# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2020**

**OR**

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

**For the transition period from ______ to ______**

**Commission File Number: 1-6028**

# LINCOLN NATIONAL CORPORATION
**(Exact name of registrant as specified in its charter)**

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

**(484) 583-1400**
**(Registrant's telephone number, including area code)**

**Not Applicable**
**(Former name, former address and former fiscal year, if changed since last report.)**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock | LNC | New York Stock Exchange |

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 every Interactive Data File required to be submitted 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 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.

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ☒ | Accelerated Filer | ☐ |
| Non-accelerated Filer | ☐ | 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 May 4, 2020, there were 193,224,445 shares of the registrant's common stock outstanding.

**Lincoln National Corporation**

**Table of Contents**


| Item | | Page |
|---|---|---|
| | **PART I** | |
| 1. | Financial Statements | 1 |
| 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 49 |
| | Forward-Looking Statements – Cautionary Language | 50 |
| | Introduction | 51 |
| | Executive Summary | 51 |
| | Critical Accounting Policies and Estimates | 52 |
| | Acquisitions and Dispositions | 54 |
| | Results of Consolidated Operations | 55 |
| | Results of Annuities | 56 |
| | Results of Retirement Plan Services | 61 |
| | Results of Life Insurance | 65 |
| | Results of Group Protection | 69 |
| | Results of Other Operations | 72 |
| | Realized Gain (Loss) and Benefit Ratio Unlocking | 74 |
| | Consolidated Investments | 76 |
| | Review of Consolidated Financial Condition | 88 |
| | Liquidity and Capital Resources | 88 |
| 3. | Quantitative and Qualitative Disclosures About Market Risk | 92 |
| 4. | Controls and Procedures | 93 |
| | **PART II** | |
| 1. | Legal Proceedings | 94 |
| 1A. | Risk Factors | 94 |
| 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 95 |
| 6. | Exhibits | 95 |
| | Exhibit Index for the Report on Form 10-Q | 96 |
| | Signatures | 97 |

## PART I – FINANCIAL INFORMATION

*Item 1.* **Financial Statements**

## LINCOLN NATIONAL CORPORATION
## CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

| | As of March 31, 2020 (Unaudited) | As of December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| Investments: | | |
| Fixed maturity available-for-sale securities, at fair value | | |
| (amortized cost: 2020 – $96,217; 2019 – $94,295; allowance for credit losses: 2020 – $20; 2019 – $0) | $ 102,606 | $ 105,200 |
| Trading securities | 4,019 | 4,673 |
| Equity securities | 83 | 103 |
| Mortgage loans on real estate, net of allowance for credit losses | | |
| (portion at fair value: 2020 – $765; 2019 – $0) | 16,791 | 16,339 |
| Policy loans | 2,571 | 2,477 |
| Derivative investments | 4,417 | 1,911 |
| Other investments | 4,765 | 2,994 |
| Total investments | 135,252 | 133,697 |
| Cash and invested cash | 6,202 | 2,563 |
| Deferred acquisition costs and value of business acquired | 9,212 | 7,694 |
| Premiums and fees receivable | 562 | 465 |
| Accrued investment income | 1,185 | 1,148 |
| Reinsurance recoverables, net of allowance for credit losses | 16,923 | 17,144 |
| Reinsurance related embedded derivatives | 137 | - |
| Funds withheld reinsurance assets | 535 | 536 |
| Goodwill | 1,778 | 1,778 |
| Other assets | 16,246 | 16,170 |
| Separate account assets | 130,617 | 153,566 |
| Total assets | $ 318,649 | $ 334,761 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Liabilities** | | |
| Future contract benefits | $ 37,100 | $ 36,420 |
| Other contract holder funds | 99,508 | 98,018 |
| Short-term debt | - | 300 |
| Long-term debt | 6,748 | 6,067 |
| Reinsurance related embedded derivatives | - | 327 |
| Funds withheld reinsurance liabilities | 1,843 | 1,810 |
| Payables for collateral on investments | 8,434 | 5,082 |
| Other liabilities | 17,824 | 13,482 |
| Separate account liabilities | 130,617 | 153,566 |
| Total liabilities | 302,074 | 315,072 |
| **Contingencies and Commitments (See Note 11)** | | |
| **Stockholders' Equity** | | |
| Preferred stock – 10,000,000 shares authorized | - | - |
| Common stock – 800,000,000 shares authorized; 193,208,244 and 196,668,532 shares issued and outstanding as of March 31, 2020, and December 31, 2019, respectively | 5,071 | 5,162 |
| Retained earnings | 8,500 | 8,854 |
| Accumulated other comprehensive income (loss) | 3,004 | 5,673 |
| Total stockholders' equity | 16,575 | 19,689 |
| Total liabilities and stockholders' equity | $ 318,649 | $ 334,761 |

See accompanying Notes to Consolidated Financial Statements

**LINCOLN NATIONAL CORPORATION**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
(Unaudited, in millions, except per share data)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Revenues** | | |
| Insurance premiums | $ 1,373 | $ 1,446 |
| Fee income | 1,539 | 1,475 |
| Net investment income | 1,375 | 1,251 |
| Realized gain (loss): | | |
| Total other-than-temporary impairment losses on securities | - | (23) |
| Portion of loss recognized in other comprehensive income | - | 15 |
| Net other-than-temporary impairment losses on securities recognized in earnings | - | (8) |
| Realized gain (loss), excluding other-than-temporary impairment losses on securities | (24) | (354) |
| Total realized gain (loss) | (24) | (362) |
| Amortization of deferred gain on business sold through reinsurance | 11 | 8 |
| Other revenues | 151 | 147 |
| Total revenues | 4,425 | 3,965 |
| **Expenses** | | |
| Interest credited | 725 | 678 |
| Benefits | 2,501 | 1,757 |
| Commissions and other expenses | 1,085 | 1,176 |
| Interest and debt expense | 68 | 71 |
| Strategic digitization expense | 12 | 15 |
| Total expenses | 4,391 | 3,697 |
| Income (loss) before taxes | 34 | 268 |
| Federal income tax expense (benefit) | (18) | 16 |
| Net income (loss) | 52 | 252 |
| Other comprehensive income (loss), net of tax | (2,669) | 2,046 |
| Comprehensive income (loss) | $ (2,617) | $ 2,298 |
| | | |
| **Net Income (Loss) Per Common Share** | | |
| Basic | $ 0.27 | $ 1.23 |
| Diluted | 0.15 | 1.22 |
| | | |
| **Cash Dividends Declared Per Common Share** | $ 0.40 | $ 0.37 |

See accompanying Notes to Consolidated Financial Statements

**LINCOLN NATIONAL CORPORATION**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
(Unaudited, in millions, except per share data)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Common Stock** | | |
| Balance as of beginning-of-year | $ 5,162 | $ 5,392 |
| Stock compensation/issued for benefit plans | 9 | (5) |
| Retirement of common stock/cancellation of shares | (100) | (102) |
| Balance as of end-of-period | 5,071 | 5,285 |
| **Retained Earnings** | | |
| Balance as of beginning-of-year | 8,854 | 8,551 |
| Cumulative effect from adoption of new accounting standards | (203) | - |
| Net income (loss) | 52 | 252 |
| Retirement of common stock | (125) | (48) |
| Common stock dividends declared | (78) | (76) |
| Balance as of end-of-period | 8,500 | 8,679 |
| **Accumulated Other Comprehensive Income (Loss)** | | |
| Balance as of beginning-of-year | 5,673 | 407 |
| Other comprehensive income (loss), net of tax | (2,669) | 2,046 |
| Balance as of end-of-period | 3,004 | 2,453 |
| Total stockholders' equity as of end-of-period | $ 16,575 | $ 16,417 |

**LINCOLN NATIONAL CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited, in millions)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Cash Flows from Operating Activities** | | |
| Net income (loss) | $ 52 | $ 252 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Realized (gain) loss | 24 | 362 |
| Trading securities purchases, sales and maturities, net | 235 | (1,209) |
| Amortization of deferred gain on business sold through reinsurance | (11) | (8) |
| Change in: | | |
| Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads deferrals and interest, net of amortization | (169) | (70) |
| Premiums and fees receivable | (97) | (37) |
| Accrued investment income | (37) | (65) |
| Future contract benefits and other contract holder funds | 1,389 | (348) |
| Reinsurance related assets and liabilities | (653) | (299) |
| Accrued expenses | (317) | (56) |
| Federal income tax accruals | (18) | 16 |
| Other | 57 | 131 |
| Net cash provided by (used in) operating activities | 455 | (1,331) |
| **Cash Flows from Investing Activities** | | |
| Purchases of available-for-sale securities and equity securities | (3,590) | (4,404) |
| Sales of available-for-sale securities and equity securities | 395 | 2,381 |
| Maturities of available-for-sale securities | 1,317 | 1,456 |
| Purchases of alternative investments | (79) | (174) |
| Sales and repayments of alternative investments | 55 | 32 |
| Issuance of mortgage loans on real estate | (839) | (1,103) |
| Repayment and maturities of mortgage loans on real estate | 227 | 242 |
| Issuance (repayment) of policy loans, net | (94) | 11 |
| Net change in collateral on investments, derivatives and related settlements | 3,411 | 488 |
| Other | (61) | (62) |
| Net cash provided by (used in) investing activities | 742 | (1,133) |
| **Cash Flows from Financing Activities** | | |
| Payment of long-term debt, including current maturities | (300) | - |
| Issuance of long-term debt, net of issuance costs | 499 | - |
| Deposits of fixed account values, including the fixed portion of variable | 3,917 | 4,042 |
| Withdrawals of fixed account values, including the fixed portion of variable | (1,684) | (1,570) |
| Transfers to and from separate accounts, net | 323 | (507) |
| Common stock issued for benefit plans | (9) | (26) |
| Repurchase of common stock | (225) | (150) |
| Dividends paid to common stockholders | (79) | (77) |
| Net cash provided by (used in) financing activities | 2,442 | 1,712 |
| Net increase (decrease) in cash, invested cash and restricted cash | 3,639 | (752) |
| Cash, invested cash and restricted cash as of beginning-of-year | 2,563 | 2,345 |
| Cash, invested cash and restricted cash as of end-of-period | $ 6,202 | $ 1,593 |

See accompanying Notes to Consolidated Financial Statements

## 1. Nature of Operations and Basis of Presentation

### Nature of Operations

Lincoln National Corporation and its 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, retirement income and group protection 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. 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, 2019 ("2019 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 2019 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, 2020, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2020, especially when considering the risks and uncertainties associated with the coronavirus, or COVID-19, pandemic and the future impacts of the pandemic on our business, results of operations and financial condition. 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 ("FASB") and the impact of the adoption on our financial statements. ASUs not listed below were assessed and determined to be either not applicable or insignificant in presentation or amount.

| Standard | Description | Date of Adoption | Effect on Financial Statements or Other Significant Matters |
|---|---|---|---|
| ASU 2016-13, Measurement of Credit Losses on Financial Instruments and related amendments | These amendments adopt a new model in Accounting Standards Codification™ ("ASC") Topic 326 to measure and recognize credit losses for most financial assets. The ASU requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected over the life of the asset using an allowance for credit losses. Changes in the allowance are charged to earnings. The measurement of expected credit losses is based on relevant information about past events, including historical experience, as well as current economic conditions and reasonable and supportable forecasts that affect the collectability of the financial asset. The method used to measure estimated credit losses for fixed maturity available-for-sale ("AFS") 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 securities. The amendments permit entities to recognize improvements in credit loss estimates on fixed maturity AFS securities by reducing the allowance account immediately through earnings. The amendments are 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 | The adoption of this standard and related amendments resulted in the recognition of a cumulative effect decrease of $218 million, net of deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI"), deferred front-end loads ("DFEL") and changes in other contract holder funds, after-tax, to retained earnings. The overall adjustment recorded our allowance for credit losses ("ACL") as of the date of adoption, primarily related to commercial and residential mortgage loans, as well as reinsurance recoverables. Upon adoption of the standard, the concept of other-than-temporary impairment ("OTTI") no longer exists; however, our prior period presentation herein is reflective of OTTI recorded in those periods. |
| ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging and Topic 825, Financial Instruments | These amendments clarify the measurement, recognition and presentation of the allowance for credit losses on accrued interest receivable balances; the inclusion of recoveries when estimating the allowance for credit losses; the inclusion of all ASC Topic 944 – *Financial Services – Insurance* reinsurance recoverables within the scope of ASC 326-20; and provide additional targeted clarifications on the calculation of the allowance for credit losses.<br><br>These amendments also make targeted clarifications to ASC Topics 815 and 825. Early adoption is permitted. | January 1, 2020 | Our adoption of ASU 2016-13 and related amendments is discussed above. The adoption of the remainder of this guidance did not have a material impact on our consolidated financial condition and results of operations. |

| Standard | Description | Date of Adoption | Effect on Financial Statements or Other Significant Matters |
|---|---|---|---|
| ASU 2019-05, Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief | The amendments provide entities that have certain instruments within the scope of Subtopic 326-20, *Financial Instruments – Credit Losses – Measured at Amortized Cost*, with an option to irrevocably elect the fair value option in Subtopic 825-10, *Financial Instruments – Overall*, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASC Topic 326. | January 1, 2020 | We recognized a cumulative effect increase to retained earnings of $15 million, after-tax, by electing the fair value option for certain mortgage loans in connection with our adoption of ASC Topic 326. |

**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 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts and related amendments | These amendments make changes to the accounting and reporting for long-duration contracts issued by an insurance entity that will significantly change how insurers account for long-duration contracts, including how they measure, recognize and make disclosures about insurance liabilities and DAC. Under this ASU, insurers will be required to review cash flow assumptions at least annually and update them if necessary. They also will have to make quarterly updates to the discount rate assumptions they use to measure the liability for future policyholder benefits. The ASU creates a new category of market risk benefits (i.e., features that protect the contract holder from capital market risk and expose the insurer to that risk) that insurers will have to measure at fair value. The ASU provides various transition methods by topic that entities may elect upon adoption. The ASU is currently effective January 1, 2022, and early adoption is permitted. | January 1, 2022 | We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations. |

| Standard | Description | Projected Date of Adoption | Effect on Financial Statements or Other Significant Matters |
|---|---|---|---|
| ASU 2020-04, Reference Rate Reform (Topic 848) | The amendments in this update provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions impacted by reference rate reform. If certain criteria are met, an entity will not be required to remeasure or reassess contracts impacted by reference rate reform. Additionally, changes to the critical terms of a hedging relationship affected by reference rate reform will not require entities to de-designate the relationship if certain requirements are met. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. Early adoption was permitted at the time of issuance. | Not yet determined | We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations. |

## 3. Variable Interest Entities

### Consolidated VIEs

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

| | As of March 31, 2020 | | | As of December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Number of Instruments | Notional Amounts | Carrying Value | Number of Instruments | Notional Amounts | Carrying Value |
| **Assets** | | | | | | |
| Total return swap | 1 | $ 596 | $ - | 1 | $ 613 | $ - |

As of March 31, 2020, and December 31, 2019, there were no gains or losses for consolidated VIEs recognized on our Consolidated Statements of Comprehensive Income (Loss).

**Unconsolidated VIEs**

*Structured Securities*

Through our investment activities, we make passive investments in structured securities issued by VIEs for which we are not the manager. These structured securities include our asset-backed securities ("ABS"), residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") and collateralized loan obligations ("CLOs"). We have not provided financial or other support with respect to these VIEs other than our original investment. We have determined that we are not the primary beneficiary of these VIEs due to the relative size of our investment in comparison to the principal amount of the structured securities issued by the VIEs and the level of credit subordination that reduces our obligation to absorb losses or right to receive benefits. Our maximum exposure to loss on these structured securities is limited to the amortized cost for these investments. We recognize our variable interest in these VIEs at fair value on our Consolidated Balance Sheets. For information about these structured securities, see Note 4.

*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 $2.0 billion and $1.9 billion as of March 31, 2020, and December 31, 2019, respectively. Included in these carrying amounts are our investments in qualified affordable housing projects, which were $11 million and $13 million as of March 31, 2020, and December 31, 2019, 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, 2020 and 2019, 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, 2020.

## 4. Investments

### Fixed Maturity AFS Securities

In 2020, we adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which resulted in a new recognition and measurement of credit losses on most financial assets. See Note 2 for additional information.

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

| | As of March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Amortized | Gross Unrealized | | | Fair |
| | Cost | Gains | Losses | ACL | Value |
| Fixed maturity AFS securities: | | | | | |
| Corporate bonds | $ 80,785 | $ 7,031 | $ 1,999 | $ 20 | $ 85,797 |
| U.S. government bonds | 380 | 102 | - | - | 482 |
| State and municipal bonds | 4,797 | 1,123 | 14 | - | 5,906 |
| Foreign government bonds | 329 | 63 | 3 | - | 389 |
| RMBS | 3,014 | 277 | 20 | - | 3,271 |
| CMBS | 1,089 | 39 | 9 | - | 1,119 |
| ABS | 5,259 | 59 | 232 | - | 5,086 |
| Hybrid and redeemable preferred securities | 564 | 51 | 59 | - | 556 |
| Total fixed maturity AFS securities | $ 96,217 | $ 8,745 | $ 2,336 | $ 20 | $ 102,606 |

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

| | As of December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Amortized | Gross Unrealized | | | Fair |
| | Cost | Gains | Losses | OTTI [1] | Value |
| Fixed maturity AFS securities: | | | | | |
| Corporate bonds | $ 79,417 | $ 9,479 | $ 184 | $ (4) | $ 88,716 |
| U.S. government bonds | 384 | 51 | - | - | 435 |
| State and municipal bonds | 4,778 | 1,113 | 7 | - | 5,884 |
| Foreign government bonds | 329 | 64 | - | - | 393 |
| RMBS | 3,042 | 190 | 10 | (19) | 3,241 |
| CMBS | 1,038 | 45 | 1 | (1) | 1,083 |
| ABS | 4,810 | 62 | 18 | (35) | 4,889 |
| Hybrid and redeemable preferred securities | 497 | 82 | 20 | - | 559 |
| Total fixed maturity AFS securities | $ 94,295 | $ 11,086 | $ 240 | $ (59) | $ 105,200 |

(1) Prior to the adoption of ASU 2016-13, we recognized the OTTI attributed to noncredit factors as a separate component in other comprehensive income (loss) ("OCI") referred to as unrealized OTTI on fixed maturity AFS securities. This includes unrealized (gains) and losses on credit-impaired securities related to changes in the fair value of such securities subsequent to the impairment measurement date.

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) as of March 31, 2020, were as follows:

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 3,008 | $ 2,980 |
| Due after one year through five years | 14,806 | 14,836 |
| Due after five years through ten years | 17,319 | 17,804 |
| Due after ten years | 51,722 | 57,510 |
| Subtotal | 86,855 | 93,130 |
| Structured securities (RMBS, CMBS, ABS) | 9,362 | 9,476 |
| Total fixed maturity AFS securities | $ 96,217 | $ 102,606 |

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 of fixed maturity AFS securities (dollars in millions) for which an allowance for credit losses has not been recorded, 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, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than or Equal to Twelve Months | | Greater Than Twelve Months | | Total | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses (1) |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 21,648 | $ 1,745 | $ 828 | $ 254 | $ 22,476 | $ 1,999 |
| State and municipal bonds | 364 | 14 | - | - | 364 | 14 |
| Foreign government bonds | 27 | 3 | - | - | 27 | 3 |
| RMBS | 352 | 19 | 5 | 1 | 357 | 20 |
| CMBS | 250 | 9 | 2 | - | 252 | 9 |
| ABS | 4,160 | 196 | 255 | 36 | 4,415 | 232 |
| Hybrid and redeemable preferred securities | 178 | 22 | 78 | 37 | 256 | 59 |
| Total fixed maturity AFS securities | $ 26,979 | $ 2,008 | $ 1,168 | $ 328 | $ 28,147 | $ 2,336 |
| | | | | | | |
| Total number of fixed maturity AFS securities in an unrealized loss position | | | | | | 2,724 |

(1) We recognized $22 million of gross unrealized losses in OCI for fixed maturity AFS securities for which an allowance for credit losses has been recorded.

The fair value and gross unrealized losses, including the portion of OTTI recognized in OCI, of fixed maturity 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 December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than or Equal to Twelve Months | | Greater Than Twelve Months | | Total | |
| | Fair Value | Gross Unrealized Losses and OTTI | Fair Value | Gross Unrealized Losses and OTTI | Fair Value | Gross Unrealized Losses and OTTI |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 2,935 | $ 46 | $ 1,406 | $ 141 | $ 4,341 | $ 187 |
| State and municipal bonds | 333 | 7 | 18 | - | 351 | 7 |
| RMBS | 536 | 10 | 15 | - | 551 | 10 |
| CMBS | 48 | 1 | 4 | - | 52 | 1 |
| ABS | 1,792 | 8 | 303 | 10 | 2,095 | 18 |
| Hybrid and redeemable preferred securities | 29 | 1 | 102 | 19 | 131 | 20 |
| Total fixed maturity AFS securities | $ 5,673 | $ 73 | $ 1,848 | $ 170 | $ 7,521 | $ 243 |
| | | | | | | |
| Total number of fixed maturity AFS securities in an unrealized loss position | | | | | | 895 |

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

| | As of March 31, 2020 | | |
|---|---|---|---|
| | Fair Value | Gross Unrealized Losses | Number of Securities (1) |
| Less than six months | $ 1,528 | $ 803 | 185 |
| Twelve months or greater | 50 | 60 | 23 |
| Total | $ 1,578 | $ 863 | 208 |

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

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

| | As of December 31, 2019 | | | |
|---|---|---|---|---|
| | Fair Value | Gross Unrealized | | Number of Securities (1) |
| | | Losses | OTTI | |
| Less than six months | $ 15 | $ 5 | $ - | 7 |
| Six months or greater, but less than nine months | 10 | 3 | - | 4 |
| Twelve months or greater | 132 | 76 | - | 31 |
| Total | $ 157 | $ 84 | $ - | 42 |

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

Our gross unrealized losses on fixed maturity AFS securities increased by $2.1 billion for the three months ended March 31, 2020. As discussed further below, we believe the unrealized loss position as of March 31, 2020, did not require an impairment recognized in earnings 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 the fixed maturity AFS securities before recovery of their amortized cost basis; and (iii) the difference in the fair value compared to the amortized cost was due to factors other than credit loss. Based upon this evaluation as of March 31, 2020, management believes we have the ability to generate adequate amounts of cash from our normal operations (e.g., insurance premiums, fee income and investment income) to meet cash requirements with a prudent margin of safety without requiring the sale of our impaired securities.

The disruption in the financial markets related to the coronavirus, or COVID-19, pandemic in the first quarter of 2020 caused credit spreads to widen since December 31, 2019, resulting in an increase in our gross unrealized losses.

As of March 31, 2020, the unrealized losses associated with our corporate, state and municipal and foreign government 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 of each impaired security.

As of March 31, 2020, 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 impaired security.

As of March 31, 2020, 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 impaired security.

*Evaluation for Credit Loss Impairment*

We regularly review our fixed maturity AFS securities (also referred to as "debt securities") for declines in fair value that we determine to be impairment-related, including those attributable to credit risk factors that may require an allowance for credit loss.

For our fixed maturity AFS securities, we generally consider the following to determine whether our debt securities with unrealized losses are credit impaired:

- The estimated range and average period until recovery;
- The estimated range and average holding period to maturity;
- Remaining payment terms of the security;
- Current delinquencies and nonperforming assets of underlying collateral;
- Expected future default rates;
- Collateral value by vintage, geographic region, industry concentration or property type;
- Subordination levels or other credit enhancements as of the balance sheet date as compared to origination; and
- Contractual and regulatory cash obligations.

For a debt security, if we intend to sell a security, or it is more likely than not we will be required to sell a debt security before recovery of its amortized cost basis and the fair value of the debt security is below amortized cost, we conclude that an impairment has occurred and the amortized cost is written down to current fair value with a corresponding charge to realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss). If we do not intend to sell a debt security, or it is not more likely than not we will be required to sell a debt security before recovery of its amortized cost basis but the present value of the cash flows expected to be collected is less than the amortized cost of the debt security (referred to as the credit loss), we conclude that an impairment has occurred, and an allowance for credit losses is recorded, with a corresponding charge to realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss). The remainder of the decline to fair value related to factors other than credit loss is recorded in OCI to unrealized losses on fixed maturity AFS securities on our Consolidated Statements of Stockholders' Equity, as this amount is considered a non-credit impairment.

When assessing our intent to sell a debt security, or if it is more likely than not we will be required to sell a debt security before recovery of its cost basis, we evaluate facts and circumstances such as, but not limited to, decisions to reposition our security portfolio, sales of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing. 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.

*Calculation of Credit Impairment*

In order to determine the amount of the credit loss for a debt security, we calculate the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows we expect to recover. The discount rate is the effective interest rate implicit in the underlying debt security. The effective interest rate is the original yield, or the coupon if the debt security was previously impaired. See the discussion below for additional information on the methodology and significant inputs, by security type, that we use to determine the amount of a credit loss.

To determine the recovery period 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;
- The 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.

In periods subsequent to the recognition of a credit loss impairment through an ACL, we continue to reassess the expected cash flows of the fixed maturity AFS security at each subsequent measurement date as necessary. If the measurement of credit loss changes, we recognize a provision for (or reversal of) credit loss expense through realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss), limited by the amount that amortized cost exceeds fair value. Losses are charged against the ACL when management believes the uncollectibility of a fixed maturity AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest on fixed maturity AFS securities is written off when deemed uncollectible.

*Determination of Credit Losses on Corporate Bonds*

To determine recovery value of a corporate bond, CLO or CDO, we perform additional analysis related to the underlying issuer including, but not limited to, the following:

- Fundamentals of the issuer to determine what we would recover if they were to file bankruptcy versus the price at which the market is trading;
- Fundamentals of the industry in which the issuer operates;
- Earnings multiples for the given industry or sector of an industry that the underlying issuer operates within, divided by the outstanding debt to determine an expected recovery value of the security in the case of a liquidation;
- Expected cash flows of the issuer (e.g., whether the issuer has cash flows in excess of what is required to fund its operations);
- Expectations regarding defaults and recovery rates;
- Changes to the rating of the security by a rating agency; and
- Additional market information (e.g., if there has been a replacement of the corporate debt security).

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade (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, 2020, and December 31, 2019, 96% of the fair value of our corporate bond portfolio was rated investment grade. As of March 31, 2020, and December 31, 2019, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $3.9 billion and $3.2 billion, respectively, and a fair value of $3.5 billion and $3.3 billion, respectively. Based upon the analysis discussed above, we believe that as of March 31, 2020, and December 31, 2019, we would have recovered the amortized cost of each corporate bond.

*Determination of Credit Losses on MBS and ABS*

Each quarter, we review the cash flows for the MBS portfolio, including current credit enhancements and trends in the underlying collateral performance, to determine whether or not they are sufficient to provide for the recovery of our amortized cost. To determine recovery value of a MBS, we perform additional analysis related to the underlying issuer including, but not limited to, the following:

- Discounted cash flow analysis based on the current cash flows and future cash flows we expect to recover;
- Level of borrower creditworthiness of the home equity loans or residential mortgages that back an RMBS or commercial mortgages that back a CMBS;
- Susceptibility to fair value fluctuations for changes in the interest rate environment;
- Susceptibility to reinvestment risks, in cases where market yields are lower than the securities' book yield earned;
- Susceptibility to reinvestment risks, in cases where market yields are higher than the book yields earned on a security;
- Expectations of sale of such a security where market yields are higher than the book yields earned on a security; and
- Susceptibility to variability of prepayments.

When evaluating MBS and mortgage-related ABS, we consider a number of pool-specific factors as well as market level factors when determining whether or not the impairment on the security requires an ACL. The most important factor is the performance of the underlying collateral in the security and the trends of that performance in the prior periods. We use this information about the collateral to forecast the timing and rate of mortgage loan defaults, including making projections for loans that are already delinquent and for those loans that are currently performing but may become delinquent in the future. Other factors used in this analysis include the credit characteristics of borrowers, geographic distribution of underlying loans and timing of liquidations by state. Once default rates and timing assumptions are determined, we then make assumptions regarding the severity of a default if it were to occur. Factors that impact the severity assumption include expectations for future home price appreciation or depreciation, loan size, first lien versus second lien, existence of loan level private mortgage insurance, type of occupancy and geographic distribution 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. Once default and severity assumptions are determined for the security in question, cash flows for the underlying collateral are projected including expected defaults and prepayments. These cash flows on the collateral are then translated to cash flows on our tranche based on the cash flow waterfall of the entire capital security structure. If this analysis indicates the entire principal on a particular security will not be returned, the security is reviewed for a credit loss by comparing the expected cash flows to amortized cost. To the extent that the security has already been impaired through a recognized ACL or was purchased at a discount, such that the amortized cost of the security is less than or equal to the present value of cash flows expected to be collected, no ACL is required. Otherwise, if the amortized cost of the security is greater than the present value of the cash flows expected to be collected, and the security was not purchased at a discount greater than the expected principal loss, then an impairment through an ACL is recognized.

We further monitor the cash flows of all of our fixed maturity AFS securities backed by mortgages on an ongoing basis. We also perform detailed analysis on all of our subprime, Alt-A, non-agency residential MBS and on a significant percentage of our fixed maturity AFS securities backed by pools of commercial mortgages. The detailed analysis includes revising projected cash flows by updating the cash flows for actual cash received and applying assumptions with respect to expected defaults, foreclosures and recoveries in the future. These revised projected cash flows are then compared to the amount of credit enhancement (subordination) in the structure to determine whether the amortized cost of the security is recoverable. If it is not recoverable, we record an impairment through an ACL for the security.

Changes in the allowance for credit losses on fixed maturity AFS securities (in millions) for the three months ended March 31, 2020, aggregated by investment category, were as follows:

| | Corporate Bonds | RMBS | ABS | Other | Total |
|---|---|---|---|---|---|
| Balance as of beginning-of-year | $ - | $ - | $ - | $ - | $ - |
| Additions for securities for which credit losses were not previously recognized | 20 | - | - | - | 20 |
| Additions from purchases of PCD debt securities [1] | - | - | - | - | - |
| Balance as of end-of-period [2] | $ 20 | $ - | $ - | $ - | $ 20 |

[1] Represents purchased credit-deteriorated ("PCD") fixed maturity AFS securities.

[2] Accrued interest receivable on fixed maturity AFS securities totaled $1.0 billion as of March 31, 2020, and was excluded from the estimate of credit losses.

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 Months March 31, 2019 |
|---|---|
| Balance as of beginning-of-year | $ 355 |
| Increases attributable to: | |
| Credit losses on securities for which an OTTI was not previously recognized | 6 |
| Credit losses on securities for which an OTTI was previously recognized | 2 |
| Decreases attributable to: | |
| Securities sold, paid down or matured | (4) |
| Balance as of end-of-period | $ 359 |

**Mortgage Loans on Real Estate**

Mortgage loans on real estate consist of commercial and residential mortgage loans and are generally carried at unpaid principal balances adjusted for amortization of premiums and accretion of discounts and are net of allowances for credit losses. We carry certain commercial mortgage loans at fair value where the fair value option has been elected. Interest income is accrued on the principal balance of the loan based on the loan's contractual interest rate. Premiums and discounts are amortized using the effective yield method over the life of the loan. Interest income and amortization of premiums and discounts are reported in net investment income on our Consolidated Statements of Comprehensive Income (Loss) along with mortgage loan fees, which are recorded as they are incurred.

Our policy for commercial mortgage loans is to report loans that are 60 or more days past due, which equates to two or more payments missed, as delinquent. Our policy for residential mortgage loans is to report loans that are 90 or more days past due, which equates to three or more payments missed, as delinquent. We do not accrue interest on loans 90 days past due, and any interest received on these loans is either applied to the principal or recorded in net investment income on our Consolidated Statements of Comprehensive Income (Loss) when received, depending on the assessment of the collectability of the loan. We resume accruing interest once a loan complies with all of its original terms or restructured terms. Mortgage loans deemed uncollectible are charged against the allowance for credit losses, and subsequent recoveries, if any, are likewise credited to the allowance for credit losses. Accrued interest on mortgage loans is written off when deemed uncollectible.

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

| | As of March 31, 2020 | | | As of December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Commercial | Residential | Total | Commercial | Residential | Total |
| Current | $ 16,168 | $ 707 | $ 16,875 | $ 15,620 | $ 659 | $ 16,279 |
| 30 to 59 days past due | - | 16 | 16 | 3 | 27 | 30 |
| 60 to 89 days past due | - | 4 | 4 | - | 10 | 10 |
| 90 or more days past due | - | 23 | 23 | - | 16 | 16 |
| Allowance for credit losses | (126) | (35) | (161) | - | (2) | (2) |
| Unamortized premium (discount) | (16) | 24 | 8 | (17) | 23 | 6 |
| Mark-to-market gains (losses) [(1)] | 26 | - | 26 | - | - | - |
| Total carrying value | $ 16,052 | $ 739 | $ 16,791 | $ 15,606 | $ 733 | $ 16,339 |

(1) Represents the mark-to-market on certain commercial mortgage loans on real estate for which we have elected the fair value option. See Note 14 for additional information.

Our commercial mortgage loan portfolio has the largest concentrations in California, which accounted for 24% of commercial mortgage loans on real estate as of March 31, 2020, and December 31, 2019, and Texas, which accounted for 11% of commercial mortgage loans on real estate as of March 31, 2020, and December 31, 2019.

Our residential mortgage loan portfolio has the largest concentrations in California, which accounted for 34% of residential mortgage loans on real estate as of March 31, 2020, and December 31, 2019, and Florida, which accounted for 18% and 20% of residential mortgage loans on real estate as of March 31, 2020, and December 31, 2019, respectively.

As of March 31, 2020, and December 31, 2019, we had 44 and 38 residential mortgage loans, respectively, that were either delinquent or in foreclosure.

*Evaluation for Credit Losses on Mortgage Loans on Real Estate*

In connection with our recognition of an allowance for credit losses for mortgage loans on real estate, we perform a quantitative analysis using a probability of default/loss given default/exposure at default approach to estimate expected credit losses in our mortgage loan portfolio as well as unfunded commitments related to commercial mortgage loans, exclusive of certain mortgage loans held at fair value. Our model estimates expected credit losses over the contractual terms of the loans, which are the periods over which we are exposed to credit risk, adjusted for expected prepayments. Credit loss estimates are segmented by commercial mortgage loans, residential mortgage loans, and unfunded commitments related to commercial mortgage loans.

The allowance for credit losses for pooled loans of similar risk (i.e., commercial and residential mortgage loans) is estimated using relevant historical credit loss information adjusted for current conditions and reasonable and supportable forecasts of future conditions. Historical credit loss experience provides the basis for the estimation of expected credit losses with adjustments for differences in current loan-specific risk characteristics, such as differences in underwriting standards, portfolio mix, delinquency level, or term lengths as well as adjustments for changes in environmental conditions, such as unemployment rates, property values, or other factors that management deems relevant. We apply probability weights to the positive, base and adverse scenarios we use. For periods beyond our reasonable and supportable forecast, we use implicit mean reversion over the remaining life of the recoverable, meaning our model will inherently revert to the baseline scenario as the baseline is representative of the historical average over a longer period of time.

Allowances for credit losses are maintained at a level we believe is adequate to absorb current expected lifetime credit losses. Our periodic evaluation of the adequacy of the allowances for credit losses is based on historical loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of the underlying collateral, composition of the loan portfolio, current economic conditions, reasonable and supportable forecasts about the future and other relevant factors.

Loans are considered impaired when it is probable that, based upon current information and events, we will be unable to collect all amounts due under the contractual terms of the loan agreement. When we determine that a loan is impaired, a specific allowance for credit losses is established for the excess carrying value of the loan over its estimated value. The loan's estimated value is based on: the present value of expected future cash flows discounted at the loan's effective interest rate; the loan's observable market price; or the fair value of the loan's collateral.

Mortgage loans on real estate are presented net of the allowance for credit losses on our Consolidated Balance Sheets. Changes in the allowance are reported in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss). Mortgage loans on real estate deemed uncollectible are charged against the ACL, and subsequent recoveries, if any, are credited to the ACL, limited to the aggregate of amounts previously charged-off and expected to be charged-off.

*Determination of Credit Losses on Commercial Mortgage Loans on Real Estate*

Our commercial loan portfolio is primarily comprised of long-term loans secured by existing commercial real estate. We believe all of the commercial loans in our portfolio share three primary risks: borrower credit worthiness; sustainability of the cash flow of the property; and market risk; therefore, our methods of monitoring and assessing credit risk are consistent for our entire portfolio.

For our commercial mortgage loan portfolio, trends in market vacancy and rental rates are incorporated into the analysis that we perform for monitored loans and may contribute to the establishment of (or an increase or decrease in) an allowance for credit losses. In addition, we review each loan individually in our commercial mortgage loan portfolio on an annual basis to identify emerging risks. We focus on properties that experienced a reduction in debt-service coverage or that have significant exposure to tenants with deteriorating credit profiles. Where warranted, we establish or increase an allowance for credit losses for a specific loan based upon this analysis.

We measure and assess the credit quality of our commercial mortgage loans by using loan-to-value and debt-service coverage ratios. The loan-to-value ratio compares the principal amount of the loan to the fair value at origination of the underlying property collateralizing the loan and is commonly expressed as a percentage. Loan-to-value ratios greater than 100% indicate that the principal amount is greater than the collateral value. Therefore, all else being equal, a lower loan-to-value ratio generally indicates a higher quality loan. The debt-service coverage ratio compares a property's net operating income to its debt-service payments. Debt-service coverage ratios of less than 1.0 indicate that property operations do not generate enough income to cover its current debt payments. Therefore, all else being equal, a higher debt-service coverage ratio generally indicates a higher quality loan. These credit quality metrics are monitored and reviewed at least annually.

For our commercial mortgage loans, there were two specifically identified impaired loans with an aggregate carrying value of less than $1 million as of March 31, 2020. There was one specifically identified impaired loan with a carrying value of less than $1 million as of December 31, 2019.

Most of our off-balance sheet commitments relate to commercial mortgage loans. As such, the estimate is developed based on the commercial mortgage loan process outlined above, along with an internally developed conversion factor.

*Determination of Credit Losses on Residential Mortgage Loans on Real Estate*

Our residential loan portfolio is primarily comprised of first lien mortgages secured by existing residential real estate. Residential mortgage loans are primarily smaller-balance homogenous loans that share similar risk characteristics. Therefore, these pools of loans are collectively evaluated for inherent credit losses. Such evaluations consider numerous factors, including, but not limited to borrower credit scores, collateral values, loss forecasts, geographic location, delinquency rates and economic trends. These evaluations and assessments are revised as conditions change and new information becomes available, including updated forecasts, which can cause the allowances for credit losses to increase or decrease over time as such evaluations are revised. Generally, residential mortgage loan pools exclude loans that are nonperforming as those loans are evaluated individually using the evaluation framework for specific allowances for credit losses described above.

For residential mortgage loans, our primary credit quality indicator is whether the loan is performing or nonperforming. We generally define nonperforming residential mortgage loans as those that are 90 or more days past due and/or in nonaccrual status. There is generally a higher risk of experiencing credit losses when a residential mortgage loan is nonperforming. We monitor and update aging schedules and nonaccrual status on a monthly basis.

For our residential mortgage loans, there were 24 specifically identified impaired loans with an aggregate carrying value of $6 million as of March 31, 2020. There were four specifically identified impaired loans with an aggregate carrying value of $1 million as of December 31, 2019.

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| Average carrying value for impaired mortgage loans on real estate | $ 3 | $ - |
| Interest income recognized on impaired mortgage loans on real estate | - | - |
| Interest income collected on impaired mortgage loans on real estate | - | - |

The amortized cost of mortgage loans on real estate on nonaccrual status (in millions) was as follows:

| | As of March 31, 2020 | | As of January 1, 2020 | |
|---|---|---|---|---|
| | Nonaccrual with no ACL | Nonaccrual | Nonaccrual with no ACL | Nonaccrual |
| Commercial mortgage loans on real estate | $ - | $ - | $ - | $ - |
| Residential mortgage loans on real estate | - | 24 | - | 17 |
| Total | $ - | $ 24 | $ - | $ 17 |

We use loan-to-value and debt-service coverage ratios as credit quality indicators for our commercial mortgage loans on real estate (dollars in millions) as follows:

| | As of March 31, 2020 | | | As of December 31, 2019 | | |
|---|---|---|---|---|---|---|
| **Loan-to-Value Ratio** | Amortized Cost | % of Total | Debt-Service Coverage Ratio | Amortized Cost | % of Total | Debt-Service Coverage Ratio |
| Less than 65% | $ 14,723 | 91.2% | 2.40 | $ 14,206 | 91.0% | 2.35 |
| 65% to 74% | 1,428 | 8.8% | 1.85 | 1,399 | 9.0% | 1.87 |
| 75% to 100% | 1 | 0.0% | 0.90 | 1 | 0.0% | 1.09 |
| Total | $ 16,152 | 100.0% | | $ 15,606 | 100.0% | |

The amortized cost of commercial mortgage loans on real estate (in millions) by year of origination and credit quality indicator was as follows:

| | As of March 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than 65% | Debt-Service Coverage Ratio | 65% to 74% | Debt-Service Coverage Ratio | 75% to 100% | Debt-Service Coverage Ratio | Total |
| **Origination Year** | | | | | | | |
| 2020 | $ 654 | 3.57 | $ 61 | 1.47 | $ - | - | $ 715 |
| 2019 | 2,964 | 2.29 | 493 | 1.78 | - | - | 3,457 |
| 2018 | 2,346 | 2.17 | 271 | 1.48 | - | - | 2,617 |
| 2017 | 1,798 | 2.34 | 202 | 2.67 | - | - | 2,000 |
| 2016 | 1,732 | 2.37 | 217 | 1.92 | - | - | 1,949 |
| 2015 and prior | 5,229 | 2.43 | 184 | 1.68 | 1 | 0.90 | 5,414 |
| Total | $ 14,723 | | $ 1,428 | | $ 1 | | $ 16,152 |

We use loan performance status as the primary credit quality indicator for our residential mortgage loans on real estate (dollars in millions) as follows:

| | As of March 31, 2020 | | As of December 31, 2019 | |
|---|---|---|---|---|
| **Performance Indicator** | Amortized Cost | % of Total | Amortized Cost [(1)] | % of Total |
| Performing | $ 750 | 96.9% | $ 718 | 97.7% |
| Nonperforming | 24 | 3.1% | 17 | 2.3% |
| Total | $ 774 | 100.0% | $ 735 | 100.0% |

(1) A valuation allowance of $2 million was established on residential mortgage loans on real estate as of December 31, 2019.

The amortized cost of residential mortgage loans on real estate (in millions) by year of origination and credit quality indicator as of March 31, 2020, was as follows:

| | Performing | Nonperforming | Total |
|---|---|---|---|
| **Origination Year** | | | |
| 2020 | $ 73 | $ - | $ 73 |
| 2019 | 454 | 18 | 472 |
| 2018 | 223 | 6 | 229 |
| 2017 | - | - | - |
| 2016 | - | - | - |
| 2015 and prior | - | - | - |
| Total | $ 750 | $ 24 | $ 774 |

Changes in the allowance for credit losses on mortgage loans on real estate (in millions) for the three months ended March 31, 2020, were as follows:

| | Commercial | Residential | Total |
|---|---|---|---|
| Balance as of beginning-of-year, prior to adoption of ASU 2016-13 | $ - | $ 2 | $ 2 |
| Impact of adopting ASU 2016-13 | 62 | 26 | 88 |
| Additions from provision for credit loss expense [1] | 64 | 7 | 71 |
| Additions from purchases of PCD mortgage loans on real estate | - | - | - |
| Balance as of end-of-period [2] | $ 126 | $ 35 | $ 161 |

[1] Due to changes in economic assumptions driven by the impact of the COVID-19 pandemic, the provision for credit loss expense increased by $71 million for the three months ended March 31, 2020.

[2] Accrued interest receivable on mortgage loans on real estate totaled $50 million as of March 31, 2020, and was excluded from the estimate of credit losses.

There were no changes in the allowance for credit losses associated with impaired commercial mortgage loans on real estate for the three months ended March 31, 2019.

**Alternative Investments**

As of March 31, 2020, and December 31, 2019, alternative investments included investments in 260 and 258 different partnerships, respectively, and represented approximately 1% of our total investments.

**Impairments on Fixed Maturity AFS Securities**

Details underlying credit loss expense incurred as a result of impairments that were recognized in net income (loss) and included in realized gain (loss) on fixed maturity AFS securities (in millions) were as follows:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Credit Loss Expense Recognized in Net Income (Loss) [1]** | | |
| Fixed maturity AFS securities: | | |
| Corporate bonds | $ (20) | $ (6) |
| RMBS | - | (1) |
| ABS | - | (1) |
| Gross credit loss expense recognized in net income (loss) | (20) | (8) |
| Associated amortization of DAC, VOBA, DSI and DFEL | - | - |
| Net credit loss expense recognized in net income (loss) | $ (20) | $ (8) |

[1] For the three months ended March 31, 2020, we recognized credit loss expense incurred as a result of impairments through net income (loss), pursuant to ASU 2016-13. For the three months ended March 31, 2019, prior to the adoption of ASU 2016-13, we recognized write-downs taken as a result of OTTI through net income (loss).

During the three months ended March 31, 2019, we recorded $15 million of OTTI recognized in OCI.

**Payables for Collateral on Investments**

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

| | As of March 31, 2020 | | As of December 31, 2019 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Collateral payable for derivative investments [1] | $ 3,943 | $ 3,943 | $ 1,388 | $ 1,388 |
| Securities pledged under securities lending agreements [2] | 161 | 156 | 114 | 110 |
| Investments pledged for Federal Home Loan Bank of Indianapolis ("FHLBI") [3] | 4,330 | 6,970 | 3,580 | 5,480 |
| Total payables for collateral on investments | $ 8,434 | $ 11,069 | $ 5,082 | $ 6,978 |

(1) We obtain collateral based upon contractual provisions with our counterparties. These agreements take into consideration the counterparties' credit rating as compared to ours, the fair value of the derivative investments and specified thresholds that if exceeded result in the receipt of cash that is typically invested in cash and invested cash. See Note 5 for additional information.

(2) Our pledged securities under securities lending agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. We value collateral daily and obtain additional collateral when deemed appropriate. The cash received in our securities lending program is typically invested in cash and invested cash or fixed maturity AFS securities.

(3) Our pledged 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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Collateral payable for derivative investments | $ 2,555 | $ 58 |
| Securities pledged under securities lending agreements | 47 | 48 |
| Securities pledged under repurchase agreements | - | 1 |
| Investments pledged for FHLBI | 750 | 450 |
| Total increase (decrease) in payables for collateral on investments | $ 3,352 | $ 557 |

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

| | As of March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Overnight and Continuous | Up to 30 Days | 30 - 90 Days | Greater Than 90 Days | Total |
| **Securities Lending** | | | | | |
| Corporate bonds | $ 160 | $ - | $ - | $ - | $ 160 |
| Foreign government bonds | 1 | - | - | - | 1 |
| Total gross secured borrowings | $ 161 | $ - | $ - | $ - | $ 161 |

| | As of December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Overnight and Continuous | Up to 30 Days | 30 - 90 Days | Greater Than 90 Days | Total |
| **Securities Lending** | | | | | |
| Corporate bonds | $ 114 | $ - | $ - | $ - | $ 114 |
| Total gross secured borrowings | $ 114 | $ - | $ - | $ - | $ 114 |

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 that we are permitted to sell or re-pledge. As of March 31, 2020, the fair value of all collateral received that we are permitted to sell or re-pledge was $25 million. As of March 31, 2020, we have re-pledged $25 million of this collateral to cover initial margin and over-the-counter collateral requirements on certain derivative investments.

**Investment Commitments**

As of March 31, 2020, our investment commitments were $1.6 billion, which included $1.0 billion of LPs, $365 million of private placement securities and $197 million of mortgage loans on real estate.

**Concentrations of Financial Instruments**

As of March 31, 2020, and December 31, 2019, 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 $1.4 billion and $1.3 billion, respectively, or 1% of total investments, and our investments in securities issued by the Federal National Mortgage Association with a fair value of $1.1 billion and $1.0 billion, respectively, or 1% of total investments. These concentrations include fixed maturity AFS, trading and equity securities.

As of March 31, 2020, and December 31, 2019, our most significant investments in one industry were our investments in securities in the consumer non-cyclical industry with a fair value of $16.4 billion and $16.3 billion, respectively, or 12% of total investments, and our investments in securities in the financial services industry with a fair value of $15.7 billion and $16.4 billion, respectively, or 12% of total investments. These concentrations include fixed maturity AFS, trading and equity securities.

## 5. Derivative Instruments

We maintain an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk, equity market risk, basis risk and credit risk. We assess these risks by continually identifying and monitoring changes in our exposures that may adversely affect expected future cash flows and by evaluating hedging opportunities.

Derivative activities are monitored by various management committees. The committees are responsible for overseeing the implementation of various hedging strategies that are developed through the analysis of financial simulation models and other internal and industry sources. The resulting hedging strategies are incorporated into our overall risk management strategies.

See Note 14 for additional disclosures related to the fair value of our derivative instruments.

**Interest Rate Contracts**

We use derivative instruments as part of our interest rate risk management strategy. These instruments are economic hedges unless otherwise noted and include:

*Forward-Starting Interest Rate Swaps*

We use forward-starting interest rate swaps designated and qualifying as cash flow hedges to hedge our exposure to interest rate fluctuations related to the forecasted purchases of certain assets and anticipated issuances of fixed-rate securities.

We also use forward-starting interest rate swaps to hedge the interest rate exposure within our life products related to the forecasted purchases of certain assets.

*Interest Rate Cap Corridors*

We use interest rate cap corridors to provide a level of protection from the effect of rising interest rates for certain life insurance products and annuity contracts. Interest rate cap corridors involve purchasing an interest rate cap at a specific cap rate and selling an interest rate cap with a higher cap rate. For each corridor, the amount of quarterly payments, if any, is determined by the rate at which the underlying index rate resets above the original capped rate. The corridor limits the benefit the purchaser can receive as the related interest rate index rises above the higher capped rate. There is no additional liability to us other than the purchase price associated with the interest rate cap corridor.

*Interest Rate Futures*

We use interest rate futures contracts to hedge the liability exposure on certain options in variable annuity products. These futures contracts require payment between our counterparty and us on a daily basis for changes in the futures index price.

*Interest Rate Swap Agreements*

We use interest rate swap agreements to hedge the liability exposure on certain options in variable annuity products.

We also use interest rate swap agreements designated and qualifying as cash flow hedges to hedge the interest rate risk of floating-rate bond coupon payments by replicating a fixed-rate bond.

Finally, we use interest rate swap agreements designated and qualifying as fair value hedges to hedge against changes in the fair value of certain fixed-rate long-term debt and fixed maturity securities due to interest rate risks.

*Treasury and Reverse Treasury Locks*

We use treasury locks designated and qualifying as cash flow hedges to hedge the interest rate exposure related to our issuance of fixed-rate securities or the anticipated future cash flows of floating-rate fixed maturity securities due to changes in interest rates. In addition, we use reverse treasury locks designated and qualifying as cash flow hedges to hedge the interest rate exposure related to the anticipated purchase of fixed-rate securities or the anticipated future cash flows of floating-rate fixed maturity securities due to changes in interest rates. These derivatives are primarily structured to hedge interest rate risk inherent in the assumptions used to price certain liabilities.

**Foreign Currency Contracts**

We use derivative instruments as part of our foreign currency risk management strategy. These instruments are economic hedges unless otherwise noted and include:

*Currency Futures*

We use currency futures to hedge foreign exchange risk associated with certain options in variable annuity products. Currency futures exchange one currency for another at a specified date in the future at a specified exchange rate.

*Foreign Currency Swaps*

We use foreign currency swaps to hedge foreign exchange risk of investments in fixed maturity securities denominated in foreign currencies. A foreign currency swap is a contractual agreement to exchange one currency for another at specified dates in the future at a specified exchange rate.

We also use foreign currency swaps designated and qualifying as cash flow hedges to hedge foreign exchange risk of investments in fixed maturity securities denominated in foreign currencies.

*Foreign Currency Forwards*

We use foreign currency forwards to hedge foreign exchange risk of investments in fixed maturity securities denominated in foreign currencies. A foreign currency forward is a contractual agreement to exchange one currency for another at specified dates in the future at a specified current exchange rate.

**Equity Market Contracts**

We use derivative instruments as part of our equity market risk management strategy that are economic hedges and include:

*Call Options Based on the S&P 500 and Other Indices*

We use call options to hedge the liability exposure on certain options in variable annuity products.

Our indexed annuity and IUL contracts permit the holder to elect an interest rate return or an equity market component, where interest credited to the contracts is linked to the performance of the Standard & Poor's 500 Index ("S&P 500") or other indices. Contract holders may elect to rebalance index options at renewal dates. At the end of each indexed term, which can be up to six years, we have the opportunity to re-price the indexed component by establishing participation rates, caps, spreads and specified rates, subject to contractual guarantees. We use call options that are highly correlated to the portfolio allocation decisions of our contract holders, such that we are economically hedged with respect to equity returns for the current reset period.

*Consumer Price Index Swaps*

We use consumer price index swaps to hedge the liability exposure on certain options in fixed annuity products. Consumer price index swaps are contracts entered into at no cost and whose payoff is the difference between the consumer price index inflation rate and the fixed-rate determined as of inception.

*Equity Futures*

We use equity futures contracts to hedge the liability exposure on certain options in variable annuity products. These futures contracts require payment between our counterparty and us on a daily basis for changes in the futures index price.

*Put Options*

We use put options to hedge the liability exposure on certain options in variable annuity products. Put options are contracts that require counterparties to pay us at a specified future date the amount, if any, by which a specified equity index is less than the strike rate stated in the agreement, applied to a notional amount.

*Total Return Swaps*

We use total return swaps to hedge the liability exposure on certain options in variable annuity products.

In addition, we use total return swaps to hedge a portion of the liability related to our deferred compensation plans. We receive the total return on a portfolio of indexes and pay a floating-rate of interest.

**Credit Contracts**

We use derivative instruments as part of our credit risk management strategy that are economic hedges and include:

*Credit Default Swaps – Buying Protection*

We use credit default swaps to hedge the liability exposure on certain options in variable annuity products.

We buy credit default swaps to hedge against a drop in bond prices due to credit concerns of certain bond issuers. A credit default swap allows us to put the bond back to the counterparty at par upon a default event by the bond issuer. A default event is defined as bankruptcy, failure to pay, obligation acceleration or restructuring.

*Credit Default Swaps – Selling Protection*

We use credit default swaps to hedge the liability exposure on certain options in variable annuity products.

We sell credit default swaps to offer credit protection to contract holders and investors. The credit default swaps hedge the contract holders and investors against a drop in bond prices due to credit concerns of certain bond issuers. A credit default swap allows the investor to put the bond back to us at par upon a default event by the bond issuer. A default event is defined as bankruptcy, failure to pay, obligation acceleration or restructuring.

**Embedded Derivatives**

We have embedded derivatives that include:

*GLB Reserves Embedded Derivatives*

We use a hedging strategy designed to mitigate the risk and income statement volatility caused by changes in the equity markets, interest rates and volatility associated with guaranteed living benefits ("GLBs") offered in our variable annuity products, including products with guaranteed withdrawal benefit ("GWB") and guaranteed income benefit ("GIB") features. Changes in the value of the hedge contracts due to changes in equity markets, interest rates and implied volatilities hedge the income statement effect of changes in embedded derivative GLB reserves caused by those same factors. We rebalance our hedge positions based upon changes in these factors as needed. While we actively manage our hedge positions, these hedge positions may not be totally effective in offsetting changes in the embedded derivative reserve due to, among other things, differences in timing between when a market exposure changes and corresponding changes to the hedge positions, extreme swings in the equity markets and interest rates, market volatility, contract holder behavior, divergence between the performance of the underlying funds and the hedging indices, divergence between the actual and expected performance of the hedge instruments and our ability to purchase hedging instruments at prices consistent with our desired risk and return trade-off.

Certain features of these guarantees have elements of both insurance benefits accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC ("benefit reserves") and embedded derivatives accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC ("embedded derivative reserves"). We calculate the value of the benefit reserves and the embedded derivative reserves based on the specific characteristics of each GLB feature.

*Indexed Annuity and IUL Contracts Embedded Derivatives*

Our indexed annuity and IUL contracts permit the holder to elect an interest rate return or an equity market component, where interest credited to the contracts is linked to the performance of the S&P 500 or other indices. Contract holders may elect to rebalance index options at renewal dates. At the end of each indexed term, which can be up to six years, we have the opportunity to re-price the indexed component by establishing participation rates, caps, spreads and specified rates, subject to contractual guarantees. We use options that are highly correlated to the portfolio allocation decisions of our contract holders, such that we are economically hedged with respect to equity returns for the current reset period.

*Reinsurance Related Embedded Derivatives*

We have certain modified coinsurance ("Modco") and coinsurance with funds withheld reinsurance agreements with embedded derivatives related to the withheld assets of the related funds. These derivatives are considered total return swaps with contractual returns that are attributable to various assets and liabilities associated with these reinsurance agreements.

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, 2020 | | | As of December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Notional | Fair Value | | Notional | Fair Value | |
| | Amounts | Asset | Liability | Amounts | Asset | Liability |
| **Qualifying Hedges** | | | | | | |
| Cash flow hedges: | | | | | | |
| Interest rate contracts [1] | $ 2,397 | $ 334 | $ 853 | $ 2,387 | $ 108 | $ 245 |
| Foreign currency contracts [1] | 2,912 | 606 | 13 | 2,874 | 191 | 51 |
| Total cash flow hedges | 5,309 | 940 | 866 | 5,261 | 299 | 296 |
| Fair value hedges: | | | | | | |
| Interest rate contracts [1] | 1,170 | - | 337 | 1,261 | 123 | 203 |
| **Non-Qualifying Hedges** | | | | | | |
| Interest rate contracts [1] | 119,681 | 1,890 | 140 | 112,921 | 1,082 | 219 |
| Foreign currency contracts [1] | 166 | 11 | - | 262 | 1 | 3 |
| Equity market contracts [1] | 55,784 | 2,819 | 1,112 | 43,555 | 1,442 | 664 |
| Credit contracts [1] | 394 | - | - | 55 | - | - |
| Embedded derivatives: | | | | | | |
| GLB direct [2] | - | - | 4,596 | - | 450 | - |
| GLB ceded [2] | - | 728 | - | - | 60 | 9 |
| Reinsurance related [3] | - | 137 | - | - | - | 327 |
| Indexed annuity and IUL contracts [2] [4] | - | 799 | 1,380 | - | 927 | 2,585 |
| Total derivative instruments | $ 182,504 | $ 7,324 | $ 8,431 | $ 163,315 | $ 4,384 | $ 4,306 |

(1) Reported in derivative investments and other liabilities on our Consolidated Balance Sheets.
(2) Reported in other assets and other liabilities on our Consolidated Balance Sheets.
(3) Reported in reinsurance related embedded derivatives on our Consolidated Balance Sheets.
(4) Reported in future contract benefits on our Consolidated Balance Sheets.

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

| | Remaining Life as of March 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 1 Year | 1 - 5 Years | 6 - 10 Years | 11 - 30 Years | Over 30 Years | Total |
| Interest rate contracts [1] | $ 15,089 | $ 48,226 | $ 24,802 | $ 33,300 | $ 1,831 | $ 123,248 |
| Foreign currency contracts [2] | 146 | 370 | 1,013 | 1,507 | 42 | 3,078 |
| Equity market contracts | 30,822 | 14,314 | 4,343 | 11 | 6,294 | 55,784 |
| Credit contracts | - | - | 394 | - | - | 394 |
| Total derivative instruments with notional amounts | $ 46,057 | $ 62,910 | $ 30,552 | $ 34,818 | $ 8,167 | $ 182,504 |

(1) As of March 31, 2020, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 20, 2067.
(2) As of March 31, 2020, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was June 17, 2050.

The following amounts (in millions) were recorded on the Consolidated Balance Sheets related to cumulative basis adjustments for fair value hedges:

| | Amortized Cost of the Hedged | | Cumulative Fair Value Hedging Adjustment in the Amortized Cost of Hedged | |
|---|---|---|---|---|
| | As of March 31, 2020 | As of December 2019 | As of March 31, 2020 | As of December 2019 |
| **Line Item in the Consolidated Balance Sheets in which the Hedged Item is Included** | | | | |
| AFS fixed maturity securities, at fair value | $ 890 | $ 776 | $ 328 | $ 202 |
| Long-term debt [(1)] | (954) | (1,035) | (79) | (160) |

[(1)] The balance includes $(381) million and $(118) million of unamortized adjustments from discontinued hedges as of March 31, 2020 and December 31, 2019, respectively.

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Unrealized Gain (Loss) on Derivative Instruments** | | |
| Balance as of beginning-of-year | $ (11) | $ 139 |
| Other comprehensive income (loss): | | |
| Cash flow hedges: | | |
| Interest rate contracts | (383) | (47) |
| Foreign currency contracts | 312 | 11 |
| Change in foreign currency exchange rate adjustment | 153 | (14) |
| Change in DAC, VOBA, DSI and DFEL | (53) | 6 |
| Income tax benefit (expense) | (8) | 10 |
| Less: | | |
| Reclassification adjustment for gains (losses) included in net income (loss): | | |
| Cash flow hedges: | | |
| Interest rate contracts [(1)] | - | 1 |
| Interest rate contracts [(2)] | (3) | (1) |
| Foreign currency contracts [(1)] | 11 | 7 |
| Foreign currency contracts [(3)] | 1 | 1 |
| Associated amortization of DAC, VOBA, DSI and DFEL | (6) | (1) |
| Income tax benefit (expense) | (1) | (1) |
| Balance as of end-of-period | $ 8 | $ 99 |

[(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 effects of qualifying and non-qualifying hedges (in millions) on the Consolidated Statements of Comprehensive Income (Loss) were as follows:

| | Gain (Loss) Recognized in Income | | |
|---|---|---|---|
| | For the Three Months Ended March 31, 2020 | | |
| | Realized Gain (Loss) | Net Investment Income | Interest and Debt Expense |
| **Total Line Items in which the Effects of Fair Value or Cash Flow Hedges are Recorded** | $ (24) | $ 1,375 | $ 68 |
| **Qualifying Hedges** | | | |
| Gain or (loss) on fair value hedging relationships: | | | |
| Interest rate contracts: | | | |
| Hedged items | - | 127 | 82 |
| Derivatives designated as hedging instruments | - | (127) | (82) |
| Gain or (loss) on cash flow hedging relationships: | | | |
| Interest rate contracts: | | | |
| Amount of gain or (loss) reclassified from AOCI into income | - | - | (3) |
| Foreign currency contracts: | | | |
| Amount of gain or (loss) reclassified from AOCI into income | 1 | 11 | - |
| **Non-Qualifying Hedges** | | | |
| Interest rate contracts | 2,150 | - | - |
| Equity market contracts | 1,070 | - | - |
| Credit contracts | (4) | - | - |
| Embedded derivatives: | | | |
| GLB | (4,369) | - | - |
| Reinsurance related | 463 | - | - |
| Indexed annuity and IUL contracts | 1,028 | - | - |

| | Gain (Loss) Recognized in Income | | |
|---|---|---|---|
| | For the Three Months Ended March 31, 2019 | | |
| | Realized Gain (Loss) | Net Investment Income | Interest and Debt Expense |
| **Total Line Items in which the Effects of Fair Value or Cash Flow Hedges are Recorded** | $ (362) | $ 1,251 | $ 71 |
| **Qualifying Hedges** | | | |
| Gain or (loss) on fair value hedging relationships: | | | |
| Interest rate contracts: | | | |
| Hedged items | - | 24 | (34) |
| Derivatives designated as hedging instruments | - | (24) | 34 |
| Gain or (loss) on cash flow hedging relationships: | | | |
| Interest rate contracts: | | | |
| Amount of gain or (loss) reclassified from AOCI into income | - | 1 | (1) |
| Foreign currency contracts: | | | |
| Amount of gain or (loss) reclassified from AOCI into income | 1 | 7 | - |
| **Non-Qualifying Hedges** | | | |
| Interest rate contracts | 357 | - | - |
| Equity market contracts | (458) | - | - |
| Embedded derivatives: | | | |
| GLB | 286 | - | - |
| Reinsurance related | (174) | - | - |
| Indexed annuity and IUL contracts | (239) | - | - |

As of March 31, 2020, $33 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, 2020 and 2019, there were no material reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged forecasted transactions that had not occurred by the end of the originally specified time period.

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

**As of March 31, 2020**

| 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 | 6/20/2025 | [(3)] | [(4)] | BBB+ | 4 | $ (2) | $ 394 |

**As of December 31, 2019**

| 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 | 12/20/2024 | [(3)] | [(4)] | BBB+ | 1 | $ 1 | $ 55 |

(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, 2020 | As of December 31, 2019 |
|---|---|---|
| Maximum potential payout | $ 394 | $ 55 |
| Less: Counterparty thresholds | - | - |
| Maximum collateral potentially required to post | $ 394 | $ 55 |

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. If these netting agreements were not in place, we would have been required to post $2 million of collateral as of March 31, 2020.

**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, 2020, the NPR adjustment was zero. 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. We did not have any exposure as of March 31, 2020, or December 31, 2019.

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:

| | As of March 31, 2020 | | As of December 31, 2019 | |
|---|---|---|---|---|
| S&P Credit Rating of Counterparty | Collateral Posted by Counter-Party (Held by LNC) | Collateral Posted by LNC (Held by Counter-Party) | Collateral Posted by Counter-Party (Held by LNC) | Collateral Posted by LNC (Held by Counter-Party) |
| AA- | $ 521 | $ (599) | $ 441 | $ (167) |
| A+ | 2,674 | (493) | 555 | (339) |
| A | 35 | - | 36 | - |
| A- | 712 | (397) | 355 | (51) |
| BBB+ | - | - | - | - |
| | $ 3,942 | $ (1,489) | $ 1,387 | $ (557) |

**Balance Sheet Offsetting**

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

| | As of March 31, 2020 | | |
|---|---|---|---|
| | Derivative Instruments | Embedded Derivative Instruments | Total |
| **Financial Assets** | | | |
| Gross amount of recognized assets | $ 5,634 | $ 1,664 | $ 7,298 |
| Gross amounts offset | (1,217) | - | (1,217) |
| Net amount of assets | 4,417 | 1,664 | 6,081 |
| Gross amounts not offset: | | | |
| Cash collateral | (3,942) | - | (3,942) |
| Non-cash collateral | (151) | - | (151) |
| Net amount | $ 324 | $ 1,664 | $ 1,988 |
| **Financial Liabilities** | | | |
| Gross amount of recognized liabilities | $ 1,688 | $ 5,976 | $ 7,664 |
| Gross amounts offset | (25) | - | (25) |
| Net amount of liabilities | 1,663 | 5,976 | 7,639 |
| Gross amounts not offset: | | | |
| Cash collateral | (1,489) | - | (1,489) |
| Non-cash collateral | - | - | - |
| Net amount | $ 174 | $ 5,976 | $ 6,150 |

| | As of December 31, 2019 | | |
|---|---|---|---|
| | Derivative Instruments | Embedded Derivative Instruments | Total |
| **Financial Assets** | | | |
| Gross amount of recognized assets | $ 2,619 | $ 1,437 | $ 4,056 |
| Gross amounts offset | (708) | - | (708) |
| Net amount of assets | 1,911 | 1,437 | 3,348 |
| Gross amounts not offset: | | | |
| Cash collateral | (1,387) | - | (1,387) |
| Non-cash collateral | (242) | - | (242) |
| Net amount | $ 282 | $ 1,437 | $ 1,719 |
| **Financial Liabilities** | | | |
| Gross amount of recognized liabilities | $ 1,005 | $ 2,921 | $ 3,926 |
| Gross amounts offset | (138) | - | (138) |
| Net amount of liabilities | 867 | 2,921 | 3,788 |
| Gross amounts not offset: | | | |
| Cash collateral | (557) | - | (557) |
| Non-cash collateral | - | - | - |
| Net amount | $ 310 | $ 2,921 | $ 3,231 |

## 6. Federal Income Taxes

The effective tax rate is the ratio of tax expense (benefit) over pre-tax income (loss). The effective tax rate was -53% and 6% for the three months ended March 31, 2020 and 2019, respectively. The effective tax rate on pre-tax income is typically lower than the prevailing corporate federal income tax rate of 21% due to benefits from preferential tax items including the separate accounts dividends-received deduction and tax credits. The current quarter's effective tax rate was lower than the comparable quarter in the prior year primarily as a result of the effects of preferential tax items being additive to the tax benefit at 21% on unfavorable variable annuity net derivative results, resulting in a calculated tax benefit on pre-tax income and an associated negative tax rate.

## 7. Reinsurance

*Adoption of ASU 2016-13*

In 2020, we adopted ASU 2016-13, which resulted in a new recognition and measurement of credit losses on most financial assets. See Note 2 for additional information. We established an allowance for credit losses of $192 million as of January 1, 2020, for reinsurance-related assets for the risk of credit losses inherent in reinsurance transactions. We estimated an allowance for credit losses for all reinsurance recoverables and related reinsurance deposit assets held by our subsidiaries. As such, we performed a quantitative analysis using a probability of loss approach to estimate expected credit losses for reinsurance recoverables, inclusive of similar assets recognized using the deposit method of accounting. The ACL is a general allowance for credit losses for pools of receivables with similar risk characteristics segmented by credit risk ratings and receivables assessed on an individual basis that do not share similar risk characteristics where we anticipate a credit loss over the life of reinsurance-related assets.

Our model uses relevant internal or external historical loss information adjusted for current conditions and reasonable and supportable forecasts of future events and conditions in developing our loss estimate. We utilized historical credit rating data to form an estimation of probability of default of counterparties by means of a transition matrix that provides the rates of credit migration for credit ratings transitioning to impairment. We updated reinsurer credit ratings during the quarter to incorporate the most up-to-date information on the current state of the financial stability of our reinsurers. To simulate changes in economic conditions, we used positive, base and adverse scenarios that include varying levels of loss given default assumptions to reflect the impact of changes in severity of losses. We applied probability weights to the positive, base and adverse scenarios. For periods beyond our reasonable and supportable forecasts, we used implicit mean reversion over the remaining life of the recoverable. Additionally, we considered factors that impact our exposure at default that are driven by actuarial expectations around term and mortality assumptions rather than being directly driven by market or economic environment.

Our model estimates the expected credit losses over the life of the reinsurance asset. Credit loss estimates are segmented based on counterparty credit risk. Our modeling process utilizes counterparty credit ratings, collateral types and amounts, and term and run-off assumptions. For reinsurance recoverables that do not share similar risk characteristics, we assessed on an individual basis to determine a specific allowance for credit losses.

We estimated expected credit losses over the contractual term of the recoverable, which is the period during which we are exposed to the credit risk. Reinsurance recoverables may not have explicit contractual lives, but are tied to the underlying insurance products; as a result, we estimated the contractual life by utilizing actuarial estimates of the timing of payouts related to those underlying products.

Reinsurance treaties often require the reinsurer to collateralize the recoverable with funds in a trust account for the benefit of the ceding insurance entity that can reduce the expected credit losses on a given treaty. As such, we review reinsurance collateral by individual treaty to sensitize risk of loss based on level of collateralization. This review is driven by the assumption that non-collateralized reinsurance recoverables would have materially higher losses in time of default. Therefore, reinsurance recoverables are pooled as either fully-collateralized or non-collateralized.

Reinsurance recoverables are presented net of the allowance for credit losses on our Consolidated Balance Sheets. Changes in the ACL are reported in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss). Reinsurance recoverables deemed uncollectible are charged against the ACL, and subsequent recoveries, if any, are credited to the ACL, limited to the aggregate of amounts previously charged-off and expected to be charged-off.

*Modco Agreements*

Some portions of our annuity business have been reinsured on a Modco basis with other companies. In a Modco agreement, we as the ceding company retain the reserves, as well as the assets backing those reserves, and the reinsurer shares proportionally in all financial terms of the reinsured policies based on their respective percentage of the risk. Effective October 1, 2018, we entered into one such Modco agreement with Athene Holding Ltd. ("Athene") to reinsure fixed and fixed indexed annuity products, which resulted in a deposit asset of $6.3 billion and $6.6 billion as of March 31, 2020, and December 31, 2019, respectively, within other assets on our Consolidated Balance Sheets. We held investments of $6.2 billion as of March 31, 2020, in support of reserves associated with the transaction in a Modco investment portfolio. As of March 31, 2020, the portfolio included trading securities, fixed maturity AFS securities, commercial mortgage loans, cash and invested cash, other investments, derivative investments, accrued investment income and equity securities that had carrying values of $3.0 billion, $1.8 billion, $765 million, $378 million, $111 million, $49 million, $48 million and $14 million, respectively. In addition, the portfolio was supported by $175 million of over-collateralization and a $188 million letter of credit as of March 31, 2020.

## 8. Guaranteed Benefit Features

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

| | As of March 31, 2020 [1] | As of December 31, 2019 [1] |
|---|---|---|
| **Return of Net Deposits** | | |
| Total account value | $ 88,627 | $ 101,601 |
| Net amount at risk [2] | 1,563 | 71 |
| Average attained age of contract holders | 65 years | 65 years |
| **Minimum Return** | | |
| Total account value | $ 76 | $ 92 |
| Net amount at risk [2] | 17 | 13 |
| Average attained age of contract holders | 78 years | 77 years |
| Guaranteed minimum return | 5% | 5% |
| **Anniversary Contract Value** | | |
| Total account value | $ 21,713 | $ 25,763 |
| Net amount at risk [2] | 2,401 | 384 |
| Average attained age of contract holders | 72 years | 71 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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Balance as of beginning-of-year | $ 117 | $ 161 |
| Changes in reserves | 106 | (36) |
| Benefits paid | (8) | (6) |
| Balance as of end-of-period | $ 215 | $ 119 |

*Variable Annuity Contracts*

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

| | As of March 31, 2020 | As of December 31, 2019 |
|---|---|---|
| **Asset Type** | | |
| Domestic equity | $ 52,454 | $ 64,093 |
| International equity | 15,998 | 19,852 |
| Fixed income | 38,522 | 41,405 |
| Total | $ 106,974 | $ 125,350 |
| | | |
| Percent of total variable annuity separate account values | 98% | 98% |

*Secondary Guarantee Products*

Future contract benefits and other contract holder funds include reserves for our secondary guarantee products sold through our Life Insurance segment. Reserves on UL and VUL products with secondary guarantees represented 37% of total life insurance in-force reserves as of March 31, 2020, and December 31, 2019. UL and VUL products with secondary guarantees represented 29% of total life insurance sales for the three months ended March 31, 2020 and 2019.

## 9. Liability for Unpaid Claims

The liability for unpaid claims consists primarily of long-term disability claims and is reported in future contract benefits on our Consolidated Balance Sheets. Changes in the liability for unpaid claims (in millions) were as follows:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Balance as of beginning-of-year | $ 5,552 | $ 5,335 |
| Reinsurance recoverable | 152 | 143 |
| Net balance as of beginning-of-year | 5,400 | 5,192 |
| Incurred related to: | | |
| Current year | 885 | 803 |
| Prior years: | | |
| Interest | 43 | 41 |
| All other incurred [(1)] | (65) | (85) |
| Total incurred | 863 | 759 |
| Paid related to: | | |
| Current year | (240) | (215) |
| Prior years | (518) | (482) |
| Total paid | (758) | (697) |
| Net balance as of end-of-period | 5,505 | 5,254 |
| Reinsurance recoverable | 150 | 143 |
| Balance as of end-of-period | $ 5,655 | $ 5,397 |

(1) All other incurred is primarily impacted by the level of claim resolutions in the period compared to that which is expected by the reserve assumption. A negative number implies a favorable result where claim resolutions were more favorable than assumed. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the long-term life of the block of claims. It will vary from actual experience in any one period, both favorably and unfavorably.

The interest rate assumption used for discounting long-term claim reserves is an important part of the reserving process due to the long benefit period for these claims. Interest accrued on prior years' reserves has been calculated on the opening reserve balance less one-half of the prior years' incurred claim payments at our average reserve discount rate.

Long-term disability benefits may extend for many years, and claim development schedules do not reflect these longer benefit periods. As a result, we use longer term retrospective runoff studies, experience studies and prospective studies to develop our liability estimates.

## 10. Debt

Changes in debt (in millions) were as follows:

| | For the Three Months Ended March 31, 2020 |
|---|---|
| Balance as of beginning-of-year | $ 6,367 |
| LIBOR + 150 bps term loan issued, due 2022 | 500 |
| Repayment of 6.25% senior notes, due 2020 | (300) |
| Unamortized adjustments from discontinued hedges | 263 |
| Fair value hedge on interest rate swap agreements | (82) |
| Balance as of end-of-period | $ 6,748 |

## 11. Contingencies and Commitments

### Contingencies

*Regulatory and Litigation Matters*

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 advisers 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, 2020. 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, 2020, we estimate the aggregate range of reasonably possible losses, including amounts in excess of amounts accrued for these matters as of such date, to be up to approximately $90 million. Any estimate is not an indication of expected loss, if any, or of the Company's maximum possible loss exposure on such matters.

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.

*Cost of Insurance Litigation*

*Glover v. Connecticut General Life Insurance Company and The Lincoln National Life Insurance Company*, filed in the U.S. District Court for the District of Connecticut, No. 3:16-cv-00827, is a putative class action that was served on The Lincoln National Life Insurance Company ("LNL") on June 8, 2016. Plaintiff is the owner of a universal life insurance policy who alleges that LNL charged more for non-guaranteed cost of insurance than permitted by the policy. Plaintiff seeks to represent all universal life and variable universal life policyholders who owned policies containing non-guaranteed cost of insurance provisions that are similar to those of Plaintiff's policy and seeks damages on behalf of all such policyholders. On January 11, 2019, the court dismissed Plaintiff's complaint in its entirety. In response, Plaintiff filed a motion for leave to amend the complaint, which we have opposed.

*Hanks v. Lincoln Life & Annuity Company of New York ("LLANY") and Voya Retirement Insurance and Annuity Company ("Voya")*, filed in the U.S. District Court for the Southern District of New York, No. 1:16-cv-6399, is a putative class action that was served on LLANY on August 12, 2016. Plaintiff owns a universal life policy originally issued by Aetna (now Voya) and alleges that (i) Voya breached the terms of the policy when it increased non-guaranteed cost of insurance rates on Plaintiff's policy; and (ii) LLANY, as reinsurer and administrator of Plaintiff's policy, engaged in wrongful conduct related to the cost of insurance increase and was unjustly enriched as a result. Plaintiff seeks to represent all owners of Aetna life insurance policies that were subject to non-guaranteed cost of insurance rate increases in 2016 and seeks damages on their behalf. On March 13, 2019, the court issued an order granting plaintiff's motion for class certification for the breach of contract claim and denying such motion with respect to the unjust enrichment claim against LLANY, and, on September 12, 2019, the court issued an order approving the parties' joint stipulation of dismissal with respect to the unjust enrichment claim and dismissed LLANY as a defendant in the case. In light of LLANY's role as reinsurer and administrator under the 1998 coinsurance agreement with Aetna (now Voya), and of the parties' rights and obligations thereunder, LLANY continues to be actively engaged in the vigorous defense of this action.

*EFG Bank AG, Cayman Branch, et al. v. The Lincoln National Life Insurance Company*, pending in the U.S. District Court for the Eastern District of Pennsylvania, No. 2:17-cv-02592, is a civil action filed on February 1, 2017. Plaintiffs own Legend Series universal life insurance policies originally issued by Jefferson-Pilot (now LNL). Plaintiffs allege that LNL breached the terms of policyholders' contracts when it increased non-guaranteed cost of insurance rates beginning in 2016. We are vigorously defending this matter.

*In re: Lincoln National COI Litigation*, pending in the U.S. District Court for the Eastern District of Pennsylvania, Master File No. 2:16-cv-06605-GJP, is a consolidated litigation matter related to multiple putative class action filings that were consolidated by an order dated March 20, 2017. In addition to consolidating a number of existing matters, the order also covers any future cases filed in the same district related to the same subject matter. Plaintiffs own universal life insurance policies originally issued by 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 2016. Plaintiffs seek to represent classes of policyowners and seek damages on their behalf. We are vigorously defending this matter.

*In re: Lincoln National 2017 COI Rate Litigation*, Master File No. 2:17-cv-04150 is a consolidated litigation matter related to multiple putative class action filings that were consolidated by an order of the court in March 2018. 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 on 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 are vigorously defending this matter.

*TVPX ARS INC., as Securities Intermediary for Consolidated Wealth Management, LTD. v. The Lincoln National Life Insurance Company*, filed in the U.S. District Court for the Eastern District of Pennsylvania, No. 2:18-cv-02989, is a putative class action that was filed on July 17, 2018. Plaintiff alleges that LNL charged more for non-guaranteed cost of insurance than permitted by the policy. Plaintiff seeks to represent all universal life and variable universal life policyholders who own policies issued by LNL or its predecessors containing non-guaranteed cost of insurance provisions that are similar to those of Plaintiff's policy and seeks damages on behalf of all such policyholders. We are vigorously defending this matter.

*LSH Co. and Wells Fargo Bank, National Association, as securities intermediary for LSH Co. v. Lincoln National Corporation and The Lincoln National Life Insurance Company*, pending in the U.S. District Court for the Eastern District of Pennsylvania, No. 2:18-cv-05529, is a civil action filed on December 21, 2018. Plaintiffs own universal life insurance policies originally issued by Jefferson-Pilot (now LNL). Plaintiffs allege that LNL breached the terms of policyholders' contracts when it increased non-guaranteed cost of insurance rates in 2016 and 2017. We are vigorously defending this matter.

*Vida Longevity Fund, LP v. Lincoln Life & Annuity Company of New York*, pending in the U.S. District Court for the Southern District of New York, No. 1:19-cv-06004, is a putative class action that was filed on June 27, 2019. Plaintiff alleges that LLANY charged more for non-guaranteed cost of insurance than was permitted by the policies. Plaintiff seeks to represent all current and former owners of universal life (including variable universal life) policies who own or owned policies issued by LLANY and its predecessors in interest that were in force at any time on or after June 27, 2013, and which contain non-guaranteed cost of insurance provisions that are similar to those of Plaintiff's policies. Plaintiff also seeks to represent a sub-class of such policyholders who own or owned "life insurance policies issued in the State of New York." Plaintiff seeks damages on behalf of the policyholder class and sub-class. We are vigorously defending this matter.

## 12. Shares and Stockholders' Equity

*Common Shares*

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Common Stock** | | |
| Balance as of beginning-of-year | 196,668,532 | 205,862,760 |
| Stock issued for exercise of warrants | - | 203,530 |
| Stock compensation/issued for benefit plans | 349,636 | 809,670 |
| Retirement/cancellation of shares | (3,809,924) | (3,888,731) |
| Balance as of end-of-period | 193,208,244 | 202,987,229 |
| **Common Stock as of End-of-Period** | | |
| Basic basis | 193,208,244 | 202,987,229 |
| Diluted basis | 195,027,909 | 204,200,031 |

Our common stock is without par value.

*Average Shares*

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Weighted-average shares, as used in basic calculation | 195,076,797 | 204,290,759 |
| Shares to cover exercise of outstanding warrants | - | 173,837 |
| Shares to cover non-vested stock | 853,597 | 1,049,556 |
| Average stock options outstanding during the period | 996,248 | 1,519,184 |
| Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants | - | (29,176) |
| Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period) | (703,600) | (1,041,630) |
| Shares repurchasable from measured but unrecognized stock option expense | - | (867) |
| Average deferred compensation shares | 1,041,800 | - |
| Weighted-average shares, as used in diluted calculation | 197,264,842 | 205,961,663 |

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, 2020, 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 this period, 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 $23 million for the three months ended March 31, 2020.

## AOCI

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Unrealized Gain (Loss) on AFS Securities** | | |
| Balance as of beginning-of-year | $ 5,983 | $ 557 |
| Cumulative effect from adoption of new accounting standard | 45 | - |
| Unrealized holding gains (losses) arising during the period | (4,498) | 3,556 |
| Change in foreign currency exchange rate adjustment | (150) | 14 |
| Change in DAC, VOBA, DSI, future contract benefits and other contract | 1,264 | (928) |
| Income tax benefit (expense) | 720 | (563) |
| Less: | | |
| Reclassification adjustment for gains (losses) included in net income | (2) | (15) |
| Associated amortization of DAC, VOBA, DSI and DFEL | 32 | (1) |
| Income tax benefit (expense) | (6) | 3 |
| Balance as of end-of-period | $ 3,340 | $ 2,649 |
| **Unrealized OTTI on AFS Securities** | | |
| Balance as of beginning-of-year | $ 45 | $ 33 |
| (Increases) attributable to: | | |
| Cumulative effect from adoption of new accounting standard | (45) | - |
| Gross OTTI recognized in OCI during the period | - | (16) |
| Change in DAC, VOBA, DSI and DFEL | - | 1 |
| Income tax benefit (expense) | - | 4 |
| Decreases attributable to: | | |
| Changes in fair value, sales, maturities or other settlements of AFS | - | 6 |
| Change in DAC, VOBA, DSI and DFEL | - | (2) |
| Income tax benefit (expense) | - | (1) |
| Balance as of end-of-period | $ - | $ 25 |
| **Unrealized Gain (Loss) on Derivative Instruments** | | |
| Balance as of beginning-of-year | $ (11) | $ 139 |
| Unrealized holding gains (losses) arising during the period | (71) | (36) |
| Change in foreign currency exchange rate adjustment | 153 | (14) |
| Change in DAC, VOBA, DSI and DFEL | (53) | 6 |
| Income tax benefit (expense) | (8) | 10 |
| Less: | | |
| Reclassification adjustment for gains (losses) included in net income | 9 | 8 |
| Associated amortization of DAC, VOBA, DSI and DFEL | (6) | (1) |
| Income tax benefit (expense) | (1) | (1) |
| Balance as of end-of-period | $ 8 | $ 99 |
| **Foreign Currency Translation Adjustment** | | |
| Balance as of beginning-of-year | $ (17) | $ (23) |
| Foreign currency translation adjustment arising during the period | (10) | 3 |
| Balance as of end-of-period | $ (27) | $ (20) |
| **Funded Status of Employee Benefit Plans** | | |
| Balance as of beginning-of-year | $ (327) | $ (299) |
| Adjustment arising during the period | 10 | (1) |
| Balance as of end-of-period | $ (317) | $ (300) |

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 Months Ended March 31, | | |
|---|---|---|---|
| | 2020 | 2019 | |
| **Unrealized Gain (Loss) on AFS Securities** | | | |
| Gross reclassification | $ (2) | $ (15) | Total realized gain (loss) |
| Associated amortization of DAC, VOBA, DSI and DFEL | 32 | (1) | Total realized gain (loss) |
| Reclassification before income tax benefit (expense) | 30 | (16) | Income (loss) from continuing operations before taxes |
| Income tax benefit (expense) | (6) | 3 | Federal income tax expense (benefit) |
| Reclassification, net of income tax | $ 24 | $ (13) | Net income (loss) |
| **Unrealized OTTI on AFS Securities** | | | |
| Gross reclassification | $ - | $ - | Total realized gain (loss) |
| Change in DAC, VOBA, DSI and DFEL | - | - | Total realized gain (loss) |
| Reclassification before income tax benefit (expense) | - | - | Income (loss) from continuing operations before taxes |
| Income tax benefit (expense) | - | - | Federal income tax expense (benefit) |
| Reclassification, net of income tax | $ - | $ - | Net income (loss) |
| **Unrealized Gain (Loss) on Derivative Instruments** | | | |
| Gross reclassifications: | | | |
| Interest rate contracts | $ - | $ 1 | Net investment income |
| Interest rate contracts | (3) | (1) | Interest and debt expense |
| Foreign currency contracts | 11 | 7 | Net investment income |
| Foreign currency contracts | 1 | 1 | Total realized gain (loss) |
| Total gross reclassifications | 9 | 8 | |
| Associated amortization of DAC, VOBA, DSI and DFEL | (6) | (1) | Commissions and other expenses |
| Reclassifications before income tax benefit (expense) | 3 | 7 | Income (loss) from continuing operations before taxes |
| Income tax benefit (expense) | (1) | (1) | Federal income tax expense (benefit) |
| Reclassifications, net of income tax | $ 2 | $ 6 | Net income (loss) |

## 13. Realized Gain (Loss)

Realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss) includes realized gains and losses from the sale of investments, write-downs for impairments of investments and changes in the allowance for credit losses for financial assets, changes in fair value for mortgage loans on real estate accounted for under the fair value option, changes in fair value of equity securities, certain derivative and embedded derivative gains and losses, gains and losses on the sale of subsidiaries and businesses and net gains and losses on reinsurance embedded derivatives and trading securities. Realized gains and losses on the sale of investments are determined using the specific identification method. Realized gain (loss) is recognized in net income, net of associated amortization of DAC, VOBA, DSI and DFEL. Realized gain (loss) is also net of allocations of investment gains and losses to certain contract holders and certain funds withheld on reinsurance arrangements for which we have a contractual obligation. Details underlying realized gain (loss) (in millions) were as follows:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Fixed maturity AFS securities: | | |
| Gross gains | $ 6 | $ 12 |
| Gross losses | (8) | (27) |
| Credit loss expense, net | (20) | - |
| Gross OTTI | - | (8) |
| Gain (loss) on equity securities [1] | (19) | 6 |
| Credit loss expense on mortgage loans on real estate | (70) | - |
| Other gain (loss) on investments | (1) | (1) |
| Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds | 26 | (2) |
| Total realized gain (loss) related to certain financial assets | (86) | (20) |
| Realized gain (loss) on the mark-to-market on certain instruments [2][3] | 47 | (121) |
| Indexed annuity and IUL contracts net derivatives results: [4] | | |
| Gross gain (loss) | (49) | (35) |
| Associated amortization of DAC, VOBA, DSI and DFEL | 15 | 1 |
| Variable annuity net derivatives results: [5] | | |
| Gross gain (loss) | 40 | (215) |
| Associated amortization of DAC, VOBA, DSI and DFEL | 9 | 28 |
| Total realized gain (loss) | $ (24) | $ (362) |

(1) Includes market adjustments on equity securities still held of $(18) million and $6 million for the three months ended March 31, 2020 and 2019, respectively.

(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 derivative results), reinsurance related embedded derivatives, mortgage loans on real estate accounted for under the fair value option and trading securities. See Note 7 for information regarding modified coinsurance.

(3) Includes gains and losses from fair value changes on mortgage loans on real estate accounted for under the fair value option of $7 million for the three months ended March 31, 2020.

(4) Represents the net difference between the change in fair value of the index 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 options we may purchase or sell in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products.

(5) 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.

## 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, 2020 | | As of December 31, 2019 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Assets** | | | | |
| Fixed maturity AFS securities | $ 102,606 | $ 102,606 | $ 105,200 | $ 105,200 |
| Trading securities | 4,019 | 4,019 | 4,673 | 4,673 |
| Equity securities | 83 | 83 | 103 | 103 |
| Mortgage loans on real estate | 16,791 | 18,556 | 16,339 | 16,872 |
| Derivative investments [(1)] | 4,417 | 4,417 | 1,911 | 1,911 |
| Other investments | 4,755 | 4,755 | 2,983 | 2,983 |
| Cash and invested cash | 6,202 | 6,202 | 2,563 | 2,563 |
| Reinsurance related embedded derivatives | 137 | 137 | - | - |
| Other assets: | | | | |
| GLB direct embedded derivatives | - | - | 450 | 450 |
| GLB ceded embedded derivatives | 728 | 728 | 60 | 60 |
| Indexed annuity ceded embedded derivatives | 799 | 799 | 927 | 927 |
| Separate account assets | 130,617 | 130,617 | 153,566 | 153,566 |
| **Liabilities** | | | | |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | (1,380) | (1,380) | (2,585) | (2,585) |
| Other contract holder funds: | | | | |
| Remaining guaranteed interest and similar contracts | (1,884) | (1,884) | (1,900) | (1,900) |
| Account values of certain investment contracts | (39,744) | (54,761) | (38,639) | (46,822) |
| Short-term debt | - | - | (300) | (304) |
| Long-term debt | (6,748) | (5,770) | (6,067) | (6,217) |
| Reinsurance related embedded derivatives | - | - | (327) | (327) |
| Other liabilities: | | | | |
| Derivative liabilities [(1)] | (1,212) | (1,212) | (349) | (349) |
| GLB direct embedded derivatives | (4,596) | (4,596) | - | - |
| GLB ceded embedded derivatives | - | - | (9) | (9) |

(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, including mortgage loans accounted for using the fair value option, 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 includes Federal Home Loan Bank ("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.

*Separate Account Assets*

Separate account assets are primarily carried at fair value. A portion of our separate account assets includes LPs, which are accounted for using the equity method of accounting. The carrying value is based on our proportional share of the net assets of the LPs and approximates fair value. The inputs used to measure the fair value of the separate account asset LPs are classified as Level 3 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, 2020, and December 31, 2019, 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.

**Fair Value Option**

Mortgage loans on real estate, net of ACL, as reported on our Consolidated Balance Sheets, includes commercial mortgage loans for which the fair value option was elected. The fair value option allows us to elect fair value as an alternative measurement for mortgage loans not otherwise reported at fair value. We have made these elections for certain mortgage loans associated with Modco arrangements to help mitigate the inconsistency in earnings that would otherwise result from the use of embedded derivatives included with these loans. Changes in fair value are reflected in realized gain (loss) on our Consolidated Statement of Comprehensive Income (Loss) for commercial mortgage loans. Changes in fair value due to instrument-specific credit risk are estimated using changes in credit spreads and quality ratings for the period reported.

The fair value and aggregate contractual principal for mortgage loans where the fair value option was elected (in millions) was as follows:

| | As of 2020 |
|---|---|
| Commercial mortgage loans: [1] | |
| Fair value as of end-of-period | $ 765 |
| Aggregate contractual principal as of end-of-period | 742 |

[1] As of March 31, 2020, no loans for which the fair value option has been elected were in non-accrual status and none were more than 90 days past due and still accruing.

**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, 2020, or December 31, 2019, 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:

| | As of March 31, 2020 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| **Assets** | | | | |
| Investments: | | | | |
| Fixed maturity AFS securities: | | | | |
| Corporate bonds | $ - | $ 81,694 | $ 4,103 | $ 85,797 |
| U.S. government bonds | 470 | 7 | 5 | 482 |
| State and municipal bonds | - | 5,906 | - | 5,906 |
| Foreign government bonds | - | 302 | 87 | 389 |
| RMBS | - | 3,270 | 1 | 3,271 |
| CMBS | - | 1,118 | 1 | 1,119 |
| ABS | - | 4,890 | 196 | 5,086 |
| Hybrid and redeemable preferred securities | 68 | 416 | 72 | 556 |
| Mortgage loans on real estate | - | 765 | - | 765 |
| Trading securities | 49 | 3,319 | 651 | 4,019 |
| Equity securities | 12 | 41 | 30 | 83 |
| Derivative investments [(1)] | - | 2,447 | 3,213 | 5,660 |
| Cash and invested cash | - | 6,202 | - | 6,202 |
| Reinsurance related embedded derivatives | - | 137 | - | 137 |
| Other assets: | | | | |
| GLB ceded embedded derivatives | - | - | 728 | 728 |
| Indexed annuity ceded embedded derivatives | - | - | 799 | 799 |
| Separate account assets | 539 | 130,068 | - | 130,607 |
| Total assets | $ 1,138 | $ 240,582 | $ 9,886 | $ 251,606 |
| **Liabilities** | | | | |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | $ - | $ - | $ (1,380) | $ (1,380) |
| Other liabilities: | | | | |
| Derivative liabilities [(1)] | - | (1,269) | (1,186) | (2,455) |
| GLB direct embedded derivatives | - | - | (4,596) | (4,596) |
| Total liabilities | $ - | $ (1,269) | $ (7,162) | $ (8,431) |

| | As of December 31, 2019 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| **Assets** | | | | |
| Investments: | | | | |
| Fixed maturity AFS securities: | | | | |
| Corporate bonds | $ - | $ 84,435 | $ 4,281 | $ 88,716 |
| U.S. government bonds | 424 | 6 | 5 | 435 |
| State and municipal bonds | - | 5,884 | - | 5,884 |
| Foreign government bonds | - | 303 | 90 | 393 |
| RMBS | - | 3,230 | 11 | 3,241 |
| CMBS | - | 1,082 | 1 | 1,083 |
| ABS | - | 4,621 | 268 | 4,889 |
| Hybrid and redeemable preferred securities | 77 | 404 | 78 | 559 |
| Trading securities | 50 | 3,957 | 666 | 4,673 |
| Equity securities | 25 | 48 | 30 | 103 |
| Derivative investments [1] | - | 1,212 | 1,735 | 2,947 |
| Cash and invested cash | - | 2,563 | - | 2,563 |
| Other assets: | | | | |
| GLB direct embedded derivatives | - | - | 450 | 450 |
| GLB ceded embedded derivatives | - | - | 60 | 60 |
| Indexed annuity ceded embedded derivatives | - | - | 927 | 927 |
| Separate account assets | 639 | 152,916 | - | 153,555 |
| Total assets | $ 1,215 | $ 260,661 | $ 8,602 | $ 270,478 |
| **Liabilities** | | | | |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | $ - | $ - | $ (2,585) | $ (2,585) |
| Reinsurance related embedded derivatives | - | (327) | - | (327) |
| Other liabilities: | | | | |
| Derivative liabilities [1] | - | (518) | (867) | (1,385) |
| GLB ceded embedded derivatives | - | - | (9) | (9) |
| Total liabilities | $ - | $ (845) | $ (3,461) | $ (4,306) |

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

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 DAC, VOBA, DSI and 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, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | 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: [(3)] | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 4,281 | $ - | $ (385) | $ 165 | $ 42 | $ 4,103 |
| U.S. government bonds | 5 | - | - | - | - | 5 |
| Foreign government bonds | 90 | - | (3) | - | - | 87 |
| RMBS | 11 | - | - | - | (10) | 1 |
| CMBS | 1 | - | - | - | - | 1 |
| ABS | 268 | - | (4) | 22 | (90) | 196 |
| Hybrid and redeemable preferred securities | 78 | - | (6) | - | - | 72 |
| Trading securities | 666 | (32) | - | (6) | 23 | 651 |
| Equity securities | 30 | - | - | - | - | 30 |
| Derivative investments | 868 | 997 | 279 | (117) | - | 2,027 |
| Other assets: [(4)] | | | | | | |
| GLB direct embedded derivatives | 450 | (450) | - | - | - | - |
| GLB ceded embedded derivatives | 60 | 668 | - | - | - | 728 |
| Indexed annuity ceded embedded derivatives | 927 | (115) | - | (13) | - | 799 |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives [(4)] | (2,585) | 1,143 | - | 62 | - | (1,380) |
| Other liabilities: [(4)] | | | | | | |
| GLB direct embedded derivatives | - | (4,596) | - | - | - | (4,596) |
| GLB ceded embedded derivatives | (9) | 9 | - | - | - | - |
| Total, net | $ 5,141 | $ (2,376) | $ (119) | $ 113 | $ (35) | $ 2,724 |

| | For the Three Months Ended March 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 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: [3] | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 3,269 | $ (1) | $ 70 | $ 200 | $ (17) | $ 3,521 |
| Foreign government bonds | 109 | - | 1 | - | - | 110 |
| RMBS | 7 | - | - | - | (7) | - |
| CMBS | 2 | - | - | - | - | 2 |
| ABS | 134 | - | - | 149 | (105) | 178 |
| Hybrid and redeemable preferred securities | 75 | - | 3 | - | - | 78 |
| Trading securities | 67 | - | - | 206 | (37) | 236 |
| Equity securities | 25 | - | - | - | - | 25 |
| Derivative investments | 534 | (383) | 46 | 70 | - | 267 |
| Other assets: [4] | | | | | | |
| GLB direct embedded derivatives | 123 | 316 | - | - | - | 439 |
| GLB ceded embedded derivatives | 72 | (22) | - | - | - | 50 |
| Indexed annuity ceded embedded derivatives | 902 | 77 | - | (107) | - | 872 |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives [4] | (1,305) | (316) | - | (109) | - | (1,730) |
| Other liabilities – GLB ceded embedded derivatives [4] | - | (8) | - | - | - | (8) |
| Total, net | $ 4,014 | $ (337) | $ 120 | $ 409 | $ (166) | $ 4,040 |

(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 fixed maturity AFS and trading securities are reported at amortized cost as of the beginning-of-year. For fixed maturity 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) 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 credit loss expense are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

(4) Gains (losses) from the changes in fair value 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, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | **Issuances** | **Sales** | **Maturities** | **Settlements** | **Calls** | **Total** |
| Investments: | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 336 | $ (73) | $ 2 | $ (51) | $ (49) | $ 165 |
| ABS | 37 | - | - | (15) | - | 22 |
| Trading securities | 37 | (25) | - | (18) | - | (6) |
| Derivative investments | 118 | (123) | (112) | - | - | (117) |
| Other assets – indexed annuity ceded embedded derivatives | 9 | - | - | (22) | - | (13) |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | 11 | - | - | 51 | - | 62 |
| Total, net | $ 548 | $ (221) | $ (110) | $ (55) | $ (49) | $ 113 |

| | For the Three Months Ended March 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Issuances** | **Sales** | **Maturities** | **Settlements** | **Calls** | **Total** |
| Investments: | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 267 | $ (2) | $ (7) | $ (51) | $ (7) | $ 200 |
| ABS | 149 | - | - | - | - | 149 |
| Trading securities | 207 | - | - | (1) | - | 206 |
| Derivative investments | 131 | (15) | (46) | - | - | 70 |
| Other assets – indexed annuity ceded embedded derivatives | 19 | - | - | (126) | - | (107) |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | (148) | - | - | 39 | - | (109) |
| Total, net | $ 625 | $ (17) | $ (53) | $ (139) | $ (7) | $ 409 |

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| GLB | $ (4,867) | $ 481 |
| Derivative investments | 895 | (287) |
| Embedded derivatives: | | |
| Indexed annuity and IUL contracts | (61) | (32) |
| Total, net [1] | $ (4,033) | $ 162 |

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

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

| | For the Three Months Ended March 31, 2020 |
|---|---|
| Fixed maturity AFS securities: | |
| Corporate bonds | $ (325) |
| Foreign government bonds | (2) |
| ABS | (3) |
| Hybrid and redeemable preferred securities | (5) |
| Total, net | $ (335) |

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

| | For the Three Months Ended March 31, 2020 | | | For the Three Months Ended March 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Transfers Into Level 3 | Transfers Out of Level 3 | Total | Transfers Into Level 3 | Transfers Out of Level 3 | Total |
| Investments: | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 119 | $ (77) | $ 42 | $ 83 | $ (100) | $ (17) |
| RMBS | - | (10) | (10) | - | (7) | (7) |
| ABS | 5 | (95) | (90) | - | (105) | (105) |
| Trading securities | 23 | - | 23 | - | (37) | (37) |
| Total, net | $ 147 | $ (182) | $ (35) | $ 83 | $ (249) | $ (166) |

Transfers into and out of Level 3 are generally the result of observable market information on a security no longer being available or becoming available to our pricing vendors.  For the three months ended March 31, 2020 and 2019, transfers in and out of Level 3 were attributable primarily to the securities' observable market information no longer being available or becoming available.

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, 2020:

| | Fair Value | Valuation Technique | Significant Unobservable Inputs | Assumption or Input Ranges | Weighted Average Input Range [1] |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Investments: | | | | | |
| Fixed maturity AFS and trading securities: | | | | | |
| Corporate bonds | $ 2,690 | Discounted cash flow | Liquidity/duration adjustment [2] | 0.7% - 18.8% | 2.9% |
| Foreign government bonds | 47 | Discounted cash flow | Liquidity/duration adjustment [2] | 5.3% - 8.0% | 6.8% |
| ABS | 20 | Discounted cash flow | Liquidity/duration adjustment [2] | 6.0% - 6.0% | 6.0% |
| Hybrid and redeemable preferred securities | 4 | Discounted cash flow | Liquidity/duration adjustment [2] | 3.0% - 3.0% | 3.0% |
| Equity securities | 20 | Discounted cash flow | Liquidity/duration adjustment [2] | 4.5% - 7.3% | 6.7% |
| Other assets – GLB ceded embedded derivatives | 728 | Discounted cash flow | Long-term lapse rate [3] | 1% - 30% | [10] |
| | | | Utilization of guaranteed withdrawals [4] | 85% - 100% | 94% |
| | | | Claims utilization factor [5] | 60% - 100% | [10] |
| | | | Premiums utilization factor [5] | 80% - 115% | [10] |
| | | | NPR [6] | 0.03% - 0.35% | 0.27% |
| | | | Mortality rate [7] | [9] | [10] |
| | | | Volatility [8] | 1% - 28% | 13.72% |
| Indexed annuity ceded embedded derivatives | 799 | Discounted cash flow | Lapse rate [3] | 1% - 9% | [10] |
| | | | Mortality rate [7] | [9] | [10] |
| **Liabilities** | | | | | |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | $ (1,380) | Discounted cash flow | Lapse rate [3] | 1% - 9% | [10] |
| | | | Mortality rate [7] | [9] | [10] |
| Other liabilities – GLB direct embedded derivatives | (4,596) | Discounted cash flow | Long-term lapse rate [3] | 1% - 30% | [10] |
| | | | Utilization of guaranteed withdrawals [4] | 85% - 100% | 94% |
| | | | Claims utilization factor [5] | 60% - 100% | [10] |
| | | | Premiums utilization factor [5] | 80% - 115% | [10] |
| | | | NPR [6] | 0.03% - 0.35% | 0.27% |
| | | | Mortality rate [7] | [9] | [10] |
| | | | Volatility [8] | 1% - 28% | 13.72% |

(1) Unobservable inputs were weighted by the relative fair value of the instruments, unless otherwise noted.
(2) 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.
(3) 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.
(4) The utilization of guaranteed withdrawals input represents the estimated percentage of contract holders that utilize the guaranteed withdrawal feature.
(5) 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.
(6) The NPR input represents the estimated additional credit spread that market participants would apply to the market observable discount rate when pricing a contract. The NPR input was weighted by the absolute value of the sensitivity of the reserve to the NPR assumption.

[7] 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.
[8] 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. Volatility assumptions vary by fund due to the benchmarking of different indices. The volatility input was weighted by the relative account value assigned to each index.
[9] The mortality rate is based on a combination of company and industry experience, adjusted for improvement factors.
[10] A weighted average input range is not a meaningful measurement for lapse rate, utilization factors or mortality rate.

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 would have resulted 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 have resulted 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 have resulted 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 have resulted in a decrease in the fair value measurement; and an increase in the utilization of guaranteed withdrawal or volatility inputs would have resulted 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 would not have affected 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.

## 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. A discussion of these segments and Other Operations is found in Note 21 of our 2019 Form 10-K.

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 financial assets;
  - Changes in the fair value of equity securities;
  - Changes in the fair value of derivatives, embedded derivatives within certain reinsurance arrangements and trading securities ("gain (loss) on the mark-to-market on certain instruments");
  - 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; and
  - Changes in the fair value of the embedded derivative liabilities related to index options we may purchase or sell in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products accounted for at fair value ("indexed annuity forward-starting option");
- Changes in reserves resulting from benefit ratio unlocking on our GDB and GLB riders ("benefit ratio unlocking");
- 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.

The tables below reconcile our segment measures of performance to the GAAP measures presented in our Consolidated Statements of Comprehensive Income (Loss) (in millions):

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Revenues** | | |
| Operating revenues: | | |
| Annuities | $ 1,129 | $ 1,174 |
| Retirement Plan Services | 297 | 293 |
| Life Insurance | 1,821 | 1,700 |
| Group Protection | 1,224 | 1,138 |
| Other Operations | 38 | 57 |
| Excluded realized gain (loss), pre-tax | (75) | (400) |
| Amortization of DFEL associated with benefit ratio unlocking, pre-tax | (9) | 3 |
| Total revenues | $ 4,425 | $ 3,965 |

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Net Income (Loss)** | | |
| Income (loss) from operations: | | |
| Annuities | $ 261 | $ 250 |
| Retirement Plan Services | 40 | 39 |
| Life Insurance | 171 | 157 |
| Group Protection | 40 | 55 |
| Other Operations | (47) | (60) |
| Excluded realized gain (loss), after-tax | (60) | (316) |
| Benefit ratio unlocking, after-tax | (349) | 142 |
| Acquisition and integration costs related to mergers and acquisitions, after-tax | (4) | (15) |
| Net income (loss) | $ 52 | $ 252 |

## *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, 2020, compared with December 31, 2019, and the results of operations for the three months ended March 31, 2020, compared with the corresponding period in 2019 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, 2019 ("2019 Form 10-K"); and other reports filed with the Securities and Exchange Commission

("SEC"). 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 2019 Form 10-K and "Part II – Item 1A. Risk Factors" herein.

## 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"). These forward-looking statements are intended to enhance the reader's ability to assess our future financial performance. 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. Forward-looking statements may contain words like: "anticipate," "believe," "estimate," "expect," "project," "shall," "will" 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 are subject to risks and uncertainties. Actual results could differ materially from those expressed in or implied by such forward-looking statements due to a variety of factors, including:

- The continuation of the coronavirus, or COVID-19, pandemic, or future outbreaks of COVID-19, and uncertainty surrounding the length and severity of future impacts on the global economy and on our business, results of operations and financial condition;
- Continued deterioration in general economic and business conditions that may affect account values, investment results, guaranteed benefit liabilities, premium levels and claims experience;
- 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 the payment of revenue sharing and 12b-1 distribution fees; the impact of U.S. federal tax reform legislation on our business, earnings and capital; and the impact of any "best interest" standards of care adopted by the SEC or other regulations adopted by federal or state regulators or self-regulatory organizations relating to the standard of care owed by investment advisers and/or broker-dealers;
- Actions taken by reinsurers to raise rates on in-force business;
- Continued 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 continued 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 accounting principles that may affect our financial statements;
- Lowering of one or more of our debt ratings issued by nationally recognized statistical rating organizations and the adverse effect such action may have on our ability to raise capital and on our liquidity and financial condition;
- Lowering of one or more of the insurer financial strength ratings of our insurance subsidiaries and the adverse effect such action may have on the premium writings, policy retention, profitability of our insurance subsidiaries and liquidity;
- Significant credit, accounting, fraud, corporate governance or other issues that may adversely affect the value of certain financial assets, as well as counterparties to which we are exposed to credit risk, requiring that we realize losses on financial assets;
- 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;
- The continuation of the COVID-19 pandemic, or future outbreaks of COVID-19 or other pandemics, acts of terrorism, 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 and uncertainties included here are not exhaustive. Our most recent Form 10-K and "Part II – Item 1A. Risk Factors" herein as well as other reports that we file 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. We sell a wide range of wealth protection, accumulation, retirement income and group protection products and solutions through our four business segments:

- Annuities;
- Retirement Plan Services;
- Life Insurance; and
- Group Protection

We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. See "Part I – Item 1. Business" in our 2019 Form 10-K for a discussion of our business segments and products.

In this report, in addition to providing consolidated revenues and net income (loss), we also provide segment operating revenues and income (loss) from operations because we believe they are meaningful measures of revenues and the profitability of our operating segments. Operating revenues and income (loss) from operations are the financial performance measures we use to evaluate and assess the results of our segments. Accordingly, we define and report operating revenues and income (loss) from operations by segment in Note 15. Our management believes that operating revenues and income (loss) from operations explain the results of our ongoing businesses in a manner that allows for a better understanding of the underlying trends in our current businesses. Certain items are excluded from operating revenue and income (loss) from operations because they 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 businesses.

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, "Part I – Item 1A. Risk Factors" in our 2019 Form 10-K and "Part II – Item 1A. Risk Factors" herein.

Significant operational matters, industry trends 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 2019 Form 10-K, and is further updated by the discussion of the current market conditions that follows.

**Current Market Conditions**

The COVID-19 pandemic that emerged in the first quarter of 2020 has led to an extreme downturn in and volatility of the capital markets, record-low interest rates and wide-ranging changes in consumer behavior, including as a result of quarantines, shelter-in-place orders and limitations on business activity. The severe restriction in economic activity caused by the COVID-19 pandemic and increased level of unemployment in the United States have contributed to increased volatility and diminished expectations for the economy and markets going forward. As the economic and regulatory environment continues to react and evolve, we cannot yet predict the full impact of the pandemic and ensuing conditions on our business and financial condition. For more information on the expected and potential impacts of the COVID-19 pandemic on our business and financial condition, see "Forward-Looking Statements – Cautionary Language" above and "Part II – Item 1A. Risk Factors." We expect unfavorable impacts related to, but not limited to, the following areas in 2020:

*Mortality and Morbidity*

As a result of the impacts of the COVID-19 pandemic, we expect higher mortality in our Life Insurance and Group Protection segments during the remainder of 2020. We also expect increased disability claims and delays in resolving disability claims in our Group Protection segment due to difficulties in obtaining required information or documentation as a result of closure and/or limited operations of businesses and medical offices.

*Investment Portfolio*

Since the vast majority of our alternative investment portfolio is reported on a one quarter lag, we expect unfavorable investment income on alternative investments in 2020 given the significant decline in equity markets and energy prices. See "Consolidated Investments – Alternative Investments" for additional information on our alternative investment portfolio. In addition, continued weakness in the current environment, including, but not limited to, falling global energy and oil prices that have contributed to destabilization of the energy industry, could lead to increased credit defaults, resulting in additional write-downs of financial assets for impairments in our broader investment portfolio.

*Earnings from Account Values*

Our Annuities and Retirement Plan Services segments are the most sensitive to the equity markets, as well as, to a lesser extent, our Life Insurance segment. Earnings are affected by equity market movements on account values and the related fees we earn on those assets. The value of the Standard & Poor's ("S&P") 500 Index® ("S&P 500") decreased 20% between December 31, 2019 and March 31, 2020. Variable account values in our Annuities and Retirement Plan Services segments decreased by approximately 10% during the same period. We expect income from operations in our Annuities and Retirement Plan Services segments to be negatively impacted by lower asset-based earnings and expect our net flows to be pressured by these unfavorable equity market conditions as well as potential distribution disruption in the second quarter of 2020.

*Low Interest Rate Environment*

Because the profitability of our business depends in part on interest rate spreads, interest rate fluctuations can negatively affect our profitability. Changes in interest rates may impact both our profitability from spread businesses and our return on invested capital. In response to the economic impact of the COVID-19 pandemic, the Federal Reserve cut interest rates to near zero in March 2020. We expect the continuation of the low interest rate environment to continue to adversely affect the interest margins of our businesses.

We continue to be proactive in our investment strategies, product designs, crediting rate strategies and overall asset-liability practices to mitigate the risk of unfavorable consequences in this type of environment, declines in our spread, or instances where the returns on our general account investments are not enough to support the interest rate guarantees on these products. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk" in our 2019 Form 10-K for additional information on interest rate risk.

## ***Critical Accounting Policies and Estimates***

The MD&A included in our 2019 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 2019 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 2019 Form 10-K.

If we had unlocked our RTM assumption as of March 31, 2020, we would have recorded unfavorable unlocking of approximately $100 million, pre-tax, for our Annuities segment and favorable unlocking of approximately $5 million, pre-tax, for our Life Insurance segment and approximately $1 million, pre-tax, for our Retirement Plan Services segment.

**Investments**

*Investment Valuation*

The following summarizes investments on our Consolidated Balance Sheets carried at fair value by pricing source and fair value hierarchy level (in millions) as of March 31, 2020:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| Priced by third-party pricing services | $ 599 | $ 89,480 | $ 286 | $ 90,365 |
| Priced by independent broker quotations | - | - | 4,106 | 4,106 |
| Priced by matrices | - | 13,426 | - | 13,426 |
| Priced by other methods [1] | - | - | 2,781 | 2,781 |
| Total | $ 599 | $ 102,906 | $ 7,173 | $ 110,678 |
| Percent of total | 1% | 93% | 6% | 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 2019 Form 10-K and Note 14 herein.

*Write-Downs for Impairment and Allowance for Credit Losses*

As of January 1, 2020, we adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which replaced the historical incurred credit loss methodology with an expected credit loss methodology and impacts the way we recognize and measure impairment. See Note 2 for additional information.

We regularly review our fixed maturity AFS securities for declines in fair value that we determine to be an indication of impairment. Realized gains and losses generally originate from asset sales to reposition the portfolio or to respond to product experience. In the process of evaluating whether a security with an unrealized loss reflects declines that are related to credit losses, 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 investments within our portfolios in a manner that is consistent with the AFS classification.

We consider economic factors and circumstances within industries and countries 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 indicative of an impairment, the security is written down to estimated recovery value. In instances where declines are considered temporary, the security will continue to be carefully monitored.

There are risks and uncertainties associated with determining whether an investment shows indications of impairment. These include subsequent significant changes in general overall economic conditions, as well as specific business conditions affecting particular issuers, future financial market effects such as interest rate spreads, stability of foreign governments and economies, future rating agency actions and significant accounting, fraud or corporate governance issues that may adversely affect certain investments. In addition, there are often significant estimates and assumptions that we use to estimate the fair values of securities as described in "Investment Valuation" above. We continually monitor developments and update underlying assumptions and financial models based upon new information.

For certain securitized fixed maturity AFS securities with contractual cash flows, including asset-backed securities ("ABS"), we use our best estimate of cash flows for the life of the security to determine whether there is an impairment of the security. In addition, we review

for other indicators of impairment as required by the Investments – Debt and Equity Securities Topic of the Financial Accounting Standards Board ("FASB") *Accounting Standards Codification™* ("ASC").

Write-downs and allowances on commercial mortgage loans, real estate and other investments are established when the underlying value of the property is deemed to be less than the carrying value. All commercial mortgage loans that are impaired are individually reviewed to determine an appropriate allowance for credit losses ("ACL"). Changing economic conditions affect our valuation of commercial mortgage loans. Increasing vacancies, declining rents and the like are incorporated into the ACL analysis that we perform for monitored loans and may contribute to an increase in the ACL. In addition, we continue to monitor the entire commercial mortgage loan portfolio to identify both current and projected future risk based on reasonable and supportable forecasts. Areas of emphasis include properties that have deteriorating credits or have experienced debt-service coverage and/or loan-to-value reduction. Where warranted, we have increased our ACL based upon this analysis.

We have also established an ACL on our residential mortgage loan portfolio that includes a specific ACL for loans that are deemed to be impaired as well as a general ACL for pools of loans with similar risk characteristics. The ACL for the performing population of loans is based on historical performance for similar loans, as well as projected future losses based on modeling, which includes reasonable and supportable forecasts. The historical data utilized in the ACL calculation process is adjusted for current economic conditions.

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.

**Derivatives**

Our accounting policies for derivatives and the potential effect on interest spreads in a falling rate environment are discussed in Note 5 of this report and "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2019 Form 10-K.

*Guaranteed Living Benefits*

Within our individual annuity business, 63% and 64% of our variable annuity account values contained GLB features as of March 31, 2020 and 2019, respectively. 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, 2020 and 2019, 40% and 14%, respectively, of all in-force contracts with a GLB feature were "in the money," and our exposure, after reinsurance, as of March 31, 2020 and 2019, was $2.5 billion and $758 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 2019 Form 10-K.

## *Acquisitions and Dispositions*

For information about acquisitions and dispositions, see Note 3 in our 2019 Form 10-K.

## RESULTS OF CONSOLIDATED OPERATIONS

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Net Income (Loss)** | | |
| Income (loss) from operations: | | |
| Annuities | $ 261 | $ 250 |
| Retirement Plan Services | 40 | 39 |
| Life Insurance | 171 | 157 |
| Group Protection | 40 | 55 |
| Other Operations | (47) | (60) |
| Excluded realized gain (loss), after-tax | (60) | (316) |
| Benefit ratio unlocking, after-tax | (349) | 142 |
| Acquisition and integration costs related to mergers and acquisitions, after-tax | (4) | (15) |
| Net income (loss) | $ 52 | $ 252 |

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Deposits** | | |
| Annuities | $ 3,697 | $ 3,508 |
| Retirement Plan Services | 2,779 | 2,496 |
| Life Insurance | 1,450 | 1,537 |
| Total deposits | $ 7,926 | $ 7,541 |
| **Net Flows** | | |
| Annuities | $ 528 | $ 492 |
| Retirement Plan Services | 671 | (381) |
| Life Insurance | 963 | 1,020 |
| Total net flows | $ 2,162 | $ 1,131 |

| | As of March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Account Values** | | |
| Annuities | $ 125,897 | $ 130,458 |
| Retirement Plan Services | 69,636 | 71,799 |
| Life Insurance | 51,475 | 51,120 |
| Total account values | $ 247,008 | $ 253,377 |

*Comparison of the Three Months Ended March 31, 2020 to 2019*

Net income decreased due primarily to the following:

- Higher benefits driven by a decline in equity market performance and growth in business in force.
- Higher total loss ratio in our Group Protection segment.
- 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:

- Lower realized losses.
- Higher investment income on alternative investments.
- Growth in average account values, business in force and group earned premiums.
- Lower deferred compensation plan expense and other expense efficiencies.

- Federal income tax benefit in 2020 as compared to expense in 2019.

See "Introduction – Executive Summary" and "Part II – Item 1A. Risk Factors" for a discussion on the volatility in the capital markets in the first quarter of 2020 and the expected and potential impacts of the COVID-19 pandemic.

## RESULTS OF ANNUITIES

### Income (Loss) from Operations

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Operating Revenues** | | |
| Insurance premiums [1] | $ 53 | $ 208 |
| Fee income | 593 | 568 |
| Net investment income | 326 | 257 |
| Operating realized gain (loss) [2] | 54 | 41 |
| Amortization of deferred gain on business sold through reinsurance | 8 | 8 |
| Other revenues [3] | 95 | 92 |
| Total operating revenues | 1,129 | 1,174 |
| **Operating Expenses** | | |
| Interest credited | 192 | 162 |
| Benefits [1] | 170 | 284 |
| Commissions and other expenses | 465 | 441 |
| Total operating expenses | 827 | 887 |
| Income (loss) from operations before taxes | 302 | 287 |
| Federal income tax expense (benefit) | 41 | 37 |
| Income (loss) from operations | $ 261 | $ 250 |

(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, 2020 to 2019*

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

- Higher net investment income, net of interest credited, driven by higher average gross fixed account values and higher investment income on alternative investments within our surplus portfolio.
- Higher fee income driven by higher average daily variable account values.

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

- Higher benefits, net of changes in income annuity reserves, due to an increase in the growth in benefit reserves driven primarily by lower equity market performance as of March 31, 2020, as compared to higher equity market performance as of March 31, 2019.
- Higher commissions and other expenses driven by an increase in amortization expense as a result of higher actual gross profits, and higher average account values resulting in higher trail commissions.

*Additional Information*

Due to the equity market decline as a result of the impacts of the COVID-19 pandemic, our end-of-period variable account values decreased 9% from March 31, 2019. We expect declines in average variable account values in the second quarter of 2020. For more information on the expected and potential impacts to our business, see "Introduction – Executive Summary" above and "Part II – Item 1A. Risk Factors."

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 gross account values were 8% for the three months ended March 31, 2020 and 2019.

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 make it more challenging to meet certain statutory requirements and changes in interest rates may also result in increased contract withdrawals" in our 2019 Form 10-K.

**Fee Income**

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Fee Income** | | |
| Mortality, expense and other assessments | $ 588 | $ 562 |
| Surrender charges | 7 | 7 |
| DFEL: | | |
| Deferrals | (9) | (10) |
| Amortization, net of interest | 7 | 9 |
| Total fee income | $ 593 | $ 568 |

| | As of or For the Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Variable Account Value Information** | | |
| Variable annuity deposits (1) | $ 1,406 | $ 982 |
| Increases (decreases) in variable annuity account values: | | |
| Net flows (1) | (1,145) | (1,363) |
| Change in market value (1) | (15,397) | 8,931 |
| Contract holder assessments (1) | (631) | (600) |
| Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products | 263 | 577 |
| Variable annuity account values (1) | 102,136 | 112,284 |
| Average daily variable annuity account values (1) | 114,434 | 109,778 |
| Average daily S&P 500 (2) | 3,068 | 2,719 |

(1) Excludes the fixed portion of variable.

(2) We generally use the S&P 500 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 performance. See Note 8 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 variable 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. We may collect surrender charges when our fixed and variable annuity contract holders surrender their contracts during the surrender charge period 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 2019 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 fixed account values (dollars in millions) were as follows:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Net Investment Income** | | |
| Fixed maturity AFS securities, mortgage loans on real estate and other, net of investment expenses | $ 290 | $ 228 |
| Commercial mortgage loan prepayment and bond make-whole premiums [(1)] | 2 | 3 |
| Surplus investments [(2)] | 34 | 26 |
| Total net investment income | $ 326 | $ 257 |
| **Interest Credited** | | |
| Amount provided to contract holders | $ 189 | $ 164 |
| DSI deferrals | (2) | (9) |
| Interest credited before DSI amortization | 187 | 155 |
| DSI amortization | 5 | 7 |
| Total interest credited | $ 192 | $ 162 |

(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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Interest Rate Spread** | | |
| Fixed maturity AFS securities, mortgage loans on real estate and other, net of investment expenses | 3.73% | 3.97% |
| Commercial mortgage loan prepayment and bond make-whole premiums | 0.03% | 0.05% |
| Net investment income yield on reserves | 3.76% | 4.02% |
| Interest rate credited to contract holders | 2.31% | 2.41% |
| Interest rate spread | 1.45% | 1.61% |

| | As of or For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Fixed Account Value Information** | | |
| Fixed annuity deposits [1] | $ 2,291 | $ 2,526 |
| Increases (decreases) in fixed annuity account values: | | |
| Net flows [1] | 1,673 | 1,855 |
| Contract holder assessments [1] | (14) | (9) |
| Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products | (263) | (577) |
| Reinvested interest credited [1] | (923) | 428 |
| Fixed annuity account values [1][2] | 23,761 | 18,174 |
| Average fixed account values [1][2] | 23,488 | 17,407 |

[1] Includes the fixed portion of variable.
[2] Net of reinsurance ceded.

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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Commissions and Other Expenses** | | |
| Commissions: | | |
| Deferrable | $ 171 | $ 132 |
| Non-deferrable | 140 | 136 |
| General and administrative expenses | 111 | 104 |
| Inter-segment reimbursement associated with reserve financing and LOC expenses (1) | 1 | 1 |
| Taxes, licenses and fees | 10 | 12 |
| Total expenses incurred, excluding broker-dealer | 433 | 385 |
| DAC deferrals | (191) | (147) |
| Total pre-broker-dealer expenses incurred, excluding amortization, net of interest | 242 | 238 |
| DAC and VOBA amortization, net of interest | 95 | 90 |
| Broker-dealer expenses incurred | 128 | 113 |
| Total commissions and other expenses | $ 465 | $ 441 |
| **DAC Deferrals** | | |
| As a percentage of sales/deposits | 5.2% | 4.2% |

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

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

## RESULTS OF RETIREMENT PLAN SERVICES

**Income (Loss) from Operations**

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Operating Revenues** | | |
| Fee income | $ 61 | $ 61 |
| Net investment income | 229 | 226 |
| Other revenues [(1)] | 7 | 6 |
| Total operating revenues | 297 | 293 |
| **Operating Expenses** | | |
| Interest credited | 150 | 145 |
| Commissions and other expenses | 102 | 105 |
| Total operating expenses | 252 | 250 |
| Income (loss) from operations before taxes | 45 | 43 |
| Federal income tax expense (benefit) | 5 | 4 |
| Income (loss) from operations | $ 40 | $ 39 |

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

*Comparison of the Three Months Ended March 31, 2020 to 2019*

Income from operations for this segment increased modestly due primarily to lower commissions and other expenses driven by lower incentive compensation as a result of production performance and expense efficiencies. The increase in income from operations was partially offset by lower net investment income, net of interest credited, driven by spread compression due to average new money rates trailing our current portfolio yields, partially offset by higher investment income on alternative investments within our surplus portfolio and higher fixed account values.

*Additional Information*

Due to the equity market decline as a result of the impacts of the COVID-19 pandemic, our end of period variable account values decreased 13% from March 31, 2019. We expect declines in average variable account values in the second quarter of 2020. For more information on the expected and potential impacts to our business, see "Introduction – Executive Summary" above and "Part II – Item 1A. Risk Factors."

Net flows in this business fluctuate based on the timing of larger plans being implemented 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 by plan sponsor terminations and participant withdrawals. These outflows as a percentage of average account values were 11% and 16% for the three months ended March 31, 2020 and 2019, 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 21% and 23% as of March 31, 2020 and 2019, 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 make it more challenging to meet certain statutory requirements and changes in interest rates may also result in increased contract withdrawals" in our 2019 Form 10-K.

**Fee Income**

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Fee Income** | | |
| Annuity expense assessments | $ 45 | $ 45 |
| Mutual fund fees | 16 | 16 |
| Total fee income | $ 61 | $ 61 |

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Net Flows By Market** | | |
| Small market | $ 141 | $ 189 |
| Mid – large market | 790 | (283) |
| *Multi-Fund*® and other | (260) | (287) |
| Total net flows | $ 671 | $ (381) |

| | As of or For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Variable Account Value Information** | | |
| Variable annuity deposits (1) | $ 525 | $ 458 |
| Increases (decreases) in variable annuity account values: | | |
| Net flows (1) | (51) | (130) |
| Change in market value (1) | (2,974) | 1,640 |
| Contract holder assessments (1) | (40) | (37) |
| Variable annuity account values (1) | 13,726 | 15,820 |
| Average daily variable annuity account values (1) | 16,068 | 15,393 |
| Average daily S&P 500 | 3,068 | 2,719 |

(1) Excludes the fixed portion of variable.

| | As of or For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Mutual Fund Account Value Information** | | |
| Mutual fund deposits | $ 1,645 | $ 1,580 |
| Mutual fund net flows | 678 | (189) |
| Mutual fund account values (1) | 34,575 | 36,065 |

(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. We may collect surrender charges when our fixed and variable annuity contract holders surrender their contracts during the surrender charge period to protect us from premature withdrawals.

**Net Investment Income and Interest Credited**

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Net Investment Income** | | |
| Fixed maturity AFS securities, mortgage loans on real estate and other, net of investment expenses | $ 208 | $ 207 |
| Commercial mortgage loan prepayment and bond make-whole premiums [(1)] | 3 | 3 |
| Surplus investments [(2)] | 18 | 16 |
| Total net investment income | $ 229 | $ 226 |
| **Interest Credited** | $ 150 | $ 145 |

(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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Interest Rate Spread** | | |
| Fixed maturity AFS securities, mortgage loans on real estate and other, net of investment expenses | 3.95% | 4.18% |
| Commercial mortgage loan prepayment and bond make-whole premiums | 0.05% | 0.05% |
| Net investment income yield on reserves | 4.00% | 4.23% |
| Interest rate credited to contract holders | 2.87% | 2.92% |
| Interest rate spread | 1.13% | 1.31% |

| | As of or For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Fixed Account Value Information** | | |
| Fixed annuity deposits [(1)] | $ 609 | $ 458 |
| Increases (decreases) in fixed annuity account values: | | |
| Net flows [(1)] | 44 | (61) |
| Reinvested interest credited [(1)] | 149 | 142 |
| Contract holder assessments [(1)] | (3) | (3) |
| Fixed annuity account values [(1)] | 21,335 | 19,914 |
| Average fixed account values [(1)] | 20,809 | 19,841 |

(1) Includes the fixed portion of variable.

A portion of our investment income earned is credited to the contract holders of our fixed annuity products, including the fixed portion of variable annuity contracts. We expect to earn a spread between what we earn on the underlying general account investments

supporting the fixed annuity product line, including the fixed portion of variable annuity contracts, and what we credit to our fixed annuity contract holders' accounts, including the fixed portion of variable annuity contracts. 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, | |
|---|---|---|
| | 2020 | 2019 |
| **Commissions and Other Expenses** | | |
| Commissions: | | |
| Deferrable | $ 2 | $ 2 |
| Non-deferrable | 17 | 17 |
| General and administrative expenses | 76 | 78 |
| Taxes, licenses and fees | 6 | 7 |
| Total expenses incurred | 101 | 104 |
| DAC deferrals | (6) | (5) |
| Total expenses recognized before amortization | 95 | 99 |
| DAC and VOBA amortization, net of interest | 7 | 6 |
| Total commissions and other expenses | $ 102 | $ 105 |
| **DAC Deferrals** | | |
| As a percentage of annuity sales/deposits | 0.5% | 0.5% |

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.

## 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, | |
|---|---|---|
| | 2020 | 2019 |
| **Operating Revenues** | | |
| Insurance premiums [1] | $ 224 | $ 213 |
| Fee income | 893 | 844 |
| Net investment income | 697 | 643 |
| Operating realized gain (loss) [2] | (3) | (3) |
| Amortization of deferred gain on business sold through reinsurance | 3 | - |
| Other revenues | 7 | 3 |
| Total operating revenues | 1,821 | 1,700 |
| **Operating Expenses** | | |
| Interest credited | 371 | 354 |
| Benefits | 954 | 902 |
| Commissions and other expenses | 287 | 249 |
| Total operating expenses | 1,612 | 1,505 |
| Income (loss) from operations before taxes | 209 | 195 |
| Federal income tax expense (benefit) | 38 | 38 |
| Income (loss) from operations | $ 171 | $ 157 |

(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, 2020 to 2019*

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

- Higher fee income due to growth in business in force.
- Higher net investment income, net of interest credited, driven by higher investment income on alternative investments, partially offset by spread compression due to average new money rates trailing our current portfolio yields.

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

- Higher benefits due to growth in business in force.
- Higher commissions and other expenses driven by higher amortization rates, partially offset by expense efficiencies.

*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 other products containing secondary guarantees require reserves calculated pursuant to the Valuation of Life Insurance Policies Model Regulation ("XXX"), Actuarial Guideline 38 ("AG38") and the newly adopted principles-based reserving framework. For information on strategies we use to reduce the statutory reserve strain, 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*

We expect higher mortality and lower investment income on alternative investments in 2020 as a result of the impacts of the COVID-19 pandemic. For more information on the expected and potential impacts to our business, see "Introduction – Executive Summary" above and "Part II – Item 1A. Risk Factors."

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 make it more challenging to meet certain statutory requirements and changes in interest rates may also result in increased contract withdrawals" in our 2019 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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Fee Income** | | |
| Cost of insurance assessments | $ 591 | $ 565 |
| Expense assessments | 372 | 376 |
| Surrender charges | 9 | 13 |
| DFEL: | | |
| Deferrals | (232) | (214) |
| Amortization, net of interest: | 153 | 104 |
| Total fee income | $ 893 | $ 844 |

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Sales by Product** | | |
| UL | $ 9 | $ 11 |
| *MoneyGuard®* | 34 | 51 |
| IUL | 21 | 16 |
| VUL | 44 | 52 |
| Term | 35 | 30 |
| Total individual life sales | 143 | 160 |
| Executive Benefits | 26 | 31 |
| Total sales | $ 169 | $ 191 |
| **Net Flows** | | |
| Deposits | $ 1,450 | $ 1,537 |
| Withdrawals and deaths | (487) | (517) |
| Net flows | $ 963 | $ 1,020 |
| **Contract Holder Assessments** | $ 1,279 | $ 1,236 |

| | As of March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Account Values** | | |
| General account | $ 37,405 | $ 36,606 |
| Separate account | 14,070 | 14,514 |
| Total account values | $ 51,475 | $ 51,120 |
| **Average General Account Values** | $ 37,802 | $ 37,003 |
| **In-Force Face Amount** | | |
| UL and other | $ 356,889 | $ 346,292 |
| Term insurance | 486,311 | 416,789 |
| Total in-force face amount | $ 843,200 | $ 763,081 |

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 variable universal life insurance ("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 Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Net Investment Income** | | |
| Fixed maturity AFS securities, mortgage loans on real estate and other, net of investment expenses | $ 625 | $ 601 |
| Commercial mortgage loan prepayment and bond make-whole premiums (1) | 4 | 6 |
| Alternative investments (2) | 33 | 1 |
| Surplus investments (3) | 35 | 35 |
| Total net investment income | $ 697 | $ 643 |
| **Interest Credited** | $ 371 | $ 354 |

(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.

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Interest Rate Yields and Spread** | | |
| Attributable to interest-sensitive products: | | |
| Fixed maturity AFS securities, mortgage loans on real estate and other, net of investment expenses | 4.77% | 4.85% |
| Commercial mortgage loan prepayment and bond make-whole premiums | 0.03% | 0.05% |
| Alternative investments | 0.28% | 0.01% |
| Net investment income yield on reserves | 5.08% | 4.91% |
| Interest rate credited to contract holders | 3.80% | 3.69% |
| Interest rate spread | 1.28% | 1.22% |

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. Investments allocated to this segment 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 investments 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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Benefits** | | |
| Death claims direct and assumed | $ 1,351 | $ 1,166 |
| Death claims ceded | (513) | (427) |
| Reserves released on death | (218) | (166) |
| Net death benefits | 620 | 573 |
| Change in secondary guarantee life insurance product reserves | 155 | 139 |
| Change in *MoneyGuard*® reserves | 113 | 105 |
| Other benefits [(1)] | 66 | 85 |
| Total benefits | $ 954 | $ 902 |
| Death claims per $1,000 of in-force | 2.96 | 3.04 |

(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 2019 Form 10-K for additional information.

**Commissions and Other Expenses**

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Commissions and Other Expenses** | | |
| Commissions | $ 191 | $ 186 |
| General and administrative expenses | 141 | 141 |
| Expenses associated with reserve financing | 25 | 23 |
| Taxes, licenses and fees | 43 | 48 |
| Total expenses incurred | 400 | 398 |
| DAC and VOBA deferrals | (216) | (220) |
| Total expenses recognized before amortization | 184 | 178 |
| DAC and VOBA amortization, net of interest | 102 | 70 |
| Other intangible amortization | 1 | 1 |
| Total commissions and other expenses | $ 287 | $ 249 |
| **DAC and VOBA Deferrals** | | |
| As a percentage of sales | 127.8% | 115.2% |

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, 2020, to the corresponding period in 2019, 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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Operating Revenues** | | |
| Insurance premiums | $ 1,094 | $ 1,023 |
| Net investment income | 81 | 74 |
| Other revenues [1] | 49 | 41 |
| Total operating revenues | 1,224 | 1,138 |
| **Operating Expenses** | | |
| Interest credited | 2 | 1 |
| Benefits | 862 | 753 |
| Commissions and other expenses | 310 | 314 |
| Total operating expenses | 1,174 | 1,068 |
| Income (loss) from operations before taxes | 50 | 70 |
| Federal income tax expense (benefit) | 10 | 15 |
| Income (loss) from operations | $ 40 | $ 55 |

[1] Consists of revenue from third parties for administrative services performed, which has a corresponding partial offset in commissions and other expenses. In the first quarter of 2020, we recaptured certain disability business that was originally ceded to a third-party reinsurer, which has a corresponding offset in benefits.

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Income (Loss) from Operations by Product Line** | | |
| Life | $ (6) | $ 2 |
| Disability | 50 | 54 |
| Dental | (4) | (1) |
| Income (loss) from operations | $ 40 | $ 55 |

*Comparison of the Three Months Ended March 31, 2020 to 2019*

Income from operations for this segment decreased due primarily to higher benefits driven by unfavorable mortality and life waiver experience in our life business, and higher incidence and new claims severity in our disability business.

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

- Higher insurance premiums due to favorable persistency experience.
- Lower commissions and other expenses driven by lower commission rates as a result of changes in our business mix to products with lower commission rates, expense efficiencies and lower incentive compensation as a result of production performance.
- Higher net investment income, net of interest credited, driven by higher investment income on alternative investments within our surplus portfolio.

*Additional Information*

We expect unfavorable loss ratios in our life and disability businesses in 2020 as a result of the impacts of the COVID-19 pandemic. For more information on the expected and potential impacts to our business, see "Introduction – Executive Summary" above and "Part II – Item 1A. Risk Factors."

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 2019 Form 10-K.

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 2019 Form 10-K.

**Insurance Premiums**

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Insurance Premiums by Product Line** | | |
| Life | $ 412 | $ 371 |
| Disability | 613 | 577 |
| Dental | 69 | 75 |
| Total insurance premiums | $ 1,094 | $ 1,023 |
| **Sales by Product Line** | | |
| Life | $ 50 | $ 64 |
| Disability | 42 | 42 |
| Dental | 10 | 13 |
| Total sales | $ 102 | $ 119 |

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 investments.

**Benefits and Interest Credited**

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Benefits and Interest Credited by Product Line** | | |
| Life | $ 327 | $ 265 |
| Disability | 485 | 435 |
| Dental | 52 | 54 |
| Total benefits and interest credited | $ 864 | $ 754 |
| **Loss Ratios by Product Line** | | |
| Life | 79.4% | 71.4% |
| Disability | 78.3% | 75.4% |
| Dental | 74.6% | 72.2% |
| Total | 78.5% | 73.7% |

Generally, we experience higher mortality in the first quarter of the year and higher disability claims in the fourth quarter of the year due to the seasonality of claims. The total loss ratio for the three months ended March 31, 2020, was driven by unfavorable mortality and life waiver experience in our life business, and higher incidence and new claims severity in our disability business.

**Commissions and Other Expenses**

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Commissions and Other Expenses** | | |
| Commissions | $ 87 | $ 92 |
| General and administrative expenses | 168 | 173 |
| Taxes, licenses and fees | 32 | 30 |
| Total expenses incurred | 287 | 295 |
| DAC deferrals | (19) | (23) |
| Total expenses recognized before amortization | 268 | 272 |
| DAC and VOBA amortization, net of interest | 34 | 36 |
| Other intangible amortization | 8 | 6 |
| Total commissions and other expenses | $ 310 | $ 314 |
| **DAC Deferrals** | | |
| As a percentage of insurance premiums | 1.7% | 2.2% |

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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Operating Revenues** | | |
| Insurance premiums [(1)] | $ 2 | $ 2 |
| Net investment income | 42 | 51 |
| Other revenues | (6) | 4 |
| Total operating revenues | 38 | 57 |
| **Operating Expenses** | | |
| Interest credited | 12 | 15 |
| Benefits | 16 | 20 |
| Other expenses | (22) | 24 |
| Interest and debt expense | 68 | 71 |
| Strategic digitization expense | 12 | 15 |
| Total operating expenses | 86 | 145 |
| Income (loss) from operations before taxes | (48) | (88) |
| Federal income tax expense (benefit) | (1) | (28) |
| Income (loss) from operations | $ (47) | $ (60) |

(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, 2020 to 2019*

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

- Lower other expenses attributable to the effect of changes in our stock price on liabilities related to our deferred compensation plans, as our stock price decreased significantly during the first quarter of 2020, compared to a significant increase during the first quarter of 2019.

The decrease in loss from operations was partially offset by the following:

- Lower other revenues due to the effect of market fluctuations on certain assets held as part of compensation arrangements, which decreased during the first quarter of 2020, compared to an increase during the first quarter of 2019.
- Less favorable income tax benefits driven by lower excess tax benefits associated with stock-based compensation and unfavorable market impacts on tax preferred investment income.
- Lower net investment income, net of interest credited, related to lower allocated investments driven by a decline in excess capital retained by Other Operations.

*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 2019 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 impairments decrease the recorded value of investments 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 investments 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 Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| General and administrative expenses: | | |
| Branding | $ 6 | $ 9 |
| Other [1] | (22) | 16 |
| Total general and administrative expenses | (16) | 25 |
| Taxes, licenses and fees [2] | (3) | 2 |
| Inter-segment reimbursement associated with reserve financing and LOC expenses [3] | (3) | (3) |
| Total other expenses | $ (22) | $ 24 |

(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) Includes state guaranty funds assessments to cover losses to contract holders of insolvent or rehabilitated insurance companies. Mandatory assessments may be partially recovered through a reduction in future premium taxes in some states.

(3) 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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Components of Realized Gain (Loss), Pre-Tax** | | |
| Total operating realized gain (loss) | $ 51 | $ 38 |
| Total excluded realized gain (loss) | (75) | (400) |
| Total realized gain (loss), pre-tax | $ (24) | $ (362) |
| | | |
| **Reconciliation of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax** | | |
| Total excluded realized gain (loss) | $ (60) | $ (316) |
| Benefit ratio unlocking | (349) | 142 |
| Excluded realized gain (loss) net of benefit ratio unlocking, after-tax | $ (409) | $ (174) |
| | | |
| **Components of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax** | | |
| Realized gain (loss) related to certain financial assets | $ (68) | $ (16) |
| Gain (loss) on the mark-to-market on certain instruments [(2)] | 38 | (94) |
| Variable annuity net derivatives results: | | |
| Hedge program performance, including unlocking for GLB reserves hedged | (496) | (15) |
| GLB NPR component | 147 | (27) |
| Total variable annuity net derivatives results | (349) | (42) |
| Indexed annuity forward-starting option | (30) | (22) |
| Excluded realized gain (loss) net of benefit ratio unlocking, after-tax | $ (409) | $ (174) |

(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.

(2) The modified coinsurance ("Modco") investment portfolio includes fixed maturity securities classified as AFS with changes in fair value recorded in OCI. Since the corresponding and offsetting changes in fair value of the embedded derivatives related to the Modco investment portfolio are recorded in realized gain (loss), volatility can occur within net income (loss).

*Comparison of the Three Months Ended March 31, 2020 to 2019*

We had higher realized losses due primarily to the following:

- Unfavorable variable annuity net derivatives results attributable to unfavorable hedge program performance due to significantly higher volatility in capital markets, partially offset by favorable GLB NPR component due to our associated reserves increasing and a widening of our credit spread. For more information on market volatility during the quarter, see "Introduction – Executive Summary" above.
- Higher realized losses related to certain financial assets due to an increase in our allowance for credit losses as a result of the adoption of ASU 2016-13.

The higher realized losses were partially offset by gains on the mark-to-market on certain instruments due primarily to favorable changes in the fair value of embedded derivatives related to certain Modco arrangements.

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 2019 Form 10-K for a discussion of our operating realized gain (loss).

**Realized Gain (Loss) Related to Certain Financial Assets**

See "Part II – Item 7. Management's Narrative Analysis of the Results of Operations – Realized Gain (Loss) – Realized Gain (Loss) Related to Certain Investments" in our 2019 Form 10-K for a discussion of our realized gain (loss) related to certain financial assets. For additional information on realized gain (loss) related to certain financial assets, see Note 13.

**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 2019 Form 10-K for a discussion of the mark-to-market on certain instruments. We also recognize the mark-to-market on certain commercial mortgage loans on real estate for which we have elected the fair value option. See Note 14 for additional information.

**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 2019 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 March 31, 2020 | As of December 31, 2019 | As of September 30, 2019 | As of June 30, 2019 | As of March 31, 2019 |
|---|---|---|---|---|---|
| Variable annuity hedge program assets (liabilities) | $ 6,529 | $ 1,998 | $ 3,292 | $ 2,418 | $ 1,967 |
| Variable annuity reserves – asset (liability): | | | | | |
| Embedded derivative reserves, pre-NPR [(1)] | $ (3,968) | $ 620 | $ (568) | $ 211 | $ 578 |
| NPR | 99 | (120) | (37) | (101) | (98) |
| Embedded derivative reserves | (3,869) | 500 | (605) | 110 | 480 |
| Insurance benefit reserves | (1,525) | (958) | (1,026) | (911) | (916) |
| Total variable annuity reserves – asset (liability) | $ (5,394) | $ (458) | $ (1,631) | $ (801) | $ (436) |
| 10-year credit default swap ("CDS") spread | 1.56% | 1.14% | 1.36% | 1.17% | 1.43% |
| NPR factor related to 10-year CDS spread | 0.22% | 0.13% | 0.19% | 0.15% | 0.18% |

(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 2019 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 2019 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:

| | | | Percentage of Total Investments | |
|---|---|---|---|---|
| | As of March 31, 2020 | As of December 31, 2019 | As of March 31, 2020 | As of December 31, 2019 |
| **Investments** | | | | |
| Fixed maturity AFS securities | $ 102,606 | $ 105,200 | 75.9% | 78.7% |
| Trading securities | 4,019 | 4,673 | 3.0% | 3.5% |
| Equity securities | 83 | 103 | 0.1% | 0.1% |
| Mortgage loans on real estate | 16,791 | 16,339 | 12.4% | 12.2% |
| Real estate | 11 | 11 | 0.0% | 0.0% |
| Policy loans | 2,571 | 2,477 | 1.9% | 1.8% |
| Derivative investments | 4,417 | 1,911 | 3.3% | 1.4% |
| Alternative investments | 1,841 | 1,821 | 1.3% | 1.4% |
| Other investments | 2,913 | 1,162 | 2.1% | 0.9% |
| Total investments | $ 135,252 | $ 133,697 | 100.0% | 100.0% |

**Investment Objective**

Investments 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 2019 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**

In 2020, we adopted ASU 2016-13, which resulted in a new recognition and measurement of credit losses on most financial assets. See Note 2 for additional information. Fixed maturity securities consist of portfolios classified as available-for-sale ("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 fixed maturity AFS securities in Note 4; however, the categories below represent a more detailed breakout of the fixed maturity AFS portfolio. Therefore, the investment classifications listed below do not agree to the investment categories provided in Note 4.

| | As of March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Net Amortized Cost [1] | Gross Unrealized | | Fair Value | % Fair Value |
| | | Gains | Losses | | |
| **Fixed Maturity AFS Securities** | | | | | |
| Industry corporate bonds: | | | | | |
| Financial services | $ 14,209 | $ 1,086 | $ 315 | $ 14,980 | 14.6% |
| Basic industry | 4,620 | 319 | 113 | 4,826 | 4.7% |
| Capital goods | 6,747 | 557 | 100 | 7,204 | 7.0% |
| Communications | 4,284 | 499 | 51 | 4,732 | 4.6% |
| Consumer cyclical | 5,540 | 392 | 166 | 5,766 | 5.6% |
| Consumer non-cyclical | 14,614 | 1,672 | 173 | 16,113 | 15.7% |
| Energy | 6,045 | 184 | 769 | 5,460 | 5.3% |
| Technology | 4,216 | 356 | 36 | 4,536 | 4.4% |
| Transportation | 3,380 | 215 | 66 | 3,529 | 3.4% |
| Industrial other | 1,575 | 76 | 37 | 1,614 | 1.6% |
| Utilities | 13,687 | 1,376 | 112 | 14,951 | 14.6% |
| Government related entities | 1,848 | 299 | 61 | 2,086 | 2.0% |
| Collateralized mortgage and other obligations ("CMOs"): | | | | | |
| Agency backed | 1,921 | 216 | - | 2,137 | 2.1% |
| Non-agency backed | 505 | 17 | 20 | 502 | 0.5% |
| Mortgage pass through securities ("MPTS"): | | | | | |
| Agency backed | 588 | 44 | - | 632 | 0.6% |
| Commercial mortgage-backed securities ("CMBS"): | | | | | |
| Agency backed | 20 | 1 | - | 21 | 0.0% |
| Non-agency backed | 1,069 | 38 | 9 | 1,098 | 1.1% |
| ABS: | | | | | |
| Collateralized loan obligations ("CLOs") | 4,022 | 8 | 161 | 3,869 | 3.8% |
| Credit card | 78 | 18 | 4 | 92 | 0.1% |
| Equipment receivables | 18 | - | 1 | 17 | 0.0% |
| Home equity | 352 | 23 | 14 | 361 | 0.4% |
| Manufactured housing | 9 | - | - | 9 | 0.0% |
| Student loans | 27 | 1 | - | 28 | 0.1% |
| Other | 753 | 9 | 52 | 710 | 0.7% |
| Municipals: | | | | | |
| Taxable | 4,688 | 1,103 | 14 | 5,777 | 5.6% |
| Tax-exempt | 109 | 20 | - | 129 | 0.1% |
| Government: | | | | | |
| United States | 380 | 102 | - | 482 | 0.5% |
| Foreign | 329 | 63 | 3 | 389 | 0.4% |
| Hybrid and redeemable preferred securities | 564 | 51 | 59 | 556 | 0.5% |
| Total fixed maturity AFS securities | 96,197 | 8,745 | 2,336 | 102,606 | 100.0% |
| **Trading Securities** [2] | 4,101 | 226 | 308 | 4,019 | |
| **Equity Securities** | 121 | 3 | 41 | 83 | |
| Total fixed maturity AFS, trading and equity securities | $ 100,419 | $ 8,974 | $ 2,685 | $ 106,708 | |

| | As of December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | | Gross Unrealized | | | % |
| | Amortized Cost | Gains | Losses and OTTI [3] | Fair Value | Fair Value |
| **Fixed Maturity AFS Securities** | | | | | |
| Industry corporate bonds: | | | | | |
| Financial services | $ 13,991 | $ 1,632 | $ 43 | $ 15,580 | 14.8% |
| Basic industry | 4,570 | 491 | 6 | 5,055 | 4.8% |
| Capital goods | 6,700 | 760 | 10 | 7,450 | 7.1% |
| Communications | 4,314 | 654 | 7 | 4,961 | 4.7% |
| Consumer cyclical | 5,335 | 536 | 9 | 5,862 | 5.6% |
| Consumer non-cyclical | 14,215 | 1,813 | 21 | 16,007 | 15.2% |
| Energy | 6,080 | 649 | 44 | 6,685 | 6.4% |
| Technology | 4,039 | 382 | 4 | 4,417 | 4.2% |
| Transportation | 3,283 | 309 | 2 | 3,590 | 3.4% |
| Industrial other | 1,563 | 98 | 2 | 1,659 | 1.6% |
| Utilities | 13,533 | 1,861 | 20 | 15,374 | 14.6% |
| Government related entities | 1,794 | 294 | 12 | 2,076 | 2.0% |
| CMOs: | | | | | |
| Agency backed | 1,893 | 108 | 9 | 1,992 | 1.9% |
| Non-agency backed | 527 | 49 | (18) | 594 | 0.6% |
| MPTS: | | | | | |
| Agency backed | 622 | 33 | - | 655 | 0.6% |
| CMBS: | | | | | |
| Agency backed | 20 | 1 | - | 21 | 0.0% |
| Non-agency backed | 1,018 | 44 | - | 1,062 | 1.0% |
| ABS: | | | | | |
| CLOs | 3,612 | 7 | 8 | 3,611 | 3.4% |
| Credit card | 78 | 22 | 1 | 99 | 0.1% |
| Equipment receivables | 20 | 1 | - | 21 | 0.0% |
| Home equity | 369 | 15 | (27) | 411 | 0.4% |
| Manufactured housing | 9 | - | - | 9 | 0.0% |
| Student loans | 30 | 1 | - | 31 | 0.0% |
| Other | 692 | 16 | 1 | 707 | 0.7% |
| Municipals: | | | | | |
| Taxable | 4,675 | 1,091 | 7 | 5,759 | 5.5% |
| Tax-exempt | 103 | 22 | - | 125 | 0.1% |
| Government: | | | | | |
| United States | 384 | 51 | - | 435 | 0.4% |
| Foreign | 329 | 64 | - | 393 | 0.4% |
| Hybrid and redeemable preferred securities | 497 | 82 | 20 | 559 | 0.5% |
| Total fixed maturity AFS securities | 94,295 | 11,086 | 181 | 105,200 | 100.0% |
| **Trading Securities** [2] | 4,330 | 353 | 10 | 4,673 | |
| **Equity Securities** | 123 | 5 | 25 | 103 | |
| Total fixed maturity AFS, trading and equity securities | $ 98,748 | $ 11,444 | $ 216 | $ 109,976 | |

(1) Represents amortized cost, net of the allowance for credit losses.

(2) Certain of our trading securities support our Modco reinsurance agreements 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 2019 Form 10-K for further details.

(3) Other-than-temporary impairment includes unrealized (gains) and losses on credit-impaired securities related to changes in the fair value of such securities subsequent to the impairment measurement date.

*Fixed Maturity AFS Securities*

In accordance with the fixed maturity 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 AOCI. 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:

| | | As of March 31, 2020 | | | As of December 31, 2019 | | |
|---|---|---|---|---|---|---|---|
| NAIC Designation [(1)] | Rating Agency Equivalent Designation [(1)] | Net Amortized Cost | Fair Value | % of Total | Amortized Cost | Fair Value | % of Total |
| **Investment Grade Securities** | | | | | | | |
| 1 | AAA / AA / A | $ 52,229 | $ 57,934 | 56.5% | $ 51,367 | $ 58,235 | 55.4% |
| 2 | BBB | 39,913 | 40,966 | 39.9% | 39,473 | 43,460 | 41.3% |
| Total investment grade securities | | 92,142 | 98,900 | 96.4% | 90,840 | 101,695 | 96.7% |
| **Below Investment Grade Securities** | | | | | | | |
| 3 | BB | 2,825 | 2,571 | 2.5% | 2,309 | 2,388 | 2.3% |
| 4 | B | 1,091 | 1,022 | 1.0% | 960 | 955 | 0.9% |
| 5 | CCC and lower | 105 | 88 | 0.1% | 158 | 136 | 0.1% |
| 6 | In or near default | 34 | 25 | 0.0% | 28 | 26 | 0.0% |
| Total below investment grade securities | | 4,055 | 3,706 | 3.6% | 3,455 | 3,505 | 3.3% |
| Total fixed maturity AFS securities | | $ 96,197 | $ 102,606 | 100.0% | $ 94,295 | $ 105,200 | 100.0% |
| Total securities below investment grade as a percentage of total fixed maturity AFS securities | | 4.2% | 3.6% | | 3.7% | 3.3% | |

(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 lowest 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, 2020.

Comparisons between the NAIC designations and rating agency designations are published by the NAIC. The NAIC assigns securities quality designations and uniform valuations, which are used by insurers when preparing their annual statements. The NAIC designations are similar to the rating agency designations of the Nationally Recognized Statistical Rating Organizations for marketable bonds. NAIC designations 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 designated 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 designations 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, 2020, and December 31, 2019, 91% and 87%, respectively, of the total fixed maturity AFS securities in an unrealized loss position were investment grade. Our gross unrealized losses recognized in other comprehensive income (loss) ("OCI") on fixed maturity AFS securities as of March 31, 2020, increased by $2.1 billion since December 31, 2019. For further information on our unrealized losses on fixed maturity AFS securities, see "Composition by Industry Categories of our Unrealized Losses on Fixed Maturity AFS Securities" below.

As more fully described in Note 1 in our 2019 Form 10-K and Note 4 herein, we regularly review our investment holdings for impairment. We believe the unrealized loss position as of March 31, 2020, did not require an impairment recognized in earnings 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 the fixed maturity AFS securities before recovery of their amortized cost basis; and (iii) the difference in the fair value compared to the amortized cost was due to factors other than credit loss. 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;
- The 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 $141.5 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 $119.7 billion as of March 31, 2020. 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 $74.5 billion as of March 31, 2020, 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 "Fixed Maturity AFS Securities – Evaluation for Recovery of Amortized Cost" in Note 1 in our 2019 Form 10-K and Note 4 herein for additional discussion.

As of March 31, 2020, and December 31, 2019, the estimated fair value for all private placement securities was $16.4 billion and $17.0 billion, respectively, representing 12% and 13% of total investments, respectively.

*Mortgage-Backed Securities (Included in Fixed Maturity 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 2019 Form 10-K for a discussion of our mortgage-backed securities ("MBS").

The market value of fixed maturity AFS and trading securities backed by subprime loans was $334 million and represented less than 1% of our total investment portfolio as of March 31, 2020. Fixed maturity AFS securities represented $322 million, or 96%, and trading securities represented $12 million, or 4%, of the subprime exposure as of March 31, 2020. The table below summarizes our investments in fixed maturity AFS securities backed by pools of residential mortgages (in millions) as of March 31, 2020:

| | Agency | | Prime | | Alt-A | | Subprime/ Option ARM [1] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net Amortized Cost | Fair Value | Net Amortized Cost | Fair Value | Net Amortized Cost | Fair Value | Net Amortized Cost | Fair Value | Net Amortized Cost | Fair Value |
| **Type** | | | | | | | | | | |
| RMBS | $ 2,509 | $ 2,770 | $ 156 | $ 155 | $ 130 | $ 132 | $ 219 | $ 214 | $ 3,014 | $ 3,271 |
| ABS home equity | 1 | 1 | 33 | 31 | 44 | 45 | 274 | 284 | 352 | 361 |
| Total by type [2][3] | $ 2,510 | $ 2,771 | $ 189 | $ 186 | $ 174 | $ 177 | $ 493 | $ 498 | $ 3,366 | $ 3,632 |
| **Rating** | | | | | | | | | | |
| AAA | $ 2,046 | $ 2,264 | $ 2 | $ 3 | $ - | $ - | $ 4 | $ 3 | $ 2,052 | $ 2,270 |
| AA | 464 | 507 | 19 | 17 | 14 | 14 | 12 | 12 | 509 | 550 |
| A | - | - | 16 | 14 | 2 | 2 | 49 | 49 | 67 | 65 |
| BBB | - | - | 4 | 4 | 12 | 12 | 12 | 12 | 28 | 28 |
| BB and below | - | - | 148 | 148 | 146 | 149 | 416 | 422 | 710 | 719 |
| Total by rating [2][3][4] | $ 2,510 | $ 2,771 | $ 189 | $ 186 | $ 174 | $ 177 | $ 493 | $ 498 | $ 3,366 | $ 3,632 |
| **Origination Year** | | | | | | | | | | |
| 2010 and prior | $ 670 | $ 754 | $ 172 | $ 170 | $ 173 | $ 176 | $ 493 | $ 498 | $ 1,508 | $ 1,598 |
| 2011 | 85 | 91 | - | - | - | - | - | - | 85 | 91 |
| 2012 | 37 | 39 | - | - | - | - | - | - | 37 | 39 |
| 2013 | 190 | 208 | - | - | - | - | - | - | 190 | 208 |
| 2014 | 69 | 79 | 1 | 1 | - | - | - | - | 70 | 80 |
| 2015 | 177 | 193 | 15 | 14 | - | - | - | - | 192 | 207 |
| 2016 | 572 | 616 | - | - | 1 | 1 | - | - | 573 | 617 |
| 2017 | 288 | 322 | - | - | - | - | - | - | 288 | 322 |
| 2018 | 224 | 257 | | | - | - | - | - | 224 | 257 |
| 2019 | 182 | 196 | 1 | 1 | - | - | - | - | 183 | 197 |
| 2020 | 16 | 16 | - | - | - | - | - | - | 16 | 16 |
| Total by origination year [2][3] | $ 2,510 | $ 2,771 | $ 189 | $ 186 | $ 174 | $ 177 | $ 493 | $ 498 | $ 3,366 | $ 3,632 |
| Total fixed maturity AFS securities backed by pools of residential mortgages as a percentage of total fixed maturity AFS securities | | | | | | | | | 3.5% | 3.5% |
| Total prime, Alt-A and subprime/option ARM as a percentage of total fixed maturity AFS securities | | | | | | | | | 0.9% | 0.8% |

(1) Includes the net amortized cost and fair value of option adjustable rate mortgages ("ARM") within RMBS, totaling $181 million and $176 million, respectively.

(2) Does not include the amortized cost of trading securities totaling $158 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $158 million in trading securities consisted of $144 million prime, $1 million Alt-A and $13 million subprime.

(3) Does not include the fair value of trading securities totaling $154 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $154 million in trading securities consisted of $141 million prime, $1 million Alt-A and $12 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 lowest 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 investment portfolio.

The following summarizes our investments in fixed maturity AFS securities backed by pools of commercial mortgages (in millions) as of March 31, 2020:

| | Multiple Property | | Single Property | | Total | |
|---|---|---|---|---|---|---|
| | Net Amortized Cost | Fair Value | Net Amortized Cost | Fair Value | Net Amortized Cost | Fair Value |
| **Type** | | | | | | |
| CMBS [1][2] | $ 1,069 | $ 1,100 | $ 20 | $ 19 | $ 1,089 | $ 1,119 |
| **Rating** | | | | | | |
| AAA | $ 1,041 | $ 1,074 | $ 4 | $ 4 | $ 1,045 | $ 1,078 |
| AA | 28 | 25 | 11 | 10 | 39 | 35 |
| A | - | - | 5 | 5 | 5 | 5 |
| BB and below | - | 1 | - | - | - | 1 |
| Total by rating [1][2][3] | $ 1,069 | $ 1,100 | $ 20 | $ 19 | $ 1,089 | $ 1,119 |
| **Origination Year** | | | | | | |
| 2010 and prior | $ 12 | $ 14 | $ 11 | $ 10 | $ 23 | $ 24 |
| 2011 | 6 | 6 | - | - | 6 | 6 |
| 2012 | 27 | 27 | - | - | 27 | 27 |
| 2013 | 151 | 151 | - | - | 151 | 151 |
| 2014 | 3 | 3 | - | - | 3 | 3 |
| 2015 | 10 | 10 | - | - | 10 | 10 |
| 2016 | 86 | 87 | 4 | 4 | 90 | 91 |
| 2017 | 322 | 335 | - | - | 322 | 335 |
| 2018 | 167 | 181 | - | - | 167 | 181 |
| 2019 | 274 | 276 | | | 274 | 276 |
| 2020 | 11 | 10 | 5 | 5 | 16 | 15 |
| Total by origination year [1][2] | $ 1,069 | $ 1,100 | $ 20 | $ 19 | $ 1,089 | $ 1,119 |
| Total fixed maturity AFS securities backed by pools of commercial mortgages as a percentage of total fixed maturity AFS securities | | | | | 1.1% | 1.1% |

(1) Does not include the amortized cost of trading securities totaling $157 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $157 million in trading securities consisted of $66 million of multiple property CMBS and $91 million of single property CMBS.

(2) Does not include the fair value of trading securities totaling $130 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $130 million in trading securities consisted of $54 million of multiple property CMBS and $76 million of single property 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 lowest 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, 2020, the net amortized cost and fair value of our fixed maturity AFS exposure to monoline insurers was $349 million and $407 million, respectively.

*Composition by Industry Categories of our Unrealized Losses on Fixed Maturity 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 fixed maturity AFS securities in an unrealized loss position (in millions) as of March 31, 2020, was as follows:

| | Net Amortized Cost | % Net Amortized Cost | Gross Unrealized Losses | % Gross Unrealized Losses | Fair Value | % Fair Value |
|---|---|---|---|---|---|---|
| Independent | $ 1,381 | 4.6% | $ 410 | 17.6% | $ 971 | 3.4% |
| Midstream | 1,951 | 6.4% | 239 | 10.2% | 1,712 | 6.1% |
| ABS | 4,632 | 15.2% | 228 | 9.8% | 4,404 | 15.6% |
| Banking | 1,585 | 5.2% | 116 | 5.0% | 1,469 | 5.2% |
| Finance companies | 586 | 1.9% | 104 | 4.5% | 482 | 1.7% |
| Chemicals | 1,064 | 3.5% | 76 | 3.3% | 988 | 3.5% |
| Oil field services | 384 | 1.3% | 72 | 3.1% | 312 | 1.1% |
| Automotive | 864 | 2.8% | 66 | 2.8% | 798 | 2.8% |
| Healthcare | 1,153 | 3.8% | 63 | 2.7% | 1,090 | 3.9% |
| Food and beverage | 1,260 | 4.1% | 55 | 2.3% | 1,205 | 4.3% |
| Electric | 1,434 | 4.7% | 52 | 2.2% | 1,382 | 4.9% |
| Government owned, no guarantee | 301 | 1.0% | 51 | 2.2% | 250 | 0.9% |
| Transportation services | 949 | 3.1% | 49 | 2.1% | 900 | 3.2% |
| Integrated | 434 | 1.4% | 43 | 1.8% | 391 | 1.4% |
| Property and casualty | 442 | 1.4% | 37 | 1.6% | 405 | 1.4% |
| Aerospace and defense | 434 | 1.4% | 37 | 1.6% | 397 | 1.4% |
| Industrial – other | 727 | 2.4% | 37 | 1.6% | 690 | 2.5% |
| Technology | 1,013 | 3.3% | 36 | 1.4% | 977 | 3.5% |
| Life | 488 | 1.6% | 33 | 1.4% | 455 | 1.6% |
| Entertainment | 397 | 1.3% | 33 | 1.4% | 364 | 1.3% |
| Project finance | 393 | 1.3% | 31 | 1.3% | 362 | 1.3% |
| Manufacturing | 741 | 2.4% | 30 | 1.3% | 711 | 2.5% |
| Consumer products | 409 | 1.4% | 28 | 1.2% | 381 | 1.4% |
| Metals and mining | 417 | 1.4% | 27 | 1.2% | 390 | 1.4% |
| Retail | 480 | 1.6% | 26 | 1.1% | 454 | 1.6% |
| Industries with unrealized losses less than $25 million | 6,564 | 21.5% | 357 | 15.3% | 6,207 | 22.1% |
| Total by industry | $ 30,483 | 100.0% | $ 2,336 | 100.0% | $ 28,147 | 100.0% |
| Total by industry as a percentage of total fixed maturity AFS securities | 31.7% | | 100.0% | | 27.4% | |

As of March 31, 2020, the net amortized cost and fair value of securities subject to enhanced analysis and monitoring for potential changes in unrealized loss position was $98 million and $75 million, respectively.

**Mortgage Loans on Real Estate**

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

| | As of March 31, 2020 | | | |
|---|---|---|---|---|
| | Commercial | Residential | Total | % |
| **Credit Quality Indicator** | | | | |
| Current | $ 16,178 | $ 750 | $ 16,928 | 99.8% |
| Delinquent [1] | - | 13 | 13 | 0.1% |
| Foreclosure [2] | - | 11 | 11 | 0.1% |
| Total mortgage loans on real estate before ACL | 16,178 | 774 | 16,952 | 100.0% |
| Allowance for credit losses | (126) | (35) | (161) | |
| Total mortgage loans on real estate | $ 16,052 | $ 739 | $ 16,791 | |

| | As of December 31, 2019 | | | |
|---|---|---|---|---|
| | Commercial | Residential | Total | % |
| **Credit Quality Indicator** | | | | |
| Current | $ 15,606 | $ 718 | $ 16,324 | 99.9% |
| Delinquent [1] | - | 9 | 9 | 0.1% |
| Foreclosure [2] | - | 8 | 8 | 0.0% |
| Total mortgage loans on real estate before ACL | 15,606 | 735 | 16,341 | 100.0% |
| Allowance for credit losses | - | (2) | (2) | |
| Total mortgage loans on real estate | $ 15,606 | $ 733 | $ 16,339 | |

(1) As of March 31, 2020, 1 commercial loan and 19 residential loans were delinquent. As of December 31, 2019, 3 commercial loans and 24 residential loans were delinquent.

(2) As of March 31, 2020, no commercial mortgage loans and 25 residential loans were in foreclosure. As of December 31, 2019, no commercial mortgage loans and 14 residential mortgage loans were in foreclosure.

As of March 31, 2020, there were 2 specifically identified impaired commercial mortgage loan on real estate with a carrying value of less than $1 million and 24 specifically identified impaired residential mortgage loans on real estate also with an aggregate carrying value of $6 million. As of December 31, 2019, there was 1 specifically identified impaired commercial mortgage loan on real estate with a carrying value of less than $1 million and four specifically identified impaired residential mortgage loans on real estate with an aggregate carrying value of $1 million.

The total outstanding principal and interest on the commercial mortgage loans on real estate that were two or more payments delinquent as of March 31, 2020, and December 31, 2019, was less than $1 million. The total outstanding principal and interest on the residential mortgage loans on real estate that were three or more payments delinquent as of March 31, 2020, and December 31, 2019, was $24 million and $9 million, respectively. See Note 4 herein for more information regarding our accounting policy relating to the impairment of mortgage loans on real estate.

The carrying value of mortgage loans on real estate by business segment (in millions) was as follows:

| | As of March 31, 2020 | As of December 31, 2019 |
|---|---|---|
| **Segment** | | |
| Annuities | $ 5,762 | $ 5,453 |
| Retirement Plan Services | 4,136 | 4,096 |
| Life Insurance | 4,130 | 4,096 |
| Group Protection | 1,398 | 1,361 |
| Other Operations | 1,365 | 1,333 |
| Total mortgage loans on real estate | $ 16,791 | $ 16,339 |

The composition of commercial mortgage loans (in millions) by property type, geographic region and state is shown below:

| | As of March 31, 2020 | | | As of March 31, 2020 | |
|---|---|---|---|---|---|
| | Carrying Value | % | | Carrying Value | % |
| **Property Type** | | | **State** | | |
| Apartment | $ 5,150 | 32.1% | CA | $ 3,771 | 23.5% |
| Office building | 3,996 | 24.9% | TX | 1,814 | 11.3% |
| Industrial | 3,001 | 18.7% | NY | 1,154 | 7.2% |
| Retail | 2,669 | 16.6% | FL | 772 | 4.8% |
| Other commercial | 769 | 4.8% | MD | 737 | 4.6% |
| Hotel/Motel | 241 | 1.5% | GA | 685 | 4.3% |
| Mixed use | 226 | 1.4% | WA | 580 | 3.6% |
| Total | $ 16,052 | 100.0% | TN | 575 | 3.6% |
| **Geographic Region** | | | OH | 565 | 3.5% |
| Pacific | $ 4,680 | 29.2% | PA | 559 | 3.5% |
| South Atlantic | 3,487 | 21.7% | VA | 466 | 2.9% |
| West South Central | 1,961 | 12.2% | NC | 412 | 2.6% |
| Middle Atlantic | 1,948 | 12.1% | IL | 367 | 2.3% |
| East North Central | 1,463 | 9.1% | OR | 330 | 2.0% |
| Mountain | 772 | 4.8% | AZ | 324 | 2.0% |
| East South Central | 724 | 4.5% | MA | 319 | 2.0% |
| West North Central | 507 | 3.2% | WI | 316 | 2.0% |
| New England | 479 | 3.0% | Non U.S. | 31 | 0.2% |
| Non U.S. | 31 | 0.2% | All other states | 2,275 | 14.1% |
| Total | $ 16,052 | 100.0% | Total | $ 16,052 | 100.0% |

The following table shows the principal amount (in millions) of our commercial and residential mortgage loans by year in which the principal is contractually obligated to be repaid:

| | As of March 31, 2020 | | | |
|---|---|---|---|---|
| | Commercial | Residential | Total | % |
| **Principal Repayment Year** | | | | |
| 2020 | $ 472 | $ 6 | $ 478 | 2.8% |
| 2021 | 1,034 | 8 | 1,042 | 6.2% |
| 2022 | 947 | 9 | 956 | 5.6% |
| 2023 | 903 | 10 | 913 | 5.4% |
| 2024 | 1,254 | 10 | 1,264 | 7.5% |
| 2025 and thereafter | 11,558 | 706 | 12,264 | 72.5% |
| Total | $ 16,168 | $ 749 | $ 16,917 | 100.0% |

See Note 4 for information regarding our loan-to-value and debt-service coverage ratios and our allowance for credit losses.

**Alternative Investments**

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| Annuities | $ 6 | $ 1 |
| Retirement Plan Services | 4 | - |
| Life Insurance | 33 | 1 |
| Group Protection | 4 | - |
| Other Operations | 1 | 1 |
| Total [(1)] | $ 48 | $ 3 |

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

As of March 31, 2020, and December 31, 2019, alternative investments included investments in 260 and 258 different partnerships, respectively, and the portfolio represented approximately 1% of total investments. 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, 2020, and December 31, 2019, was $7 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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Net Investment Income** | | |
| Fixed maturity AFS securities | $ 1,075 | $ 1,072 |
| Trading securities | 54 | 34 |
| Equity securities | - | 1 |
| Mortgage loans on real estate | 170 | 142 |
| Policy loans | 30 | 32 |
| Invested cash | 11 | 7 |
| Commercial mortgage loan prepayment and bond make-whole premiums [(1)] | 10 | 15 |
| Alternative investments [(2)] | 48 | 3 |
| Consent fees | 2 | 1 |
| Other investments | 26 | 7 |
| Investment income | 1,426 | 1,314 |
| Investment expense | (51) | (63) |
| Net investment income | $ 1,375 | $ 1,251 |

(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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Interest Rate Yield** | | |
| Fixed maturity AFS securities, mortgage loans on real estate and other, net of investment expenses | 4.29% | 4.33% |
| Commercial mortgage loan prepayment and bond make-whole premiums | 0.03% | 0.05% |
| Alternative investments | 0.16% | 0.01% |
| Net investment income yield on invested assets | 4.48% | 4.39% |

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.

**Impairments on Fixed Maturity AFS Securities**

See "Critical Accounting Policies and Estimates – Investments – Write-downs for Impairment and Allowances for Credit Losses" above for information on our portfolio management strategy. Details underlying credit loss expense incurred as a result of impairments that were recognized in net income (loss) and included in realized gain (loss) on fixed maturity AFS securities (in millions) were as follows:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Credit Loss Expense Recognized in Net Income (Loss)** [1] | | |
| Fixed maturity AFS securities: | | |
| Corporate bonds | $ (20) | $ (6) |
| RMBS | - | (1) |
| ABS | - | (1) |
| Gross credit loss expense recognized in net income (loss) | (20) | (8) |
| Associated amortization of DAC, VOBA, DSI and DFEL | - | - |
| Net credit loss expense recognized in net income (loss) | $ (20) | $ (8) |

(1) Upon adoption of ASU 2016-13, we recognized credit loss expense incurred as a result of impairments through net income (loss) for the three months ended March 31, 2020. Prior to the adoption of ASU 2016-13, we recognized write-downs taken as a result of OTTI through net income (loss) for the three months ended March 31, 2019.

The $20 million of impairments recognized in net income during the three months ended March 31, 2020, were all credit-related impairments. The increase in credit losses was primarily attributable to the destabilization of the energy industry. For more information on current market conditions, see "Introduction – Executive Summary."

## 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 investments. Our operating activities provided (used) cash of $455 million and $(1.3) billion for the three months ended March 31, 2020 and 2019, 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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Dividends from Subsidiaries** | | |
| The Lincoln National Life Insurance Company | $ 305 | $ 200 |
| Lincoln National Reinsurance Company (Barbados) Limited | 150 | 50 |
| Total dividends from subsidiaries | $ 455 | $ 250 |
| | | |
| **Loan Repayments and Interest from Subsidiaries** | | |
| Interest on inter-company notes | $ 33 | $ 14 |
| | | |
| **Other Cash Flow Items** | | |
| Amounts received from (paid for taxes on) stock option exercises and restricted stock, net | $ 6 | $ 12 |

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 Subsidiaries' Dividends and Other Payments" in our 2019 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 2019 Form 10-K, our insurance subsidiaries employ strategies to reduce the strain caused by XXX and AG38 by reinsuring the business to reinsurance 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, 2020, was approximately $1.9 billion of long-dated LOCs issued to support inter-company reinsurance arrangements for UL products containing secondary guarantees ($1.9 billion relates to arrangements that will expire by 2031). For information on the LOCs, see the credit facilities table in Note 13 in our 2019 Form 10-K. Our captive reinsurance and reinsurance subsidiaries have also issued long-term notes of $3.5 billion to finance a portion of the excess reserves as of March 31, 2020; of this amount, $2.6 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 2019 Form 10-K. We have also used the proceeds from senior note issuances of $875 million to execute long-term structured solutions primarily 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.

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. The NAIC's adoption of the Valuation Manual that defines a principles-based reserving framework for newly issued life insurance policies was effective January 1, 2017. We adopted the framework for our newly issued term business in 2017 and phased in the framework through January 1, 2020, for all other newly issued life insurance products. We continue to analyze the effects of principles-based reserving on the use of captive reinsurance and reinsurance subsidiaries and third-party reinsurance for reserve financing transactions for our life insurance business. For more information on the NAIC's adoption of principles-based reserving, see "Part I – Item 1. Business – Regulatory – Insurance Regulation" in our 2019 Form 10-K.

Statutory reserves established for variable annuity contracts and riders are sensitive to changes in the equity markets and interest rates, 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.

We implemented the NAIC's changes to the statutory reserving, capital and accounting framework for variable annuities as of January 1, 2020, which did not have a material impact on our statutory capital position or RBC ratios. The NAIC is also considering modifications to the NAIC RBC C-1 capital charges for bonds, which may impact the level of the C-1 related RBC we are required to hold.

For more information, see "Part I – Item 1A. Risk Factors – Federal Regulation – Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our financial statements" in our 2019 Form 10-K.

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, 2020, were as follows:

| | Beginning Balance | Issuance | Maturities, Repayments and Refinancing | Change in Fair Value Hedges | Other Changes (1) | Ending Balance |
|---|---|---|---|---|---|---|
| **Short-Term Debt** | | | | | | |
| Current maturities of long-term debt | $ 300 | $ - | $ (300) | $ - | $ - | $ - |
| **Long-Term Debt** | | | | | | |
| Senior notes | $ 4,610 | $ - | $ - | $ 181 | $ 1 | $ 4,792 |
| Bank borrowings | 250 | 500 | - | - | (2) | 748 |
| Capital securities (2) | 1,207 | - | - | - | 1 | 1,208 |
| Total long-term debt | $ 6,067 | $ 500 | $ - | $ 181 | $ - | $ 6,748 |

(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, amortization of debt issuance costs and amortization of adjustments from discontinued hedges, as applicable.

(2) To hedge the variability in rates, we purchased interest rate swaps to lock in a fixed rate of approximately 5% over the remaining terms of the capital securities.

During March 2020, we entered into a $500 million floating-rate loan maturing on March 30, 2022. In addition, during March 2020, we unwound the fair value hedge on our 7.00% senior notes due 2040 and entered into two fair value hedges on the same notes, which generated capital deployed for general corporate purposes. For more information on the discontinued hedge, see Note 10. As of March 31, 2020, the holding company had available liquidity of $760 million. 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. We continue to operate with adequate available liquidity and have access to alternate sources of liquidity, as discussed below in "Alternative Sources of Liquidity."

For more information about our short-term and long-term debt and our credit facilities and LOCs, see Note 10 herein and Note 13 in our 2019 Form 10-K.

We have not accounted for 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 4.

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 derivative 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 The 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, 2020. 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 2019 Form 10-K for more information. See "Part I – Item 1. Business – Financial Strength Ratings" in our 2019 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 2019 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, 2020, the holding company had a net outstanding receivable (payable) of $(1.4) billion 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. The holding company had an average borrowing balance of $697 million from the cash management program during the first quarter of 2020. The holding company had a maximum and minimum amount of financing from the cash management program during the first quarter of 2020 of $1.4 billion and $322 million, respectively. Loans under the cash management program are permitted under applicable insurance laws subject to certain restrictions. For our Indiana and New Hampshire-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 its most recent 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, 2020. Borrowings under this facility are subject to the FHLBI's discretion and require the availability of qualifying assets at LNL. As of March 31, 2020, our insurance subsidiaries had investments with a carrying value of $4.5 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 and invested cash, short-term investments or fixed maturity securities. For additional details, see "Payables for Collateral on Investments" in Note 4.

*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). For the three months ended March 31, 2020, our collateral payable for derivative investments increased due primarily to decreasing interest rates that increased the fair values of our associated over-the-counter derivative investments. 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 5.

### *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 repurchases 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) were as follows:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Dividends to common stockholders | $ 79 | $ 76 |
| Repurchase of common stock | 225 | 240 |
| Total cash returned to stockholders | $ 304 | $ 316 |
| Number of shares repurchased | 3.8 | 3.9 |

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 Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Debt service (interest paid) | $ 60 | $ 61 |
| Capital contribution to subsidiaries | 475 | - |
| Total | $ 535 | $ 61 |

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.

***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. Although we currently expect to be able to meet the holding company's ongoing cash needs and to have sufficient capital to offer downside protection, a continuation of or an acceleration of poor 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 cause actual results to differ materially from those set forth in this section and that could affect our expectations for liquidity and capital, see "Part I – Item 1A. Risk Factors" in our 2019 Form 10-K, "Forward-Looking Statements – Cautionary Language" above and "Part II – Item 1A. Risk Factors" herein.

## ***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. For information on these market risks, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2019 Form 10-K. See also "Part I – Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary – Current Market Conditions" herein.

## *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, 2020, 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 11 in "Part I. – Item 1."

### *Item 1A.* Risk Factors

Reference is made to "Part I – Item 1A. Risk Factors" in the 2019 Form 10-K for information concerning risk factors. We are updating the risk factors contained in the 2019 Form 10-K to include the risk factor below.

The following risk factor should be read in conjunction with the factors set forth in "Part I – Item 1A. Risk Factors" of the 2019 Form 10-K, in addition to the factors set forth in "Part I – Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements – Cautionary Language" above. You should carefully consider such factors. Such risks and uncertainties are not the only ones facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business, financial condition and results of operations could be materially affected. In that case, the value of our securities could decline substantially.

*The impacts of the COVID-19 pandemic, including difficult conditions in the global capital markets and the economy generally, have adversely affected and are expected to continue to adversely affect our business and results of operations, and the future impacts of the COVID-19 pandemic on the global economy and the company's business, results of operations and financial condition remain uncertain.*

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. The coronavirus, or COVID-19, pandemic that emerged in the first quarter of 2020 has led to an extreme downturn in and volatility of the financial markets, record-low interest rates and wide-ranging changes in consumer behavior, including as a result of quarantines, shelter-in-place orders and limitations on business activity. The severe restriction in economic activity caused by the COVID-19 pandemic and increased levels of unemployment in the United States have contributed to increased volatility and diminished expectations for the economy and the markets going forward. These factors are expected to precipitate a recession, the length and severity of which cannot be predicted.

These economic and business conditions have negatively impacted, and are expected to continue to negatively impact, our account values, investment results, the interest margins of our businesses, estimated gross profits and capital position. Beginning in the second quarter of 2020, we expect that these conditions will negatively impact our sales and demand for certain of our products. Given our credit and equity market exposure, we are exposed to substantial risk of loss and downgrades due to market volatility, which we have already experienced to some degree and expect to continue to experience. In addition, as a result of the pandemic and ensuing conditions, we expect to experience higher mortality, leading to an elevated incidence and level of life insurance claims, as well as increased morbidity, leading to increased disability claims. The closure and/or limited operations of businesses and medical offices has also led to delays in resolving disability claims, which we expect to continue. We may also experience an increase in activity such as surrenders of policies, missed premium payments or 401(k) hardship withdrawals due to changes in consumer behavior as a result of financial stress. Because the vast majority of our employees are currently working from home, along with many of our vendors and customers, and such conditions may continue or may in the future need to be reinstituted, our business operations may be adversely impacted, among other things, due to cybersecurity incidents, technological issues or operational disruptions on the part of our vendors, and we may experience distribution disruptions as we continue to sell our products virtually.

Ultimately, the impacts of the COVID-19 pandemic discussed above are expected to adversely affect earnings as well as our business, results of operations and financial condition. The impacts of the pandemic may also have the effect of increasing the likelihood and/or magnitude of the other risks described in "Part I – Item 1A. Risk Factors" of the 2019 Form 10-K. The severity and duration of the current COVID-19 pandemic, and future outbreaks of COVID-19, and its future direct and indirect effects on the economy and our business and results of operations are uncertain. The COVID-19 pandemic may cause prolonged global or national recessionary economic conditions or longer lasting effects on economic conditions than currently exist, which could have a material adverse effect on our business, results of operations and financial condition.

### *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, 2020 (dollars in millions, except per share data):

| Period | (a) Total Number of Shares Purchased [1] | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2] | (d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2] |
|---|---|---|---|---|
| 1/1/20 – 1/31/20 | - | - | - | $ 970 |
| 2/1/20 – 2/29/20 | 3,496,478 | 60.08 | 3,496,478 | 1,570 |
| 3/1/20 – 3/31/20 | 313,446 | 47.86 | 313,446 | 1,555 |

(1) Of the total number of shares purchased, no shares were received in connection with the exercise of stock options and related taxes. For the quarter ended March 31, 2020, there were 3,809,924 shares purchased as part of publicly announced plans or programs.

(2) On February 19, 2020, our Board of Directors authorized an increase in our securities repurchase authorization, bringing the total aggregate repurchase authorization to $1.66 billion. As of March 31, 2020, our remaining security repurchase authorization was $1.6 billion. The security repurchase authorization does not have an expiration date. The amount and timing of share repurchases 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 an accelerated share repurchase agreement or Rule 10b5-1 plan.

### *Item 6.* Exhibits

The Exhibits included in this report are listed in the Exhibit Index beginning on page 96, which is incorporated herein by reference.

**LINCOLN NATIONAL CORPORATION**
**Exhibit Index for the Report on Form 10-Q**
**For the Quarter Ended March 31, 2020**

| | |
|---|---|
| 3.1 | Amended and Restated Bylaws of the Company (effective March 23, 2020) incorporated by reference to Exhibit 3.1 to the Company's Form 8-K (File No. 1-6028) filed with the SEC on March 24, 2020. |
| 10.1 | Form of Nonqualified Stock Option Agreement for the Chief Executive Officer ("CEO").* |
| 10.2 | Form of Long-Term Incentive Award Program Performance Cycle Agreement for CEO.* |
| 10.3 | Form of Restricted Stock Unit Award Agreement for CEO.* |
| 10.4 | Form of Nonqualified Stock Option Agreement for Senior Management Committee ("SMC") (other than CEO).* |
| 10.5 | Form of Long-Term Incentive Award Program Performance Cycle Agreement for SMC (other than CEO).* |
| 10.6 | Form of Restricted Stock Unit Award Agreement for SMC (other than CEO).* |
| 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 – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

* This exhibit is a management contract or compensatory plan or arrangement.

## 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 7, 2020

**Exhibit 10.1**

# LINCOLN NATIONAL CORPORATION

# NONQUALIFIED STOCK OPTION AGREEMENT

*For the Chief Executive Officer*

This Nonqualified Stock Option Agreement (the "Agreement") evidences the terms of the grant by Lincoln National Corporation ("LNC") of a Nonqualified Stock Option (the "Option") to <First Name> <Last Name> ("Grantee") on **<**Grant Date**>** (the "Grant Date"), and Grantee's acceptance of the Option, in accordance with and subject to the terms and provisions of the Lincoln National Corporation 2014 Incentive Compensation Plan effective May 22, 2014 (the "Plan") and this Agreement. LNC and Grantee agree as follows:

1. **Shares Optioned and Option Price.**

Grantee shall have an Option to purchase <Granted Amount> of shares of LNC common stock (the "Shares") for <Grant Price> (in United States Dollars) for each Share.

2. **Vesting Dates.**

The Option shall vest as follows, provided the Grantee remains in Service (defined in Paragraph 9, below) through the specified vesting date:

1/3 of the Option on the first anniversary of the Grant Date;
1/3 of the Option on the second anniversary of the Grant Date; and
1/3 of the Option on the third anniversary of the Grant Date.

In addition, upon Grantee's termination of Service for any of the following reasons, the unvested portion of the Option shall vest as indicated:

(a) **100%** as of the date of Grantee's death; or

(b) **100%** as of the date of Grantee's termination of Service on account of Total Disability (defined in Paragraph 9, below); or

(c) **100%** as of the date Grantee Retires (defined in Paragraph 9, below); or

(d) **100%** as of the date of Grantee's involuntary termination of Service other than for Cause, within two (2) years after a Change of Control pursuant to the definition in effect on the day immediately preceding such Change of Control.

Except as provided above, any portion of the Option that is unvested upon Grantee's termination of Service shall be deemed forfeited immediately following termination.

3. **Exercise Period.**

Grantee may exercise all or part of the Option, to the extent vested, prior to the close of business at LNC headquarters on any LNC business day (in accordance with procedures established by LNC) until the first to occur of:

(a) the tenth anniversary of the Grant Date; or

(b) the first anniversary of the date of Grantee's termination of Service on account of death or Total Disability; or

(c) the tenth anniversary of Grantee's Retirement; or

(d) the date three (3) months after Grantee's involuntary termination of Service other than for Cause, including the sale or disposition of the business for which Grantee provides Service; or

(e) the date of Grantee's termination of Service for any reason other than those described in Subparagraphs 3(b), (c), or (d), respectively.

4. **Manner of Exercise.**

To exercise an Option, Grantee must: (a) accept the terms of this award by delivering an acknowledgment (in the form specified by LNC); (b) deliver notice of the exercise (in the form specified by LNC) to the LNC stock option administrator; and (c) submit full payment of the exercise price. Payment of the exercise price may be made in any combination of cash, certified check, Shares (including the surrender of Shares held by the Grantee or those that would otherwise be issued on exercise of the Option), or, to the extent LNC has adopted a broker assisted cashless exercise program, through a broker assisted cashless exercise. Any surrendered or withheld Shares will constitute payment to the extent of their Fair Market Value.

5. **Tax Withholding.**

As soon as practicable after the exercise date, LNC shall cause the appropriate number of Shares to be issued to Grantee. LNC shall not issue Shares until any required tax withholding payments are remitted to LNC by Grantee. In accordance with procedures established by the Compensation Committee of the LNC Board of Directors (the "Committee"), Grantee may satisfy any required tax withholding payments in any combination of cash, certified check, or Shares (including the surrender of Shares held by the Grantee or those that would otherwise be issued on exercise of the Option) or, to the extent LNC has adopted a broker assisted cashless exercise program, through a broker assisted cashless exercise. Any surrendered or withheld Shares will constitute satisfaction of any required tax withholding to the extent of their Fair Market Value.

6. **Transferability.**

Unless otherwise approved by the Committee, no rights under this Agreement may be transferred except by will or the laws of descent and distribution. The rights under this Agreement may be exercised during the lifetime of Grantee only by Grantee. After Grantee's death, the Option may be exercised by the person or persons to whom the Option was transferred by will or the laws of descent and distribution.

7. **Cancellation/Rescission of Options and/or Related Exercise/Termination for Cause.**

(a) If Grantee's Service is terminated for Cause, any Shares acquired upon exercise of the Option during the six (6) month period prior to such termination for Cause shall be rescinded and any remaining portion of the Option shall be cancelled without further action by the Committee or its delegate.

(b) If Grantee fails to comply with the non-competition, non-solicitation, non-disparagement, or non-disclosure provisions described in Subparagraphs 8(a), 8(b), 8(c), and 8(d), below, before the applicable vesting date of the Option, the Option shall be cancelled without further action by the Committee or its delegate.

(c) If requested by LNC, upon exercise of the Option, Grantee shall certify in a form acceptable to LNC that Grantee is in compliance with the terms and conditions described in Subparagraphs 8(a), 8(b), 8(c), and 8(d), below. Grantee's failure to comply with Subparagraphs 8(a) through 8(d) at any time from the Grant Date through the six (6) month period after the applicable vesting date of this Option shall cause such Option and/or any Shares acquired upon exercise of the Option to be rescinded.

(d) (1) LNC shall notify Grantee in writing of any such rescission: (A) in the case of Subparagraph 7(a), not later than 90 days after such termination for Cause; and (B) not later than 180 days after LNC obtains knowledge of Grantee's failure to comply with Subparagraphs 8(a), 8(b), 8(c), or 8(d).

(2) Within ten (10) days after receiving a rescission notice from LNC: (A) Grantee must surrender to LNC the Shares acquired upon exercise of the Option, less a number of Shares having a Fair Market Value equal to the aggregate exercise price of the Option; or (B) if the Shares acquired upon exercise of the Option have been sold or transferred, (i) Grantee must make a payment to LNC of the proceeds from such sale or transfer, or (ii) if there are no proceeds from such transfer, Grantee must make a payment to LNC equal to the Fair Market Value of the Shares on the date of such transfer.

In all cases, Grantee shall pay to LNC the gross amount of any gain realized or payment received (not net of any withholding or other taxes paid by Grantee) as a result of the Option.

8. **Covenants.**

(a) Non-Competition. Grantee may not become employed by, work on behalf of, or otherwise render services that are the same or similar to the services rendered by Grantee to the business unit(s) for which Grantee provided Service or otherwise had responsibilities for at the time of his/her termination to any other organization or business that competes with or provides,

or is planning to provide, the same or similar products and/or services. Grantee understands and agrees that this restriction is nationwide in scope.

(b) Non-Solicitation. Grantee shall not directly or indirectly hire, manage, solicit, or recruit any employees, agents, financial planners, salespeople, financial advisors, vendors, or service providers of LNC (including, but not limited to, doing a "lift-out" of same) whom Grantee had hired, managed, supervised, or otherwise became familiar with as a result of his/her Service.

(c) Non-Disparagement. Grantee shall not (1) make any public statements regarding his/her Service (other than factual statements concerning the dates of Service and positions held) or his/her termination or Retirement from LNC that are not agreed to by LNC, such approval not to be unreasonably withheld or delayed; and (2) disparage LNC or any of its affiliates, its and their respective employees, executives, officers, or Boards of Directors.

(d) Non-Disclosure & Ideas Provision. Grantee shall not, without prior written authorization from LNC, disclose to anyone outside LNC, or use in other than LNC's business, any trade secrets or confidential and/or proprietary information received from or on behalf of, developed for, or otherwise relating to the business of, LNC. Any confidentiality or non-disclosure obligations in this Agreement does not prohibit or restrict Grantee (or Grantee's attorney) from initiating communications directly with, or responding to any inquiry from, or providing testimony before, the SEC, FINRA, any other self-regulatory organization, or any other state, local, or federal regulatory, investigative, or enforcement entity, agency, or authority. For purposes of this Agreement, a confidential disclosure to government officials or attorneys solely for purposes of reporting or investigating a suspected violation of the law (or disclosures made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal) is immune from civil and criminal liabilities under federal and state trade secret laws. Furthermore, Grantee agrees to disclose and assign to LNC all rights and interest in any invention or idea that Grantee developed or helped develop for actual or related business, research, or development work during the period of Grantee's Service.

Notwithstanding anything to the contrary herein, LNC may, in its discretion, waive Grantee's compliance with Subparagraphs 8(a), 8(b), 8(c), or 8(d) in whole or part in any individual case. Moreover, if Grantee's Service is terminated by LNC other than for Cause, a failure by Grantee to comply with the provisions of Subparagraph 8(a), above, after such termination shall not in and of itself cause rescission to the extent the Option was exercised before Grantee's termination.

9. **Definitions.**

"Cause" means (a) a conviction of a crime that is job related or that may otherwise cause harm to the reputation of LNC or any Subsidiary; (b) any act or omission detrimental to the conduct of business of LNC or any Subsidiary; (c) inability to obtain or retain proper licenses; (d) theft, dishonesty, fraud or misrepresentation; (e) failure to cooperate or be truthful in connection with an investigation related to LNC or any Subsidiary; (f) violation of any rule or regulation of any regulatory agency or self-regulatory agency; (g) violation of any policy or rule of LNC or any Subsidiary; or (h) unsatisfactory performance that does not meet expectations after coaching or counseling. Cause shall be determined in the sole discretion of the Committee.

"Retires" or "Retirement" means Grantee's termination of Service, other than for Cause, from LNC or any Subsidiary at age 55 or older with at least five (5) years of Service.

"Service" means Grantee's continuous service as a common law employee of, or as a planner with a full-time agent's contract with, LNC or any Subsidiary. Service as a common law employee is the period of time Grantee is on the payroll of LNC or a Subsidiary. Service as a planner is the period of time Grantee's full-time agent's contract is in effect.

"Subsidiary" means any corporation in which LNC has ownership of at least twenty-five percent.

"Total Disability" means (as determined by the Committee) a disability that results in Grantee being unable to engage in any occupation or employment for wage or profit for which Grantee is, or becomes, reasonably qualified by training, education or experience. In addition, the disability must have lasted six (6) months and be expected to continue for at least six (6) more months or be expected to continue unto death.

10. **Incorporation of Plan Terms.**

This award is subject to the terms and conditions of the Plan. Such terms and conditions of the Plan are incorporated into and made a part of this Agreement by reference. In the event of any conflicts between the provisions of this Agreement and the terms of the Plan, the terms of the Plan will control. Capitalized terms used but not defined in this Agreement shall have the meanings set forth in the Plan unless the context clearly requires an alternative meaning.

IN WITNESS WHEREOF, LNC, by its duly authorized director has signed this Agreement as of the specified Grant Date.

LINCOLN NATIONAL CORPORATION

/s/ Patrick S. Pittard
Patrick S. Pittard
Chairman of Compensation Committee

**Exhibit 10.2**

# LINCOLN NATIONAL CORPORATION

## LONG-TERM INCENTIVE AWARD PROGRAM
**Performance Cycle Agreement**

*For Chief Executive Officer*

This Award Agreement ("Agreement"), by and between Lincoln National Corporation ("LNC") on behalf of itself and its affiliates, and the <First Name> <Last Name> ("Grantee"), evidences the grant by LNC on <Grant Date>, of a long-term incentive performance award to Grantee, and Grantee's acceptance of the award, in accordance with and subject to the provisions of the Lincoln National Corporation 2014 Incentive Compensation Plan effective May 22, 2014 (the "Plan") and this Agreement. LNC and Grantee agree as follows:

**1. Form of Award.** This performance award grant is for a <Granted Amount> of shares of LNC common stock ("Shares"). During the Performance Cycle, this award shall consist of LNC stock units but any actual award that ultimately vests will be delivered in Shares.

The number of Shares that will vest and be delivered, if any, may range from 0-200% of the aforementioned target number of Shares plus any accumulated dividend equivalents under Section 4, below. Shares will vest and be delivered only after certification by the Compensation Committee of the LNC Board of Directors (the "Committee") of the achievement of company performance criteria previously established and approved by the Committee for the Performance Cycle; however in no event will Shares be delivered later than March 15th of the year following the completion of the Performance Cycle.

The Committee reserves the right to adjust the target number or amount of Shares delivered at any time to the extent permissible under the Plan.

In the event an adjustment pursuant to Section 10(c) of the Plan is required, the number of Shares that may ultimately vest under this Agreement, if any, shall be adjusted in accordance with Section 10(c) of the Plan. All Shares that may ultimately vest under this Agreement, if any, after such adjustment shall be subject to the same restrictions applicable any Shares that may have vested under this Agreement before the adjustment.

**2. Full Awards upon Certain Events.**

(a) Except as provided in this Paragraph 2 and in Paragraph 3, below, if Grantee has a Separation from Service (defined in Paragraph 10, below), for any reason during the performance cycle, the award shall be forfeited and automatically transferred back to LNC. Upon forfeiture, Grantee shall have no further rights in such award or Shares issuable pursuant to an award granted hereunder.

(b) In the case of Grantee's Retirement (defined in Paragraph 10, below), death or Separation from Service on account of Total Disability (defined in Paragraph 10, below), Grantee

(or Grantee's estate, if applicable) shall receive a full award as if Grantee had provided Service for the entire Performance Cycle.

Any Shares deliverable under this Paragraph 2 shall be delivered at the same time long-term incentive awards are normally paid and/or delivered after the end of the Performance Cycle.

**3. Change of Control.** In connection with a Change of Control, pursuant to the definition in effect on the day immediately preceding such Change of Control, the Committee shall determine what, if any, award under this Agreement shall vest. In making such determination, the Committee shall consider the nature of such Change of Control, whether continuation of the Plan and the awards for the Performance Cycle are feasible, and whether the resulting corporate entity, if any, offers or commits to offer awards of comparable economic value; provided, however, that the Committee's determination shall be consistent with existing LNC plans, such as the Plan and the LNC Executives' Severance Benefit Plan.

Shares deliverable pursuant to this Paragraph 3 shall be delivered as of the earlier of (a) the time this award would normally be paid after the end of the original Performance Cycle established by the Committee, or (b) within 90 days after the Grantee's involuntary Separation from Service, other than for Cause, from LNC, its affiliates or any successor entity, provided such Separation from Service occurs within two years after such Change of Control.

Notwithstanding the foregoing, a Grantee who has a voluntary Separation from Service after a Change of Control but before delivery of Shares in settlement of this award shall forfeit this award.

**4. Dividend Equivalent Units.** If an award vests, Grantee shall also receive an amount equal to the dividends that would have been paid on such Shares had Grantee held such Shares from the date of grant through the date the Shares become deliverable. Such dividend equivalent amount shall be delivered in Shares based on the Fair Market Value of a Share on the date of the payment of the dividend.

**5. Tax Withholding.** LNC will require Grantee to remit an amount equal to any tax withholding required under federal, state or local law on the value of the Shares deliverable under this Agreement at such time as LNC is required to withhold such amounts. In accordance with procedures established by the Committee, Grantee may satisfy any required tax withholding payments in any combination of cash, certified check, or Shares (including the surrender of Shares held by the Grantee or those that would otherwise be issued in settlement of this award). Any surrendered or withheld Shares will constitute satisfaction of any required tax withholding to the extent of their Fair Market Value.

**6. Voting Rights.** Grantee shall have no voting rights with respect to LNC stock units.

**7. Transferability.** This award may not be transferred, sold, pledged, hypothecated, margined or otherwise encumbered by Grantee, except by will or the laws of descent and distribution.

**8. Cancellation/Rescission of Award after Vesting or Distribution/Termination for Cause.**

(a) If Grantee's Service is terminated for Cause, any Shares distributed in settlement of this award during the six (6) month period prior to such termination for Cause shall be rescinded and any such Shares not yet delivered in settlement of this award shall be cancelled without further action by the Committee or its delegate.

(b) If Grantee fails to comply with the non-competition, non-solicitation, non-disparagement or non-disclosure provisions described in Subparagraphs 9(a), 9(b), 9(c), and 9(d), below, before Shares are delivered in settlement of this award, this award shall be cancelled without further action by the Committee or its delegate.

(c) If requested by LNC, at the time Shares are to be delivered pursuant to this Agreement, Grantee shall certify in a form acceptable to LNC that Grantee is in compliance with the terms and conditions described in Subparagraphs 9(a), 9(b), 9(c), and 9(d), below. Grantee's failure to comply with Subparagraphs 9(a) through 9(d) at any time from the specified Grant Date through the six (6) month period after any Shares are delivered in settlement of this award shall cause such Shares to be rescinded.

(d) (1) LNC must notify Grantee in writing of any such rescission: (A) in the case of Subparagraph 8(a), not later than 90 days after such termination for Cause; and (B) not later than 180 days after LNC obtains knowledge of Grantee's failure to comply with Subparagraphs 9(a), 9(b), 9(c), or 9(d).

(2) Within ten (10) days after receiving a rescission notice from LNC: (A) Grantee must surrender to LNC the Shares acquired upon settlement of the award, or (B) if such Shares have been sold or transferred, (i) Grantee must make a payment to LNC of the proceeds from such sale or transfer, or (ii) if there are no proceeds from such transfer, Grantee must make a payment to LNC equal to the Fair Market Value of such Shares on the date of such transfer.

In all cases, Grantee shall pay to LNC the gross amount of any gain realized or payment received (not net of any withholding or other taxes paid by Grantee) as a result of the award.

**9. Covenants.**

(a) Non-Competition. Grantee may not become employed by, work on behalf of, or otherwise render services that are the same or similar to the services rendered by Grantee to the business unit(s) for which Grantee provided Service or otherwise had responsibilities for at the time of his/her termination to any other organization or business that competes with or provides, or is planning to provide, the same or similar products and/or services. Grantee understands and agrees that this restriction is nationwide in scope.

(b) Non-Solicitation. Grantee shall not directly or indirectly hire, manage, solicit, or recruit any employees, agents, financial planners, salespeople, financial advisors, vendors, or service providers of LNC whom Grantee had hired, managed, supervised, or otherwise became familiar with as a result of his/her Service.

(c) Non-Disparagement. Grantee shall not (1) make any public statements regarding his/her Service (other than factual statements concerning the dates of Service and positions held) or his/her termination or Retirement from LNC that are not agreed to by LNC, such approval not to be unreasonably withheld or delayed; and (2) Grantee shall not disparage LNC or any of its affiliates, its and their respective employees, executives, officers, or Boards of Directors.

(d) Non-Disclosure & Ideas Provision. Grantee shall not, without prior written authorization from LNC, disclose to anyone outside LNC, or use in other than LNC's business, any trade secrets or confidential and/or proprietary information received from or on behalf of, developed for, or otherwise relating to the business of, LNC. Any confidentiality or non-disclosure obligations in this Agreement does not prohibit or restrict Grantee (or Grantee's attorney) from initiating communications directly with, or responding to any inquiry from, or providing testimony before, the SEC, FINRA, any other self-regulatory organization, or any other state, local, or federal regulatory, investigative, or enforcement entity, agency, or authority. For purposes of this Agreement, a confidential disclosure to government officials or attorneys solely for purposes of reporting or investigating a suspected violation of the law (or disclosures made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal) is immune from civil and criminal liabilities under federal and state trade secret laws. Furthermore, Grantee agrees to disclose and assign to LNC all rights and interest in any invention or idea that Grantee developed or helped develop for actual or related business, research, or development work during the period of Grantee's Service.

Notwithstanding anything to the contrary herein, LNC may, in its discretion, waive Grantee's compliance with Subparagraphs 9(a), 9(b), 9(c), or 9(d) in whole or part in any individual case. Moreover, if Grantee's Service is terminated by LNC other than for Cause, a failure by Grantee to comply with the provisions of Subparagraph 9(a), above, after such termination shall not in and of itself cause rescission if the Shares were delivered in settlement of this award before Grantee's termination.

**10. Definitions.** As used in this Agreement:

"Cause" means (a) a conviction of a crime that is job related or that may otherwise cause harm to the reputation of LNC or any Subsidiary; (b) any act or omission detrimental to the conduct of business of LNC or any Subsidiary; (c) inability to obtain or retain proper licenses; (d) theft, dishonesty, fraud or misrepresentation; (e) failure to cooperate or be truthful in connection with an investigation related to LNC or any Subsidiary; (f) violation of any rule or regulation of any regulatory agency or self-regulatory agency; (g) violation of any policy or rule of LNC or any Subsidiary; or (h) unsatisfactory performance that does not meet expectations after coaching or counseling. Cause shall be determined in the sole discretion of the Committee.

"Performance Cycle" means the three-year period that commences on the first day of the calendar year in which the grant was awarded.

"Retirement" means Grantee's Separation from Service, other than for Cause, from LNC or any Subsidiary at age 55 or older with at least five (5) years of Service.

“Service” means Grantee’s continuous service as a common law employee of, or as a planner with a full-time agent’s contract with, LNC or any Subsidiary. Service as a common law employee is the period of time Grantee is on the payroll of LNC or a Subsidiary but prior to the time the Grantee has had a Separation from Service. Service as a planner is the period of time Grantee’s full-time agent’s contract is in effect but prior to the time the Grantee has had a Separation from Service.

“Separation from Service” has the meaning given such term in Code section 409A and the regulations issued thereunder.

“Subsidiary” means a corporation in which LNC has ownership of at least twenty-five percent.

“Total Disability” means (as determined by the Committee) a disability that results in Grantee being unable to engage in any occupation or employment for wage or profit for which Grantee is, or becomes, reasonably qualified by training, education or experience. In addition, the disability must have lasted six (6) months and be expected to continue for at least six (6) more months or be expected to continue unto death.

**11. Compliance with Securities Laws.** Shares shall not be issued with respect to this award unless the issuance and delivery of such Shares shall comply with all relevant provisions of state and federal laws, rules and regulations, and, in the discretion of LNC, shall be further subject to the approval of counsel for LNC with respect to that compliance.

**12. Incorporation of Plan Terms.** This award is subject to the terms and conditions of the Plan. Such terms and conditions of the Plan are incorporated into and made a part of this Agreement by reference. In the event of any conflicts between the provisions of this Agreement and the terms of the Plan, the terms of the Plan will control. Capitalized terms used but not defined in this Agreement shall have the meanings set forth in the Plan unless the context clearly requires an alternative meaning.

IN WITNESS WHEREOF, LNC, by its duly authorized director has signed this Agreement as of the first date set forth above.

LINCOLN NATIONAL CORPORATION

/s/ Patrick S. Pittard
Patrick S. Pittard
Chairman of Compensation Committee

**Exhibit 10.3**

**LINCOLN NATIONAL CORPORATION**

**RESTRICTED STOCK UNIT AWARD AGREEMENT**

*For Chief Executive Officer*

This Restricted Stock Unit Award Agreement (the "Agreement") is by and between Lincoln National Corporation ("LNC") on behalf of itself and its affiliates, and <First Name> <Last Name> (the "Grantee"), and evidences the grant on <Grant Date> (the "Grant Date") of Restricted Stock Units ("RSUs") to Grantee, and Grantee's acceptance of the RSUs, in accordance with the terms and provisions of the Lincoln National Corporation 2014 Incentive Compensation Plan effective May 22, 2014 (the "Plan") and this Agreement. LNC and Grantee agree as follows:

2. **Number of Shares Granted.** Grantee is awarded <Granted Amount> RSUs subject to the terms and restrictions as set forth in the Plan and in this Agreement. In the event an adjustment pursuant to Section 10(c) of the Plan is required, the number of RSUs awarded under this Agreement and/or the number of shares of LNC common stock (the "Shares") delivered pursuant to RSUs granted under this Agreement shall be adjusted in accordance with Section 10(c) of the Plan. All RSUs after such adjustment (and/or Shares deliverable pursuant to RSUs granted under this Agreement) shall be subject to the same restrictions applicable to such RSUs (and/or Shares issuable pursuant to an RSU granted under this Agreement) before the adjustment.

3. **Vesting of Restricted Stock Units.** Subject to Paragraph 8, below, the RSUs shall vest upon the earliest to occur of the following dates (such date, the "Vesting Date"), provided Grantee remains in Service (defined in Paragraph 10, below) through such date:

(a) **100%** as of the third anniversary of the Grant Date; or

(b) **100%** as of the date on which the Grantee has a Separation from Service (defined in Paragraph 10, below) on account of Total Disability (defined in Paragraph 10, below); or

(c) **100%** as of the date of the Grantee's death; or

(d) **100%** as of the date of the Grantee's involuntary Separation from Service other than for Cause (defined in Paragraph 10, below), provided such Separation from Service occurs within two years after a Change of Control pursuant to the definition in effect on the day immediately preceding such Change of Control; or

(e) **100%** as of the date on which Grantee Retires (defined in Paragraph 10, below).

In the event that Grantee has a Separation from Service prior to the vesting of RSUs as set forth above, other than under the circumstances described in Subparagraphs 2(b) through (e), the

RSUs shall be forfeited and automatically transferred back to LNC. Upon forfeiture, Grantee shall have no further rights in such RSUs or Shares deliverable pursuant to an RSU granted hereunder.

3. **Dividend Equivalent Units.** No cash dividends shall be payable with respect to the RSUs. Instead, for each RSU, Grantee shall have a right to a dividend equivalent unit ("DEU"). The DEU shall entitle the Grantee to additional RSUs on each date that dividends are paid on Shares while the RSU is outstanding. The number of RSUs to be credited on a dividend payment date based on each DER shall equal the number obtained by dividing the aggregate dividend that would have been paid if the RSUs had been outstanding Shares by the Fair Market Value of a Share on the date of the payment of the dividend. DEUs have the same restrictions as the underlying RSUs.

4. **Distribution of Shares.** Except as provided below, a Share shall be distributed to Grantee (or to Grantee's estate) for every vested RSU (including RSUs credited based on DERs), on or within 60 days after the Vesting Date.

Once a Share has been issued with respect to an RSU pursuant to this Agreement and the Plan, the Grantee shall have no further rights with respect to the RSU.

Notwithstanding anything in this Paragraph 4 to the contrary, in the case of a Key Employee (defined below) who is eligible for Retirement at any time prior to the third anniversary of the Grant Date, a distribution upon the Key Employee's Separation from Service shall be made on the date that is six (6) months after the date on which the Key Employee has a Separation from Service. A "Key Employee" means an employee who, as of his Separation from Service from LNC or its affiliates, is treated as a "specified employee" under Code section 409A(a)(2)(B)(i) (i.e., a key employee as defined in Code section 416(i) without regard to paragraph (5) thereof). Key Employees shall be determined in accordance with Code section 409A.

5. **Tax Withholding.** LNC will require Grantee to remit an amount equal to any tax withholding required by federal, state, or local law on the value of the RSUs at such time as LNC is required to withhold such amounts. In accordance with procedures established by the Committee, Grantee may satisfy any required tax withholding payments in any combination of cash, certified check, or Shares (including the surrender of Shares held by the Grantee or those that would otherwise be issued in settlement of this award). Any surrendered or withheld Shares will constitute satisfaction of any required tax withholding to the extent of their Fair Market Value.

6. **Voting Rights.** Grantee shall have no voting rights with respect to RSUs.

7. **Transferability.** Neither the RSUs granted under this Agreement, nor any interest or right therein or part thereof, shall be transferred, sold, pledged, hypothecated, margined or otherwise encumbered by the Grantee, except by will or the laws of descent and distribution.

8. **Cancellation/Rescission of Award after Vesting or Distribution/Termination for Cause.**

(a) If Grantee's Service is terminated for Cause, any Shares distributed in settlement of this award during the six (6) month period prior to such termination for Cause shall be rescinded and any such Shares not yet delivered in settlement of this award shall be cancelled

without further action by the Compensation Committee of the LNC Board of Directors (the "Committee") or its delegate.

(b) If Grantee fails to comply with the non-competition, non-solicitation, non-disparagement, or non-disclosure provisions described in Subparagraphs 9(a), 9(b), 9(c), and 9(d), below, before Shares are distributed in settlement of this award, this award shall be cancelled without further action by the Committee or its delegate.

(c) If requested by LNC, at the time Shares are to be distributed pursuant to this Agreement, Grantee shall certify in a form acceptable to LNC that Grantee is in compliance with the terms and conditions described in Subparagraphs 9(a), 9(b), 9(c), and 9(d), below. Grantee's failure to comply with Subparagraphs 9(a) through 9(d) at any time from the Grant Date through the six (6) month period after the date Shares are distributed in settlement of the RSUs shall cause such Shares to be rescinded.

(d) (1) LNC shall notify Grantee in writing of any such rescission: (A) in the case of Subparagraph 8(a), not later than 90 days after such termination for Cause; and (B) not later than 180 days after LNC obtains knowledge of Grantee's failure to comply with Subparagraphs 9(a), 9(b), 9(c), or 9(d), below.

(2) Within ten (10) days after receiving a rescission notice from LNC: (A) Grantee must surrender to LNC the Shares acquired upon settlement of this award; or (B) if such Shares have been sold or transferred, (i) Grantee must make a payment to LNC of the proceeds from such sale or transfer, or (ii) if there are no proceeds from such transfer, Grantee must make a payment to LNC equal to the Fair Market Value of such Shares on the date of such transfer.

In all cases, Grantee shall pay to LNC the gross amount of any gain realized or payment received (not net of any withholding or other taxes paid by Grantee) as a result of the RSUs.

9. **Covenants.**

(a) Non-Competition. Grantee may not become employed by, work on behalf of, or otherwise render services that are the same or similar to the services rendered by Grantee to the business unit(s) for which Grantee provided Service or otherwise had responsibilities for at the time of his/her termination to any other organization or business that competes with or provides, or is planning to provide, the same or similar products and/or services. Grantee understands and agrees that this restriction is nationwide in scope.

(b) Non-Solicitation. Grantee shall not directly or indirectly hire, manage, solicit, or recruit any employees, agents, financial planners, salespeople, financial advisors, vendors, or service providers of LNC (including, but not limited to, doing a "lift-out" of same) whom Grantee had hired, managed, supervised, or otherwise became familiar with as a result of his/her Service.

(c) Non-Disparagement. Grantee shall not (1) make any public statements regarding his/her Service (other than factual statements concerning the dates of Service and

positions held) or his/her termination or Retirement from LNC that are not agreed to by LNC, such approval not to be unreasonably withheld or delayed; and (2) disparage LNC or any of its affiliates, its and their respective employees, executives, officers, or Boards of Directors.

(d) Non-Disclosure & Ideas Provision. Grantee shall not, without prior written authorization from LNC, disclose to anyone outside LNC, or use in other than LNC's business, any trade secrets or confidential and/or proprietary information received from or on behalf of, developed for, or otherwise relating to the business of, LNC. Any confidentiality or non-disclosure obligations in this Agreement does not prohibit or restrict Grantee (or Grantee's attorney) from initiating communications directly with, or responding to any inquiry from, or providing testimony before, the SEC, FINRA, any other self-regulatory organization, or any other state, local, or federal regulatory, investigative, or enforcement entity, agency, or authority. For purposes of this Agreement, a confidential disclosure to government officials or attorneys solely for purposes of reporting or investigating a suspected violation of the law (or disclosures made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal) is immune from civil and criminal liabilities under federal and state trade secret laws. Furthermore, Grantee agrees to disclose and assign to LNC all rights and interest in any invention or idea that Grantee developed or helped develop for actual or related business, research, or development work during the period of Grantee's Service.

Notwithstanding anything herein to the contrary, LNC may, in its discretion, waive Grantee's compliance with Subparagraphs 9(a), 9(b), 9(c), or 9(d) in whole or part in any individual case. Moreover, if Grantee's Service is terminated by LNC other than for Cause, a failure by Grantee to comply with the provisions of Subparagraph 9(a), above, after such termination shall not in and of itself cause rescission if the Shares were distributed in settlement of the RSUs prior to Grantee's date of termination.

10. **Definitions.** As used in this Agreement:

"Cause" means (a) a conviction of a crime that is job related or that may otherwise cause harm to the reputation of LNC or any Subsidiary; (b) any act or omission detrimental to the conduct of business of LNC or any Subsidiary; (c) inability to obtain or retain proper licenses; (d) theft, dishonesty, fraud or misrepresentation; (e) failure to cooperate or be truthful in connection with an investigation related to LNC or any Subsidiary; (f) violation of any rule or regulation of any regulatory agency or self-regulatory agency; (g) violation of any policy or rule of LNC or any Subsidiary; or (h) unsatisfactory performance that does not meet expectations after coaching or counseling. Cause shall be determined in the sole discretion of the Committee.

"Retires" or "Retirement" means Grantee's Separation from Service, other than for Cause, from LNC or any Subsidiary at age 55 or older with at least five (5) years of Service.

"Service" means Grantee's continuous service as a common law employee of, or as a planner with a full-time agent's contract with, LNC or any Subsidiary. Service as a common law employee is the period of time Grantee is on the payroll of LNC or a Subsidiary but prior to the time the Grantee has had a Separation from Service. Service as a planner is the period of time Grantee's full-time agent's contract is in effect but prior to the time the Grantee has had a Separation from Service.

"Separation from Service" has the meaning given such term in Code section 409A and the regulations issued thereunder.

"Subsidiary" means a corporation in which LNC has ownership of at least twenty-five percent.

"Total Disability" means (as determined by the Committee) a disability that results in Grantee being unable to engage in any occupation or employment for wage or profit for which Grantee is, or becomes, reasonably qualified by training, education or experience. In addition, the disability must have lasted six (6) months and be expected to continue for at least six (6) more months or be expected to continue unto death.

11. **Compliance with Securities Laws.** Shares shall not be issued with respect to RSUs unless the issuance and delivery of such Shares shall comply with all relevant provisions of state and federal laws, rules and regulations, and, in the discretion of LNC, shall be further subject to the approval of counsel for LNC with respect to that compliance.

12. **Incorporation of Plan Terms.** This award is subject to the terms and conditions of the Plan. Such terms and conditions of the Plan are incorporated into and made a part of this Agreement by reference. In the event of any conflicts between the provisions of this Agreement and the terms of the Plan, the terms of the Plan will control. Capitalized terms used but not defined in this Agreement shall have the meanings set forth in the Plan unless the context clearly requires an alternative meaning.

IN WITNESS WHEREOF, LNC, by its duly authorized director has signed this Agreement as of the effective date set out above.

LINCOLN NATIONAL CORPORATION

/s/ Patrick S. Pittard
Patrick S. Pittard
Chairman of Compensation Committee

**Exhibit 10.4**

**LINCOLN NATIONAL CORPORATION**

**NONQUALIFIED STOCK OPTION AGREEMENT**

*For Senior Management Committee (other than CEO)*

This Nonqualified Stock Option Agreement (the "Agreement") evidences the terms of the grant by Lincoln National Corporation ("LNC") of a Nonqualified Stock Option (the "Option") to <First Name> <Last Name> ("Grantee") on **<**Grant Date**>** (the "Grant Date"), and Grantee's acceptance of the Option, in accordance with and subject to the terms and provisions of the Lincoln National Corporation 2014 Incentive Compensation Plan effective May 22, 2014 (the "Plan") and this Agreement. LNC and Grantee agree as follows:

1. **Shares Optioned and Option Price.**

Grantee shall have an Option to purchase <Granted Amount> shares of LNC common stock (the "Shares") for **<**Grant Price**>** (in United States Dollars) for each Share.

2. **Vesting Dates.**

The Option shall vest as follows, provided the Grantee remains in Service (defined in Paragraph 9, below) through the specified vesting date:

1/3 of the Option on the first anniversary of the Grant Date;
1/3 of the Option on the second anniversary of the Grant Date; and
1/3 of the Option on the third anniversary of the Grant Date.

In addition, upon Grantee's termination of Service for any of the following reasons, the unvested portion of the Option shall vest as indicated:

(e) **100%** as of the date of Grantee's death; or

(f) **100%** as of the date of Grantee's termination of Service on account of Total Disability (defined in Paragraph 9, below); or

(g) **100%** as of the date of Grantee's involuntary termination of Service other than for Cause, within two (2) years after a Change of Control pursuant to the definition in effect on the day immediately preceding such Change of Control; or

(h) **Pro-rata** as of the date Grantee Retires (defined in Paragraph 9, below); except that if Grantee Retires at age 62 or older, the Option shall be **100%** vested as of that date.

An Option that vests pro-rata upon the event described in Subparagraph 2(d) above shall vest according to a pro-ration formula equal to the total number of days of Service that Grantee provides during the applicable Vesting Period (defined below), divided by the number of days in

the applicable Vesting Period in which the event described in Subparagraph 2(d) occurs, multiplied by the number of Shares subject to the Option that may vest during the applicable Vesting Period (rounding up to the nearest whole Share). For purposes of pro-rating, the applicable "Vesting Period" is the one-year period between the Grant Date and first anniversary of the Grant Date during which a portion of the Option vests, or the one-year period between anniversaries of the Grant Date during which a portion of the Option vests.

Except as provided above, any portion of the Option that is unvested upon Grantee's termination of Service shall be deemed forfeited immediately following termination.

3. **Exercise Period.**

Grantee may exercise all or part of the Option, to the extent vested, prior to the close of business at LNC headquarters on any LNC business day (in accordance with procedures established by LNC) until the first to occur of:

(f) the tenth anniversary of the Grant Date; or

(g) the first anniversary of the date of Grantee's termination of Service on account of death or Total Disability; or

(h) the fifth anniversary of Grantee's Retirement; or

(i) the date three (3) months after Grantee's involuntary termination of Service other than for Cause, including the sale or disposition of the business for which Grantee provides Service; or

(j) the date of Grantee's termination of Service for any reason other than those described in Subparagraphs 3(b), (c), or (d), respectively.

4. **Manner of Exercise.**

To exercise an Option, Grantee must: (a) accept the terms of this award by delivering an acknowledgment (in the form specified by LNC); (b) deliver notice of the exercise (in the form specified by LNC) to the LNC stock option administrator; and (c) submit full payment of the exercise price. Payment of the exercise price may be made in any combination of cash, certified check, Shares (including the surrender of Shares held by the Grantee or those that would otherwise be issued on exercise of the Option), or, to the extent LNC has adopted a broker assisted cashless exercise program, through a broker assisted cashless exercise. Any surrendered or withheld Shares will constitute payment to the extent of their Fair Market Value.

5. **Tax Withholding.**

As soon as practicable after the exercise date, LNC shall cause the appropriate number of Shares to be issued to Grantee. LNC shall not issue Shares until any required tax withholding payments are remitted to LNC by Grantee. In accordance with procedures established by the Compensation Committee of the LNC Board of Directors (the "Committee"), Grantee may satisfy any required tax withholding payments in any combination of cash, certified check, or Shares

(including the surrender of Shares held by the Grantee or those that would otherwise be issued on exercise of the Option) or, to the extent LNC has adopted a broker assisted cashless exercise program, through a broker assisted cashless exercise. Any surrendered or withheld Shares will constitute satisfaction of any required tax withholding to the extent of their Fair Market Value.

6. **Transferability.**

Unless otherwise approved by the Committee, no rights under this Agreement may be transferred except by will or the laws of descent and distribution. The rights under this Agreement may be exercised during the lifetime of Grantee only by Grantee. After Grantee's death, the Option may be exercised by the person or persons to whom the Option was transferred by will or the laws of descent and distribution.

7. **Cancellation/Rescission of Options and/or Related Exercise/Termination for Cause.**

(a) If Grantee's Service is terminated for Cause, any Shares acquired upon exercise of the Option during the six (6) month period prior to such termination for Cause shall be rescinded and any remaining portion of the Option shall be cancelled without further action by the Committee or its delegate.

(b) If Grantee fails to comply with the non-competition, non-solicitation, non-disparagement, or non-disclosure provisions described in Subparagraphs 8(a), 8(b), 8(c), and 8(d), below, before the applicable vesting date of the Option, the Option shall be cancelled without further action by the Committee or its delegate.

(c) If requested by LNC, upon exercise of the Option, Grantee shall certify in a form acceptable to LNC that Grantee is in compliance with the terms and conditions described in Subparagraphs 8(a), 8(b), 8(c), and 8(d), below. Grantee's failure to comply with Subparagraphs 8(a) through 8(d) at any time from the Grant Date through the six (6) month period after the applicable vesting date of this Option shall cause such Option and/or any Shares acquired upon exercise of the Option to be rescinded.

(d) (1) LNC shall notify Grantee in writing of any such rescission: (A) in the case of Subparagraph 7(a), not later than 90 days after such termination for Cause; and (B) not later than 180 days after LNC obtains knowledge of Grantee's failure to comply with Subparagraphs 8(a), 8(b), 8(c), or 8(d).

(2) Within ten (10) days after receiving a rescission notice from LNC: (A) Grantee must surrender to LNC the Shares acquired upon exercise of the Option, less a number of Shares having a Fair Market Value equal to the aggregate exercise price of the Option; or (B) if the Shares acquired upon exercise of the Option have been sold or transferred, (i) Grantee must make a payment to LNC of the proceeds from such sale or transfer, or (ii) if there are no proceeds from such transfer, Grantee must make a payment to LNC equal to the Fair Market Value of the Shares on the date of such transfer.

In all cases, Grantee shall pay to LNC the gross amount of any gain realized or payment received (not net of any withholding or other taxes paid by Grantee) as a result of the Option.

8. **Covenants.**

(e) Non-Competition. Grantee may not become employed by, work on behalf of, or otherwise render services that are the same or similar to the services rendered by Grantee to the business unit(s) for which Grantee provided Service or otherwise had responsibilities for at the time of his/her termination to any other organization or business that competes with or provides, or is planning to provide, the same or similar products and/or services. Grantee understands and agrees that this restriction is nationwide in scope.

(f) Non-Solicitation. Grantee shall not directly or indirectly hire, manage, solicit, or recruit any employees, agents, financial planners, salespeople, financial advisors, vendors, or service providers of LNC (including, but not limited to, doing a "lift-out" of same) whom Grantee had hired, managed, supervised, or otherwise became familiar with as a result of his/her Service.

(g) Non-Disparagement. Grantee shall not (1) make any public statements regarding his/her Service (other than factual statements concerning the dates of Service and positions held) or his/her termination or Retirement from LNC that are not agreed to by LNC, such approval not to be unreasonably withheld or delayed; and (2) disparage LNC or any of its affiliates, its and their respective employees, executives, officers, or Boards of Directors.

(h) Non-Disclosure & Ideas Provision. Grantee shall not, without prior written authorization from LNC, disclose to anyone outside LNC, or use in other than LNC's business, any trade secrets or confidential and/or proprietary information received from or on behalf of, developed for, or otherwise relating to the business of, LNC. Any confidentiality or non-disclosure obligations in this Agreement does not prohibit or restrict Grantee (or Grantee's attorney) from initiating communications directly with, or responding to any inquiry from, or providing testimony before, the SEC, FINRA, any other self-regulatory organization, or any other state, local, or federal regulatory, investigative, or enforcement entity, agency, or authority. For purposes of this Agreement, a confidential disclosure to government officials or attorneys solely for purposes of reporting or investigating a suspected violation of the law (or disclosures made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal) is immune from civil and criminal liabilities under federal and state trade secret laws. Furthermore, Grantee agrees to disclose and assign to LNC all rights and interest in any invention or idea that Grantee developed or helped develop for actual or related business, research, or development work during the period of Grantee's Service.

Notwithstanding anything to the contrary herein, LNC may, in its discretion, waive Grantee's compliance with Subparagraphs 8(a), 8(b), 8(c), or 8(d) in whole or part in any individual case. Moreover, if Grantee's Service is terminated by LNC other than for Cause, a failure by Grantee to comply with the provisions of Subparagraph 8(a), above, after such termination shall not in and of itself cause rescission to the extent the Option was exercised before Grantee's termination.

9. **Definitions.**

As used in this Agreement:

"Cause" means (a) a conviction of a crime that is job related or that may otherwise cause harm to the reputation of LNC or any Subsidiary; (b) any act or omission detrimental to the conduct of business of LNC or any Subsidiary; (c) inability to obtain or retain proper licenses; (d) theft, dishonesty, fraud or misrepresentation; (e) failure to cooperate or be truthful in connection with an investigation related to LNC or any Subsidiary; (f) violation of any rule or regulation of any regulatory agency or self-regulatory agency; (g) violation of any policy or rule of LNC or any Subsidiary; or (h) unsatisfactory performance that does not meet expectations after coaching or counseling. Cause shall be determined in the sole discretion of the Committee.

"Retires" or "Retirement" means Grantee's termination of Service, other than for Cause, from LNC or any Subsidiary either (i) at age 55 or older with at least five (5) years of Service or (ii) at any age with at least seven (7) years of Service as a member of LNC's Senior Management Committee.

"Service" means Grantee's continuous service as a common law employee of, or as a planner with a full-time agent's contract with, LNC or any Subsidiary. Service as a common law employee is the period of time Grantee is on the payroll of LNC or a Subsidiary. Service as a planner is the period of time Grantee's full-time agent's contract is in effect.

"Subsidiary" means any corporation in which LNC has ownership of at least twenty-five percent.

"Total Disability" means (as determined by the Committee) a disability that results in Grantee being unable to engage in any occupation or employment for wage or profit for which Grantee is, or becomes, reasonably qualified by training, education or experience. In addition, the disability must have lasted six (6) months and be expected to continue for at least six (6) more months or be expected to continue unto death.

10. **Incorporation of Plan Terms.**

This award is subject to the terms and conditions of the Plan. Such terms and conditions of the Plan are incorporated into and made a part of this Agreement by reference. In the event of any conflicts between the provisions of this Agreement and the terms of the Plan, the terms of the Plan will control. Capitalized terms used but not defined in this Agreement shall have the meanings set forth in the Plan unless the context clearly requires an alternative meaning.

IN WITNESS WHEREOF, LNC, by its duly authorized officer has signed this Agreement as of the day and year first above written.

LINCOLN NATIONAL CORPORATION

/s/ Dennis R. Glass
Dennis R. Glass
President and Chief Executive Officer

**Exhibit 10.5**

# LINCOLN NATIONAL CORPORATION

## LONG-TERM INCENTIVE AWARD PROGRAM
## Performance Cycle Agreement

*For Senior Management Committee (other than CEO)*

This Award Agreement ("Agreement"), by and between Lincoln National Corporation ("LNC") on behalf of itself and its affiliates, and the <First Name> <Last Name> ("Grantee"), evidences the grant by LNC on <Grant Date>, of a long-term incentive performance award to Grantee, and Grantee's acceptance of the award, in accordance with and subject to the provisions of the Lincoln National Corporation 2014 Incentive Compensation Plan effective May 22, 2014 (the "Plan") and this Agreement. LNC and Grantee agree as follows:

**1. Form of Award.** This performance award grant is for <Granted Amount> shares of LNC common stock ("Shares"). During the Performance Cycle, this award shall consist of LNC stock units but any actual award that ultimately vests will be delivered in Shares.

The number of Shares that will vest and be delivered, if any, may range from 0-200% of the aforementioned target number of Shares plus any accumulated dividend equivalents under Section 4, below. Shares will vest and be delivered only after certification by the Compensation Committee of the LNC Board of Directors (the "Committee") of the achievement of company performance criteria previously established and approved by the Committee for the Performance Cycle; however in no event will Shares be delivered later than March 15th of the year following the completion of the Performance Cycle.

The Committee reserves the right to adjust the target number or amount of Shares delivered at any time to the extent permissible under the Plan.

In the event an adjustment pursuant to Section 10(c) of the Plan is required, the number of Shares that may ultimately vest under this Agreement, if any, shall be adjusted in accordance with Section 10(c) of the Plan. All Shares that may ultimately vest under this Agreement, if any, after such adjustment shall be subject to the same restrictions applicable any Shares that may have vested under this Agreement before the adjustment.

**2. Full or Pro-Rata Awards upon Certain Events.**

(a) Except as provided in this Paragraph 2 and in Paragraph 3, below, if Grantee has a Separation from Service (defined in Paragraph 10, below), for any reason during the performance cycle, the award shall be forfeited and automatically transferred back to LNC. Upon forfeiture, Grantee shall have no further rights in such award or Shares issuable pursuant to an award granted hereunder.

(b) In the case of Grantee's Retirement (defined in Paragraph 10, below), Grantee (or Grantee's estate, if applicable) shall receive a pro-rated award based on the pro-ration formula described below.

(c) In the case of Grantee's death or Separation from Service on account of Total Disability (defined in Paragraph 10, below), Grantee (or Grantee's estate, if applicable) shall receive a full, non-prorated award as if Grantee had provided Service for the entire Performance Cycle.

The number of Shares deliverable upon the pro-rata vesting event described in Subparagraph 2(b) shall be calculated by multiplying this award by the product resulting from multiplying a fraction where the denominator is equal to the number of days during the performance cycle, and the numerator is equal to the number of days that the Grantee provided Service during the Performance Cycle, by a factor based on the company's attainment of performance criteria during the Performance Cycle. Thereafter, the number of Shares deliverable shall be rounded up to the nearest whole Share.

Any Shares deliverable under this Paragraph 2 shall be delivered at the same time long-term incentive awards are normally paid and/or delivered after the end of the Performance Cycle.

**3. Change of Control.** In connection with a Change of Control, pursuant to the definition in effect on the day immediately preceding such Change of Control, the Committee shall determine what, if any, award under this Agreement shall vest. In making such determination, the Committee shall consider the nature of such Change of Control, whether continuation of the Plan and the awards for the Performance Cycle are feasible, and whether the resulting corporate entity, if any, offers or commits to offer awards of comparable economic value; provided, however, that the Committee's determination shall be consistent with existing LNC plans, such as the Plan and the LNC Executives' Severance Benefit Plan.

Shares deliverable pursuant to this Paragraph 3 shall be delivered as of the earlier of (a) the time this award would normally be paid after the end of the original performance cycle established by the Committee, or (b) within 90 days after the Grantee's involuntary Separation from Service, other than for Cause, from LNC, its affiliates or any successor entity, provided such Separation from Service occurs within two years after such Change of Control.

Notwithstanding the foregoing, a Grantee who has a voluntary Separation from Service after a Change of Control but before delivery of Shares in settlement of this award shall forfeit this award.

**4. Dividend Equivalent Units.** If an award vests, Grantee shall also receive an amount equal to the dividends that would have been paid on such Shares had Grantee held such Shares from the date of grant through the date the Shares become deliverable. Such dividend equivalent amount shall be delivered in Shares based on the Fair Market Value of a Share on the date of the payment of the dividend.

**5. Tax Withholding.** LNC will require Grantee to remit an amount equal to any tax withholding required under federal, state or local law on the value of the Shares deliverable under this Agreement at such time as LNC is required to withhold such amounts. In accordance with

procedures established by the Committee, Grantee may satisfy any required tax withholding payments in any combination of cash, certified check, or Shares (including the surrender of Shares held by the Grantee or those that would otherwise be issued in settlement of this award). Any surrendered or withheld Shares will constitute satisfaction of any required tax withholding to the extent of their Fair Market Value.

**6. Voting Rights.** Grantee shall have no voting rights with respect to LNC stock units.

**7. Transferability.** This award may not be transferred, sold, pledged, hypothecated, margined or otherwise encumbered by Grantee, except by will or the laws of descent and distribution.

**8. Cancellation/Rescission of Award after Vesting or Distribution/Termination for Cause.**

(a) If Grantee's Service is terminated for Cause, any Shares distributed in settlement of this award during the six (6) month period prior to such termination for Cause shall be rescinded and any such Shares not yet delivered in settlement of this award shall be cancelled without further action by the Committee or its delegate.

(b) If Grantee fails to comply with the non-competition, non-solicitation, non-disparagement or non-disclosure provisions described in Subparagraphs 9(a), 9(b), 9(c), and 9(d), below, before Shares are delivered in settlement of this award, this award shall be cancelled without further action by the Committee or its delegate.

(c) If requested by LNC, at the time Shares are to be delivered pursuant to this Agreement, Grantee shall certify in a form acceptable to LNC that Grantee is in compliance with the terms and conditions described in Subparagraphs 9(a), 9(b), 9(c), and 9(d), below. Grantee's failure to comply with Subparagraphs 9(a) through 9(d) at any time from the specified Grant Date through the six (6) month period after any Shares are delivered in settlement of this award shall cause such Shares to be rescinded.

(d) (1) LNC must notify Grantee in writing of any such rescission: (A) in the case of Subparagraph 8(a), not later than 90 days after such termination for Cause; and (B) not later than 180 days after LNC obtains knowledge of Grantee's failure to comply with Subparagraphs 9(a), 9(b), 9(c), or 9(d).

(2) Within ten (10) days after receiving a rescission notice from LNC: (A) Grantee must surrender to LNC the Shares acquired upon settlement of the award, or (B) if such Shares have been sold or transferred, (i) Grantee must make a payment to LNC of the proceeds from such sale or transfer, or (ii) if there are no proceeds from such transfer, Grantee must make a payment to LNC equal to the Fair Market Value of such Shares on the date of such transfer.

In all cases, Grantee shall pay to LNC the gross amount of any gain realized or payment received (not net of any withholding or other taxes paid by Grantee) as a result of the award.

**9. Covenants.**

(a) Non-Competition. Grantee may not become employed by, work on behalf of, or otherwise render services that are the same or similar to the services rendered by Grantee to the business unit(s) for which Grantee provided Service or otherwise had responsibilities for at the time of his/her termination to any other organization or business that competes with or provides, or is planning to provide, the same or similar products and/or services. Grantee understands and agrees that this restriction is nationwide in scope.

(b) Non-Solicitation. Grantee shall not directly or indirectly hire, manage, solicit, or recruit any employees, agents, financial planners, salespeople, financial advisors, vendors, or service providers of LNC whom Grantee had hired, managed, supervised, or otherwise became familiar with as a result of his/her Service.

(c) Non-Disparagement. Grantee shall not (1) make any public statements regarding his/her Service (other than factual statements concerning the dates of Service and positions held) or his/her termination or Retirement from LNC that are not agreed to by LNC, such approval not to be unreasonably withheld or delayed; and (2) Grantee shall not disparage LNC or any of its affiliates, its and their respective employees, executives, officers, or Boards of Directors.

(d) Non-Disclosure & Ideas Provision. Grantee shall not, without prior written authorization from LNC, disclose to anyone outside LNC, or use in other than LNC's business, any trade secrets or confidential and/or proprietary information received from or on behalf of, developed for, or otherwise relating to the business of, LNC. Any confidentiality or non-disclosure obligations in this Agreement does not prohibit or restrict Grantee (or Grantee's attorney) from initiating communications directly with, or responding to any inquiry from, or providing testimony before, the SEC, FINRA, any other self-regulatory organization, or any other state, local, or federal regulatory, investigative, or enforcement entity, agency, or authority. For purposes of this Agreement, a confidential disclosure to government officials or attorneys solely for purposes of reporting or investigating a suspected violation of the law (or disclosures made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal) is immune from civil and criminal liabilities under federal and state trade secret laws. Furthermore, Grantee agrees to disclose and assign to LNC all rights and interest in any invention or idea that Grantee developed or helped develop for actual or related business, research, or development work during the period of Grantee's Service.

Notwithstanding anything to the contrary herein, LNC may, in its discretion, waive Grantee's compliance with Subparagraphs 9(a), 9(b), 9(c), or 9(d) in whole or part in any individual case. Moreover, if Grantee's Service is terminated by LNC other than for Cause, a failure by Grantee to comply with the provisions of Subparagraph 9(a), above, after such termination shall not in and of itself cause rescission if the Shares were delivered in settlement of this award before Grantee's termination.

**10. Definitions.** As used in this Agreement:

"Cause" means (a) a conviction of a crime that is job related or that may otherwise cause harm to the reputation of LNC or any Subsidiary; (b) any act or omission detrimental to the conduct

of business of LNC or any Subsidiary; (c) inability to obtain or retain proper licenses; (d) theft, dishonesty, fraud or misrepresentation; (e) failure to cooperate or be truthful in connection with an investigation related to LNC or any Subsidiary; (f) violation of any rule or regulation of any regulatory agency or self-regulatory agency; (g) violation of any policy or rule of LNC or any Subsidiary; or (h) unsatisfactory performance that does not meet expectations after coaching or counseling. Cause shall be determined in the sole discretion of the Committee.

"Performance Cycle" means the three-year period that commences on the first day of the calendar year in which the grant was awarded.

"Retirement" means Grantee's Separation from Service, other than for Cause, from LNC or any Subsidiary either (i) at age 55 or older with at least five (5) years of Service or (ii) at any age with at least seven (7) years of Service as a member of LNC's Senior Management Committee.

"Service" means Grantee's continuous service as a common law employee of, or as a planner with a full-time agent's contract with, LNC or any Subsidiary. Service as a common law employee is the period of time Grantee is on the payroll of LNC or a Subsidiary but prior to the time the Grantee has had a Separation from Service. Service as a planner is the period of time Grantee's full-time agent's contract is in effect but prior to the time the Grantee has had a Separation from Service.

"Separation from Service" has the meaning given such term in Code section 409A and the regulations issued thereunder.

"Subsidiary" means a corporation in which LNC has ownership of at least twenty-five percent.

"Total Disability" means (as determined by the Committee) a disability that results in Grantee being unable to engage in any occupation or employment for wage or profit for which Grantee is, or becomes, reasonably qualified by training, education or experience. In addition, the disability must have lasted six (6) months and be expected to continue for at least six (6) more months or be expected to continue unto death.

**11. Compliance with Securities Laws.** Shares shall not be issued with respect to this award unless the issuance and delivery of such Shares shall comply with all relevant provisions of state and federal laws, rules and regulations, and, in the discretion of LNC, shall be further subject to the approval of counsel for LNC with respect to that compliance.

**12. Incorporation of Plan Terms.** This award is subject to the terms and conditions of the Plan. Such terms and conditions of the Plan are incorporated into and made a part of this Agreement by reference. In the event of any conflicts between the provisions of this Agreement and the terms of the Plan, the terms of the Plan will control. Capitalized terms used but not defined in this Agreement shall have the meanings set forth in the Plan unless the context clearly requires an alternative meaning.

IN WITNESS WHEREOF, LNC, by its duly authorized officer has signed this Agreement as of the first date set forth above.

LINCOLN NATIONAL CORPORATION

By: /s/ Dennis R. Glass
Dennis R. Glass
President and Chief Executive Officer

**Exhibit 10.6**

# LINCOLN NATIONAL CORPORATION

# RESTRICTED STOCK UNIT AWARD AGREEMENT

*For Senior Management Committee (Other than CEO)*

This Restricted Stock Unit Award Agreement (the "Agreement") is by and between Lincoln National Corporation ("LNC") on behalf of itself and its affiliates, and <First Name> <Last Name> (the "Grantee"), and evidences the grant on <Grant Date> (the "Grant Date") of Restricted Stock Units ("RSUs") to Grantee, and Grantee's acceptance of the RSUs, in accordance with the terms and provisions of the Lincoln National Corporation 2014 Incentive Compensation Plan effective May 22, 2014 (the "Plan") and this Agreement. LNC and Grantee agree as follows:

4. **Number of Shares Granted.** Grantee is awarded <Granted Amount> RSUs subject to the terms and restrictions as set forth in the Plan and in this Agreement. In the event an adjustment pursuant to Section 10(c) of the Plan is required, the number of RSUs awarded under this Agreement and/or the number of shares of LNC common stock (the "Shares") delivered pursuant to RSUs granted under this Agreement shall be adjusted in accordance with Section 10(c) of the Plan. All RSUs after such adjustment (and/or Shares deliverable pursuant to RSUs granted under this Agreement) shall be subject to the same restrictions applicable to such RSUs (and/or Shares issuable pursuant to an RSU granted under this Agreement) before the adjustment.

5. **Vesting of Restricted Stock Units.** Subject to Paragraph 8, below, the RSUs shall vest upon the earliest to occur of the following dates (such date, the "Vesting Date"), provided Grantee remains in Service (defined in Paragraph 10, below) through such date:

(a) **100%** as of the third anniversary of the Grant Date; or

(b) **100%** as of the date on which the Grantee has a Separation from Service (defined in Paragraph 10, below) on account of Total Disability (defined in Paragraph 10, below); or

(c) **100%** as of the date of the Grantee's death; or

(d) **100%** as of the date of the Grantee's involuntary Separation from Service other than for Cause (defined in Paragraph 10, below), provided such Separation from Service occurs within two years after a Change of Control pursuant to the definition in effect on the day immediately preceding such Change of Control; or

(e) **Pro-rata** as of the date on which Grantee Retires (defined in Paragraph 10, below).

The number of RSUs vesting pro-rata upon the event described in Subparagraph 2(e) shall be calculated by taking a fraction where the denominator is equal to the number of days during the three-year period beginning on the Grant Date and ending on the third anniversary of the Grant Date (such three-year period, the "Vesting Period"), and the numerator is equal to the number of days that the Grantee provided Service during the Vesting Period, with this award multiplied by such fraction (rounding up the nearest whole RSU).

In the event that Grantee has a Separation from Service prior to the vesting of RSUs as set forth above, other than under the circumstances described in Subparagraphs 2(b) through (e), the RSUs shall be forfeited and automatically transferred back to LNC. Upon forfeiture, Grantee shall have no further rights in such RSUs or Shares deliverable pursuant to an RSU granted hereunder.

6. **Dividend Equivalent Rights.** No cash dividends shall be payable with respect to the RSUs. Instead, for each RSU, Grantee shall have a dividend equivalent right ("DER"). The DER shall entitle the Grantee to additional RSUs on each date that dividends are paid on Shares while the RSU is outstanding. The number of RSUs to be credited on a dividend payment date based on each DER shall equal the number (or fraction thereof) obtained by dividing the aggregate dividend that would have been paid if the RSUs had been outstanding Shares by the Fair Market Value of a Share on the date of the payment of the dividend. DERs have the same restrictions as the underlying RSUs.

7. **Distribution of Shares.** Except as provided below, a Share shall be distributed to Grantee (or to Grantee's estate) for every vested RSU (including RSUs credited based on DERs), on or within 60 days after the Vesting Date.

Once a Share has been issued with respect to an RSU pursuant to this Agreement and the Plan, the Grantee shall have no further rights with respect to the RSU.

Notwithstanding anything in this Paragraph 4 to the contrary, in the case of a Key Employee (defined below) who is eligible for Retirement at any time prior to the third anniversary of the Grant Date, a distribution upon the Key Employee's Separation from Service shall be made on the date that is six (6) months after the date on which the Key Employee has a Separation from Service. A "Key Employee" means an employee who, as of his Separation from Service from LNC or its affiliates, is treated as a "specified employee" under Code section 409A(a)(2)(B)(i) (i.e., a key employee as defined in Code section 416(i) without regard to paragraph (5) thereof). Key Employees shall be determined in accordance with Code section 409A.

8. **Tax Withholding.** LNC will require Grantee to remit an amount equal to any tax withholding required by federal, state, or local law on the value of the RSUs at such time as LNC is required to withhold such amounts. In accordance with procedures established by the Committee, Grantee may satisfy any required tax withholding payments in any combination of cash, certified check, or Shares (including the surrender of Shares held by the Grantee or those that would otherwise be issued in settlement of this award). Any surrendered or withheld Shares will constitute satisfaction of any required tax withholding to the extent of their Fair Market Value.

9. **Voting Rights.** Grantee shall have no voting rights with respect to RSUs.

10. **Transferability.** Neither the RSUs granted under this Agreement, nor any interest or right therein or part thereof, shall be transferred, sold, pledged, hypothecated, margined or otherwise encumbered by the Grantee, except by will or the laws of descent and distribution.

11. **Cancellation/Rescission of Award after Vesting or Distribution/Termination for Cause.**

(a) If Grantee's Service is terminated for Cause, any Shares distributed in settlement of this award during the six (6) month period prior to such termination for Cause shall be rescinded and any such Shares not yet delivered in settlement of this award shall be cancelled without further action by the Compensation Committee of the LNC Board of Directors (the "Committee") or its delegate.

(b) If Grantee fails to comply with the non-competition, non-solicitation, non-disparagement, or non-disclosure provisions described in Subparagraphs 9(a), 9(b), 9(c), and 9(d), below, before Shares are distributed in settlement of this award, this award shall be cancelled without further action by the Committee or its delegate.

(c) If requested by LNC, at the time Shares are to be distributed pursuant to this Agreement, Grantee shall certify in a form acceptable to LNC that Grantee is in compliance with the terms and conditions described in Subparagraphs 9(a), 9(b), 9(c), and 9(d), below. Grantee's failure to comply with Subparagraphs 9(a) through 9(d) at any time from the Grant Date through the six (6) month period after the date Shares are distributed in settlement of the RSUs shall cause such Shares to be rescinded.

(d) (1) LNC shall notify Grantee in writing of any such rescission: (A) in the case of Subparagraph 8(a), not later than 90 days after such termination for Cause; and (B) not later than 180 days after LNC obtains knowledge of Grantee's failure to comply with Subparagraphs 9(a), 9(b), 9(c), or 9(d), below.

(2) Within ten (10) days after receiving a rescission notice from LNC: (A) Grantee must surrender to LNC the Shares acquired upon settlement of this award; or (B) if such Shares have been sold or transferred, (i) Grantee must make a payment to LNC of the proceeds from such sale or transfer, or (ii) if there are no proceeds from such transfer, Grantee must make a payment to LNC equal to the Fair Market Value of such Shares on the date of such transfer.

In all cases, Grantee shall pay to LNC the gross amount of any gain realized or payment received (not net of any withholding or other taxes paid by Grantee) as a result of the RSUs.

12. **Covenants.**

(a) Non-Competition. Grantee may not become employed by, work on behalf of, or otherwise render services that are the same or similar to the services rendered by Grantee to the business unit(s) for which Grantee provided Service or otherwise had responsibilities for at the time of his/her termination to any other organization or business that competes with or provides,

or is planning to provide, the same or similar products and/or services. Grantee understands and agrees that this restriction is nationwide in scope.

(b) Non-Solicitation. Grantee shall not directly or indirectly hire, manage, solicit, or recruit any employees, agents, financial planners, salespeople, financial advisors, vendors, or service providers of LNC (including, but not limited to, doing a "lift-out" of same) whom Grantee had hired, managed, supervised, or otherwise became familiar with as a result of his/her Service.

(c) Non-Disparagement. Grantee shall not (1) make any public statements regarding his/her Service (other than factual statements concerning the dates of Service and positions held) or his/her termination or Retirement from LNC that are not agreed to by LNC, such approval not to be unreasonably withheld or delayed; and (2) disparage LNC or any of its affiliates, its and their respective employees, executives, officers, or Boards of Directors.

(d) Non-Disclosure & Ideas Provision. Grantee shall not, without prior written authorization from LNC, disclose to anyone outside LNC, or use in other than LNC's business, any trade secrets or confidential and/or proprietary information received from or on behalf of, developed for, or otherwise relating to the business of, LNC. Any confidentiality or non-disclosure obligations in this Agreement does not prohibit or restrict Grantee (or Grantee's attorney) from initiating communications directly with, or responding to any inquiry from, or providing testimony before, the SEC, FINRA, any other self-regulatory organization, or any other state, local, or federal regulatory, investigative, or enforcement entity, agency, or authority. For purposes of this Agreement, a confidential disclosure to government officials or attorneys solely for purposes of reporting or investigating a suspected violation of the law (or disclosures made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal) is immune from civil and criminal liabilities under federal and state trade secret laws. Furthermore, Grantee agrees to disclose and assign to LNC all rights and interest in any invention or idea that Grantee developed or helped develop for actual or related business, research, or development work during the period of Grantee's Service.

Notwithstanding anything herein to the contrary, LNC may, in its discretion, waive Grantee's compliance with Subparagraphs 9(a), 9(b), 9(c), or 9(d) in whole or part in any individual case. Moreover, if Grantee's Service is terminated by LNC other than for Cause, a failure by Grantee to comply with the provisions of Subparagraph 9(a), above, after such termination shall not in and of itself cause rescission if the Shares were distributed in settlement of the RSUs prior to Grantee's date of termination.

13. **Definitions.** As used in this Agreement:

"Cause" means (a) a conviction of a crime that is job related or that may otherwise cause harm to the reputation of LNC or any Subsidiary; (b) any act or omission detrimental to the conduct of business of LNC or any Subsidiary; (c) inability to obtain or retain proper licenses; (d) theft, dishonesty, fraud or misrepresentation; (e) failure to cooperate or be truthful in connection with an investigation related to LNC or any Subsidiary; (f) violation of any rule or regulation of any regulatory agency or self-regulatory agency; (g) violation of any policy or rule of LNC or any

Subsidiary; or (h) unsatisfactory performance that does not meet expectations after coaching or counseling. Cause shall be determined in the sole discretion of the Committee.

"Retires" or "Retirement" means Grantee's Separation from Service, other than for Cause, from LNC or any Subsidiary either (i) at age 55 or older with at least five (5) years of Service or (ii) at any age with at least seven (7) years of Service as a member of LNC's Senior Management Committee.

"Service" means Grantee's continuous service as a common law employee of, or as a planner with a full-time agent's contract with, LNC or any Subsidiary. Service as a common law employee is the period of time Grantee is on the payroll of LNC or a Subsidiary but prior to the time the Grantee has had a Separation from Service. Service as a planner is the period of time Grantee's full-time agent's contract is in effect but prior to the time the Grantee has had a Separation from Service.

"Separation from Service" has the meaning given such term in Code section 409A and the regulations issued thereunder.

"Subsidiary" means a corporation in which LNC has ownership of at least twenty-five percent.

"Total Disability" means (as determined by the Committee) a disability that results in Grantee being unable to engage in any occupation or employment for wage or profit for which Grantee is, or becomes, reasonably qualified by training, education or experience. In addition, the disability must have lasted six (6) months and be expected to continue for at least six (6) more months or be expected to continue unto death.

14. **Compliance with Securities Laws.** Shares shall not be issued with respect to RSUs unless the issuance and delivery of such Shares shall comply with all relevant provisions of state and federal laws, rules and regulations, and, in the discretion of LNC, shall be further subject to the approval of counsel for LNC with respect to that compliance.

15. **Incorporation of Plan Terms.** This award is subject to the terms and conditions of the Plan. Such terms and conditions of the Plan are incorporated into and made a part of this Agreement by reference. In the event of any conflicts between the provisions of this Agreement and the terms of the Plan, the terms of the Plan will control. Capitalized terms used but not defined in this Agreement shall have the meanings set forth in the Plan unless the context clearly requires an alternative meaning.

IN WITNESS WHEREOF, LNC, by its duly authorized officer has signed this Agreement as of the effective date set out above.

LINCOLN NATIONAL CORPORATION

By: /s/ Dennis R. Glass
Dennis R. Glass
President and Chief Executive Officer

**Exhibit 31.1**

**Certification Pursuant to Section 302 of the**
**Sarbanes-Oxley Act of 2002**

I, Dennis R. Glass, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lincoln National Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 7, 2020

/s/ Dennis R. Glass
Name: Dennis R. Glass
Title: President and Chief Executive Officer

**Exhibit 31.2**

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Randal J. Freitag, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lincoln National Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 7, 2020

/s/ Randal J. Freitag
Name: Randal J. Freitag
Title: Executive Vice President and Chief Financial Officer

**Exhibit 32.1**

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Lincoln National Corporation (the "Company"), hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2020

/s/ Dennis R. Glass
Name: Dennis R. Glass
Title: President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required under Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.2**

**Certification Pursuant to 18 U.S.C. Section 1350,**
**As Adopted Pursuant to Section 906**
**of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Lincoln National Corporation (the "Company"), hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2020

/s/ Randal J. Freitag
Name: Randal J. Freitag
Title: Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required under Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.