level<br>3                 | Transfers<br>Out of<br>Level 3 | Total  |
| Investments:                   |   |                                |          |   |                                |        |
| Fixed maturity AFS securities: |   |                                |          |   |                                |        |
| Corporate bonds                | \$ 40   | \$ (33 )                       | \$ 7     | \$ 160  | \$ (29 )                       | \$ 131 |
| ABS                            | -   | -                              | -        | -   | (5 )                           | (5 )   |
| U.S. government bonds          | -   | -                              | -        | 5   | -                              | 5      |
| RMBS                           | -   | (12 )                          | (12 )    | -   | -                              | -      |
| CMBS                           | -   | -                              | -        | -   | (4 )                           | (4 )   |
| CLOs                           | -   | (91 )                          | (91 )    | 30  | (15 )                          | 15     |
| State and municipal bonds      | -   | -                              | -        | 2   | -                              | 2      |
| Equity AFS securities          | -   | (162 )                         | (162)    | -   | -                              | -      |
| Trading securities             | -   | -                              | -        | 3   | -                              | 3      |
| Equity securities              | 26  | -                              | 26       | -   | -                              | -      |
| Total, net                     | \$ 66   | \$ (298 )                      | \$ (232) | \$ 200  | \$ (53 )                       | \$ 147 |

Transfers into and out of Level 3 are generally the result of observable market information on a security no longer being available or becoming available to our pricing vendors. For the three months ended March 31, 2018 and 2017, transfers in and out of Level 3 were attributable primarily to the securities' observable market information no longer being available or becoming available. In 2018, transfers into or out of Level 3 include FHLB stock between equity securities and other investments at cost on our Consolidated Balance Sheets. Transfers into and out of Levels 1 and 2 are generally the result of a change in the type of input used to measure the fair value of an asset or liability at the end of the reporting period. When quoted prices in active markets become available, transfers from Level 2 to Level 1 will result. When quoted prices in active markets become unavailable, but we are able to employ a valuation methodology using significant observable inputs, transfers from Level 1 to Level 2 will result. For the three months ended March 31, 2018 and 2017, the transfers between Levels 1 and 2 of the fair value hierarchy were less than \$1 million for our financial instruments carried at fair value.

The following summarizes the fair value (in millions), valuation techniques and significant unobservable inputs of the Level 3 fair value measurements as of March 31, 2018:

|  | Fair Value | Valuation Technique  | Significant Unobservable Inputs           | Assumption or Input Ranges |
|--|------------|----------------------|---|----------------------------|
| Assets   |            |                      |   |                            |
| Investments:   |            |                      |   |                            |
| Fixed maturity AFS and trading securities:                   |            |                      |   |                            |
| Corporate bonds  | \$ 2,570   | Discounted cash flow | Liquidity/duration adjustment (1)         | 0.5 % - 22.2 %             |
| ABS  | 23         | Discounted cash flow | Liquidity/duration adjustment (1)         | 3.0 % - 3.0 %              |
| Foreign government bonds Hybrid and redeemable               | 78         | Discounted cash flow | Liquidity/duration adjustment (1)         | 1.6 % - 3.1 %              |
| preferred securities   | 4          | Discounted cash flow | Liquidity/duration adjustment (1)         | 1.8 % - 1.8 %              |
| Equity securities  | 21         | Discounted cash flow | Liquidity/duration adjustment (1)         | 4.5 % - 5.0 %              |
| Other assets:  |            |                      |   |                            |
| GLB direct and ceded   |            |                      |   |                            |
| embedded derivatives   | 1,155      | Discounted cash flow | Long-term lapse rate (2)                  | 1 % - 30 %                 |
|  |            |                      | Utilization of guaranteed withdrawals (3) | 85 % - 100 %               |
|  |            |                      | Claims utilization factor (4)             | 60 % - 100 %               |
|  |            |                      | Premiums utilization factor (4)           | 80 % - 115 %               |
|  |            |                      | NPR (5)                                   | 0.02 % - 0.30 %            |
|  |            |                      | Mortality rate (6)                        | (8)                        |
|  |            |                      | Volatility (7)                            | 1 % - 29 %                 |
| Indexed annuity ceded  |            |                      |   |                            |
| embedded derivatives   | 17         | Discounted cash flow | Lapse rate (2)                            | 1 % - 9 %                  |
|  |            |                      | Mortality rate (6)                        | (8)                        |
| Liabilities  |            |                      |   |                            |
| Future contract benefits – indexed annuity and IUL contracts |            |                      |   |                            |
| embedded derivatives   | \$ (1,346) | Discounted cash flow | Lapse rate (2)                            | 1 % - 9 %                  |

| Other liabilities – GLB ceded | Mortality rate (6)                        | (8)                  |
|-------------------------------|---|----------------------|
| embedded derivatives          | (111 )                                    | Discounted cash flow |
|                               | Long-term lapse rate (2)                  | 1 % - 30 %           |
|                               | Utilization of guaranteed withdrawals (3) | 85 % - 100 %         |
|                               | Claims utilization factor (4)             | 60 % - 100 %         |
|                               | Premiums utilization factor (4)           | 80 % - 115 %         |
|                               | NPR (5)                                   | 0.02 % - 0.30 %      |
|                               | Mortality rate (6)                        | (8)                  |
|                               | Volatility (7)                            | 1 % - 29 %           |

- (1) The liquidity/duration adjustment input represents an estimated market participant composite of adjustments attributable to liquidity premiums, expected durations, structures and credit quality that would be applied to the market observable information of an investment.
- (2) The lapse rate input represents the estimated probability of a contract surrendering during a year, and thereby forgoing any future benefits. The range for indexed annuity and IUL contracts represents the lapse rates during the surrender charge period.
- (3) The utilization of guaranteed withdrawals input represents the estimated percentage of contract holders that utilize the guaranteed withdrawal feature.
- (4) The utilization factors are applied to the present value of claims or premiums, as appropriate, in the GLB reserve calculation to estimate the impact of inefficient withdrawal behavior, including taking less than or more than the maximum guaranteed withdrawal.
- (5) The NPR input represents the estimated additional credit spread that market participants would apply to the market observable discount rate when pricing a contract.
- (6) The mortality rate input represents the estimated probability of when an individual belonging to a particular group, categorized according to age or some other factor such as gender, will die.
- (7) The volatility input represents overall volatilities assumed for the underlying variable annuity funds, which include a mixture of equity and fixed-income assets. Fair value of the variable annuity GLB embedded derivatives would increase if higher volatilities were used for valuation.
- (8) The mortality rate is based on a combination of company and industry experience, adjusted for improvement factors.

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

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

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

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

As part of our ongoing valuation process, we assess the reasonableness of our valuation techniques or models and make adjustments as necessary. For more information, see “Summary of Significant Accounting Policies” in Note 1 of our 2017 Form 10-K.

## 15. Segment Information

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. See Note 21 of our 2017 Form 10-K for a brief description of these segments and Other Operations.

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

- Realized gains and losses associated with the following (“excluded realized gain (loss)”):
  - § Sales or disposals and impairments of securities;
  - § Changes in the fair value of derivatives, embedded derivatives within certain reinsurance arrangements and trading securities;
  - § Changes in the fair value of the derivatives we own to hedge our GDB riders within our variable annuities;
  - § Changes in the fair value of the embedded derivatives of our GLB riders reflected within variable annuity net derivative results accounted for at fair value;
  - § Changes in the fair value of the derivatives we own to hedge our GLB riders reflected within variable annuity net derivative results;
  - § Changes in the fair value of the embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products accounted for at fair value; and

§ Changes in the fair value of equity securities;

- Changes in reserves resulting from benefit ratio unlocking on our GDB and GLB riders;
- Income (loss) from reserve changes, net of related amortization, on business sold through reinsurance;
- Gains (losses) on early extinguishment of debt;
- Losses from the impairment of intangible assets;
- Income (loss) from discontinued operations;
- Acquisition and integration costs related to mergers and acquisitions; and
- Income (loss) from the initial adoption of new accounting standards, regulations, and policy changes including the net impact from the Tax Cuts and Jobs Act.

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

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

We use our prevailing corporate federal income tax rates of 21% and 35%, where applicable, while taking into account any permanent differences for events recognized differently in our financial statements and federal income tax returns when reconciling our non-GAAP measures to the most comparable GAAP measure. Operating revenues and income (loss) from operations do not replace revenues and net income as the GAAP measures of our consolidated results of operations.

Segment information (in millions) was as follows:

|  | For the Three<br>Months Ended<br>March 31, |          |
|--|--|----------|
|  | 2018                                       | 2017     |
| Revenues                               |  |          |
| Operating revenues:                    |  |          |
| Annuities                              | \$ 1,073                                   | \$ 1,061 |
| Retirement Plan Services               | 292  | 282      |
| Life Insurance                         | 1,660                                      | 1,606    |
| Group Protection                       | 553  | 541      |
| Other Operations                       | 67   | 88       |
| Excluded realized gain (loss), pre-tax | (35 )                                      | (80 )    |
| Amortization of deferred gain arising  |  |          |

|  |          |          |
|--|----------|----------|
| from reserve changes on business<br>sold through reinsurance, pre-tax    | -        | 1        |
| Amortization of DFEL associated<br>with benefit ratio unlocking, pre-tax | (1 )     | 1        |
| Total revenues   | \$ 3,609 | \$ 3,500 |

|   | For the Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |        |
|---|--|--------|
| Net Income (Loss)   |  |        |
| Income (loss) from operations:  |  |        |
| Annuities   | \$ 267   | \$ 281 |
| Retirement Plan Services  | 43   | 37     |
| Life Insurance  | 144  | 130    |
| Group Protection  | 29   | 7      |
| Other Operations  | (42 )  | (13 )  |
| Excluded realized gain (loss), after-tax  | (28 )  | (52 )  |
| Gain (loss) on early extinguishment of<br>debt, after-tax                           | (19 )  | -      |
| Benefit ratio unlocking, after-tax  | (10 )  | 45     |
| Net impact from the Tax Cuts and Jobs Act   | (13 )  | -      |
| Acquisition and integration costs related to<br>mergers and acquisitions, after-tax | (4 )   | -      |
| Net income (loss)   | \$ 367   | \$ 435 |

## Revenue from Contracts with Customers

As discussed in Note 2, we adopted ASU 2014-09, Revenue from Contracts with Customers, as of January 1, 2018, that applies primarily to commissions and advisory fees earned by our broker dealer operation. The following table illustrates the revenue recognized from contracts with customers reported within fee income and other revenues on our Consolidated Statements of Comprehensive Income (Loss) and timing of revenue recognition by segment (in millions):

|   | For the Three Months Ended March 31, 2018 |                                |                   |                     |                     | Total  |
|---|---|--------------------------------|-------------------|---------------------|---------------------|--------|
|   | Annuities                                 | Retirement<br>Plan<br>Services | Life<br>Insurance | Group<br>Protection | Other<br>Operations |        |
| Revenue from Contracts with Customers       |   |                                |                   |                     |                     |        |
| Fee income                                  | \$ 133                                    | \$ 42                          | \$ 5              | \$ -                | \$ -                | \$ 180 |
| Other revenues                              | 120                                       | 4                              | 3                 | 5                   | -                   | 132    |
| Total revenue from contracts with customers | \$ 253                                    | \$ 46                          | \$ 8              | \$ 5                | \$ -                | \$ 312 |
| Timing of Revenue Recognition               |   |                                |                   |                     |                     |        |
| Satisfaction of performance obligation:     |   |                                |                   |                     |                     |        |
| Transferred at a point in time              | \$ 18                                     | \$ 1                           | \$ 2              | \$ -                | \$ -                | \$ 21  |
| Transferred over time                       | 235                                       | 45                             | 6                 | 5                   | -                   | 291    |
| Total revenue from contracts with customers | \$ 253                                    | \$ 46                          | \$ 8              | \$ 5                | \$ -                | \$ 312 |

Revenue recognized from contracts with customers included in fee income consists primarily of wholesaling-related 12b-1 fees and net investment advisory fees. The 12b-1 fees are received from separate account fund sponsors as compensation for servicing the underlying mutual funds. The net investment advisory fees are related to asset management of certain separate account funds. Such revenues are recorded based on a contractual percentage of the market value of mutual fund assets over the period shares are owned by customers, and on a contractual percentage of the customer's managed assets over the period advisory services are provided, respectively.

Revenue recognized from contracts with customers included in other revenues relates to our retail sales network and consists primarily of commission revenue for the sale of non-affiliated securities recorded on a trade-date basis and advisory fee income. Advisory fee income is asset-based revenues recorded as earned based on a contractual percentage of customer account values.



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

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the financial condition as of March 31, 2018, compared with December 31, 2017, and the results of operations for the three months ended March 31, 2018, compared with the corresponding period in 2017 of Lincoln National Corporation and its consolidated subsidiaries. Unless otherwise stated or the context otherwise requires, "LNC," "Company," "we," "our" or "us" refers to Lincoln National Corporation and its consolidated subsidiaries. The MD&A is provided as a supplement to, and should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements ("Notes") presented in "Part I – Item 1. Financial Statements"; our Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K"), including the sections entitled "Part I – Item 1A. Risk Factors," "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II – Item 8. Financial Statements and Supplementary Data"; and our current reports on Form 8-K filed in 2018. For more detailed information on the risks and uncertainties associated with the Company's business activities, see the risks described in "Part I – Item 1A. Risk Factors" in our 2017 Form 10-K as updated by "Part II – Item 1A. Risk Factors" below.

In this report, in addition to providing consolidated revenues and net income (loss) that are United States of America generally accepted accounting principles ("GAAP") financial measures, we also provide certain non-GAAP financial measures as we believe they are meaningful to evaluate and assess the results of our operating segments. Operating revenues and income (loss) from operations are the primary non-GAAP financial measures our management believes that explain the results of our ongoing businesses in a manner that allows for a better understanding of the underlying trends in our current businesses. We have excluded certain GAAP items that are unpredictable and not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in many instances, decisions regarding these items do not necessarily relate to the operations of the individual segments. In addition, we believe that our definitions of operating revenues and income (loss) from operations will provide investors with a more valuable measure of our performance because it better reveals trends in our business. These non-GAAP financial measures should not be viewed as a substitute for GAAP financial measures. For additional information see Note 15.

FORWARD-LOOKING STATEMENTS – CAUTIONARY LANGUAGE

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

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

- Deterioration in general economic and business conditions that may affect account values, investment results, guaranteed benefit liabilities, premium levels, claims experience and the level of pension benefit costs, funding and investment results;
- Adverse global capital and credit market conditions could affect our ability to raise capital, if necessary, and may cause us to realize impairments on investments and certain intangible assets, including goodwill and the valuation allowance against deferred tax assets, which may reduce future earnings and/or affect our financial condition and ability to raise additional capital or refinance existing debt as it matures;
- Because of our holding company structure, the inability of our subsidiaries to pay dividends to the holding company in sufficient amounts could harm the holding company's ability to meet its obligations;
- Legislative, regulatory or tax changes, both domestic and foreign, that affect: the cost of, or demand for, our subsidiaries' products; the required amount of reserves and/or surplus; our ability to conduct business and our captive reinsurance arrangements as well as restrictions on revenue sharing and 12b-1 payments; the impact of recently enacted U.S. federal tax reform legislation on our business, earnings and capital; and the effect of the Fifth Circuit Court of Appeal's decision vacating the Department of Labor's fiduciary regulation as well as any "best interest" standards of care adopted by the Securities and Exchange Commission ("SEC") or other state regulators;
- Actions taken by reinsurers to raise rates on in-force business;
- Declines in or sustained low interest rates causing a reduction in investment income, the interest margins of our businesses, estimated gross profits ("EGPs") and demand for our products;
- Rapidly increasing interest rates causing contract holders to surrender life insurance and annuity policies, thereby causing realized investment losses, and reduced hedge performance related to variable annuities;
- Uncertainty about the effect of continuing promulgation and implementation of rules and regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act on us, the economy and the financial services sector in particular;
- The initiation of legal or regulatory proceedings against us, and the outcome of any legal or regulatory proceedings, such as: adverse actions related to present or past business practices common in businesses in which we compete; adverse decisions in significant actions including, but not limited to, actions brought by federal and state authorities and class action cases; new decisions that result in changes in law; and unexpected trial court rulings;
- A decline in the equity markets causing a reduction in the sales of our subsidiaries' products; a reduction of asset-based fees that our subsidiaries charge on various investment and insurance products; an acceleration of the net amortization of deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("DFEL"); and an increase in liabilities related to guaranteed benefit features of our subsidiaries' variable annuity products;
- Ineffectiveness of our risk management policies and procedures, including various hedging strategies used to offset the effect of changes in the value of liabilities due to changes in the level and volatility of the equity markets and interest rates;
- A deviation in actual experience regarding future persistency, mortality, morbidity, interest rates or equity market returns from the assumptions used in pricing our subsidiaries' products, in establishing related insurance reserves and in the net amortization of DAC, VOBA, DSI and DFEL, which may reduce future earnings;
- Changes in GAAP that may result in unanticipated changes to our net income;
- Lowering of one or more of our debt ratings issued by nationally recognized statistical rating organizations and the adverse effect such action may have on our ability to raise capital and on our liquidity and financial condition;
- Lowering of one or more of the insurer financial strength ratings of our insurance subsidiaries and the adverse effect such action may have on the premium writings, policy retention, profitability of our insurance subsidiaries and liquidity;
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- Significant credit, accounting, fraud, corporate governance or other issues that may adversely affect the value of certain investments in our portfolios, as well as counterparties to which we are exposed to credit risk, requiring that we realize losses on investments;
- Inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others;
  - Interruption in telecommunication, information technology or other operational systems or failure to safeguard the confidentiality or privacy of sensitive data on such systems from cyberattacks or other breaches of our data security systems;
  - The effect of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including the successful implementation of integration strategies or the achievement of anticipated synergies and operational efficiencies related to an acquisition;
  - The adequacy and collectability of reinsurance that we have purchased;
  - Acts of terrorism, a pandemic, war or other man-made and natural catastrophes that may adversely affect our businesses and the cost and availability of reinsurance;
  - Competitive conditions, including pricing pressures, new product offerings and the emergence of new competitors, that may affect the level of premiums and fees that our subsidiaries can charge for their products;
  - The unknown effect on our subsidiaries' businesses resulting from evolving market preferences and the changing demographics of our client base; and
  - The unanticipated loss of key management, financial planners or wholesalers.

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

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

## INTRODUCTION

### Executive Summary

We are a holding company that operates multiple insurance and retirement businesses through subsidiary companies. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products and solutions. These products primarily include fixed and indexed annuities, variable annuities, universal life insurance ("UL"), variable universal life insurance ("VUL"), linked-benefit UL, indexed universal life insurance ("IUL"), term life insurance, employer-sponsored retirement plans and services, and group life, disability and dental.

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations. These segments and Other Operations are described in “Part I – Item 1. Business” of our 2017 Form 10-K. We provide information about our segments’ and Other Operations’ operating revenue and expense line items and realized gain (loss), key drivers of changes and historical details underlying the line items below. For factors that could cause actual results to differ materially from those set forth, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2017 Form 10-K as updated by “Part II – Item 1A. Risk Factors” below.

Our current market conditions, significant operational matters, industry trends, issues and outlook are described in “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary” of our 2017 Form 10-K.

## Critical Accounting Policies and Estimates

The MD&A included in our 2017 Form 10-K contains a detailed discussion of our critical accounting policies and estimates. The following information updates the “Critical Accounting Policies and Estimates” provided in our 2017 Form 10-K, and therefore, should be read in conjunction with that disclosure.

### DAC, VOBA, DSI and DFEL

### Reversion to the Mean

As variable fund returns do not move in a systematic manner, we reset the baseline of account values from which EGPs are projected, which we refer to as our reversion to the mean (“RTM”) process, as discussed in our 2017 Form 10-K. If we had unlocked our RTM assumption as of March 31, 2018, we would have recorded a favorable unlocking of approximately \$205 million, pre-tax, for Annuities, approximately \$55 million, pre-tax, for Life Insurance and approximately \$25 million, pre-tax, for Retirement Plan Services.

### Investments

#### Investment Valuation

The following summarizes our fixed maturity AFS securities, trading securities and derivative investments carried at fair value by pricing source and fair value hierarchy level (in millions) as of March 31, 2018:

|   |                           |                             |
|---|---------------------------|-----------------------------|
| Quoted<br>Prices<br>in Active<br>Markets for<br>Identical | Significant<br>Observable | Significant<br>Unobservable |
|---|---------------------------|-----------------------------|

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|   | Assets<br>(Level 1) | Inputs<br>(Level 2) | Inputs<br>(Level 3) | Total<br>Fair<br>Value |
|---|---------------------|---------------------|---------------------|------------------------|
| Priced by third-party pricing services  | \$ 713              | \$ 77,655           | \$ -                | \$ 78,368              |
| Priced by independent broker quotations | -                   | -                   | 1,094               | 1,094                  |
| Priced by matrices                      | -                   | 12,308              | -                   | 12,308                 |
| Priced by other methods (1)             | -                   | -                   | 2,696               | 2,696                  |
| Total                                   | \$ 713              | \$ 89,963           | \$ 3,790            | \$ 94,466              |
| Percent of total                        | 1%                  | 95%                 | 4%                  | 100%                   |

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

For more information about the valuation of our financial instruments carried at fair value, see “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Investments – Investment Valuation” in our 2017 Form 10-K and Note 14 herein.

#### Derivatives

Our accounting policies for derivatives and the potential effect on interest spreads in a falling rate environment are discussed in Note 6 of this report and “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our 2017 Form 10-K.

#### Guaranteed Living Benefits

Within our individual annuity business, 65% of our variable annuity account values contained guaranteed living benefits (“GLB”) features as of March 31, 2018 and 2017. Underperforming equity markets increase our exposure to potential benefits with the GLB features. A contract with a GLB feature is “in the money” if the contract holder’s account balance falls below the present value of guaranteed withdrawal or income benefits, assuming no lapses. As of March 31, 2018 and 2017, 6% and 8%, respectively, of all in-force contracts with a GLB feature were “in the money,” and our exposure, after reinsurance, as of March 31, 2018 and 2017, was \$413 million and \$538 million, respectively. However, the only way the contract holder can realize the excess of the present value of benefits over the account value of the contract is through a series of withdrawals or income payments that do not exceed a maximum amount. If, after the series of withdrawals or income payments, the account value is exhausted, the contract holder will continue to receive a series of annuity payments. The account value can also fluctuate with equity market returns on a daily basis resulting in increases or decreases in the excess of the present value of benefits over account value.

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

For information on our estimates of the potential instantaneous effect to net income (loss) that could result from sudden changes that may occur in equity markets, interest rates and implied market volatilities, see our discussion in “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Derivatives – GLB” in our 2017 Form 10-K.

#### Acquisitions and Dispositions

For information about acquisitions and divestitures, see Notes 3 and 24 in our 2017 Form 10-K and Note 3 herein.

#### RESULTS OF CONSOLIDATED OPERATIONS

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

|   | For the Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |        |
|---|--|--------|
| Net Income (Loss)   |  |        |
| Income (loss) from operations:                            |  |        |
| Annuities   | \$ 267   | \$ 281 |
| Retirement Plan Services                                  | 43   | 37     |
| Life Insurance  | 144  | 130    |
| Group Protection  | 29   | 7      |
| Other Operations  | (42 )  | (13 )  |
| Excluded realized gain (loss), after-tax                  | (28 )  | (52 )  |
| Gain (loss) on early extinguishment of<br>debt, after-tax | (19 )  | -      |
| Benefit ratio unlocking, after-tax                        | (10 )  | 45     |
| Net impact from the Tax Cuts and Jobs Act                 | (13 )  | -      |

|  |        |        |
|--|--------|--------|
| Acquisition and integration costs related to mergers and acquisitions, after-tax | (4 )   | -      |
| Net income (loss)  | \$ 367 | \$ 435 |

|                              | For the Three<br>Months Ended<br>March 31, |           |
|------------------------------|--|-----------|
|                              | 2018                                       | 2017      |
| Deposits                     |  |           |
| Annuities                    | \$ 2,526                                   | \$ 2,016  |
| Retirement Plan Services     | 2,360                                      | 2,252     |
| Life Insurance               | 1,534                                      | 1,414     |
| Total deposits               | \$ 6,420                                   | \$ 5,682  |
| Net Flows                    |  |           |
| Annuities (1)                | \$ (606 )                                  | \$ (757 ) |
| Retirement Plan Services (1) | 463  | 141       |
| Life Insurance               | 1,076                                      | 924       |
| Total net flows (1)          | \$ 933                                     | \$ 308    |

(1) The prior year has been restated to conform to the current year presentation, which has been modified to be consistent across our business segments.

|                          | As of March 31, |            |
|--------------------------|-----------------|------------|
|                          | 2018            | 2017       |
| Account Values           |                 |            |
| Annuities                | \$ 135,629      | \$ 128,930 |
| Retirement Plan Services | 67,710          | 60,733     |
| Life Insurance           | 49,281          | 46,505     |
| Total account values     | \$ 252,620      | \$ 236,168 |

Comparison of the Three Months Ended March 31, 2018 to 2017

Net income decreased due primarily to the following:



- Higher federal income tax benefits in 2017 driven by one-time and run-rate adjustments primarily associated with our separate account dividends-received deduction (“DRD”), partially offset by the lower marginal corporate income tax rate and tax law changes to the separate account DRD as a result of the Tax Cut and Jobs Act (“Tax Act”) and other items in 2018.
- Loss on early extinguishment of debt, acquisition and integration costs incurred as part of our recent acquisition and higher strategic digitization expense.
- No amortization of deferred gain on business sold through reinsurance in 2018 as the gain was fully amortized during the second quarter of 2017.
- Less favorable investment income on alternative investments.
- Spread compression due to average new money rates trailing our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates.

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

- Growth in average account values and business in force.
- Realized gains in 2018 as compared to realized losses in 2017.
- More favorable total loss ratio experience in our Group Protection segment.

## RESULTS OF ANNUITIES

## Income (Loss) from Operations

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

|  | For the Three<br>Months Ended<br>March 31, |        |
|--|--|--------|
|  | 2018                                       | 2017   |
| Operating Revenues                         |  |        |
| Insurance premiums (1)                     | \$ 70                                      | \$ 124 |
| Fee income                                 | 586  | 533    |
| Net investment income                      | 249  | 256    |
| Operating realized gain (loss) (2)         | 48   | 45     |
| Other revenues (3)                         | 120  | 103    |
| Total operating revenues                   | 1,073                                      | 1,061  |
| Operating Expenses                         |  |        |
| Interest credited                          | 148  | 147    |
| Benefits (1)                               | 145  | 193    |
| Commissions and other expenses             | 467  | 441    |
| Total operating expenses                   | 760  | 781    |
| Income (loss) from operations before taxes | 313  | 280    |
| Federal income tax expense (benefit)       | 46   | (1 )   |
| Income (loss) from operations              | \$ 267                                     | \$ 281 |

(1) Insurance premiums include primarily our income annuities that have a corresponding offset in benefits. Benefits include changes in income annuity reserves driven by premiums.

(2) See "Realized Gain (Loss) and Benefit Ratio Unlocking" below.

(3) Consists primarily of revenues attributable to broker-dealer services that are subject to market volatility.

## Comparison of the Three Months Ended March 31, 2018 to 2017

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

- Federal income tax expense in 2018 as compared to a federal income tax benefit in 2017 (see “Additional Information” below for more information).
- Higher commissions and other expenses due to an increase in amortization expense as a result of higher actual gross profits.
- Lower net investment income, net of interest credited, driven by spread compression due to average new money rates trailing our current portfolio yields and less favorable investment income on alternative investments.

The decrease in income from operations was partially offset by higher fee income driven by higher average daily variable account values.

#### Additional Information

In 2018, the federal income tax expense was primarily impacted by the lower marginal corporate income tax rate and tax law changes to the separate account DRD as a result of the Tax Act and other items. The federal income tax benefit in 2017 was driven by one-time and run-rate adjustments primarily associated with our separate account DRD.

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect current period income from operations, they can significantly impact future income from operations.

The other component of net flows relates to the retention of the business. An important measure of retention is the reduction in account values caused by full surrenders, deaths and other contract benefits. These outflows as a percentage of average account values were 9% for the three months ended March 31, 2018 and 2017.

Our fixed annuity business includes products with discretionary crediting rates that are reset on an annual basis and are not subject to surrender charges. Our ability to retain annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and interest rate risk, see “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” and “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” in our 2017 Form 10-K.

#### Fee Income

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

|   | For the Three<br>Months<br>Ended<br>March 31,<br>2018 2017       |          |
|---|--|----------|
| Fee Income  |  |          |
| Mortality, expense and other assessments  | \$ 579   | \$ 525   |
| Surrender charges   | 8  | 9        |
| DFEL:   |  |          |
| Deferrals   | (10 )  | (10 )    |
| Amortization, net of interest   | 9  | 9        |
| Total fee income  | \$ 586   | \$ 533   |
|   |  |          |
|   | As of or For the Three<br>Months Ended<br>March 31,<br>2018 2017 |          |
| Variable Account Value Information  |  |          |
| Variable annuity deposits (1)   | \$ 1,285   | \$ 1,081 |
| Increases (decreases) in variable annuity<br>account values:  |  |          |
| Net flows (1)(2)  | (1,233 )   | (1,156 ) |
| Change in market value (1)(2)   | (174 )   | 5,108    |
| Contract holder assessments (1)   | (618 )   | (577 )   |
| Transfers to the variable portion<br>of variable annuity products<br>from the fixed portion of<br>variable annuity products |  |          |
|   | 746  | 357      |
| Variable annuity account values (1)   | 113,063  | 106,646  |
| Average daily variable annuity account<br>values (1)  | 115,672  | 105,519  |

|                           |       |       |
|---------------------------|-------|-------|
| Average daily S&P 500 (3) | 2,733 | 2,324 |
|---------------------------|-------|-------|

- (1) Excludes the fixed portion of variable.
- (2) The prior year has been restated to conform to the current year presentation, which has been modified to be consistent across our business segments.
- (3) We generally use the Standard & Poor's ("S&P") 500 index as a benchmark for the performance of our variable account values. The account values of our variable annuity contracts are invested by our policyholders in a variety of investment options including, but not limited to, domestic and international equity securities and fixed income, which do not necessarily align with S&P 500 index performance. See Note 7 for additional information.

We charge contract holders mortality and expense assessments on variable annuity accounts to cover insurance and administrative expenses. These assessments are a function of the rates priced into the product and the average daily variable account values. Average daily account values are driven by net flows and variable fund returns. Charges on GLB riders are assessed based on a contractual rate that is applied either to the account value or the guaranteed amount. In addition, for our fixed annuity contracts and for some variable contracts, we collect surrender charges when contract holders surrender their contracts during their surrender charge periods to protect us from premature withdrawals. Fee income includes charges on both our variable and fixed annuity products, but excludes the attributed fees on our GLB riders; see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)" in our 2017 Form 10-K for discussion of these attributed fees.

## Net Investment Income and Interest Credited

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

|  | For the Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |        |
|--|--|--------|
| Net Investment Income  |  |        |
| Fixed maturity securities, mortgage loans<br>on real estate and other, net of<br>investment expenses | \$ 205   | \$ 211 |
| Commercial mortgage loan prepayment and<br>bond make-whole premiums (1)                              | 5  | 5      |
| Surplus investments (2)  | 39   | 40     |
| Total net investment income  | \$ 249   | \$ 256 |
| Interest Credited  |  |        |
| Amount provided to contract holders  | \$ 150   | \$ 142 |
| DSI deferrals  | (11)   | (2)    |
| Interest credited before DSI amortization  | 139  | 140    |
| DSI amortization   | 9  | 7      |
| Total interest credited  | \$ 148   | \$ 147 |

(1) See “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums” below for additional information.

(2) Represents net investment income on the required statutory surplus for this segment and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities. See “Consolidated Investments – Alternative Investments” below for more information on alternative investments.

|  | For the Three<br>Months Ended<br>March 31,<br>2018 2017 |       |
|--|---|-------|
| Interest Rate Spread   |   |       |
| Fixed maturity securities, mortgage loans<br>on real estate and other, net of<br>investment expenses | 3.87%   | 4.06% |

|   |       |       |
|---|-------|-------|
| Commercial mortgage loan prepayment and<br>bond make-whole premiums | 0.08% | 0.11% |
| Net investment income yield on reserves                             | 3.95% | 4.17% |
| Interest rate credited to contract holders                          | 2.32% | 2.43% |
| Interest rate spread  | 1.63% | 1.74% |

|   | As of or For the<br>Three<br>Months Ended<br>March 31, |        |
|---|--|--------|
|   | 2018   | 2017   |
| <b>Fixed Account Value Information</b>  |  |        |
| Fixed annuity deposits (1)  | \$ 1,240   | \$ 935 |
| Increases (decreases) in fixed annuity<br>account values:   |  |        |
| Net flows (1)(2)  | 627  | 399    |
| Contract holder assessments (1)   | (8 )   | (7 )   |
| Transfers from the fixed portion<br>of variable annuity products to<br>the variable portion of variable<br>annuity products | (746 )   | (357 ) |
| Reinvested interest credited (1)  | 98   | 243    |
| Fixed annuity account values (1)  | 22,568   | 22,284 |
| Average fixed account values (1)  | 22,617   | 22,125 |
| Average invested assets on reserves   | 18,470   | 18,156 |

(1) Includes the fixed portion of variable.

(2) The prior year has been restated to conform to the current year presentation, which has been modified to be consistent across our business segments.

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

## Benefits

Benefits for this segment include changes in income annuity reserves driven by premiums, changes in benefit reserves and costs associated with the hedging of our benefit ratio unlocking on benefit reserves associated with our variable annuity guaranteed death benefit and GLB riders. For a corresponding offset of changes in income annuity reserves, see footnote 1 of "Income (Loss) from Operations" above.





## Commissions and Other Expenses

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

|  | For the Three<br>Months Ended<br>March 31, |        |
|--|--|--------|
|  | 2018                                       | 2017   |
| Commissions and Other Expenses   |  |        |
| Commissions:   |  |        |
| Deferrable   | \$ 105                                     | \$ 83  |
| Non-deferrable   | 139  | 141    |
| General and administrative expenses  | 103  | 100    |
| Inter-segment reimbursement associated<br>with reserve financing and<br>LOC expenses (1) | 1  | 1      |
| Taxes, licenses and fees   | 11   | 11     |
| Total expenses incurred, excluding<br>broker-dealer                                      | 359  | 336    |
| DAC deferrals  | (120 )                                     | (97 )  |
| Total pre-broker-dealer expenses<br>incurred, excluding amortization,<br>net of interest | 239  | 239    |
| DAC and VOBA amortization,<br>net of interest  | 111  | 100    |
| Broker-dealer expenses incurred  | 117  | 102    |
| Total commissions and other<br>expenses  | \$ 467                                     | \$ 441 |
| DAC Deferrals  |  |        |
| As a percentage of sales/deposits  | 4.8%                                       | 4.8%   |

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

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. Certain types of commissions, such as trail commissions that are based on account values, are expensed as incurred rather than deferred and amortized. Broker-dealer expenses that vary with and are related to sales are expensed as incurred and not deferred and amortized. Fluctuations in these expenses correspond with fluctuations in

other revenues.

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## RESULTS OF RETIREMENT PLAN SERVICES

## Income (Loss) from Operations

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

|  | For the Three<br>Months Ended<br>March 31, |       |
|--|--|-------|
|  | 2018                                       | 2017  |
| Operating Revenues                         |  |       |
| Fee income                                 | \$ 64                                      | \$ 59 |
| Net investment income                      | 222  | 218   |
| Other revenues (1)                         | 6  | 5     |
| Total operating revenues                   | 292  | 282   |
| Operating Expenses                         |  |       |
| Interest credited                          | 137  | 132   |
| Commissions and other expenses             | 107  | 102   |
| Total operating expenses                   | 244  | 234   |
| Income (loss) from operations before taxes | 48   | 48    |
| Federal income tax expense (benefit)       | 5  | 11    |
| Income (loss) from operations              | \$ 43                                      | \$ 37 |

(1) Consists primarily of mutual fund account program revenues from mid to large employers.

## Comparison of the Three Months Ended March 31, 2018 to 2017

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

- Lower federal income tax expense due to the change in the marginal corporate income tax rate as a result of the Tax Act.
- Higher fee income driven by higher average daily variable account values.

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

- Higher commissions and other expenses due to higher average account values driving higher trail commissions.
- Lower net investment income, net of interest credited, driven by spread compression due to average new money rates trailing our current portfolio yields.

#### Additional Information

Net flows in this business fluctuate based on the timing of larger plans being implemented on our platform and terminating over the course of the year.

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect current period income from operations, they can significantly impact future income from operations. The other component of net flows relates to the retention of the business. An important measure of retention is the reduction in account values caused primarily by plan sponsor terminations and participant withdrawals. These outflows as a percentage of average account values were 11% and 14% for the three months ended March 31, 2018 and 2017, respectively.

Our net flows are negatively affected by the continued net outflows from our oldest blocks of annuities business (as presented on our Net Flows By Market table below as “Multi-Fund® and other”), which are among our higher margin product lines in this segment, due to the fact that they are mature blocks with low distribution and servicing costs. The proportion of these products to our total account values was 25% and 27% as of March 31, 2018 and 2017, respectively. Due to this expected overall shift in business mix toward products with lower returns, new deposit production continues to be necessary to maintain earnings at current levels.

Our fixed annuity business includes products with discretionary and index-based crediting rates that are reset on either a quarterly or semi-annual basis. Our ability to retain quarterly or semi-annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and interest rate risk, see “Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” and “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” in our 2017 Form 10-K.

#### Fee Income

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

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|                             | For the<br>Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |       |
|-----------------------------|---|-------|
| Fee Income                  |   |       |
| Annuity expense assessments | \$ 48   | \$ 44 |
| Mutual fund fees            | 16  | 15    |
| Total fee income            | \$ 64   | \$ 59 |

|                         | For the Three<br>Months Ended<br>March 31,<br>2018 2017 |          |
|-------------------------|---|----------|
| Net Flows By Market (1) |   |          |
| Small market            | \$ (79 )  | \$ (367) |
| Mid – large market      | 834   | 749      |
| Multi-Fund® and other   | (292)   | (241)    |
| Total net flows         | \$ 463  | \$ 141   |

(1) The prior year has been restated to conform to the current year presentation, which has been modified to be consistent across our business segments.

|                                    | As of or For the<br>Three<br>Months Ended<br>March 31,<br>2018 2017 |  |
|------------------------------------|---|--|
| Variable Account Value Information |   |  |

|   |        |        |
|---|--------|--------|
| Variable annuity deposits (1)                             | \$ 463 | \$ 458 |
| Increases (decreases) in variable annuity account values: |        |        |
| Net flows (1)(2)  | (178 ) | (554 ) |
| Change in market value (1)(2)                             | (48 )  | 755    |
| Contract holder assessments (1)                           | (41 )  | (37 )  |
| Variable annuity account values (1)                       | 15,808 | 14,624 |
| Average daily variable annuity account values (1)         |        |        |
|   | 16,282 | 14,478 |
| Average daily S&P 500                                     | 2,733  | 2,324  |

(1) Excludes the fixed portion of variable.

(2) The prior year has been restated to conform to the current year presentation, which has been modified to be consistent across our business segments.

|                                       | As of or For the<br>Three<br>Months Ended<br>March 31,<br>2018      2017 |          |
|---------------------------------------|--|----------|
| Mutual Fund Account Value Information |  |          |
| Mutual fund deposits                  | \$ 1,438   | \$ 1,084 |
| Mutual fund net flows                 | 702  | 520      |
| Mutual fund account values (1)        | 33,046   | 27,917   |

(1) Mutual funds are not included in the separate accounts reported on our Consolidated Balance Sheets as we do not have any ownership interest in them.

We charge expense assessments to cover insurance and administrative expenses. Expense assessments are generally equal to a percentage of the daily variable account values. Average daily account values are driven by net flows and the equity markets. Our expense assessments include fees we earn for the services that we provide to our mutual fund programs. In addition, for both our fixed and variable annuity contracts, we collect surrender charges when contract holders surrender their contracts during the surrender charge periods to protect us from premature withdrawals.

#### Net Investment Income and Interest Credited

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

|  | For the Three<br>Months Ended<br>March 31,<br>2018      2017 |        |
|--|--|--------|
| Net Investment Income  |  |        |
| Fixed maturity securities, mortgage loans<br>on real estate and other, net of<br>investment expenses | \$ 201   | \$ 194 |
| Commercial mortgage loan prepayment and<br>bond make-whole premiums (1)                              | 4  | 4      |



|                             |        |        |
|-----------------------------|--------|--------|
| Surplus investments (2)     | 17     | 20     |
| Total net investment income | \$ 222 | \$ 218 |
| Interest Credited           | \$ 137 | \$ 132 |

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

|  | For the Three<br>Months Ended<br>March 31,<br>2018 2017 |       |
|--|---|-------|
| Interest Rate Spread   |   |       |
| Fixed maturity securities, mortgage loans<br>on real estate and other, net of<br>investment expenses | 4.28%   | 4.37% |
| Commercial mortgage loan prepayment and<br>bond make-whole premiums                                  | 0.09%   | 0.08% |
| Net investment income yield on reserves  | 4.37%   | 4.45% |
| Interest rate credited to contract holders   | 2.90%   | 2.93% |
| Interest rate spread   | 1.47%   | 1.52% |

|   | As of or For the<br>Three<br>Months Ended<br>March 31, |        |
|---|--|--------|
|   | 2018   | 2017   |
| Fixed Account Value Information                           |  |        |
| Fixed annuity deposits (1)                                | \$ 459   | \$ 710 |
| Increases (decreases) in fixed annuity<br>account values: |  |        |
| Net flows (1)(2)  | (61 )  | 175    |
| Reinvested interest credited (1)                          | 135  | 136    |
| Contract holder assessments (1)                           | (3 )   | (2 )   |
| Fixed annuity account values (1)                          | 18,856   | 18,192 |
| Average fixed account values (1)                          | 18,789   | 17,996 |
| Average invested assets on reserves                       | 18,696   | 17,853 |

(1) Includes the fixed portion of variable.

(2) The prior year has been restated to conform to the current year presentation, which has been modified to be consistent across our business segments.

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

#### Commissions and Other Expenses

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

For the Three

|   | Months Ended |        |
|---|--------------|--------|
|   | March 31,    |        |
|   | 2018         | 2017   |
| Commissions and Other Expenses                |              |        |
| Commissions:                                  |              |        |
| Deferrable                                    | \$ 1         | \$ 4   |
| Non-deferrable                                | 18           | 15     |
| General and administrative expenses           | 78           | 79     |
| Taxes, licenses and fees                      | 7            | 6      |
| Total expenses incurred                       | 104          | 104    |
| DAC deferrals                                 | (4 )         | (8 )   |
| Total expenses recognized before amortization | 100          | 96     |
| DAC and VOBA amortization, net of interest    | 7            | 6      |
| Total commissions and other expenses          | \$ 107       | \$ 102 |
| DAC Deferrals                                 |              |        |
| As a percentage of annuity sales/deposits     | 0.4%         | 0.7%   |

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. Certain types of commissions, such as trail commissions that are based on account values, are expensed as incurred rather than deferred and amortized. Distribution expenses associated with the sale of mutual fund products are expensed as incurred. When comparing DAC deferrals as a percentage of sales for the three months ended March 31, 2018, to the corresponding period in 2017, the decrease was primarily a result of change in sales mix to products with trail commissions.

## RESULTS OF LIFE INSURANCE

### Income (Loss) from Operations

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

For the Three  
Months Ended  
March 31,

|  | 2018   | 2017   |
|--|--------|--------|
| Operating Revenues                         |        |        |
| Insurance premiums (1)                     | \$ 196 | \$ 185 |
| Fee income                                 | 805    | 760    |
| Net investment income                      | 658    | 658    |
| Operating realized gain (loss) (2)         | (1 )   | (4 )   |
| Other revenues                             | 2      | 7      |
| Total operating revenues                   | 1,660  | 1,606  |
| Operating Expenses                         |        |        |
| Interest credited                          | 354    | 349    |
| Benefits                                   | 849    | 797    |
| Commissions and other expenses             | 285    | 273    |
| Total operating expenses                   | 1,488  | 1,419  |
| Income (loss) from operations before taxes | 172    | 187    |
| Federal income tax expense (benefit)       | 28     | 57     |
| Income (loss) from operations              | \$ 144 | \$ 130 |

(1) Includes term insurance premiums, which have a corresponding partial offset in benefits for changes in reserves.

(2) See “Realized Gain (Loss) and Benefit Ratio Unlocking” below.

#### Comparison of the Three Months Ended March 31, 2018 to 2017

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

- Higher fee income due to growth in business in force.
- Lower federal income tax expense due to the change in the marginal corporate income tax rate as a result of the Tax Act.

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

- Higher benefits due to growth in business in force.
- Lower net investment income, net of interest credited, driven by spread compression due to average new money rates trailing our current portfolio yields and less favorable investment income on alternative investments.

#### Strategies to Address Statutory Reserve Strain

Our insurance subsidiaries have statutory surplus and risk-based capital (“RBC”) levels above current regulatory required levels. Term products and UL products containing secondary guarantees require reserves calculated pursuant to the Valuation of Life Insurance Policies Model Regulation (“XXX”) and Actuarial Guideline 38 (“AG38”). For

information on strategies we use to reduce the statutory reserve strain caused by XXX and AG38, see “Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow – Insurance Subsidiaries’ Statutory Capital and Surplus” below.

#### Additional Information

During the first quarter of 2018, we experienced modestly favorable mortality relative to our expectations for claims seasonality.

For information on interest rate spreads and interest rate risk, see “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” and “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” in our 2017 Form 10-K.

#### Insurance Premiums

Insurance premiums relate to traditional products and are a function of the rates priced into the product and the level of business in force. Business in force, in turn, is driven by sales, persistency and mortality experience.

#### Fee Income

Details underlying fee income, sales, net flows, account values and in-force face amount (in millions) were as follows:

|                               | For the Three<br>Months Ended<br>March 31, |        |
|-------------------------------|--|--------|
|                               | 2018                                       | 2017   |
| Fee Income                    |  |        |
| Cost of insurance assessments | \$ 516                                     | \$ 491 |
| Expense assessments           | 375  | 341    |
| Surrender charges             | 9  | 14     |
| DFEL:                         |  |        |
| Deferrals                     | (194)                                      | (159)  |
| Amortization, net of interest | 99   | 73     |

|                  |        |        |
|------------------|--------|--------|
| Total fee income | \$ 805 | \$ 760 |
|------------------|--------|--------|

|                             | For the Three<br>Months Ended<br>March 31, |          |
|-----------------------------|--|----------|
|                             | 2018                                       | 2017     |
| Sales by Product            |  |          |
| UL                          | \$ 10                                      | \$ 17    |
| MoneyGuard®                 | 56   | 60       |
| IUL                         | 14   | 18       |
| VUL                         | 58   | 36       |
| Term                        | 25   | 27       |
| Total individual life sales | 163  | 158      |
| Executive Benefits          | 10   | 23       |
| Total sales                 | \$ 173                                     | \$ 181   |
| Net Flows                   |  |          |
| Deposits                    | \$ 1,534                                   | \$ 1,414 |
| Withdrawals and deaths      | (458 )                                     | (490 )   |
| Net flows                   | \$ 1,076                                   | \$ 924   |
| Contract Holder Assessments | \$ 1,198                                   | \$ 1,121 |

|                            | As of March 31, |            |
|----------------------------|-----------------|------------|
|                            | 2018            | 2017       |
| Account Values             |                 |            |
| General account            | \$ 36,155       | \$ 35,557  |
| Separate account           | 13,126          | 10,948     |
| Total account values       | \$ 49,281       | \$ 46,505  |
| In-Force Face Amount       |                 |            |
| UL and other               | \$ 340,862      | \$ 337,338 |
| Term insurance             | 384,154         | 361,247    |
| Total in-force face amount | \$ 725,016      | \$ 698,585 |

Fee income relates only to interest-sensitive products and includes cost of insurance assessments, expense assessments and surrender charges. Both cost of insurance and expense assessments can have deferrals and amortization related to DFEL. Cost of insurance and expense assessments are deducted from our contract holders' account values. These amounts are a function of the rates priced into the product and premiums received, face amount in force and account

values. Business in force, in turn, is driven by sales, persistency and mortality experience.

Sales are not recorded as a component of revenues (other than for traditional products) and do not have a significant effect on current quarter income from operations but are indicators of future profitability. Generally, we have higher sales during the second half of the year with the fourth quarter being our strongest.

Sales in the table above and as discussed above were reported as follows:

- MoneyGuard®, our linked-benefit product – 15% of total expected premium deposits;
- UL, IUL and VUL – first-year commissionable premiums plus 5% of excess premiums received;
- Executive Benefits – single premium bank-owned UL and VUL, 15% of single premium deposits, and corporate-owned UL and VUL, first-year commissionable premiums plus 5% of excess premium received; and
- Term – 100% of annualized first-year premiums.

We monitor the business environment, including but not limited to the regulatory and interest rate environments, and make changes to our product offerings and in-force products as needed, and as permitted under the terms of the policies, to sustain the future profitability of our segment.

#### Net Investment Income and Interest Credited

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

|  | For the Three<br>Months Ended<br>March 31, |        |
|--|--|--------|
|  | 2018                                       | 2017   |
| Net Investment Income  |  |        |
| Fixed maturity securities, mortgage loans<br>on real estate and other, net of<br>investment expenses | \$ 587                                     | \$ 582 |
| Commercial mortgage loan prepayment<br>and bond make-whole premiums (1)                              | 7  | 6      |
| Alternative investments (2)  | 23   | 29     |
| Surplus investments (3)  | 41   | 41     |
| Total net investment income  | \$ 658                                     | \$ 658 |
| Interest Credited  | \$ 354                                     | \$ 349 |

(1) See “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums” below for additional information.

(2) See “Consolidated Investments – Alternative Investments” below for additional information.

(3) Represents net investment income on the required statutory surplus for this segment and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory



surplus versus the portfolios supporting product liabilities.

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|  | For the Three<br>Months Ended<br>March 31,<br>2018    2017 |       |
|--|--|-------|
| Interest Rate Yields and Spread  |  |       |
| Attributable to interest-sensitive products:   |  |       |
| Fixed maturity securities, mortgage loans<br>on real estate and other, net of<br>investment expenses | 4.98%  | 5.11% |
| Commercial mortgage loan prepayment<br>and bond make-whole premiums                                  | 0.06%  | 0.06% |
| Alternative investments  | 0.21%  | 0.28% |
| Net investment income yield on reserves  | 5.25%  | 5.45% |
| Interest rate credited to contract holders   | 3.83%  | 3.85% |
| Interest rate spread   | 1.42%  | 1.60% |

|  | For the Three<br>Months Ended<br>March 31,<br>2018    2017 |           |
|--|--|-----------|
| Averages                                     |  |           |
| Attributable to interest-sensitive products: |  |           |
| Invested assets on reserves                  | \$ 43,210  | \$ 41,290 |
| General account values                       | 36,547   | 36,007    |
| Attributable to traditional products:        |  |           |
| Invested assets on reserves                  | 4,088  | 4,334     |

A portion of the investment income earned for this segment is credited to contract holder accounts. Statutory reserves will typically grow at a faster rate than account values because of the AG38 reserve requirements. Invested assets are based upon the statutory reserve liabilities and are affected by various reserve adjustments, including financing transactions providing relief from AG38 reserve requirements. These financing transactions lead to a transfer of invested assets from this segment to Other Operations. We expect to earn a spread between what we earn on the underlying general account investments and what we credit to our contract holders' accounts. We use our investment income to offset the earnings effect of the associated growth of our policy reserves for traditional products. Commercial mortgage loan prepayments and bond make-whole premiums and investment income on alternative investments can vary significantly from period to period due to a number of factors, and, therefore, may contribute to investment income results that are not indicative of the underlying trends.

Benefits

Details underlying benefits (dollars in millions) were as follows:

|  | For the Three<br>Months Ended<br>March 31, |          |
|--|--|----------|
|  | 2018                                       | 2017     |
| Benefits   |  |          |
| Death claims direct and assumed                                  | \$ 1,115                                   | \$ 1,167 |
| Death claims ceded   | (406 )                                     | (476 )   |
| Reserves released on death                                       | (167 )                                     | (184 )   |
| Net death benefits   | 542  | 507      |
| Change in secondary guarantee life<br>insurance product reserves | 165  | 166      |
| Change in MoneyGuard® reserves                                   | 89   | 69       |
| Other benefits (1)   | 53   | 55       |
| Total benefits   | \$ 849                                     | \$ 797   |
| Death claims per \$1,000 of in-force                             | 3.00                                       | 2.91     |

(1) Includes primarily changes in reserves and dividends on traditional and other products.

Benefits for this segment include claims incurred during the period in excess of the associated reserves for its interest-sensitive and traditional products. In addition, benefits include the change in secondary guarantee and linked-benefit life insurance product reserves. These reserves are affected by changes in expected future trends of assessments and benefits causing unlocking adjustments to these liabilities similar to DAC, VOBA and DFEL. Generally, we have higher mortality in the first quarter of the year due to the seasonality of claims. See “Future Contract Benefits and Other Contract Holder Funds” in Note 1 of our 2017 Form 10-K for additional information.

#### Commissions and Other Expenses

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

|                                | For the Three<br>Months Ended<br>March 31, |      |
|--------------------------------|--|------|
|                                | 2018                                       | 2017 |
| Commissions and Other Expenses |  |      |

|   |        |        |
|---|--------|--------|
| Commissions                                   | \$ 180 | \$ 174 |
| General and administrative expenses           | 133    | 137    |
| Expenses associated with reserve financing    | 22     | 24     |
| Taxes, licenses and fees                      | 45     | 39     |
| Total expenses incurred                       | 380    | 374    |
| DAC and VOBA deferrals                        | (204 ) | (199 ) |
| Total expenses recognized before amortization | 176    | 175    |
| DAC and VOBA amortization, net of interest    | 108    | 97     |
| Other intangible amortization                 | 1      | 1      |
| Total commissions and other expenses          | \$ 285 | \$ 273 |
| <br>  |        |        |
| DAC and VOBA Deferrals                        |        |        |
| As a percentage of sales                      | 117.9% | 109.9% |

Commissions and costs that result directly from and are essential to successful acquisition of new or renewal business are deferred to the extent recoverable and for our interest-sensitive products are generally amortized over the life of the contracts in relation to EGPs. For our traditional products, DAC and VOBA are amortized on either a straight-line basis or as a level percent of premium of the related

contracts, depending on the block of business. When comparing DAC and VOBA deferrals as a percentage of sales for the three months ended March 31, 2018, to the corresponding period in 2017, the increase was primarily a result of changes in sales mix to products with higher commission rates.

## RESULTS OF GROUP PROTECTION

## Income (Loss) from Operations

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

|  | For the Three<br>Months Ended<br>March 31, |        |
|--|--|--------|
|  | 2018                                       | 2017   |
| Operating Revenues                         |  |        |
| Insurance premiums                         | \$ 508                                     | \$ 495 |
| Net investment income                      | 40   | 43     |
| Other revenues                             | 5  | 3      |
| Total operating revenues                   | 553  | 541    |
| Operating Expenses                         |  |        |
| Interest credited                          | 1  | -      |
| Benefits                                   | 326  | 351    |
| Commissions and other expenses             | 189  | 179    |
| Total operating expenses                   | 516  | 530    |
| Income (loss) from operations before taxes | 37   | 11     |
| Federal income tax expense (benefit)       | 8  | 4      |
| Income (loss) from operations              | \$ 29                                      | \$ 7   |

|  | For the<br>Three<br>Months<br>Ended<br>March 31, |      |
|--|--|------|
|  | 2018   | 2017 |
| Income (Loss) from Operations by<br>Product Line |  |      |

|                               |       |         |
|-------------------------------|-------|---------|
| Life                          | \$ 10 | \$ (2 ) |
| Disability                    | 22    | 9       |
| Dental                        | (3 )  | -       |
| Income (loss) from operations | \$ 29 | \$ 7    |

Comparison of the Three Months Ended March 31, 2018 to 2017

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

- Lower benefits driven by favorable claims severity and life waiver experience in our life business, and lower incidence in our long-term disability business.
  - Higher insurance premiums due to growth in business and more favorable persistency experience.
- Lower federal income tax expense due to the change in the marginal corporate income tax rate as a result of the Tax Act.

The increase in income from operations was partially offset by higher commissions and other expenses due to higher strategic investments to enhance our customer experience and improve efficiency.

Additional Information

For information about the effect of the loss ratio sensitivity on our income (loss) from operations, see “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Group Protection – Additional Information” in our 2017 Form 10-K.

For more information about our recent acquisition, see Note 24 in our 2017 Form 10-K and Note 3 herein.

For information on the effects of current interest rates on our long-term disability claim reserves, see “Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Effect of Interest Rate Sensitivity” in our 2017 Form 10-K.

## Insurance Premiums

Details underlying insurance premiums (in millions) were as follows:

|                                    | For the Three<br>Months Ended<br>March 31, |        |
|------------------------------------|--|--------|
|                                    | 2018                                       | 2017   |
| Insurance Premiums by Product Line |  |        |
| Life                               | \$ 202                                     | \$ 206 |
| Disability                         | 233  | 226    |
| Dental                             | 73   | 63     |
| Total insurance premiums           | \$ 508                                     | \$ 495 |
| Sales by Product Line              |  |        |
| Life                               | \$ 23                                      | \$ 23  |
| Disability                         | 21   | 23     |
| Dental                             | 11   | 11     |
| Total sales                        | \$ 55                                      | \$ 57  |

Our cost of insurance and policy administration charges are embedded in the premiums charged to our customers. The premiums are a function of the rates priced into the product and our business in force. Business in force, in turn, is driven by sales and persistency experience.

Sales relate to new contract holders and new programs sold to existing contract holders. We believe that the trend in sales is an important indicator of development of business in force over time. Sales in the table above are the combined annualized premiums for our products.

## Net Investment Income

We use our investment income to offset the earnings effect of the associated build of our reserves, which are a function of our insurance premiums and the yields on our invested assets.

## Benefits and Interest Credited

Details underlying benefits and interest credited (in millions) and loss ratios by product line were as follows:

| Benefits and Interest Credited by<br>Product Line | For the Three<br>Months Ended<br>March 31, |        |
|---|--|--------|
|   | 2018                                       | 2017   |
| Life  | \$ 128                                     | \$ 150 |
| Disability  | 145  | 155    |
| Dental  | 54   | 46     |
| Total benefits and interest credited              | \$ 327                                     | \$ 351 |
| Loss Ratios by Product Line                       |  |        |
| Life  | 63.2%                                      | 72.5%  |
| Disability  | 61.9%                                      | 68.9%  |
| Dental  | 74.7%                                      | 73.3%  |
| Total   | 64.3%                                      | 71.0%  |

While we experienced favorable mortality during the first quarter of 2018, mortality is generally higher in the first quarter of the year due to the seasonality of claims.



## Commissions and Other Expenses

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

|  | For the Three<br>Months Ended<br>March 31, |        |
|--|--|--------|
|  | 2018                                       | 2017   |
| Commissions and Other Expenses                   |  |        |
| Commissions                                      | \$ 66                                      | \$ 63  |
| General and administrative expenses              | 89   | 82     |
| Taxes, licenses and fees                         | 16   | 14     |
| Total expenses incurred                          | 171  | 159    |
| DAC deferrals                                    | (13 )                                      | (13 )  |
| Total expenses recognized before<br>amortization | 158  | 146    |
| DAC and VOBA amortization, net of<br>interest    | 31   | 33     |
| Total commissions and<br>other expenses          | \$ 189                                     | \$ 179 |
| DAC Deferrals                                    |  |        |
| As a percentage of insurance premiums            | 2.6%                                       | 2.6%   |

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized as a level percent of insurance premiums of the related contracts, depending on the block of business. Certain broker commissions that vary with and are related to paid premiums are expensed as incurred rather than deferred and amortized. Generally, we have higher amortization in the first quarter of the year due to a significant number of policies renewing in the quarter.

## RESULTS OF OTHER OPERATIONS

## Income (Loss) from Operations

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

|   | For the Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |          |
|---|--|----------|
| Operating Revenues  |  |          |
| Insurance premiums (1)  | \$ 3   | \$ 3     |
| Net investment income   | 64   | 63       |
| Amortization of deferred gain on<br>business sold through reinsurance | -  | 18       |
| Other revenues  | -  | 4        |
| Total operating revenues  | 67   | 88       |
| Operating Expenses  |  |          |
| Interest credited   | 15   | 18       |
| Benefits  | 19   | 28       |
| Other expenses  | 8  | 10       |
| Interest and debt expense   | 68   | 64       |
| Strategic digitization expense  | 15   | 9        |
| Total operating expenses  | 125  | 129      |
| Income (loss) from operations before taxes                            | (58 )  | (41 )    |
| Federal income tax expense (benefit)                                  | (16 )  | (28 )    |
| Income (loss) from operations   | \$ (42 )   | \$ (13 ) |

(1) Includes our disability income business, which has a corresponding offset in benefits for changes in reserves.

Comparison of the Three Months Ended March 31, 2018 to 2017

Loss from operations for Other Operations increased due primarily to the following:

- No amortization of deferred gain on business sold through reinsurance in 2018 as the gain was fully amortized during the second quarter of 2017.
- Less favorable federal income tax benefits due to the change in the marginal corporate income tax rate as a result of the Tax Act.
- Higher strategic digitization expense as part of our strategic digitization initiative.

#### Additional Information

For information on our strategic digitization initiative, see “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary – Significant Operational Matters – Strategic Digitization Initiative” in our 2017 Form 10-K.

#### Net Investment Income and Interest Credited

We utilize an internal formula to determine the amount of capital that is allocated to our business segments. Investment income on capital in excess of the calculated amounts is reported in Other Operations. If our business segments require increases in statutory reserves, surplus or investments, the amount of excess capital that is retained by Other Operations would decrease and net investment income would be negatively affected.

Write-downs for other-than-temporary impairment (“OTTI”) decrease the recorded value of our invested assets owned by the business segments. These write-downs are not included in the income from operations of our business segments. When impairment occurs, assets are transferred to the business segments’ portfolios and will reduce the future net investment income for Other Operations. Statutory reserve adjustments for our business segments can also cause allocations of invested assets between the business segments and Other Operations.

The majority of our interest credited relates to our reinsurance operations sold to Swiss Re Life & Health America, Inc. (“Swiss Re”) in 2001. A substantial amount of the business was sold through indemnity reinsurance transactions, which is still recorded in our consolidated financial statements. The interest credited corresponds to investment income earnings on the assets we continue to hold for this business. There is no effect to income or loss in Other Operations or on a consolidated basis for these amounts because interest earned on the blocks that continue to be reinsured is passed through to Swiss Re in the form of interest credited.

#### Benefits

Benefits are recognized when incurred for institutional pension products and disability income business.

## Other Expenses

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

|  | For the<br>Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |       |
|--|---|-------|
| General and administrative expenses:   |   |       |
| Legal  | \$ 1  | \$ -  |
| Branding   | 8   | 5     |
| Other (1)  | 4   | 9     |
| Total general and administrative expenses  | 13  | 14    |
| Taxes, licenses and fees   | (2)   | (1)   |
| Inter-segment reimbursement associated<br>with reserve financing and<br>LOC expenses (2) | (3)   | (3)   |
| Total other expenses   | \$ 8  | \$ 10 |

- (1) Includes expenses that are corporate in nature including charitable contributions, the portion of our deferred compensation plan expense attributable to participants' selection of LNC stock as the measure for their investment return and other expenses not allocated to our business segments.
- (2) Consists of reimbursements to Other Operations from the Life Insurance segment for the use of proceeds from certain issuances of senior notes that were used as long-term structured solutions, net of expenses incurred by Other Operations for its use of LOCs.

## Interest and Debt Expense

Our current level of interest expense may not be indicative of the future due to, among other things, the timing of the use of cash, the availability of funds from our inter-company cash management program and the future cost of capital. For additional information on our financing activities, see "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow – Financing Activities" below.



## REALIZED GAIN (LOSS) AND BENEFIT RATIO UNLOCKING

Details underlying realized gain (loss), after-DAC(1) and benefit ratio unlocking (in millions) were as follows:

|   | For the Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |         |
|---|--|---------|
| Components of Realized Gain (Loss), Pre-Tax                             |  |         |
| Total operating realized gain (loss)                                    | \$ 47  | \$ 41   |
| Total excluded realized gain (loss)                                     | (35)   | (80)    |
| Total realized gain (loss), pre-tax                                     | \$ 12  | \$ (39) |
| Reconciliation of Excluded Realized Gain (Loss)                         |  |         |
| Net of Benefit Ratio Unlocking, After-Tax                               |  |         |
| Total excluded realized gain (loss)                                     | \$ (28)  | \$ (52) |
| Benefit ratio unlocking   | (10)   | 45      |
| Excluded realized gain (loss) net of benefit ratio unlocking, after-tax | \$ (38)  | \$ (7 ) |
| Components of Excluded Realized Gain (Loss)                             |  |         |
| Net of Benefit Ratio Unlocking, After-Tax                               |  |         |
| Realized gain (loss) related to certain investments                     | \$ (17)  | \$ (9 ) |
| Gain (loss) on the mark-to-market on certain instruments                | 2  | 8       |
| Variable annuity net derivatives results:                               |  |         |
| Hedge program performance, including unlocking for GLB reserves hedged  | (25)   | 9       |
| GLB NPR component   | 5  | (9 )    |
| Total variable annuity net derivatives results                          | (20)   | -       |
| Indexed annuity forward-starting option                                 | (3 )   | (6 )    |
| Excluded realized gain (loss) net of benefit ratio unlocking, after-tax | \$ (38)  | \$ (7 ) |

(1) DAC refers to the associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds and funds withheld reinsurance assets and liabilities.

Comparison of the Three Months Ended March 31, 2018 to 2017

We had higher realized losses due primarily to the following:

- Unfavorable variable annuity net derivatives results attributable to unfavorable hedge program performance due to more volatile capital markets, partially offset by a favorable GLB non-performance risk (“NPR”) component due to widening of our credit spread.
- An increase in realized losses related to certain investments originating from asset sales to reposition the asset portfolio.

The above components of excluded realized gain (loss) are described net of benefit ratio unlocking, after-tax.

#### Operating Realized Gain (Loss)

See “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)” in our 2017 Form 10-K for a discussion of our operating realized gain (loss).

#### Realized Gain (Loss) Related to Certain Investments

See “Consolidated Investments – Realized Gain (Loss) Related to Certain Investments” below.

#### Gain (Loss) on the Mark-to-Market on Certain Instruments

See “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Gain (Loss) on the Mark-to-Market on Certain Instruments” in our 2017 Form 10-K for a discussion of the mark-to-market on certain instruments and Note 4 for information about consolidated variable interest entities (“VIEs”).

#### Variable Annuity Net Derivatives Results

See “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results” in our 2017 Form 10-K for a discussion of our variable annuity net derivatives results and how our NPR adjustment is determined.

Details underlying our variable annuity hedging program (dollars in millions) were as follows:

|   | As of<br>March 31,<br>2018 | As of<br>December<br>31,<br>2017 | As of<br>September<br>30,<br>2017 | As of<br>June 30,<br>2017 | As of<br>March 31,<br>2017 |
|---|----------------------------|----------------------------------|-----------------------------------|---------------------------|----------------------------|
| Variable annuity hedge program assets (liabilities) | \$ 1,194                   | \$ 1,307                         | \$ 1,526                          | \$ 1,766                  | \$ 1,717                   |
| Variable annuity reserves – asset (liability):      |                            |                                  |                                   |                           |                            |
| Embedded derivative reserves, pre-NPR (1)           | \$ 1,179                   | \$ 1,029                         | \$ 743                            | \$ 480                    | \$ 424                     |
| NPR   | (135 )                     | (142 )                           | (127 )                            | (97 )                     | (82 )                      |
| Embedded derivative reserves                        | 1,044                      | 887                              | 616                               | 383                       | 342                        |
| Insurance benefit reserves                          | (734 )                     | (665 )                           | (656 )                            | (649 )                    | (648 )                     |
| Total variable annuity reserves – asset (liability) | \$ 310                     | \$ 222                           | \$ (40 )                          | \$ (266 )                 | \$ (306 )                  |
| 10-year credit default swap ("CDS") spread          | 1.19%                      | 1.05%                            | 1.08%                             | 1.30%                     | 1.51%                      |
| NPR factor related to 10-year CDS spread            | 0.18%                      | 0.14%                            | 0.15%                             | 0.18%                     | 0.21%                      |

(1) Embedded derivative reserves in an asset (liability) position indicate that we estimate the present value of future benefits to be less (greater) than the present value of future net valuation premiums.

For information about the effect of changes in the NPR factor on our net income (loss), see “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results” in our 2017 Form 10-K.

See “Critical Accounting Policies and Estimates – Derivatives – GLB” above for additional information about our guaranteed benefits.

Indexed Annuity Forward-Starting Option



See “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Indexed Annuity Forward-Starting Option” in our 2017 Form 10-K for a discussion of our indexed annuity forward-starting option.

## CONSOLIDATED INVESTMENTS

Details underlying our consolidated investment balances (in millions) were as follows:

|                               | As of<br>March 31,<br>2018 | As of<br>December 31,<br>2017 | Percentage of<br>Total Investments |                                  |
|-------------------------------|----------------------------|-------------------------------|------------------------------------|----------------------------------|
|                               |                            |                               | As of<br>March 31,<br>2018         | As of<br>December<br>31,<br>2017 |
| Investments                   |                            |                               |                                    |                                  |
| AFS securities:               |                            |                               |                                    |                                  |
| Fixed maturity                | \$ 92,059                  | \$ 94,840                     | 83.7%                              | 83.9%                            |
| Equity                        | -                          | 246                           | 0.0%                               | 0.2%                             |
| Total AFS securities          | 92,059                     | 95,086                        | 83.7%                              | 84.1%                            |
| Trading securities            | 1,553                      | 1,620                         | 1.4%                               | 1.4%                             |
| Equity securities             | 112                        | -                             | 0.1%                               | 0.0%                             |
| Mortgage loans on real estate | 11,047                     | 10,762                        | 10.0%                              | 9.5%                             |
| Real estate                   | 11                         | 11                            | 0.0%                               | 0.0%                             |
| Policy loans                  | 2,389                      | 2,399                         | 2.2%                               | 2.1%                             |
| Derivative investments        | 827                        | 915                           | 0.7%                               | 0.8%                             |
| Alternative investments       | 1,521                      | 1,459                         | 1.4%                               | 1.3%                             |
| Other investments             | 528                        | 837                           | 0.5%                               | 0.8%                             |
| Total investments             | \$ 110,047                 | \$ 113,089                    | 100.0%                             | 100.0%                           |

## Investment Objective

Invested assets are an integral part of our operations. We follow a balanced approach to investing for both current income and prudent risk management, with an emphasis on generating sufficient current income, net of income tax, to meet our obligations to customers, as well as other general liabilities. This balanced approach requires the evaluation of expected return and risk of each asset class utilized, while still meeting our income objectives. This approach is important to our asset-liability management because decisions can be made based upon both the economic and current investment income considerations affecting assets and liabilities. For a discussion of our risk management process, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2017 Form 10-K.

## Investment Portfolio Composition and Diversification

Fundamental to our investment policy is diversification across asset classes. Our investment portfolio, excluding cash and invested cash, is composed of fixed maturity securities, mortgage loans on real estate, real estate (either wholly-owned or in joint ventures) and other long-term investments. We purchase investments for our segmented portfolios that have yield, duration and other characteristics that take into account the liabilities of the products being supported.

We have the ability to maintain our investment holdings throughout credit cycles because of our capital position, the long-term nature of our liabilities and the matching of our portfolios of investment assets with the liabilities of our various products.

## Fixed Maturity and Equity Securities Portfolios

We adopted Accounting Standards Update 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, in 2018 that resulted in a new classification and measurement of our equity securities. See Note 2 for additional information. Fixed maturity securities consist of portfolios classified as AFS and trading. Details underlying our fixed maturity AFS securities by industry classification (in millions) are presented in the tables below. These tables agree in total with the presentation of AFS securities in Note 5; however, the categories below represent a more detailed breakout of the AFS portfolio. Therefore, the investment classifications listed below do not agree to the investment categories provided in Note 5.

|   | As of March 31, 2018 |                        |                     | Fair Value | %     |
|---|----------------------|------------------------|---------------------|------------|-------|
|   | Amortized Cost       | Gross Unrealized Gains | Losses and OTTI (2) |            |       |
| Fixed Maturity AFS Securities                           |                      |                        |                     |            |       |
| Industry corporate bonds:                               |                      |                        |                     |            |       |
| Financial services                                      | \$ 12,381            | \$ 682                 | \$ 146              | \$ 12,917  | 14.0% |
| Basic industry  | 4,901                | 268                    | 50                  | 5,119      | 5.6%  |
| Capital goods   | 6,390                | 369                    | 75                  | 6,684      | 7.3%  |
| Communications  | 4,244                | 298                    | 50                  | 4,492      | 4.9%  |
| Consumer cyclical                                       | 5,533                | 276                    | 78                  | 5,731      | 6.2%  |
| Consumer non-cyclical                                   | 13,564               | 809                    | 200                 | 14,173     | 15.4% |
| Energy  | 6,481                | 395                    | 105                 | 6,771      | 7.4%  |
| Technology  | 3,459                | 135                    | 29                  | 3,565      | 3.9%  |
| Transportation  | 2,944                | 138                    | 47                  | 3,035      | 3.3%  |
| Industrial other  | 1,023                | 31                     | 20                  | 1,034      | 1.1%  |
| Utilities   | 12,794               | 1,052                  | 94                  | 13,752     | 14.9% |
| Government related entities                             | 2,322                | 194                    | 30                  | 2,486      | 2.7%  |
| Collateralized mortgage and other obligations ("CMOs"): |                      |                        |                     |            |       |
| Agency backed   | 1,630                | 55                     | 61                  | 1,624      | 1.8%  |
| Non-agency backed                                       | 843                  | 53                     | (21 )               | 917        | 1.0%  |
| Mortgage pass through securities ("MPTS"):              |                      |                        |                     |            |       |
| Agency backed   | 818                  | 24                     | 9                   | 833        | 0.9%  |
| Commercial mortgage-backed securities ("CMBS"):         |                      |                        |                     |            |       |
| Agency backed   | 22                   | -                      | -                   | 22         | 0.0%  |
| Non-agency backed                                       | 647                  | 5                      | 11                  | 641        | 0.7%  |
| Asset-backed securities ("ABS"):                        |                      |                        |                     |            |       |
| Collateralized loan obligations ("CLOs")                | 858                  | 1                      | 3                   | 856        | 0.9%  |
| Commercial real estate ("CRE")                          |                      |                        |                     |            |       |
| collateralized debt obligations ("CDOs")                | 14                   | -                      | (5 )                | 19         | 0.0%  |
| Credit card   | 78                   | 18                     | 1                   | 95         | 0.1%  |

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|  |           |          |          |           |        |
|--|-----------|----------|----------|-----------|--------|
| Equipment receivables                      | 39        | -        | -        | 39        | 0.0%   |
| Home equity                                | 570       | 22       | (9 )     | 601       | 0.7%   |
| Manufactured housing                       | 16        | 1        | -        | 17        | 0.0%   |
| Other                                      | 165       | 5        | 1        | 169       | 0.2%   |
| Municipals:                                |           |          |          |           |        |
| Taxable                                    | 4,027     | 807      | 10       | 4,824     | 5.2%   |
| Tax-exempt                                 | 163       | 13       | -        | 176       | 0.2%   |
| Government:                                |           |          |          |           |        |
| United States                              | 373       | 31       | 3        | 401       | 0.4%   |
| Foreign                                    | 394       | 46       | -        | 440       | 0.5%   |
| Hybrid and redeemable preferred securities | 574       | 72       | 20       | 626       | 0.7%   |
| Total AFS securities                       | 87,267    | 5,800    | 1,008    | 92,059    | 100.0% |
| Trading Securities (1)                     | 1,392     | 168      | 7        | 1,553     |        |
| Equity Securities                          | 112       | 3        | 3        | 112       |        |
| Total AFS, trading and equity securities   | \$ 88,771 | \$ 5,971 | \$ 1,018 | \$ 93,724 |        |

|  | As of December 31, 2017 |                 |       |           |        |
|--|-------------------------|-----------------|-------|-----------|--------|
|  | Gross Unrealized        |                 |       | %         |        |
|  | Amortized               | Losses and OTTI |       | Fair      | Fair   |
|  | Cost                    | Gains           | (2)   | Value     | Value  |
| Fixed Maturity AFS Securities              |                         |                 |       |           |        |
| Industry corporate bonds:                  |                         |                 |       |           |        |
| Financial services                         | \$ 12,059               | \$ 1,061        | \$ 36 | \$ 13,084 | 13.8%  |
| Basic industry                             | 4,855                   | 413             | 14    | 5,254     | 5.5%   |
| Capital goods                              | 6,270                   | 547             | 24    | 6,793     | 7.2%   |
| Communications                             | 4,151                   | 406             | 21    | 4,536     | 4.8%   |
| Consumer cyclical                          | 5,649                   | 444             | 28    | 6,065     | 6.4%   |
| Consumer non-cyclical                      | 13,680                  | 1,242           | 74    | 14,848    | 15.7%  |
| Energy                                     | 6,557                   | 535             | 85    | 7,007     | 7.4%   |
| Technology                                 | 3,443                   | 218             | 9     | 3,652     | 3.9%   |
| Transportation                             | 2,927                   | 220             | 7     | 3,140     | 3.3%   |
| Industrial other                           | 979                     | 49              | 7     | 1,021     | 1.1%   |
| Utilities                                  | 12,786                  | 1,480           | 22    | 14,244    | 15.0%  |
| Government related entities                | 2,345                   | 247             | 20    | 2,572     | 2.7%   |
| CMOs:                                      |                         |                 |       |           |        |
| Agency backed                              | 1,598                   | 68              | 33    | 1,633     | 1.7%   |
| Non-agency backed                          | 880                     | 53              | (21 ) | 954       | 1.0%   |
| MPTS:                                      |                         |                 |       |           |        |
| Agency backed                              | 849                     | 34              | 5     | 878       | 0.9%   |
| CMBS:                                      |                         |                 |       |           |        |
| Agency backed                              | 22                      | -               | -     | 22        | 0.0%   |
| Non-agency backed                          | 568                     | 10              | -     | 578       | 0.6%   |
| ABS:                                       |                         |                 |       |           |        |
| CLOs                                       | 789                     | 2               | 2     | 789       | 0.8%   |
| CRE CDOs                                   | 14                      | -               | (5 )  | 19        | 0.0%   |
| Credit card                                | 77                      | 21              | 1     | 97        | 0.1%   |
| Equipment receivables                      | 40                      | -               | -     | 40        | 0.0%   |
| Home equity                                | 587                     | 22              | (21 ) | 630       | 0.7%   |
| Manufactured housing                       | 17                      | 1               | -     | 18        | 0.0%   |
| Other                                      | 182                     | 7               | -     | 189       | 0.2%   |
| Municipals:                                |                         |                 |       |           |        |
| Taxable                                    | 4,009                   | 937             | 6     | 4,940     | 5.2%   |
| Tax-exempt                                 | 163                     | 16              | -     | 179       | 0.2%   |
| Government:                                |                         |                 |       |           |        |
| United States                              | 527                     | 41              | 1     | 567       | 0.6%   |
| Foreign                                    | 395                     | 56              | -     | 451       | 0.5%   |
| Hybrid and redeemable preferred securities | 575                     | 87              | 22    | 640       | 0.7%   |
| Total fixed maturity AFS securities        | 86,993                  | 8,217           | 370   | 94,840    | 100.0% |
| Equity AFS Securities                      | 247                     | 16              | 17    | 246       |        |

|                                  |           |          |        |           |
|----------------------------------|-----------|----------|--------|-----------|
| Total AFS securities             | 87,240    | 8,233    | 387    | 95,086    |
| Trading Securities (1)           | 1,425     | 203      | 8      | 1,620     |
| Total AFS and trading securities | \$ 88,665 | \$ 8,436 | \$ 395 | \$ 96,706 |

- (1) Certain of our trading securities support our modified coinsurance arrangements (“Modco”), and the investment results are passed directly to the reinsurers. Refer to “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Consolidated Investments – Fixed Maturity and Equity Securities Portfolios – Trading Securities” in our 2017 Form 10-K for further details.
- (2) Includes unrealized gains and (losses) on impaired securities related to changes in the fair value of such securities subsequent to the impairment measurement date.

## AFS Securities

In accordance with the AFS accounting guidance, we reflect stockholders' equity as if unrealized gains and losses were actually recognized, and consider all related accounting adjustments that would occur upon such a hypothetical recognition of unrealized gains and losses. Such related balance sheet effects include adjustments to the balances of DAC, VOBA, DFEL, future contract benefits, other contract holder funds and deferred income taxes. Adjustments to each of these balances are charged or credited to accumulated other comprehensive income (loss). For instance, DAC is adjusted upon the recognition of unrealized gains or losses because the amortization of DAC is based upon an assumed emergence of gross profits on certain insurance business. Deferred income tax balances are also adjusted because unrealized gains or losses do not affect actual taxes currently paid.

The quality of our fixed maturity AFS securities portfolio, as measured at estimated fair value and by the percentage of fixed maturity AFS securities invested in various ratings categories, relative to the entire fixed maturity AFS security portfolio (in millions) was as follows:

| NAIC<br>Designation (1)  | Rating Agency<br>Equivalent<br>Designation (1) | As of March 31, 2018 |               |               | As of December 31, 2017 |               |               |
|--|--|----------------------|---------------|---------------|-------------------------|---------------|---------------|
|  |  | Amortized<br>Cost    | Fair<br>Value | % of<br>Total | Amortized<br>Cost       | Fair<br>Value | % of<br>Total |
| <b>Investment Grade Securities</b>   |  |                      |               |               |                         |               |               |
| 1  | AAA / AA / A                                   | \$ 46,453            | \$ 49,816     | 54.1%         | \$ 46,455               | \$ 51,494     | 54.3%         |
| 2  | BBB  | 37,088               | 38,597        | 41.9%         | 36,703                  | 39,518        | 41.7%         |
| Total investment grade securities  |  | 83,541               | 88,413        | 96.0%         | 83,158                  | 91,012        | 96.0%         |
| <b>Below Investment Grade Securities</b>   |  |                      |               |               |                         |               |               |
| 3  | BB   | 2,720                | 2,713         | 3.0%          | 2,785                   | 2,840         | 3.0%          |
| 4  | B  | 825                  | 777           | 0.8%          | 768                     | 743           | 0.8%          |
| 5  | CCC and lower                                  | 170                  | 141           | 0.2%          | 271                     | 229           | 0.2%          |
| 6  | In or near default                             | 11                   | 15            | 0.0%          | 11                      | 16            | 0.0%          |
| Total below investment grade securities  |  | 3,726                | 3,646         | 4.0%          | 3,835                   | 3,828         | 4.0%          |
| Total fixed maturity AFS securities  |  | \$ 87,267            | \$ 92,059     | 100.0%        | \$ 86,993               | \$ 94,840     | 100.0%        |
| Total securities below investment grade as a percentage of total fixed maturity AFS securities |  | 4.3%                 | 4.0%          |               | 4.4%                    | 4.0%          |               |

(1) Based upon the rating designations determined and provided by the National Association of Insurance Commissioners ("NAIC") or the major credit rating agencies (Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and S&P). For securities where the ratings assigned by the major credit rating agencies are not



equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings. The average credit quality was A- as of March 31, 2018.

Comparisons between the NAIC ratings and rating agency designations are published by the NAIC. The NAIC assigns securities quality ratings and uniform valuations, which are used by insurers when preparing their annual statements. The NAIC ratings are similar to the rating agency designations of the Nationally Recognized Statistical Rating Organizations for marketable bonds. NAIC ratings 1 and 2 include bonds generally considered investment grade (rated Baa3 or higher by Moody's, or rated BBB- or higher by S&P and Fitch) by such ratings organizations. However, securities rated NAIC 1 and 2 could be deemed below investment grade by the rating agencies as a result of the current RBC rules for residential mortgage-backed securities ("RMBS") and CMBS for statutory reporting. NAIC ratings 3 through 6 include bonds generally considered below investment grade (rated Ba1 or lower by Moody's, or rated BB+ or lower by S&P and Fitch).

As of March 31, 2018, and December 31, 2017, 93% and 88%, respectively, of the total fixed maturity AFS securities in an unrealized loss position were investment grade. Our gross unrealized losses, including the portion of OTTI recognized in other comprehensive income (loss) ("OCI"), on fixed maturity AFS securities as of March 31, 2018, increased by \$627 million since December 31, 2017. As more fully described in Note 1 in our 2017 Form 10-K, we regularly review our investment holdings for OTTI. We believe the unrealized loss position as of March 31, 2018, does not represent OTTI as: (i) we do not intend to sell the debt securities; (ii) it is not more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis; and (iii) the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities. For further information on our unrealized losses on AFS securities, see "Composition by Industry Categories of our Unrealized Losses on AFS Securities" below.

In our evaluation of OTTI, we concluded: (i) that it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis; and (ii) that the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities. This conclusion is consistent with our asset-liability management process. Management considers the following as part of the evaluation:

- The current economic environment and market conditions;
- Our business strategy and current business plans;
- The nature and type of security, including expected maturities and exposure to general credit, liquidity, market and interest rate risk;
- Our analysis of data from financial models and other internal and industry sources to evaluate the current effectiveness of our hedging and overall risk management strategies;
- The current and expected timing of contractual maturities of our assets and liabilities, expectations of prepayments on investments and expectations for surrenders and withdrawals of life insurance policies and annuity contracts;
- The capital risk limits approved by management; and
- Our current financial condition and liquidity demands.

To determine the recoverability of a debt security, we consider the facts and circumstances surrounding the underlying issuer including, but not limited to, the following:

- Historical and implied volatility of the security;
- Length of time and extent to which the fair value has been less than amortized cost;
- Adverse conditions specifically related to the security or to specific conditions in an industry or geographic area;
- Failure, if any, of the issuer of the security to make scheduled payments; and
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

As reported on our Consolidated Balance Sheets, we had \$112.3 billion of investments and cash, which exceeded the liabilities for our future obligations under insurance policies and contracts, net of amounts recoverable from reinsurers, which totaled \$98.6 billion as of March 31, 2018. If it were necessary to liquidate fixed maturity AFS securities prior to maturity or call to meet cash flow needs, we would first look to those fixed maturity AFS securities that are in an unrealized gain position, which had a fair value of \$64.2 billion as of March 31, 2018, rather than selling fixed maturity AFS securities in an unrealized loss position. The amount of cash that we have on hand at any point in time takes into account our liquidity needs in the future, other sources of cash, such as the maturities of investments, interest and dividends we earn on our investments and the ongoing cash flows from new and existing business.

See “AFS Securities – Evaluation for Recovery of Amortized Cost” in Note 1 in our 2017 Form 10-K and Note 5 herein for additional discussion.

As of March 31, 2018, and December 31, 2017, the estimated fair value for all private placement securities was \$15.1 billion and \$15.2 billion, respectively, representing 14% and 13%, respectively, of total invested assets.

Mortgage-Backed Securities (Included in AFS and Trading Securities)

See “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Consolidated Investments – Mortgage-Backed Securities” in our 2017 Form 10-K for a discussion of our mortgage-backed securities (“MBS”).

Our ABS home equity and RMBS had a market value of \$4.1 billion and a net unrealized gain of \$116 million as of March 31, 2018.

The market value of AFS and trading securities backed by subprime loans was \$499 million and represented approximately 1% of our total investment portfolio as of March 31, 2018. AFS securities represented \$494 million, or 99%, and trading securities represented \$5 million, or 1%, of the subprime exposure as of March 31, 2018. The table below summarizes our investments in AFS securities backed by pools of residential mortgages (in millions) as of March 31, 2018:

| Type   | Agency     |                | Prime      |                | Alt-A      |                | Subprime/<br>Option ARM<br>(1) |                | Total      |                |
|--|------------|----------------|------------|----------------|------------|----------------|--------------------------------|----------------|------------|----------------|
|  | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value                     | Amortized Cost | Fair Value | Amortized Cost |
| RMBS   | \$ 2,449   | \$ 2,441       | \$ 302     | \$ 279         | \$ 273     | \$ 252         | \$ 350                         | \$ 319         | \$ 3,374   | \$ 3,291       |
| ABS home equity  | 2          | 1              | 56         | 57             | 110        | 102            | 433                            | 410            | 601        | 570            |
| Total by type (2)(3)   | \$ 2,451   | \$ 2,442       | \$ 358     | \$ 336         | \$ 383     | \$ 354         | \$ 783                         | \$ 729         | \$ 3,975   | \$ 3,861       |
| Rating   |            |                |            |                |            |                |                                |                |            |                |
| AAA  | \$ 2,354   | \$ 2,344       | \$ 7       | \$ 8           | \$ -       | \$ -           | \$ 18                          | \$ 18          | \$ 2,379   | \$ 2,370       |
| AA   | 92         | 93             | -          | -              | -          | -              | 5                              | 4              | 97         | 97             |
| A  | 4          | 4              | -          | 1              | 9          | 9              | 59                             | 58             | 72         | 72             |
| BBB  | -          | -              | 31         | 29             | 32         | 31             | 40                             | 39             | 103        | 99             |
| BB and below   | 1          | 1              | 320        | 298            | 342        | 314            | 661                            | 610            | 1,324      | 1,223          |
| Total by rating<br>(2)(3)(4)   | \$ 2,451   | \$ 2,442       | \$ 358     | \$ 336         | \$ 383     | \$ 354         | \$ 783                         | \$ 729         | \$ 3,975   | \$ 3,861       |
| Origination Year   |            |                |            |                |            |                |                                |                |            |                |
| 2008 and prior   | \$ 553     | \$ 506         | \$ 358     | \$ 336         | \$ 382     | \$ 353         | \$ 783                         | \$ 729         | \$ 2,076   | \$ 1,924       |
| 2009   | 215        | 203            | -          | -              | -          | -              | -                              | -              | 215        | 203            |
| 2010   | 257        | 245            | -          | -              | -          | -              | -                              | -              | 257        | 245            |
| 2011   | 131        | 129            | -          | -              | -          | -              | -                              | -              | 131        | 129            |
| 2012   | 44         | 46             | -          | -              | -          | -              | -                              | -              | 44         | 46             |
| 2013   | 259        | 265            | -          | -              | -          | -              | -                              | -              | 259        | 265            |
| 2014   | 67         | 66             | -          | -              | -          | -              | -                              | -              | 67         | 66             |
| 2015   | 144        | 149            | -          | -              | -          | -              | -                              | -              | 144        | 149            |
| 2016   | 504        | 550            | -          | -              | 1          | 1              | -                              | -              | 505        | 551            |
| 2017   | 214        | 220            | -          | -              | -          | -              | -                              | -              | 214        | 220            |
| 2018   | 63         | 63             | -          | -              | -          | -              | -                              | -              | 63         | 63             |
| Total by origination<br>year (2)(3)  | \$ 2,451   | \$ 2,442       | \$ 358     | \$ 336         | \$ 383     | \$ 354         | \$ 783                         | \$ 729         | \$ 3,975   | \$ 3,861       |
| Total AFS securities backed by pools of residential mortgages a percentage of total AFS Securities |            |                |            |                |            |                |                                |                | 4.3%       | 4.4%           |
| Total prime, Alt-A and subprime/option ARM as a percentage of total AFS securities                 |            |                |            |                |            |                |                                |                | 1.7%       | 1.6%           |

- (1) Includes the fair value and amortized cost of option adjustable rate mortgages (“ARM”) within RMBS, totaling \$289 million and \$260 million, respectively.
- (2) Does not include the fair value of trading securities totaling \$91 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$91 million in trading securities consisted of \$82 million prime, \$4 million Alt-A and \$5 million subprime.
- (3) Does not include the amortized cost of trading securities totaling \$90 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$90 million in trading securities consisted of \$80 million prime, \$4 million Alt-A and \$6 million subprime.
- (4) Based upon the rating designations determined and provided by the major credit rating agencies (Fitch, Moody’s and S&P). For securities where the ratings assigned by the major credit rating agencies are not equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings.

None of these investments included any direct investments in subprime lenders or mortgages. We are not aware of material exposure to subprime loans in our alternative asset portfolio.

The following summarizes our investments in AFS securities backed by pools of commercial mortgages (in millions) as of March 31, 2018:

| Type   | Multiple Property |                | Single Property |                | CRE CDOs   |                | Total      |                |
|--|-------------------|----------------|-----------------|----------------|------------|----------------|------------|----------------|
|  | Fair Value        | Amortized Cost | Fair Value      | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost |
| CMBS   | \$ 649            | \$ 657         | \$ 14           | \$ 12          | \$ -       | \$ -           | \$ 663     | \$ 669         |
| CRE CDOs   | -                 | -              | -               | -              | 19         | 14             | 19         | 14             |
| Total by type (1)(2)   | \$ 649            | \$ 657         | \$ 14           | \$ 12          | \$ 19      | \$ 14          | \$ 682     | \$ 683         |
| Rating   |                   |                |                 |                |            |                |            |                |
| AAA  | \$ 579            | \$ 591         | \$ -            | \$ -           | \$ -       | \$ -           | \$ 579     | \$ 591         |
| AA   | -                 | -              | 7               | 6              | -          | -              | 7          | 6              |
| A  | 53                | 51             | 7               | 6              | 3          | 3              | 63         | 60             |
| BBB  | 5                 | 5              | -               | -              | -          | -              | 5          | 5              |
| BB and below   | 12                | 10             | -               | -              | 16         | 11             | 28         | 21             |
| Total by rating (1)(2)(3)  | \$ 649            | \$ 657         | \$ 14           | \$ 12          | \$ 19      | \$ 14          | \$ 682     | \$ 683         |
| Origination Year   |                   |                |                 |                |            |                |            |                |
| 2008 and prior   | \$ 37             | \$ 32          | \$ 14           | \$ 12          | \$ 19      | \$ 14          | \$ 70      | \$ 58          |
| 2010   | 47                | 46             | -               | -              | -          | -              | 47         | 46             |
| 2012   | 5                 | 5              | -               | -              | -          | -              | 5          | 5              |
| 2013   | 114               | 115            | -               | -              | -          | -              | 114        | 115            |
| 2016   | 82                | 87             | -               | -              | -          | -              | 82         | 87             |
| 2017   | 294               | 302            | -               | -              | -          | -              | 294        | 302            |
| 2018   | 70                | 70             | -               | -              | -          | -              | 70         | 70             |
| Total by origination year (1)(2)   | \$ 649            | \$ 657         | \$ 14           | \$ 12          | \$ 19      | \$ 14          | \$ 682     | \$ 683         |
| Total AFS securities backed by pools of commercial mortgages as a percentage of total AFS securities |                   |                |                 |                |            |                | 0.7%       | 0.8%           |

- (1) Does not include the fair value of trading securities totaling \$2 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$2 million in trading securities consisted of CMBS.
- (2) Does not include the amortized cost of trading securities totaling \$1 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$1 million in trading securities consisted of CMBS.
- (3) Based upon the rating designations determined and provided by the major credit rating agencies (Fitch, Moody's and S&P). For securities where the ratings assigned by the major credit agencies are not equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings.

As of March 31, 2018, the fair value and amortized cost of our AFS exposure to monoline insurers was \$447 million and \$421 million, respectively.

#### Composition by Industry Categories of our Unrealized Losses on AFS Securities

When considering unrealized gain and loss information, it is important to recognize that the information relates to the position of securities at a particular point in time and may not be indicative of the position of our investment portfolios subsequent to the balance sheet date. Further, because the timing of the recognition of realized investment gains and losses through the selection of which securities are sold is largely at management's discretion, it is important to consider the information provided below within the context of the overall unrealized gain or loss position of our investment portfolios. These are important considerations that should be included in any evaluation of the potential effect of securities in an unrealized loss position on our future earnings.

The composition by industry categories of all securities in an unrealized loss position (in millions) as of March 31, 2018, was as follows:

|   | Fair Value | % Fair Value | Amortized Cost | % Amortized Cost | Gross Unrealized Losses and OTTI | % Gross Unrealized Losses and OTTI |
|---|------------|--------------|----------------|------------------|----------------------------------|------------------------------------|
| Banking   | \$ 2,430   | 8.8%         | \$ 2,515       | 8.7%             | \$ 85                            | 7.9%                               |
| Electric  | 1,862      | 6.7%         | 1,927          | 6.6%             | 65                               | 6.1%                               |
| Food and beverage   | 1,544      | 5.5%         | 1,608          | 5.5%             | 64                               | 6.0%                               |
| Pharmaceuticals   | 1,348      | 4.8%         | 1,409          | 4.9%             | 61                               | 5.7%                               |
| Chemicals   | 1,042      | 3.7%         | 1,082          | 3.7%             | 40                               | 3.7%                               |
| Diversified manufacturing                                 | 1,120      | 4.0%         | 1,158          | 4.0%             | 38                               | 3.5%                               |
| Oil field services  | 245        | 0.9%         | 283            | 1.0%             | 38                               | 3.5%                               |
| Healthcare  | 1,344      | 4.8%         | 1,380          | 4.8%             | 36                               | 3.4%                               |
| MBS   | 402        | 1.5%         | 435            | 1.5%             | 33                               | 3.1%                               |
| Technology  | 1,262      | 4.5%         | 1,291          | 4.5%             | 29                               | 2.7%                               |
| Independent   | 599        | 2.2%         | 626            | 2.2%             | 27                               | 2.5%                               |
| Transportation services                                   | 878        | 3.2%         | 906            | 3.1%             | 28                               | 2.6%                               |
| Media – entertainment                                     | 581        | 2.1%         | 608            | 2.1%             | 27                               | 2.5%                               |
| Consumer products   | 402        | 1.4%         | 427            | 1.5%             | 25                               | 2.3%                               |
| CMOs  | 558        | 2.0%         | 580            | 2.0%             | 22                               | 2.1%                               |
| Property and casualty                                     | 489        | 1.8%         | 511            | 1.8%             | 22                               | 2.1%                               |
| Midstream   | 792        | 2.8%         | 813            | 2.8%             | 21                               | 2.0%                               |
| Industrial – other  | 503        | 1.8%         | 524            | 1.8%             | 21                               | 1.9%                               |
| Industries with unrealized losses less than \$20 million  | 10,459     | 37.5%        | 10,850         | 37.5%            | 391                              | 36.4%                              |
| Total by industry   | \$ 27,860  | 100.0%       | \$ 28,933      | 100.0%           | \$ 1,073                         | 100.0%                             |
| Total by industry as a percentage of total AFS securities |            | 30.3%        |                | 33.2%            |                                  | 100.0%                             |

As of March 31, 2018, the fair value and amortized cost of securities subject to enhanced analysis and monitoring for potential changes in unrealized loss position was \$52 million and \$64 million, respectively.

#### Mortgage Loans on Real Estate

The following tables summarize key information on mortgage loans on real estate (in millions):



| Credit Quality Indicator             | As of March 31,<br>2018 |        | As of December<br>31, 2017 |        |
|--------------------------------------|-------------------------|--------|----------------------------|--------|
|                                      | Carrying<br>Value       | %      | Carrying<br>Value          | %      |
| Current                              | \$ 11,044               | 100.0% | \$ 10,760                  | 100.0% |
| Delinquent and/or in foreclosure (1) | 3                       | 0.0%   | 2                          | 0.0%   |
| Total mortgage loans on real estate  | \$ 11,047               | 100.0% | \$ 10,762                  | 100.0% |

(1) As of March 31, 2018, and December 31, 2017, there was one mortgage loan on real estate that was delinquent and in foreclosure.

As of March 31, 2018, and December 31, 2017, there were three impaired mortgage loans on real estate, or less than 1% of the total dollar amount of mortgage loans on real estate. The total outstanding principal and interest on the mortgage loans on real estate that were two or more payments delinquent as of March 31, 2018, and December 31, 2017, was \$4 million. See Note 1 in our 2017 Form 10-K for more information regarding our accounting policy relating to the impairment of mortgage loans on real estate.

|                                     | As of<br>March 31,<br>2018 | As of<br>December<br>31,<br>2017 |
|-------------------------------------|----------------------------|----------------------------------|
| By Segment                          |                            |                                  |
| Annuities                           | \$ 3,362                   | \$ 3,244                         |
| Retirement Plan Services            | 3,244                      | 3,141                            |
| Life Insurance                      | 3,614                      | 3,628                            |
| Group Protection                    | 336                        | 332                              |
| Other Operations                    | 491                        | 417                              |
| Total mortgage loans on real estate | \$ 11,047                  | \$ 10,762                        |

| Property Type      | As of March 31,<br>2018 |        | State Exposure | As of March 31,<br>2018 |       |
|--------------------|-------------------------|--------|----------------|-------------------------|-------|
|                    | Carrying<br>Value       | %      |                | Carrying<br>Value       | %     |
| Apartment          | \$ 3,789                | 34.3%  | CA             | \$ 2,174                | 19.7% |
| Office building    | 2,682                   | 24.3%  | TX             | 1,356                   | 12.3% |
| Retail             | 2,047                   | 18.5%  | MD             | 579                     | 5.2%  |
| Industrial         | 1,952                   | 17.7%  | FL             | 507                     | 4.6%  |
| Other commercial   | 389                     | 3.5%   | NY             | 496                     | 4.5%  |
| Mixed use          | 124                     | 1.1%   | VA             | 475                     | 4.3%  |
| Hotel/motel        | 64                      | 0.6%   | TN             | 470                     | 4.2%  |
| Total              | \$ 11,047               | 100.0% | PA             | 449                     | 4.0%  |
| Geographic Region  |                         |        | OH             | 448                     | 4.1%  |
| Pacific            | \$ 2,799                | 25.4%  | GA             | 401                     | 3.6%  |
| South Atlantic     | 2,588                   | 23.4%  | WA             | 394                     | 3.6%  |
| West South Central | 1,449                   | 13.1%  | NC             | 364                     | 3.3%  |
| East North Central | 1,218                   | 11.0%  | WI             | 301                     | 2.7%  |

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|                    |           |        |                       |           |        |
|--------------------|-----------|--------|-----------------------|-----------|--------|
| Middle Atlantic    | 986       | 8.9%   | IL                    | 267       | 2.4%   |
| Mountain           | 644       | 5.8%   | AZ                    | 260       | 2.4%   |
| East South Central | 618       | 5.6%   | MA                    | 251       | 2.3%   |
| West North Central | 464       | 4.2%   | OR                    | 232       | 2.1%   |
| New England        | 281       | 2.6%   | MN                    | 221       | 2.0%   |
| Total              | \$ 11,047 | 100.0% | Other states under 2% | 1,402     | 12.7%  |
|                    |           |        | Total                 | \$ 11,047 | 100.0% |

| Origination Year | As of March 31, 2018 |        | Future<br>Principal<br>Payments | As of March 31, 2018 |        |
|------------------|----------------------|--------|---------------------------------|----------------------|--------|
|                  | Principal<br>Amount  | %      |                                 | Principal<br>Amount  | %      |
| 2013 and prior   | \$ 3,481             | 31.5%  | 2018                            | \$ 531               | 4.8%   |
| 2014             | 1,197                | 10.8%  | 2019                            | 498                  | 4.5%   |
| 2015             | 1,791                | 16.2%  | 2020                            | 454                  | 4.1%   |
| 2016             | 2,008                | 18.2%  | 2021                            | 846                  | 7.7%   |
| 2017             | 2,028                | 18.4%  | 2022                            | 752                  | 6.8%   |
| 2018             | 545                  | 4.9%   | 2023 and<br>thereafter          | 7,969                | 72.1%  |
| Total            | \$ 11,050            | 100.0% | Total                           | \$ 11,050            | 100.0% |

See Note 5 for information regarding our loan-to-value and debt-service coverage ratios and our allowance for loan losses.

## Alternative Investments

Investment income (loss) on alternative investments by business segment (in millions) was as follows:

|                          | For the<br>Three<br>Months<br>Ended<br>March 31, |       |
|--------------------------|--|-------|
|                          | 2018   | 2017  |
| Annuities                | \$ 6   | \$ 7  |
| Retirement Plan Services | 3  | 4     |
| Life Insurance           | 28   | 35    |
| Group Protection         | 2  | 2     |
| Other Operations         | 2  | 1     |
| Total (1)                | \$ 41  | \$ 49 |

(1) Includes net investment income on the alternative investments supporting the required statutory surplus of our insurance businesses.

As of March 31, 2018, and December 31, 2017, alternative investments included investments in 228 and 224 different partnerships, respectively, and the portfolio represented approximately 1% of our overall invested assets. The partnerships do not represent off-balance sheet financing and generally involve several third-party partners. Some of our partnerships contain capital calls, which require us to contribute capital upon notification by the general partner. These capital calls are contemplated during the initial investment decision and are planned for well in advance of the call date. The capital calls are not material in size and are not material to our liquidity. Alternative investments are accounted for using the equity method of accounting and are included in other investments on our Consolidated Balance Sheets.

## Non-Income Producing Investments

The carrying amount of fixed maturity securities, mortgage loans on real estate and real estate that were non-income producing as of March 31, 2018, and December 31, 2017, was \$8 million and \$9 million, respectively.

## Net Investment Income

Details underlying net investment income (in millions) and our investment yield were as follows:

|   | For the Three<br>Months Ended<br>March 31, |          |
|---|--|----------|
|   | 2018                                       | 2017     |
| Net Investment Income   |  |          |
| Fixed maturity AFS securities   | \$ 1,042                                   | \$ 1,038 |
| Equity AFS securities   | -  | 2        |
| Trading securities  | 23   | 24       |
| Equity securities   | 1  | -        |
| Mortgage loans on real estate   | 114  | 110      |
| Real estate   | -  | 1        |
| Policy loans  | 32   | 33       |
| Invested cash   | 6  | 2        |
| Commercial mortgage loan prepayment<br>and bond make-whole premiums (1) | 18   | 17       |
| Alternative investments (2)   | 41   | 49       |
| Consent fees  | 1  | 1        |
| Other investments   | 3  | -        |
| Investment income   | 1,281                                      | 1,277    |
| Investment expense  | (48 )                                      | (39 )    |
| Net investment income   | \$ 1,233                                   | \$ 1,238 |

(1) See “Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums” below for additional information.

(2) See “Alternative Investments” above for additional information.

|   | For the Three<br>Months Ended |                   |                          |
|---|-------------------------------|-------------------|--------------------------|
|   | March 31,<br>2018             | March 31,<br>2017 | Basis<br>Point<br>Change |
| <b>Interest Rate Yield</b>  |                               |                   |                          |
| Fixed maturity securities, mortgage loans on<br>real estate and other, net of investment expenses | 4.50%                         | 4.61%             | (11 )                    |
| Commercial mortgage loan prepayment and<br>bond make-whole premiums                               | 0.07%                         | 0.07%             | -                        |
| Alternative investments   | 0.16%                         | 0.19%             | (3 )                     |
| Net investment income yield on invested assets  | 4.73%                         | 4.87%             | (14 )                    |

|   | For the Three<br>Months Ended |                   |
|---|-------------------------------|-------------------|
|   | March 31,<br>2018             | March 31,<br>2017 |
| Average invested assets at amortized cost | \$ 104,378                    | \$ 101,707        |

We earn investment income on our general account assets supporting fixed annuity, term life, whole life, UL, interest-sensitive whole life and the fixed portion of retirement plan and VUL products. The profitability of our fixed annuity and life insurance products is affected by our ability to achieve target spreads, or margins, between the interest income earned on the general account assets and the interest credited to the contract holder on our average fixed account values, including the fixed portion of variable. Net investment income and the interest rate yield table each include commercial mortgage loan prepayments and bond make-whole premiums, alternative investments and contingent interest and standby real estate equity commitments. These items can vary significantly from period to period due to a number of factors and, therefore, can provide results that are not indicative of the underlying trends.

#### Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums

Prepayment and make-whole premiums are collected when borrowers elect to call or prepay their debt prior to the stated maturity. A prepayment or make-whole premium allows investors to attain the same yield as if the borrower made all scheduled interest payments until maturity. These premiums are designed to make investors indifferent to prepayment.

#### Realized Gain (Loss) Related to Certain Investments

Details of the realized gain (loss) related to certain investments (in millions) were as follows:

|   | For the Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |         |
|---|--|---------|
| Fixed maturity AFS securities: (1)  |  |         |
| Gross gains   | \$ 14  | \$ 8    |
| Gross losses  | (32)   | (12)    |
| Equity AFS securities:  |  |         |
| Gross gains   | -  | 1       |
| Gross losses  | -  | -       |
| Gain (loss) on other investments  | 2  | (3)     |
| Associated amortization of DAC, VOBA,<br>DSI and DFEL and changes in<br>other contract holder funds | (5)  | (7)     |
| Total realized gain (loss) related to<br>certain investments, pre-tax                               | \$ (21)  | \$ (13) |

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

Amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds reflect an assumption for an expected level of credit-related investment losses. When actual credit-related investment losses are realized, we recognize a true-up to our DAC, VOBA, DSI and DFEL amortization and changes in other contract holder funds within realized losses reflecting the incremental effect of actual versus expected credit-related investment losses. These actual to expected amortization adjustments could create volatility in net realized gains and losses.

Realized gains and losses generally originate from asset sales to reposition the portfolio or to respond to product experience. During the first three months of 2018 and 2017, we sold securities for gains and losses. In the process of evaluating whether a security with an unrealized loss reflects declines that are other-than-temporary, we consider our ability and intent to sell the security prior to a recovery of value. However, subsequent decisions on securities sales are made within the context of overall risk monitoring, assessing value relative to other comparable securities and overall portfolio maintenance. Although our portfolio managers may, at a given point in time, believe that the preferred course of action is to hold securities with unrealized losses that are considered temporary until such losses are recovered, the dynamic nature of portfolio management may result in a subsequent decision to sell. These subsequent decisions are consistent with the classification of our investment portfolio as AFS. We expect to continue to manage all non-trading invested assets within our portfolios in a manner that is consistent with the AFS classification.

We consider economic factors and circumstances within countries and industries where recent write-downs have occurred in our assessment of the position of securities we own of similarly situated issuers. While it is possible for realized or unrealized losses on a particular investment to affect other investments, our risk management strategy has been designed to identify correlation risks and other risks inherent in managing an investment portfolio. Once identified, strategies and procedures are developed to effectively monitor and manage these risks. The areas of risk correlation that we pay particular attention to are risks that may be correlated within specific financial and business markets, risks within specific industries and risks associated with related parties.

When the detailed analysis by our external asset managers and investment portfolio managers leads us to the conclusion that a security's decline in fair value is other-than-temporary, the security is written down to estimated recovery value. In instances where declines are considered temporary, the security will continue to be carefully monitored. See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Investments – Write-downs for OTTI and Allowance for Losses" in our 2017 Form 10-K for additional information on our portfolio management strategy.

Details underlying write-downs taken as a result of OTTI (in millions) were as follows:

|                                      | For the<br>Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |         |
|--------------------------------------|---|---------|
| OTTI Recognized in Net Income (Loss) |   |         |
| Fixed maturity AFS securities:       |   |         |
| Corporate bonds                      | \$ (2 )   | \$ (2 ) |
| ABS                                  | -   | (1 )    |



|   |         |         |
|---|---------|---------|
| RMBS  | -       | (1 )    |
| Gross OTTI recognized in net income (loss)            | (2 )    | (4 )    |
| Associated amortization of DAC,<br>VOBA, DSI and DFEL | -       | -       |
| Net OTTI recognized in net income<br>(loss), pre-tax  | \$ (2 ) | \$ (4 ) |
| Portion of OTTI Recognized in OCI                     |         |         |
| Gross OTTI recognized in OCI                          | \$ -    | \$ -    |
| Change in DAC, VOBA, DSI and DFEL                     | -       | -       |
| Net portion of OTTI recognized in OCI,<br>pre-tax     | \$ -    | \$ -    |

The \$2 million of impairments taken during the first three months of 2018 were all credit-related impairments. The decrease in write-downs for OTTI when comparing the first three months of 2018 to the corresponding period in 2017 is primarily attributable to the gradual recovery of RMBS and ABS investments.

## REVIEW OF CONSOLIDATED FINANCIAL CONDITION

## Liquidity and Capital Resources

## Sources of Liquidity and Cash Flow

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash from its normal operations to meet cash requirements with a prudent margin of safety. Our principal sources of cash flow from operating activities are insurance premiums and fees and investment income, while sources of cash flows from investing activities result from maturities and sales of invested assets. Our operating activities provided cash of \$140 million and \$109 million for the three months ended March 31, 2018 and 2017, respectively. When considering our liquidity and cash flow, it is important to distinguish between the needs of our insurance subsidiaries and the needs of the holding company, LNC. As a holding company with no operations of its own, LNC derives its cash primarily from its operating subsidiaries.

The sources of liquidity of the holding company are principally comprised of dividends and interest payments from subsidiaries, augmented by holding company short-term investments, bank lines of credit and the ongoing availability of long-term public financing under an SEC-filed shelf registration statement. These sources of liquidity and cash flow support the general corporate needs of the holding company, including its common stock dividends, interest and debt service, funding of callable securities, securities repurchases, acquisitions and investment in core businesses.

Details underlying the primary sources of our holding company cash flows (in millions) were as follows:

|   | For the Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |        |
|---|--|--------|
| Dividends from Subsidiaries                 |  |        |
| The Lincoln National Life Insurance Company | \$ -   | \$ 210 |
| Lincoln National Management Corporation     | -  | 65     |
| Total dividends from subsidiaries           | \$ -   | \$ 275 |

## Loan Repayments and Interest from Subsidiaries

|                                 |       |       |
|---------------------------------|-------|-------|
| Interest on inter-company notes | \$ 31 | \$ 51 |
|---------------------------------|-------|-------|

## Other Cash Flow Items

|   |  |  |
|---|--|--|
| Amounts received from (paid for taxes on) |  |  |
|---|--|--|

|  |      |       |
|--|------|-------|
| stock option exercises and restricted stock, net | \$ 1 | \$ 38 |
|--|------|-------|

The table above focuses on significant and recurring cash flow items and excludes the effects of certain financing activities, namely the periodic issuance and retirement of debt and cash flows related to our inter-company cash management program (discussed below). Taxes have been eliminated from the analysis due to a tax sharing agreement among our primary subsidiaries resulting in a modest effect on net cash flows at the holding company. Also excluded from this analysis is the modest amount of investment income on short-term investments of the holding company. For information regarding limits on the dividends that our insurance subsidiaries may pay without prior approval, see “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Review of Consolidated Financial Condition – Liquidity and Capital Resources – Restrictions on Dividends from Subsidiaries” in our 2017 Form 10-K.

## Insurance Subsidiaries’ Statutory Capital and Surplus

Our regulatory capital levels are also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator. Our term products and UL products containing secondary guarantees require reserves calculated pursuant to XXX and AG38, respectively. As discussed in “Part I – Item 1A. Risk Factors – Legislative, Regulatory, and Tax – Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and result of operations” in our 2017 Form 10-K, our insurance subsidiaries employ strategies to reduce the strain caused by XXX and AG38 by reinsuring the business to insurance captives. Our captive reinsurance and reinsurance subsidiaries provide a mechanism for financing a portion of the excess reserve amounts in a more efficient manner. We use long-dated LOCs and debt financing as well as other financing strategies to finance those reserves. Included in the LOCs issued as of March 31, 2018, was approximately \$2.3 billion of long-dated LOCs issued to support inter-company reinsurance arrangements for UL products containing secondary guarantees (\$350 million will expire in 2019 and \$1.9 billion relates to arrangements that will expire by 2031). For information on the LOCs, see the credit facilities table in Note 12 in our 2017 Form 10-K. Our captive reinsurance and reinsurance subsidiaries have also issued long-term notes of \$3.0 billion to finance a portion of the excess reserves as of March 31, 2018; of this amount, \$2.0 billion involve exposure to VIEs. For information on these long-term notes issued by our captive reinsurance and reinsurance subsidiaries, see Note 4 in our 2017 Form 10-K. We have also used the proceeds from senior note issuances of \$875 million to execute long-term structured solutions supporting reinsurance of UL products containing secondary guarantees. LOCs and related capital market solutions lower the capital effect of term products and UL products containing secondary guarantees. An inability to obtain appropriate capital market solutions could affect our returns on our in-force term products and UL products containing secondary guarantees. However, we believe that we have sufficient capital to support the increase in statutory reserves, based on our current reserve projections, if such structures were no longer available.

Our captive reinsurance and reinsurance subsidiaries free up capital the insurance subsidiaries can use for any number of purposes, including paying dividends to the holding company. Actuarial Guideline 48 (“AG48”) regulates the terms

of captive reinsurance arrangements that are entered into or amended in certain ways after December 31, 2014. AG48 imposes restrictions on the types of assets that can be used to support these arrangements. We have implemented and plan to continue to implement these arrangements in compliance with AG48. The NAIC's adoption of the new Valuation Manual that defines a principles-based reserving framework for newly issued life insurance policies was effective January 1, 2017. Principles-based reserving places a greater weight on our past experience and anticipated future experience as well as considers current economic conditions in calculating life insurance product reserves in accordance with statutory accounting principles. We adopted the new framework for our newly issued term business in 2017 and will phase in the framework prior to January 1, 2020, for all other newly issued life insurance products. We believe that these changes may reduce our future use of captive reinsurance and reinsurance subsidiaries for reserve financing transactions for our life insurance business. For more information on principles-based reserving, see "Part I – Item 1. Business – Regulatory – Insurance Regulation" in our 2017 Form 10-K.

Statutory reserves established for variable annuity contracts and riders are sensitive to changes in the equity markets and are affected by the level of account values relative to the level of any guarantees, product design and reinsurance arrangements. As a result, the relationship between reserve changes and equity market performance is non-linear during any given reporting period. Market conditions greatly influence the ultimate capital required due to its effect on the valuation of reserves and derivative assets hedging these reserves. We also utilize inter-company reinsurance arrangements to manage our hedge program for variable annuity guarantees. The NAIC through its various committees, task forces and working groups continues to evaluate the adequacy of existing NAIC model regulations with a focus on targeted improvements to the statutory reserving and accounting framework for variable annuities.

We continue to analyze the use of our existing captive reinsurance structures, as well as additional third-party reinsurance arrangements, and our current hedging strategies relative to managing the effects of equity markets and interest rates on the statutory reserves, statutory capital and the dividend capacity of our life insurance subsidiaries.

#### Financing Activities

Although our subsidiaries currently generate adequate cash flow to meet the needs of our normal operations, periodically we may issue debt or equity securities to maintain ratings and increase liquidity, as well as to fund internal growth, acquisitions and the retirement of our debt and equity securities.

We currently have an effective shelf registration statement, which allows us to issue, in unlimited amounts, securities, including debt securities, preferred stock, common stock, warrants, stock purchase contracts, stock purchase units and depository shares.

Details underlying debt and financing activities (in millions) for the three months ended March 31, 2018, were as follows:

|  | Beginning |          | Maturities,<br>Repayments<br>and | Change<br>in Fair<br>Value | Other<br>Changes | Ending   |
|--|-----------|----------|----------------------------------|----------------------------|------------------|----------|
|  | Balance   | Issuance | Refinancing                      | Hedges                     | (1)              | Balance  |
| <b>Short-Term Debt</b>                   |           |          |                                  |                            |                  |          |
| Current maturities of long-term debt (2) | \$ 450    | \$ -     | \$ (200 )                        | \$ -                       | \$ -             | \$ 250   |
| <b>Long-Term Debt</b>                    |           |          |                                  |                            |                  |          |
| Senior notes                             | \$ 3,687  | \$ 1,100 | \$ (287 )                        | \$ (55 )                   | \$ (4 )          | \$ 4,441 |
| Capital securities (3)                   | 1,207     | -        | -                                | -                          | -                | 1,207    |
| Total long-term debt                     | \$ 4,894  | \$ 1,100 | \$ (287 )                        | \$ (55 )                   | \$ (4 )          | \$ 5,648 |

- (1) Includes the net increase (decrease) in commercial paper, non-cash reclassification of long-term debt to current maturities of long-term debt, accretion (amortization) of discounts and premiums and amortization of debt issuance costs, as applicable.
- (2) As of March 31, 2018, consisted of a \$250 million floating-rate senior note maturing on June 6, 2018.
- (3) To hedge the variability in rates, we have purchased forward starting interest rate swaps to lock in a fixed rate of approximately 5% over the remaining terms of the capital securities.

On February 12, 2018, we completed the issuance and sale of \$150 million aggregate principal amount of our 4.00% senior notes due 2023 and \$450 million aggregate principal amount of our 4.35% senior notes due 2048. We used these proceeds to repurchase \$200 million of our 7.00% senior notes due 2018 and \$287 million of our 8.75% senior notes due 2019. In addition, on February 12, 2018, we completed the issuance and sale of \$500 million aggregate principal amount of our 3.80% senior notes due 2028. We used these proceeds, together with cash on hand and other arrangements, to fund our recent acquisition as described in Note 3. As of March 31, 2018, the holding company had available liquidity of \$1.1 billion. Available liquidity consists of cash and invested cash, excluding cash held as collateral, and certain short-term investments that can be readily converted into cash, net of commercial paper outstanding.

For more information about our short-term and long-term debt and our credit facilities and LOCs, see Notes 12 and 24 in our 2017 Form 10-K and Note 9 herein.

We have not accounted for repurchase agreements, securities lending transactions, or other transactions involving the transfer of financial assets with an obligation to repurchase the transferred assets as sales. For information about our collateralized financing transactions on our investments, see “Payables for Collateral on Investments” in Note 5.

If current credit ratings or claims-paying ratings were downgraded in the future, terms in our derivative agreements may be triggered, which could negatively affect overall liquidity. For the majority of our counterparties, there is a termination event with respect to LNC if its long-term senior debt ratings drop below BBB-/Baa3 (S&P/Moody’s); or with respect to Lincoln National Life Insurance Company (“LNL”) if its financial strength ratings drop below

BBB-/Baa3 (S&P/Moody's). Our long-term senior debt held a rating of A-/Baa1 (S&P/Moody's) as of March 31, 2018. In addition, contractual selling agreements with intermediaries could be negatively affected, which could have an adverse effect on overall sales of annuities, life insurance and investment products. See "Part I – Item 1A. Risk Factors – Liquidity and Capital Position – A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings" and "Part I – Item 1A. Risk Factors – Covenants and Ratings – A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors" in our 2017 Form 10-K for more information. See "Part I – Item 1. Business – Financial Strength Ratings" in our 2017 Form 10-K for additional information on our current financial strength ratings.

See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Review of Consolidated Financial Condition – Liquidity and Capital Resources – Financing Activities" in our 2017 Form 10-K for information on our credit ratings.

### Alternative Sources of Liquidity

In order to manage our capital more efficiently, we have an inter-company cash management program where certain subsidiaries can lend to or borrow from the holding company to meet short-term borrowing needs. The cash management program is essentially a series of demand loans between LNC and participating subsidiaries that reduces overall borrowing costs by allowing LNC and its subsidiaries to access internal resources instead of incurring third-party transaction costs. As of March 31, 2018, the holding company had a net outstanding receivable (payable) of \$185 million from (to) certain subsidiaries resulting from loans made by subsidiaries in excess of amounts placed (borrowed) by the holding company and subsidiaries in the inter-company cash management account. Any change in holding company cash management program balances is offset by the immediate and equal change in holding company cash and invested cash. Loans under the cash management program are permitted under applicable insurance laws subject to certain restrictions. For our Indiana-domiciled insurance subsidiaries, the borrowing and lending limit is currently 3% of the insurance company's admitted assets as of its most recent year end. For our New York-domiciled insurance subsidiary, it may borrow from LNC less than 2% of its admitted assets as of the last year end but may not lend any amounts to LNC.

Our insurance subsidiaries, by virtue of their general account fixed-income investment holdings, can access liquidity through securities lending programs and repurchase agreements. Our primary insurance subsidiary, LNL, is a member of the Federal Home Loan Bank of Indianapolis ("FHLBI"). Membership allows LNL access to the FHLBI's financial services, including the ability to obtain loans and to issue funding agreements as an alternative source of liquidity that are collateralized by qualifying mortgage-related assets, agency securities or U.S. Treasury securities. LNL had an estimated maximum borrowing capacity of \$5.0 billion under the FHLBI facility as of March 31, 2018. Borrowings under this facility are subject to the FHLBI's discretion and require the availability of qualifying assets at LNL. As of March 31, 2018, our insurance subsidiaries had investments with a carrying value of \$3.6 billion out on loan or subject to repurchase agreements. The cash received in our securities lending programs and repurchase agreements is typically invested in cash equivalents, short-term investments or fixed maturity securities. For additional details, see "Payables for Collateral on Investments" in Note 5.

### Cash Flows from Collateral on Derivatives

Our cash flows associated with collateral received from and posted with counterparties change as the market value of the underlying derivative contract changes. As the value of a derivative asset decreases (or increases), the collateral required to be posted by our counterparties would also decrease (or increase). Likewise, when the value of a derivative liability decreases (or increases), the collateral we are required to post to our counterparties would also decrease (or increase). In the event of adverse changes in fair value of our derivative instruments, we may need to post collateral with a counterparty if our net derivative liability position reaches certain contractual levels. If we do not have sufficient high quality securities or cash and invested cash to provide as collateral, we have liquidity sources, as discussed above, to leverage that would be eligible for collateral posting. For additional information, see “Credit Risk” in Note 6.

### Uses of Capital

Our principal uses of cash are to pay policy claims and benefits, operating expenses, commissions and taxes, to purchase new investments, to purchase reinsurance, to fund policy surrenders and withdrawals, to pay dividends to our stockholders, to repurchase our stock and to repay debt.

### Return of Capital to Common Stockholders

One of the Company’s primary goals is to provide a return to our common stockholders through share price accretion, dividends and stock repurchases. In determining dividends, the Board of Directors takes into consideration items such as current and expected earnings, capital needs, rating agency considerations and requirements for financial flexibility. The amount and timing of share repurchase depends on key capital ratios, rating agency expectations, the generation of free cash flow and an evaluation of the costs and benefits associated with alternative uses of capital. Free cash flow for the holding company generally represents the amount of dividends and interest received from subsidiaries less interest paid on debt.

Details underlying this activity (in millions, except per share data), were as follows:

|                                  | For the Three<br>Months Ended<br>March 31, |       |
|----------------------------------|--|-------|
|                                  | 2018                                       | 2017  |
| Dividends to common stockholders | \$ 72                                      | \$ 66 |

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|                                     |       |          |
|-------------------------------------|-------|----------|
| Repurchase of common stock          | -     | 200      |
| Total cash returned to stockholders | \$ 72 | \$ 266   |
| Number of shares repurchased        | -     | 2.864    |
| Average price per share             | \$ -  | \$ 69.85 |

On October 31, 2017, our Board of Directors approved an increase of the quarterly dividend on our common stock from \$0.29 to \$0.33 per share. Additionally, we expect to repurchase additional shares of common stock during 2018 depending on market conditions and alternative uses of capital. For more information regarding share repurchases, see “Part II – Item 2(c)” below.

Other Uses of Capital

In addition to the amounts in the table above in “Return of Capital to Common Stockholders,” other uses of holding company cash flow (in millions) were as follows:

|                                      | For the Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |        |
|--------------------------------------|--|--------|
| Debt service (interest paid)         | \$ 72  | \$ 62  |
| Capital contribution to subsidiaries | 2  | 60     |
| Total                                | \$ 74  | \$ 122 |

The above table focuses on significant and recurring cash flow items and excludes the effects of certain financing activities, namely the periodic retirement of debt and cash flows related to our inter-company cash management account. Taxes have been eliminated from the analysis due to a tax sharing agreement among our primary subsidiaries resulting in a modest effect on net cash flows at the holding company.

For a discussion of our acquisition, see Note 3.

Significant Trends in Sources and Uses of Cash Flow



As stated above, LNC's cash flow, as a holding company, is largely dependent upon the dividend capacity of its insurance company subsidiaries as well as their ability to advance funds to it through inter-company borrowing arrangements, which may be affected by factors influencing the insurance subsidiaries' RBC and statutory earnings performance. We currently expect to be able to meet the holding company's ongoing cash needs and to have sufficient capital to offer downside protection in the event that the capital and credit markets experience another period of extreme volatility and disruption. A decline in capital market conditions, which reduces our insurance subsidiaries' statutory surplus and RBC, may require them to retain more capital and may pressure our subsidiaries' dividends to the holding company, which may lead us to take steps to preserve or raise additional capital. For factors that could affect our expectations for liquidity and capital, see "Part I – Item 1A. Risk Factors" in our 2017 Form 10-K as updated by "Part II – Item 1A. Risk Factors" below.

For factors that could cause actual results to differ materially from those set forth in this section, see "Forward-Looking Statements – Cautionary Language" above and "Part I – Item 1A. Risk Factors" in our 2017 Form 10-K as updated by "Part II – Item 1A. Risk Factors" below.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We analyze and manage the risks arising from market exposures of financial instruments, as well as other risks, in an integrated asset-liability management process that considers diversification. We have exposures to several market risks including interest rate risk, equity market risk, credit risk and, to a lesser extent, foreign currency exchange risk. As of March 31, 2018, there have been no material changes in our economic exposure to these market risks since December 31, 2017. For information on these market risks, see “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our 2017 Form 10-K.

### Item 4. Controls and Procedures

#### Conclusions Regarding Disclosure Controls and Procedures

We maintain disclosure controls and procedures, which are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period required by this report, we, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us and our consolidated subsidiaries required to be disclosed in our periodic reports under the Exchange Act.

#### Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system’s objectives will be met. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. Projections of any evaluation of controls

effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

Information regarding reportable legal proceedings is contained in Note 10 in “Part I – Item 1.”

### Item 1A. Risk Factors

#### Legislative, Regulatory and Tax

##### Federal Regulation

Standard of Conduct regulations could cause changes to the manner in which we deliver products and services as well as changes in nature and amount of compensation and fees.

In 2016, the Department of Labor (“DOL”) released the DOL Fiduciary Rule, which became effective on June 9, 2017, and substantially expanded the range of activities that are considered to be fiduciary investment advice under the Employee Retirement Income Security Act of 1974 (“ERISA”) and the Internal Revenue Code. The DOL Fiduciary Rule provided for a phased implementation of the provisions of the regulation, with the first part effective on June 9, 2017, and full implementation on January 1, 2018. The DOL Fiduciary Rule limited the investment-related information and support that our advisors and employees may provide to plan sponsors, participants and IRA holders on a non-fiduciary basis compared to what was previously allowed by regulation. As a result, we implemented changes to the methods that we use to (i) deliver products and services, and (ii) pay and receive compensation for our investment-related products and services, which may impact future sales or margins. In addition, to the extent that advisors with our affiliated retail broker-dealers (LFN) provide fiduciary investment advice as defined in the DOL Fiduciary Rule, it could expose those broker-dealers and their advisors to additional risk of legal liability in connection with that advice, which ultimately impacts us.

In early 2017, President Trump directed the DOL to prepare an updated economic and legal analysis on whether the DOL Fiduciary Rule (i) has harmed or is likely to harm investors due to a reduction of Americans’ access to certain retirement savings offerings, retirement product structures, retirement savings information or related advice, (ii) has resulted in dislocations or disruptions within the retirement services industry that may adversely affect investors or retirees and (iii) is likely to cause an increase in litigation and an increase in prices that investors or retirees must pay

to gain access to retirement services. Subsequently, the DOL issued final rules delaying: (i) the applicability date of the DOL Fiduciary Rule and related exemptions from April 10, 2017, to June 9, 2017; and (ii) full implementation from January 1, 2018, to July 1, 2019. The DOL also changed some requirements of the original rule release, including (i) extending the transition period from June 9, 2017, to July 1, 2019, for advisors relying on the Best Interest Contract Exemption to adhere to the Impartial Conduct Standards and (ii) extending the transition period to July 1, 2019, for advisors who seek to rely on Prohibited Transaction Exemption 84-24 for the sale of all annuities and insurance, provided they adhere to that exemption's Impartial Conduct Standards.

On March 15, 2018, the U.S. Court of Appeals for the Fifth Circuit (the "Fifth Circuit") issued an opinion in the case *Chamber of Commerce v. the U.S. Department of Labor* vacating the DOL Fiduciary Rule and related applicable exemptions. The DOL and the Department of Justice did not seek an en banc rehearing of the case, but may still decide to appeal the Fifth Circuit's decision to the U.S. Supreme Court. It is expected that the Fifth Circuit will issue a mandate stating that the original definition of "fiduciary," including the original five-part test, will apply going forward.

On April 18, 2018, the Securities and Exchange Commission (the "SEC") proposed "Regulation Best Interest", a new standard of conduct for broker-dealers under the Securities Exchange Act of 1934, which would require a broker-dealer to act in the best interest of a retail customer when making a recommendation of any securities transaction, without putting its financial interests ahead of the interests of a retail customer. The proposed rule includes guidance on what constitutes a "recommendation" and a definition of who would be a "retail customer" in addition to provisions setting forth certain required disclosures, policies and procedures to identify conflicts of interest, and customer-specific best interest obligations.

In addition, the SEC proposed the use of a new disclosure document, the customer or client relationship summary, or Form CRS. Form CRS is intended to provide retail investors with information about the nature of their relationship with their investment professional, and would supplement other more detailed disclosures, including existing Form ADV for advisors and the new disclosures under Regulation Best Interest for broker dealers.

Finally, the SEC proposed interpretative guidance providing clarity on an investment adviser's fiduciary obligation under the Advisers Act. The guidance indicates that investment advisers have a fiduciary duty to their clients that includes both duty of care and a duty of loyalty and provides additional clarification of an investment adviser's responsibilities under these fiduciary duties. Investment advisers and broker-dealers would also need to disclose their registration status with the SEC in certain retail investor communications. The comment period on the proposals will extend for 90 days after the proposal is published in the Federal Register.

In addition to the SEC proposed rules, the NAIC and several states, including Connecticut, Nevada, New Jersey and New York have passed laws or proposed regulations requiring investment advisers, broker-dealers and/or agents to disclose conflicts of interest to clients or to meet standards that their advice be in the customer's best interest. These recent developments could result in additional requirements related to the sale of our products.

It is uncertain at this point, as to whether the DOL or Department of Justice will seek to appeal the decision of the Fifth Circuit, particularly in light of the SEC's recent regulatory proposals and interpretative guidance that address the fiduciary duties of investment advisers and broker dealers. It is also uncertain how the original DOL definition of "fiduciary" will work in conjunction with any final rules adopted by the SEC. While we continue to monitor and evaluate the various proposals, we cannot predict what other proposals may be made, what legislation or regulation may be introduced or become law. Therefore, until such time as final rules or laws are in place, the potential impact on our business is uncertain.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table summarizes purchases of equity securities by the Company during the quarter ended March 31, 2018 (dollars in millions, except per share data):

| Period           | (a) Total<br>Number<br>of Shares<br>(or Units)<br>Purchased<br>(1) | (b)<br>Average<br>Price<br>Paid<br>per<br>Share<br>(or Unit) | (c) Total<br>Number<br>of Shares<br>(or Units)<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs<br>(2) | (d)<br>Approximate<br>Dollar<br>Value of<br>Shares (or<br>Units) that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs<br>(2)(3) |
|------------------|--|--|---|---|
| 1/1/18 – 1/31/18 | -  | \$ -   | -   | \$ 961  |
| 2/1/18 – 2/28/18 | -  | -  | -   | 961   |
| 3/1/18 – 3/31/18 | -  | -  | -   | 961   |

(1) For the quarter ended March 31, 2018, there were no shares purchased as part of publicly announced plans or programs.

(2) On November 9, 2017, our Board of Directors authorized an increase in our securities repurchase authorization, bringing the total aggregate repurchase authorization to \$1.0 billion. As of March 31, 2018, our remaining security repurchase authorization was \$961 million. The security repurchase authorization does not have an expiration date. The amount and timing of share repurchase depends on key capital ratios, rating agency expectations, the generation of free cash flow and an evaluation of the costs and benefits associated with alternative uses of capital. Our stock repurchases may be effected from time to time through open market purchases or in privately negotiated transactions and may be made pursuant to a Rule 10b5-1 plan.

(3) As of the last day of the applicable month.

## Item 5. Other Information

As previously announced, on May 1, 2018, The Lincoln National Life Insurance Company (“LNL”) and Lincoln National Corporation (“LNC”) completed the previously disclosed acquisition of all of the issued and outstanding capital stock of Liberty Life Assurance Company of Boston (“Liberty Life”), which operated Liberty’s group benefits

business (the “Liberty Group Business”) and individual life and individual and group annuity business (the “Liberty Life Business”).

The acquisition was completed pursuant to a Master Transaction Agreement (the “Master Transaction Agreement”) with Liberty Mutual Insurance Company (“LMIC”), Liberty Mutual Fire Insurance Company (together with LMIC, “Sellers”), for the limited purposes set forth therein, Liberty Mutual Group Inc. (“Liberty”), Protective Life Insurance Company (“Reinsurer”), and for the limited purposes set forth therein, Protective Life Corporation, which Master Transaction Agreement was attached as Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on January 22, 2018.

Additionally, pursuant to the Master Transaction Agreement, Liberty Life entered into reinsurance agreements (the “Reinsurance Agreements”) and related ancillary documents with each of Reinsurer and Protective Life and Annuity Insurance Company (together with Reinsurer, “Reinsurers”) at the closing of the transaction. On the terms and subject to the conditions of the Reinsurance Agreements, Liberty Life ceded to Reinsurers, effective as of May 1, certain insurance policies relating to the Liberty Life Business. To support their obligations under the Reinsurance Agreements, Reinsurers have established trust accounts for the benefit of LNL.

#### Item 6. Exhibits

The Exhibits included in this report are listed in the Exhibit Index beginning on page 88, which is incorporated herein by reference.

LINCOLN NATIONAL CORPORATION

Exhibit Index for the Report on Form 10-Q

For the Quarter Ended March 31, 2018

- 3.1 Amended and Restated Bylaws of LNC are incorporated by reference to Exhibit 3.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on March 21, 2018.
- 12 Historical Ratio of Earnings to Fixed Charges.
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LINCOLN NATIONAL  
CORPORATION

By: /s/ RANDAL J.  
FREITAG  
Randal J.  
Freitag

Executive Vice  
President and  
Chief Financial  
Officer

By: /s/ CHRISTINE  
A. JANOFSKY  
Christine A.  
Janofsky

Senior Vice  
President and  
Chief  
Accounting  
Officer

Dated: May 3, 2018