MORGAN STANLEY
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Morgan Stanley Finance LLC

Structured Investments

Opportunities in U.S. Equities

Dual Directional Trigger PLUS Based on the Performance of the S&P 500® Index due July 14, 2023

Trigger Performance Leveraged Upside Securities℠

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

The Dual Directional Trigger PLUS, or "Trigger PLUS," are unsecured obligations of Morgan Stanley Finance LLC ("MSFL") and are fully and unconditionally guaranteed by Morgan Stanley. The Trigger PLUS will pay no interest, do not guarantee any return of principal at maturity and have the terms described in the accompanying product supplement for PLUS, index supplement and prospectus, as supplemented or modified by this document. At maturity, if the S&P 500® Index, which we refer to as the underlying index, has **appreciated** in value, investors will receive the stated principal amount of their investment plus leveraged upside performance of the underlying index. If the underlying index has **depreciated** in value but by no more than 30%, investors will receive the stated principal amount of their investment plus a positive return equal to 50% of the absolute value of the percentage decline, which will effectively be limited to a positive 15% return. However, if the underlying index has **depreciated** in value by more than 30%, investors will be negatively exposed to the full amount of the percentage decline in the underlying index and will lose 1% of the stated principal amount for every 1% of decline, without any buffer. These long-dated Trigger PLUS are for investors who seek an equity index-based return and who are willing to risk their principal and forgo current income in exchange for the upside leverage and absolute return features that in each case apply to a limited range of performance of the underlying index. **Investors may lose their entire initial investment in the Trigger PLUS.** The Trigger PLUS are notes issued as part of MSFL's Series A Global Medium-Term Notes program.

The Trigger PLUS differ from the PLUS described in the accompanying product supplement for PLUS in that the Trigger PLUS offer the potential for a positive return at maturity if the underlying index depreciates by up to 30%. The Trigger PLUS are not the Buffered PLUS described in the accompanying product supplement for PLUS. Unlike the Buffered PLUS, the Trigger PLUS do not provide any protection if the underlying index depreciates by more than 30%.

All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These Trigger PLUS are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

SUMMARY TERMS

Issuer:	Morgan Stanley Finance LLC
Guarantor:	Morgan Stanley
Maturity date:	July 14, 2023
Valuation date:	July 11, 2023, subject to postponement for non-index business days and certain market disruption events
Underlying index:	S&P 500® Index
Aggregate principal amount:	$
Payment at maturity:	If the final index value is *greater than* the initial index value: $1,000 + leveraged upside payment If the final index value is *less than or equal to* the initial index value but is *greater than or equal to* the trigger level: $1,000 + ($1,000 x absolute index return x 0.5) *In this scenario, you will receive a 0.50% positive return on the Trigger PLUS for each 1% negative return on the underlying index. In no event will this amount exceed the stated principal amount plus $150.* If the final index value is *less than* the trigger level: $1,000 × index performance factor *Under these circumstances, the payment at maturity will be less than the stated principal amount of $1,000, and will represent a loss of more than 30%, and possibly all, of your investment.*
Leveraged upside payment:	$1,000 x leverage factor x index percent change
Leverage factor:	137% to 141%. The actual leverage factor will be determined on the pricing date.
Index percent change:	(final index value – initial index value) / initial index value
Absolute index return:	The absolute value of the index percent change. You will receive a positive return on the Trigger PLUS based on the absolute value of the percentage decline in the underlying index if the underlying index has depreciated in value but by no more than 30%. However, such a positive return will equal only 50% of the absolute value of the percentage decline in the underlying index. Therefore, while a -5% index percent change will result in a +5% absolute index return, it will result in only a 2.5% positive return on the Trigger PLUS.
Index performance factor:	final index value / initial index value
Initial index value:	, which is the index closing value on the pricing date
Final index value:	The index closing value on the valuation date
Trigger level:	, which is 70% of the initial index value
Stated principal amount / Issue price:	

	$1,000 per Trigger PLUS (see "Commissions and issue price" below)		
Pricing date:	July 11, 2018		
Original issue date:	July 16, 2018 (3 business days after the pricing date)		
CUSIP / ISIN:	61768C7E1 / US61768C7E10		
Listing:	The Trigger PLUS will not be listed on any securities exchange.		
Agent:	Morgan Stanley & Co. LLC ("MS & Co."), a wholly owned subsidiary of Morgan Stanley and an affiliate of MSFL. See "Supplemental information regarding plan of distribution; conflicts of interest."		
Estimated value on the pricing date:	Approximately $975.20 per Trigger PLUS, or within $20.00 of that estimate. See "Investment Summary" on page 2.		
Commissions and issue price:	**Price to public**	**Agent's commissions and fees(1)**	**Proceeds to us(2)**
Per Trigger PLUS	$1,000	$	$
Total	$	$	$

(1) *Selected dealers and their financial advisors will collectively receive from the agent, MS & Co., a fixed sales commission of $ for each Trigger PLUS they sell. See "Supplemental information regarding plan of distribution; conflicts of interest." For additional information, see "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement for PLUS.*

(2) See "Use of proceeds and hedging" on page 13.

The Trigger PLUS involve risks not associated with an investment in ordinary debt securities. See "Risk Factors" beginning on page 6.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this document or the accompanying product supplement, index supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The Trigger PLUS are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

You should read this document together with the related product supplement, index supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see "Additional Information About the Trigger PLUS" at the end of this document.

References to "we," "us" and "our" refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

Product Supplement for PLUS dated November 16, 2017   **Index Supplement dated November 16, 2017**

Prospectus dated November 16, 2017

Morgan Stanley Finance LLC

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Principal at Risk Securities

Investment Summary

Trigger Performance Leveraged Upside Securities

Principal at Risk Securities

The Dual Directional Trigger PLUS Based on the Performance of the S&P 500® Index due July 14, 2023 (the "Trigger PLUS") can be used:

§ As an alternative to direct exposure to the underlying index that enhances returns for any positive performance of the underlying index.

§ To obtain a positive return (reflecting 50% of the absolute value of the percentage decline of the underlying index) for a limited range of negative performance of the underlying index.

§ To enhance returns and potentially outperform the underlying index in a moderately bullish or moderately bearish scenario.

Maturity:	Approximately 5 years
Leverage factor:	137% to 141% (applicable only if the final index value is greater than the initial index value). The actual leverage factor will be determined on the pricing date.
Minimum payment at maturity:	None. Investors may lose all their entire initial investment in the Trigger PLUS.
Trigger level:	70% of the initial index value
Coupon:	None
Listing:	The Trigger PLUS will not be listed on any securities exchange

The original issue price of each Trigger PLUS is $1,000. This price includes costs associated with issuing, selling, structuring and hedging the Trigger PLUS, which are borne by you, and, consequently, the estimated value of the Trigger PLUS on the pricing date will be less than $1,000. We estimate that the value of each Trigger PLUS on the pricing date will be approximately $975.20, or within $20.00 of that estimate. Our estimate of the value of the Trigger PLUS as determined on the pricing date will be set forth in the final pricing supplement.

What goes into the estimated value on the pricing date?

In valuing the Trigger PLUS on the pricing date, we take into account that the Trigger PLUS comprise both a debt component and a performance-based component linked to the underlying index. The estimated value of the Trigger PLUS is determined using our own pricing and valuation models, market inputs and assumptions relating to the underlying index, instruments based on the underlying index, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the Trigger PLUS?

In determining the economic terms of the Trigger PLUS, including the leverage factor and the trigger level, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the Trigger PLUS would be more favorable to you.

What is the relationship between the estimated value on the pricing date and the secondary market price of the Trigger PLUS?

The price at which MS & Co. purchases the Trigger PLUS in the secondary market, absent changes in market conditions, including those related to the underlying index, may vary from, and be lower than, the estimated value on the pricing date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the Trigger PLUS are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the Trigger PLUS in the secondary market, absent changes in market conditions, including those related to the underlying index, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. may, but is not obligated to, make a market in the Trigger PLUS, and, if it once chooses to make a market, may cease doing so at any time.

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Key Investment Rationale

The Trigger PLUS offer the potential for a positive return at maturity based on the absolute value of a limited range of percentage changes of the underlying index. At maturity, if the underlying index has **appreciated** in value, investors will receive the stated principal amount of their investment plus leveraged upside performance of the underlying index. If the underlying index has **depreciated** in value but by no more than 30%, investors will receive the stated principal amount of their investment plus a positive return equal to 50% of the absolute value of the percentage decline, which will effectively be limited to a positive 15% return. However, if the underlying index has **depreciated** in value by more than 30%, investors will be negatively exposed to the full amount of the percentage decline in the underlying index and will lose 1% of the stated principal amount for every 1% of decline, without any buffer. **Investors may lose their entire initial investment in the Trigger PLUS.** All payments on the Trigger PLUS are subject to our credit risk.

Leveraged Upside Performance	The Trigger PLUS offer investors an opportunity to capture enhanced returns relative to a direct investment in the underlying index.
Absolute Return Feature	The Trigger PLUS enable investors to obtain a positive return (reflecting 50% of the absolute value of the percentage decline of the underlying index) if the final index value is less than or equal to the initial index value **but** is greater than or equal to the trigger level.
Upside Scenario if the Underlying Index Appreciates	The final index value is greater than the initial index value, and, at maturity, you receive a full return of principal as well as 137% to 141% of the increase in the value of the underlying index. For example, if the final index value is 10% greater than the initial index value, the Trigger PLUS will provide a total return of 13.7% to 14.1% at maturity. The actual leverage factor will be determined on the pricing date.
Absolute Return Scenario	The final index value is less than or equal to the initial index value but is greater than or equal to the trigger level, which is 70% of the initial index value. In this case, you receive a 0.50% positive return on the Trigger PLUS for each 1% negative return on the underlying index. For example, if the final index value is 10% less than the initial index value, the Trigger PLUS will provide a total positive return of 5% at maturity. The maximum return you may receive in this scenario is a positive 15% return at maturity.
Downside Scenario	The final index value is less than the trigger level. In this case, the Trigger PLUS redeem for at least 30% less than the stated principal amount, and this decrease will be by an amount

proportionate to the full decline in the value of the underlying index over the term of the Trigger PLUS. Under these circumstances, the payment at maturity will be less than 70% of the stated principal amount per Trigger PLUS. For example, if the final index value is 70% less than the initial index value, the Trigger PLUS will be redeemed at maturity for a loss of 70% of principal at $300, or 30% of the stated principal amount. **There is no minimum payment at maturity on the Trigger PLUS, and you could lose your entire investment.**

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How the Trigger PLUS Work

Payoff Diagram

The payoff diagram below illustrates the payment at maturity on the Trigger PLUS based on the following terms:

Stated principal amount:	$1,000 per Trigger PLUS
Hypothetical leverage factor:	139% (the midpoint of the range of 137% and 141%)
Trigger level:	70% of the initial index value
Minimum payment at maturity:	None

Trigger PLUS Payoff Diagram

See the next page for a description of how the Trigger PLUS work.

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How it works

§ **Upside Scenario if the Underlying Index Appreciates.** If the final index value is greater than the initial index value, the investor would receive the $1,000 stated principal amount plus 139% of the appreciation of the underlying index over the term of the Trigger PLUS (assuming a hypothetical leverage factor of 139%). The actual leverage factor will be determined on the pricing date.

§ Given the hypothetical leverage factor of 139%, if the underlying index appreciates 10%, the investor would receive a 13.9% return, or $1,139 per Trigger PLUS.

§ **Absolute Return Scenario.** If the final index value is less than or equal to the initial index value and is greater than or equal to the trigger level of 70% of the initial index value, the investor would receive a 0.50% positive return on the Trigger PLUS for each 1% negative return on the underlying index.

§ If the underlying index depreciates 10%, the investor would receive a 5% return, or $1,050 per Trigger PLUS.

§ The maximum return you may receive in this scenario is a positive 15% return at maturity.

§ **Downside Scenario.** If the final index value is less than the trigger level of 70% of the initial index value, the investor would receive an amount less than the $1,000 stated principal amount, based on a 1% loss of principal for each 1% decline in the underlying index. Under these circumstances, the payment at maturity will be less than 70% of the stated principal amount per Trigger PLUS. There is no minimum payment at maturity on the Trigger PLUS.

§ If the underlying index depreciates 70%, the investor would lose 70% of the investor's principal and receive only $300 per Trigger PLUS at maturity, or 30% of the stated principal amount.

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Risk Factors

The following is a non-exhaustive list of certain key risk factors for investors in the Trigger PLUS. For further discussion of these and other risks, you should read the section entitled "Risk Factors" in the accompanying product supplement for PLUS, index supplement and prospectus. We also urge you to consult your investment, legal, tax, accounting and other advisers in connection with your investment in the Trigger PLUS.

§ **The Trigger PLUS do not pay interest or guarantee return of any principal.** The terms of the Trigger PLUS differ from those of ordinary debt securities in that the Trigger PLUS do not pay interest or guarantee the payment of any principal amount at maturity. If the final index value is less than the trigger level (which is 70% of the initial index value), the absolute return feature will no longer be available and the payout at maturity will be an amount in cash that is at least 30% less than the $1,000 stated principal amount of each Trigger PLUS, and this decrease will be by an amount proportionate to the full amount of the decline in the value of the underlying index over the term of the Trigger PLUS, without any buffer. There is no minimum payment at maturity on the Trigger PLUS, and, accordingly, you could lose your entire initial investment in the Trigger PLUS.

§ **The market price of the Trigger PLUS will be influenced by many unpredictable factors.** Several factors, many of which are beyond our control, will influence the value of the Trigger PLUS in the secondary market and the price at which MS & Co. may be willing to purchase or sell the Trigger PLUS in the secondary market, including the value (including whether the value is below the trigger level), volatility (frequency and magnitude of changes in value) and dividend yield of the underlying index, interest and yield rates in the market, time remaining until the Trigger PLUS mature, geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the underlying index or equities markets generally and which may affect the final index value of the underlying index, and any actual or anticipated changes in our credit ratings or credit spreads. Generally, the longer the time remaining to maturity, the more the market price of the Trigger PLUS will be affected by the other factors described above. The level of the underlying index may be, and has recently been, volatile, and we can give you no assurance that the volatility will lessen. See "S&P 500® Index Overview" below. You may receive less, and possibly significantly less, than the stated principal amount per Trigger PLUS if you try to sell your Trigger PLUS prior to maturity.

§ **The Trigger PLUS are subject to our credit risk, and any actual or anticipated changes to our credit ratings or credit spreads may adversely affect the market value of the Trigger PLUS.** You are dependent on our ability to pay all amounts due on the Trigger PLUS at maturity and therefore you are subject to our credit risk. If we default on its obligations under the Trigger PLUS, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the Trigger PLUS prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the Trigger

PLUS.

§ **As a finance subsidiary, MSFL has no independent operations and will have no independent assets.** As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

§ **The amount payable on the Trigger PLUS is not linked to the value of the underlying index at any time other than the valuation date.** The final index value will be based on the index closing value on the valuation date, subject to postponement for non-index business days and certain market disruption events. Even if the value of the underlying index appreciates prior to the valuation date but then drops by the valuation date, the payment at maturity may be less, and may be significantly less, than it would have been had the payment at maturity been linked to the value of the underlying index prior to such drop. Although the actual value of the underlying index on the stated maturity date or at other times during the term of the Trigger PLUS may be higher than the final index value, the payment at maturity will be based solely on the index closing value on the valuation date.

§ **Investing in the Trigger PLUS is not equivalent to investing in the underlying index.** Investing in the Trigger PLUS is not equivalent to investing in the underlying index or its component stocks. Investors in the Trigger PLUS will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to the stocks that constitute the underlying index.

§ **Adjustments to the underlying index could adversely affect the value of the Trigger PLUS.** The underlying index publisher may add, delete or substitute the stocks constituting the underlying index or make other methodological changes that could change the value of the underlying index. The underlying index publisher may discontinue or suspend calculation or publication of the underlying index at any time. In these circumstances, the calculation agent will have the sole discretion to substitute a successor index that is comparable to the discontinued underlying index and will be permitted to consider indices that are calculated and published by the calculation agent or any of its affiliates.

§ **The rate we are willing to pay for securities of this type, maturity and issuance size is likely to be lower than the rate implied by our secondary market credit spreads and advantageous to us. Both the lower rate and the inclusion of costs associated with issuing, selling, structuring and hedging the Trigger PLUS in the original issue price reduce the economic terms of the Trigger PLUS, cause the estimated value of the Trigger PLUS to be less than the original issue price and will adversely affect secondary market prices.** Assuming no change in market conditions or any other relevant factors, the prices, if any, at which dealers, including MS & Co., may be willing to purchase the Trigger PLUS in secondary market transactions will likely be significantly lower than the original issue price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the original issue price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the Trigger PLUS in the original issue price and the lower rate we are willing to pay as issuer make the economic terms of the Trigger PLUS less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the Trigger PLUS are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the Trigger PLUS in the secondary market, absent changes in market conditions, including those related to the underlying index, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

§ **The estimated value of the Trigger PLUS is determined by reference to our pricing and valuation models, which may differ from those of other dealers and is not a maximum or minimum secondary market price.** These pricing and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no market-standard way to value these types of securities, our models may yield a higher estimated value of the Trigger PLUS than those generated by others, including other dealers in the market, if they attempted to value the Trigger PLUS. In addition, the estimated value on the pricing date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your Trigger PLUS in the secondary market (if any exists) at any time. The value of your Trigger PLUS at any time after the date of this document will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also "The market price of the Trigger PLUS will be influenced by many unpredictable factors" above.

§ **The Trigger PLUS will not be listed on any securities exchange and secondary trading may be limited.** The Trigger PLUS will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the Trigger PLUS. MS & Co. may, but is not obligated to, make a market in the Trigger PLUS and, if it once chooses to make a market, may cease doing so at any time. When it does make a market, it will generally do so for transactions of routine secondary market size at prices based on its estimate of the current value of the Trigger PLUS, taking into account its bid/offer spread, our credit spreads, market volatility, the notional size of the proposed sale, the cost of unwinding any related hedging positions, the time remaining to maturity and the likelihood that it will be able to resell the Trigger PLUS. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Trigger PLUS easily. Since other broker-dealers may not participate significantly in the secondary market for the Trigger PLUS, the price at which you may be able to trade your Trigger PLUS is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the Trigger PLUS, it is likely that there would be no secondary market for the Trigger PLUS. Accordingly, you should be willing to hold your Trigger PLUS to maturity.

§ **The calculation agent, which is a subsidiary of Morgan Stanley and an affiliate of MSFL, will make determinations with respect to the Trigger PLUS.** As calculation agent, MS & Co. will determine the initial index value, the trigger level and the final index value, including whether the value of the underlying index has decreased to below the trigger level, and will calculate the amount of cash you receive at maturity, if any. Moreover, certain determinations made by MS & Co., in its capacity as calculation agent, may require it to exercise discretion and make subjective judgments, such as with respect to the occurrence or non-occurrence of market disruption events and the selection of a successor index or calculation of the final index value in the event of a market disruption event or discontinuance of the underlying index. These potentially subjective determinations may adversely affect the payout to you at maturity, if any. For further information regarding these types of determinations, see "Description of PLUS—Postponement of Valuation Date(s)," "—Alternate Exchange Calculation in case of an Event of Default" and "—Calculation Agent and Calculations" in the accompanying product supplement. In addition, MS & Co. has determined the estimated value of the Trigger PLUS on the pricing date.

§ **Hedging and trading activity by our affiliates could potentially adversely affect the value of the Trigger PLUS.** One or more of our affiliates and/or third-party dealers expect to carry out hedging activities related to the Trigger PLUS (and to other instruments linked to the underlying index or its component stocks), including trading in the stocks that constitute the underlying index as well as in other instruments related to the underlying index. As a result, these entities may be unwinding or adjusting hedge positions during the term of the Trigger PLUS, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the valuation date approaches. Some of our affiliates also trade the stocks that constitute the underlying index and other financial instruments related to the underlying index on a regular basis as part of their general broker-dealer and other businesses. Any of these hedging or trading activities on or prior to the pricing date could potentially increase the initial index value, and, therefore, could increase the trigger level, which is the value at or above which the underlying index must close on the valuation date so that investors do not suffer a significant loss on their initial investment in the Trigger PLUS. Additionally, such hedging or trading activities during the term of the Trigger PLUS, including on the valuation date, could adversely affect the value of the underlying index on the valuation date, and, accordingly, the amount of cash an investor will receive at maturity, if any.

§ **The U.S. federal income tax consequences of an investment in the Trigger PLUS are uncertain.** Please read the discussion under "Additional provisions—Tax considerations" in this document and the discussion under "United States Federal Taxation" in the accompanying product supplement for PLUS (together, the "Tax Disclosure Sections") concerning the U.S. federal income tax consequences of an investment in the Trigger PLUS. If the Internal Revenue Service (the "IRS") were successful in asserting an alternative treatment, the timing and character of income on the Trigger PLUS might differ significantly from the tax treatment described in the Tax Disclosure Sections. For example, under one possible treatment, the IRS could seek to recharacterize the Trigger PLUS as debt instruments. In that event, U.S. Holders would be required to accrue into income original issue discount on the Trigger PLUS every year at a “comparable yield” determined at the time of issuance and recognize all income and gain in respect of the Trigger PLUS as ordinary income. Additionally, as discussed under “United States Federal Taxation—FATCA” in the accompanying product supplement for PLUS, the withholding rules commonly referred to as “FATCA” would apply to the Trigger PLUS if they were recharacterized as debt instruments. The risk that financial instruments providing for buffers, triggers or similar downside protection features, such as the Trigger PLUS, would be recharacterized as debt is greater than the risk of recharacterization for comparable financial instruments that do not have such features. We do not plan to request a ruling from the IRS regarding the tax treatment of the Trigger PLUS, and the IRS or a court may not agree with the tax treatment described in the Tax Disclosure Sections.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the "constructive ownership" rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the Trigger PLUS, possibly with retroactive effect. Both U.S. and Non-U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the Trigger PLUS, including possible alternative treatments, the issues presented by this notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Morgan Stanley Finance LLC

Dual Directional Trigger PLUS Based on the Performance of the S&P 500® Index due July 14, 2023

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S&P 500® Index Overview

The S&P 500® Index, which is calculated, maintained and published by S&P Dow Jones Indices LLC ("S&P"), consists of stocks of 500 component companies selected to provide a performance benchmark for the U.S. equity markets. The calculation of the S&P 500® Index is based on the relative value of the float adjusted aggregate market capitalization of the 500 component companies as of a particular time as compared to the aggregate average market capitalization of 500 similar companies during the base period of the years 1941 through 1943. For additional information about the S&P 500® Index, see the information set forth under "S&P 500® Index" in the accompanying index supplement.

Information as of market close on July 9, 2018:

Bloomberg Ticker Symbol:	SPX
Current Index Value:	2,784.17
52 Weeks Ago:	2,427.43
52 Week High (on 1/26/2018):	2,872.87
52 Week Low (on 7/11/2017):	2,425.53

The following graph sets forth the daily index closing values of the underlying index for each quarter in the period from January 1, 2013 through July 9, 2018. The related table sets forth the published high and low closing values, as well as end-of-quarter closing values, of the underlying index for each quarter in the same period. The index closing value of the underlying index on July 9, 2018 was 2,784.17. We obtained the information in the table and graph below from Bloomberg Financial Markets, without independent verification. The underlying index has at times experienced periods of high volatility. You should not take the historical values of the underlying index as an indication of its future performance, and no assurance can be given as to the index closing value of the underlying index on the valuation date.

S&P 500® Index

Daily Index Closing Values

January 1, 2013 to July 9, 2018

Morgan Stanley Finance LLC

Dual Directional Trigger PLUS Based on the Performance of the S&P 500® Index due July 14, 2023

Trigger Performance Leveraged Upside Securities℠

Principal at Risk Securities

S&P 500® Index	**High**	**Low**	**Period End**
2013			
First Quarter	1,569.19	1,457.15	1,569.19
Second Quarter	1,669.16	1,541.61	1,606.28
Third Quarter	1,725.52	1,614.08	1,681.55
Fourth Quarter	1,848.36	1,655.45	1,848.36
2014			
First Quarter	1,878.04	1,741.89	1,872.34
Second Quarter	1,962.87	1,815.69	1,960.23
Third Quarter	2,011.36	1,909.57	1,972.29
Fourth Quarter	2,090.57	1,862.49	2,058.90
2015			
First Quarter	2,117.39	1,992.67	2,067.89
Second Quarter	2,130.82	2,057.64	2,063.11
Third Quarter	2,128.28	1,867.61	1,920.03
Fourth Quarter	2,109.79	1,923.82	2,043.94
2016			
First Quarter	2,063.95	1,829.08	2,059.74
Second Quarter	2,119.12	2,000.54	2,098.86
Third Quarter	2,190.15	2,088.55	2,168.27
Fourth Quarter	2,271.72	2,085.18	2,238.83
2017			
First Quarter	2,395.96	2,257.83	2,362.72
Second Quarter	2,453.46	2,328.95	2,423.41
Third Quarter	2,519.36	2,409.75	2,519.36
Fourth Quarter	2,690.16	2,529.12	2,673.61
2018			
First Quarter	2,872.87	2,581.00	2,640.87
Second Quarter	2,786.85	2,581.88	2,718.37
Third Quarter (through July 9, 2018)	2,784.17	2,713.22	2,784.17

"Standard & Poor's®," "S&P®," "S&P 500®," "Standard & Poor's 500" and "500" are trademarks of Standard and Poor's Financial Services LLC. See "S&P 500® Index" in the accompanying index supplement.

Morgan Stanley Finance LLC

Dual Directional Trigger PLUS Based on the Performance of the S&P 500® Index due July 14, 2023

Trigger Performance Leveraged Upside Securities℠

Principal at Risk Securities

Additional Information About the Trigger PLUS

Please read this information in conjunction with the summary terms on the front cover of this document.

Additional provisions:	
Underlying index publisher:	S&P Dow Jones Indices LLC
Postponement of maturity date:	If, due to a market disruption event or otherwise, the valuation date is postponed so that it falls less than two business days prior to the scheduled maturity date, the maturity date will be postponed to the second business day following the valuation date as postponed.
Denominations:	$1,000 per Trigger PLUS and integral multiples thereof
Minimum ticketing size:	$1,000 / 1 Trigger PLUS
Tax considerations:	Although there is uncertainty regarding the U.S. federal income tax consequences of an investment in the Trigger PLUS due to the lack of governing authority, in the opinion of our counsel, Davis Polk & Wardwell LLP, under current law, and based on current market conditions, a Trigger PLUS should be treated as a single financial contract that is an "open transaction" for U.S. federal income tax purposes. Assuming this treatment of the Trigger PLUS is respected and subject to the discussion in "United States Federal Taxation" in the accompanying product supplement for PLUS, the following U.S. federal income tax consequences should result based on current law: § A U.S. Holder should not be required to recognize taxable income over the term of the Trigger PLUS prior to settlement, other than pursuant to a sale or exchange. § Upon sale, exchange or settlement of the Trigger PLUS, a U.S. Holder should recognize gain or loss equal to the difference between the amount realized and the U.S. Holder's tax basis in the Trigger PLUS. Such gain or loss should be long-term capital gain or loss if the investor has held the Trigger PLUS for more than one year, and short-term capital gain or loss otherwise. In 2007, the U.S. Treasury Department and the Internal Revenue Service (the "IRS") released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying

property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the “constructive ownership” rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the Trigger PLUS, possibly with retroactive effect.

As discussed in the accompanying product supplement for PLUS, Section 871(m) of the Internal Revenue Code of 1986, as amended, and Treasury regulations promulgated thereunder (“Section 871(m)”) generally impose a 30% (or a lower applicable treaty rate) withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities (each, an “Underlying Security”). Subject to certain exceptions, Section 871(m) generally applies to securities that substantially replicate the economic performance of one or more Underlying Securities, as determined based on tests set forth in the applicable Treasury regulations (a “Specified Security”). However, pursuant to an IRS notice, Section 871(m) will not apply to securities issued before January 1, 2019 that do not have a delta of one with respect to any Underlying Security. Based on our determination that the Trigger PLUS do not have a delta of one with respect to any Underlying Security, our counsel is of the opinion that the Trigger PLUS should not be Specified Securities and, therefore, should not be subject to Section 871(m).

Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. If withholding is required, we will not be required to pay any additional amounts with respect to the amounts so withheld. You should consult your tax adviser regarding the potential application of Section 871(m) to the Trigger PLUS.

Both U.S. and non-U.S. investors considering an investment in the Trigger PLUS should read

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	the discussion under "Risk Factors" in this document and the discussion under "United States Federal Taxation" in the accompanying product supplement for PLUS and consult their tax advisers regarding all aspects of the U.S. federal income tax consequences of an investment in the Trigger PLUS, including possible alternative treatments, the issues presented by the aforementioned notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction. **The discussion in the preceding paragraphs under "Tax considerations" and the discussion contained in the section entitled "United States Federal Taxation" in the accompanying product supplement for PLUS, insofar as they purport to describe provisions of U.S. federal income tax laws or legal conclusions with respect thereto, constitute the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of an investment in the Trigger PLUS.**
Trustee:	The Bank of New York Mellon
Calculation agent:	MS & Co.
Use of proceeds and hedging:	The proceeds from the sale of the Trigger PLUS will be used by us for general corporate purposes. We will receive, in aggregate, $1,000 per Trigger PLUS issued, because, when we enter into hedging transactions in order to meet our obligations under the Trigger PLUS, our hedging counterparty will reimburse the cost of the agent's commissions. The costs of the Trigger PLUS borne by you and described on page 2 above comprise the agent's commissions and the cost of issuing, structuring and hedging the Trigger PLUS. On or prior to the pricing date, we will hedge our anticipated exposure in connection with the Trigger PLUS by entering into hedging transactions with our affiliates and/or third party dealers. We expect our hedging counterparties to take positions in stocks of the underlying index, in futures and/or options contracts on the underlying index or any component stocks of the underlying index listed on major securities markets, or in any other securities or instruments that they may wish to use in connection with such hedging. Such purchase activity could potentially increase the value of the underlying index on the pricing date, and, therefore, could increase the trigger level, which is the value at or above which the underlying index must close on the valuation date so that investors do not suffer a significant loss on their initial investment in the Trigger PLUS. In addition, through our affiliates, we are likely to modify our hedge position throughout the term of the Trigger PLUS, including on the valuation date, by purchasing and selling the stocks constituting the underlying index, futures or options contracts on the underlying index or its component stocks listed on major securities markets or positions in any other available securities or instruments that we may wish to use in connection with such hedging activities. As a result, these entities may be unwinding or adjusting hedge positions during the term of the Trigger PLUS, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the valuation date

approaches. We cannot give any assurance that our hedging activities will not affect the value of the underlying index, and, therefore, adversely affect the value of the Trigger PLUS or the payment you will receive at maturity, if any. For further information on our use of proceeds and hedging, see "Use of Proceeds and Hedging" in the accompanying product supplement for PLUS.

Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the Trigger PLUS. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

Benefit plan investor considerations:

In addition, we and certain of our affiliates, including MS & Co., may each be considered a "party in interest" within the meaning of ERISA, or a "disqualified person" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to many Plans, as well as many individual retirement accounts and Keogh plans (such accounts and plans, together with other plans, accounts and arrangements subject to Section 4975 of the Code, also "Plans"). ERISA Section 406 and Section 4975 of the Code generally prohibit transactions between Plans and parties in interest or disqualified persons. Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if the Trigger PLUS are acquired by or with the assets of a Plan with respect to which MS & Co. or any of its affiliates is a service provider or other party in interest, unless the Trigger PLUS are acquired pursuant to an exemption from the "prohibited transaction" rules. A violation of these "prohibited transaction" rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

The U.S. Department of Labor has issued five prohibited transaction class exemptions ("PTCEs") that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of the Trigger PLUS. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities and the related lending transactions, provided that neither the issuer of the securities nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of the Plan involved in the transaction and provided further that the Plan pays no more, and receives no less, than "adequate consideration" in connection with the transaction (the so-called "service provider" exemption). There can be no assurance that any of these class or statutory exemptions will be available with respect to transactions involving the Trigger PLUS.

Because we may be considered a party in interest with respect to many Plans, the Trigger PLUS may not be purchased, held or disposed of by any Plan, any entity whose underlying assets include "plan assets" by reason of any Plan's investment in the entity (a "Plan Asset Entity") or any person investing "plan assets" of any Plan, unless such purchase, holding or disposition is eligible for exemptive relief, including relief available under PTCEs 96-23, 95-60, 91-38, 90-1, 84-14 or the service provider exemption or such purchase, holding or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the Trigger PLUS will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the Trigger PLUS that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such Trigger PLUS on behalf of or with "plan assets" of any Plan or with any assets of a governmental, non-U.S. or church plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("Similar Law") or (b) its purchase, holding and disposition of these Trigger PLUS will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or violate any Similar Law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the Trigger PLUS on behalf of or with "plan assets" of any Plan consult with their counsel regarding the availability of exemptive relief.

The Trigger PLUS are contractual financial instruments. The financial exposure provided by the Trigger PLUS is not a substitute or proxy for, and is not intended as a substitute or proxy for, individualized investment management or advice for the benefit of any purchaser or holder of the Trigger PLUS. The Trigger PLUS have not been designed and will not be administered in a manner intended to reflect the individualized needs and objectives of any purchaser or holder of the Trigger PLUS.

Each purchaser or holder of any Trigger PLUS acknowledges and agrees that:

(i) the purchaser or holder or its fiduciary has made and shall make all investment decisions for the purchaser or holder and the purchaser or holder has not relied and shall not rely in any way upon us or our affiliates to act as a fiduciary or adviser of the purchaser or holder with respect to (A) the design and terms of the Trigger PLUS, (B) the purchaser or holder's investment in the Trigger PLUS, or (C) the exercise of or failure to exercise any rights we have under or with respect to the Trigger PLUS;

(ii) we and our affiliates have acted and will act solely for our own account in connection with (A) all transactions relating to the Trigger PLUS and (B) all hedging transactions in connection with our obligations under the Trigger PLUS;

(iii) any and all assets and positions relating to hedging transactions by us or our affiliates are assets and positions of those entities and are not assets and positions held for the benefit of the purchaser or holder;

(iv) our interests are adverse to the interests of the purchaser or holder; and

(v) neither we nor any of our affiliates is a fiduciary or adviser of the purchaser or holder in connection with any such assets, positions or transactions, and any information that we or any of our affiliates may provide is not intended to be impartial investment advice.

Each purchaser and holder of the Trigger PLUS has exclusive responsibility for ensuring that its purchase, holding and disposition of the Trigger PLUS do not violate the prohibited transaction rules of ERISA or the Code or any Similar Law. The sale of any Trigger PLUS to any Plan or plan subject to Similar Law is in no respect a representation by us or any of our affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by plans generally or any particular plan, or that such an investment is appropriate for plans generally or any particular plan. In this regard, neither this discussion nor anything provided in this document is or is intended to be investment advice directed at any potential Plan purchaser or at Plan purchasers generally and such purchasers of these Trigger PLUS should consult and rely on their own counsel and advisers as to

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	whether an investment in these Trigger PLUS is suitable.
Additional considerations:	However, individual retirement accounts, individual retirement annuities and Keogh plans, as well as employee benefit plans that permit participants to direct the investment of their accounts, will not be permitted to purchase or hold the Trigger PLUS if the account, plan or annuity is for the benefit of an employee of Morgan Stanley or Morgan Stanley Wealth Management or a family member and the employee receives any compensation (such as, for example, an addition to bonus) based on the purchase of the Trigger PLUS by the account, plan or annuity. Client accounts over which Morgan Stanley, Morgan Stanley Wealth Management or any of their respective subsidiaries have investment discretion are not permitted to purchase the Trigger PLUS, either directly or indirectly. Selected dealers, which may include our affiliates, and their financial advisors will collectively receive from the agent a fixed sales commission of $ for each Trigger PLUS they sell.
Supplemental information regarding plan of distribution; conflicts of interest:	MS & Co. is an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley, and it and other affiliates of ours expect to make a profit by selling, structuring and, when applicable, hedging the Trigger PLUS. When MS & Co. prices this offering of Trigger PLUS, it will determine the economic terms of the Trigger PLUS, including the leverage factor, such that for each Trigger PLUS the estimated value on the pricing date will be no lower than the minimum level described in “Investment Summary” on page 2. MS & Co. will conduct this offering in compliance with the requirements of FINRA Rule 5121 of the Financial Industry Regulatory Authority, Inc., which is commonly referred to as FINRA, regarding a FINRA member firm’s distribution of the securities of an affiliate and related conflicts of interest. MS & Co. or any of our other affiliates may not make sales in this offering to any discretionary account. See “Plan of Distribution (Conflicts of Interest)” and “Use of Proceeds and Hedging” in the accompanying product supplement for PLUS.
Contact:	Morgan Stanley Wealth Management clients may contact their local Morgan Stanley branch office or our principal executive offices at 1585 Broadway, New York, New York 10036 (telephone number (866) 477-4776). All other clients may contact their local brokerage representative. Third-party distributors may contact Morgan Stanley Structured Investment Sales at (800) 233-1087.
Where you can find more information:	Morgan Stanley and MSFL have filed a registration statement (including a prospectus, as supplemented by the product supplement for PLUS and the index supplement) with the Securities and Exchange Commission, or SEC, for the offering to which this communication relates. You should read the prospectus in that registration statement, the product supplement

for PLUS, the index supplement and any other documents relating to this offering that Morgan Stanley and MSFL have filed with the SEC for more complete information about Morgan Stanley, MSFL and this offering. You may get these documents without cost by visiting EDGAR on the SEC web site at.www.sec.gov. Alternatively, Morgan Stanley or MSFL will arrange to send you the product supplement for PLUS, index supplement and prospectus if you so request by calling toll-free 800-584-6837.

You may access these documents on the SEC web site at.www.sec.gov.as follows:

<u>Product Supplement for PLUS dated November 16, 2017</u>

<u>Index Supplement dated November 16, 2017</u>

<u>Prospectus dated November 16, 2017</u>

Terms used but not defined in this document are defined in the product supplement for PLUS, in the index supplement or in the prospectus.

“Performance Leveraged Upside Securities[SM]” and “PLUS[SM]” are our service marks.

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t-size: 10pt"> Items

(Losses)

Sales

Into or

Included

in

Maturities,

Out

Beginning

in

OCI

Settlements,

of

Ending

Fair

Net

and

Calls,

Level 3,

Fair

Value

Income

Other (1)

Net

Net (3)

Value

Investments: (5)

Fixed maturity AFS securities:

Corporate bonds

$

2,403

$

5

$

53

$

57

$

(1

)

$

2,517

ABS

29

-

-

-

14

43

U.S. government bonds

5

-

-

-

-

5

Foreign government bonds

110

-

(1

)

-

-

109

RMBS

7

-

-

-

-

7

CMBS

44

-

1

14

(38

)

21

CLOs

88

-

-

13

(73

)

28

State and municipal bonds

1

-

-

-

(1

)

-

Hybrid and redeemable

preferred securities

79

-

8

-

(5

)

82

Equity AFS securities

182

-

-

1

-

183

Trading securities

60

1

1

-

(3

)

59

Derivative investments

112

58

65

(80

)

-

155

Other assets: (6)

GLB direct embedded derivatives

226

72

-

-

-

298

GLB ceded embedded derivatives

116

(31

)

-

-

-

85

Future contract benefits – indexed annuity

and IUL contracts embedded derivatives (6)

(1,238

)

(64

)

-

34

-

(1,268

)

Total, net

$

2,224

$

41

$

127

$

39

$

(107

)

$

2,324

38

	For the Six Months Ended June 30, 2018					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales, Maturities, Settlements, Calls, Net (2)	Transfers Into or Out of Level 3, Net (3)(4)	Ending Fair Value
Investments: (5)						
Fixed maturity AFS securities:						
Corporate bonds	$ 3,091	$ 6	$ (107)	$ 231	$ (40)	$ 3,181
ABS	27	-	(1)	5	-	31
U.S. government bonds	5	-	-	(5)	-	-
Foreign government bonds	110	-	(2)	-	-	108
RMBS	12	-	-	-	(12)	-
CMBS	6	1	-	19	(21)	5
CLOs	91	-	-	147	(93)	145
Hybrid and redeemable preferred securities	76	-	2	-	-	78
Equity AFS securities	162	-	-	-	(162)	-
Trading securities	49	(5)	-	(22)	-	22
Equity securities	-	-	-	-	26	26
Derivative investments	30	222	(59)	(100)	-	93
Other assets: (6)						
GLB direct embedded derivatives	903	345	-	-	-	1,248
GLB ceded embedded derivatives	51	(10)	-	-	-	41
Indexed annuity ceded embedded derivatives	11	1	-	17	-	29
Future contract benefits – indexed annuity and IUL contracts embedded derivatives (6)	(1,418)	(10)	-	28	-	(1,400)
Other liabilities: (6)						
GLB ceded embedded derivatives	(67)	(64)	-	-	-	(131)
Total, net	$ 3,139	$ 486	$ (167)	$ 320	$ (302)	$ 3,476

39

	For the Six Months Ended June 30, 2017					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers Into or Out of Level 3, Net (3)	Ending Fair Value
Investments: (5)						
Fixed maturity AFS securities:						
Corporate bonds	$ 2,405	$ 11	$ 118	$ (147)	$ 130	$ 2,517
ABS	33	-	1	-	9	43
U.S. government bonds	-	-	-	-	5	5
Foreign government bonds	111	-	(2)	-	-	109
RMBS	3	-	-	4	-	7
CMBS	7	-	1	55	(42)	21
CLOs	68	-	-	18	(58)	28
State and municipal bonds	-	(1)	-	-	1	-
Hybrid and redeemable preferred securities	76	-	11	-	(5)	82
Equity AFS securities	177	1	(1)	6	-	183
Trading securities	65	2	8	(16)	-	59
Derivative investments	(93)	(11)	88	171	-	155
Other assets: (6)						
GLB direct embedded derivatives	-	298	-	-	-	298
GLB ceded embedded derivatives	203	(118)	-	-	-	85
Future contract benefits – indexed annuity and IUL contracts embedded derivatives (6)	(1,139)	(184)	-	55	-	(1,268)
Other liabilities – GLB direct embedded derivatives (6)	(371)	371	-	-	-	-
Total, net	$ 1,545	$ 369	$ 224	$ 146	$ 40	$ 2,324

(1) The changes in fair value of the interest rate swaps are offset by an adjustment to derivative investments (see Note 5).

(2) Net issuances, sales, maturities, settlements, calls, net include financial instruments acquired from Liberty Life as follows: corporate bonds of $67 million and asset-backed securities of $17 million.

(3) Transfers into or out of Level 3 for AFS and trading securities are displayed at amortized cost as of the beginning-of-year. For AFS and trading securities, the difference between beginning-of-period amortized cost and beginning-of-period fair value was included in OCI and earnings, respectively, in the prior period.

(4) Transfers into or out of Level 3 for FHLB stock between equity securities and other investments at cost on our Consolidated Balance Sheets.

(5) Amortization and accretion of premiums and discounts are included in net investment income on our Consolidated Statements of Comprehensive Income (Loss). Gains (losses) from sales, maturities, settlements and calls and OTTI are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

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

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

	For the Three Months Ended June 30, 2018					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 400	$ (103)	$ -	$ (79)	$ (61)	$ 157
ABS	22	(17)	-	-	-	5
U.S. government bonds	-	(5)	-	-	-	(5)
CMBS	-	-	-	(1)	-	(1)
CLOs	145	-	-	-	-	145
Trading securities	2	(24)	-	-	-	(22)
Equity securities	-	(1)	-	-	-	(1)
Derivative investments	61	11	(111)	-	-	(39)
Other assets – indexed annuity ceded embedded derivatives	11	-	-	-	-	11
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(48)	-	-	56	-	8
Total, net	$ 593	$ (139)	$ (111)	$ (24)	$ (61)	$ 258

	For the Three Months Ended June 30, 2017					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 162	$ (3)	$ (25)	$ (64)	$ (13)	$ 57
CMBS	14	-	-	-	-	14
CLOs	13	-	-	-	-	13
Equity AFS securities	1	-	-	-	-	1
Derivative investments	48	(29)	(99)	-	-	(80)
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(13)	-	-	47	-	34
Total, net	$ 225	$ (32)	$ (124)	$ (17)	$ (13)	$ 39

	For the Six Months Ended June 30, 2018					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 623	$ (156)	$ (2)	$ (173)	$ (61)	$ 231
ABS	22	(17)	-	-	-	5
U.S. government bonds	-	(5)	-	-	-	(5)
CMBS	21	-	-	(2)	-	19
CLOs	147	-	-	-	-	147
Trading securities	2	(24)	-	-	-	(22)
Equity securities	1	(1)	-	-	-	-
Derivative investments	129	5	(234)	-	-	(100)
Other assets – indexed annuity ceded embedded derivatives	17	-	-	-	-	17
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(75)	-	-	103	-	28
Total, net	$ 887	$ (198)	$ (236)	$ (72)	$ (61)	$ 320

	For the Six Months Ended June 30, 2017					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 200	$ (65)	$ (47)	$ (127)	$ (108)	$ (147)
RMBS	4	-	-	-	-	4
CMBS	55	-	-	-	-	55
CLOs	18	-	-	-	-	18
Equity AFS securities	8	(2)	-	-	-	6
Trading securities	2	(17)	-	(1)	-	(16)
Derivative investments	95	265	(189)	-	-	171
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(31)	-	-	86	-	55
Total, net	$ 351	$ 181	$ (236)	$ (42)	$ (108)	$ 146

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 June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Derivative investments	$ (169)	$ (2)	$ 106	$ (76)
Embedded derivatives:				
Indexed annuity and IUL contracts	(6)	-	(7)	(15)
GLB	313	231	689	978
Total, net (1)	$ 138	$ 229	$ 788	$ 887

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

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

	For the Three Months Ended June 30, 2018			For the Three Months Ended June 30, 2017		
	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	$ 3	$ (50)	$ (47)	$ 1	$ (2)	$ (1)
ABS	-	-	-	15	(1)	14
CMBS	-	(21)	(21)	3	(41)	(38)
CLOs	-	(2)	(2)	-	(73)	(73)
State and municipal bonds	-	-	-	-	(1)	(1)
Hybrid and redeemable preferred securities	-	-	-	-	(5)	(5)
Trading securities	-	-	-	-	(3)	(3)
Total, net	$ 3	$ (73)	$ (70)	$ 19	$ (126)	$ (107)

	For the Six Months Ended June 30, 2018			For the Six Months Ended June 30, 2017		
	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	$ 43	$ (83)	$ (40)	$ 161	$ (31)	$ 130
ABS	-	-	-	15	(6)	9
U.S. government bonds	-	-	-	5	-	5
RMBS	-	(12)	(12)	-	-	-
CMBS	-	(21)	(21)	3	(45)	(42)
CLOs	-	(93)	(93)	30	(88)	(58)
State and municipal bonds	-	-	-	2	(1)	1
Hybrid and redeemable preferred securities	-	-	-	-	(5)	(5)
Equity AFS securities	-	(162)	(162)	-	-	-

Trading securities	-	-	-	3	(3)	-
Equity securities	26	-	26	-		-
Total, net	$ 69	$ (371)	$ (302)	$ 219	$ (179)	$ 40

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 and six months ended June 30, 2018 and 2017, transfers in and out of Level 3 were attributable primarily to the securities' observable market information no longer being available or becoming available. In 2018, transfers into or out of Level 3 also include FHLB stock between equity securities and other investments at cost on our Consolidated Balance Sheets. Transfers into and out of Levels 1 and 2 are generally the result of a change in the type of input used to measure the fair value of an asset or liability at the end of the reporting period. When quoted prices in active markets become available, transfers from Level 2 to Level 1 will result. When quoted prices in active markets become unavailable, but we are able to employ a valuation methodology using significant observable inputs, transfers from Level 1 to Level 2 will result. For the three and six months ended June 30, 2018 and 2017, the transfers between Levels 1 and 2 of the fair value hierarchy were less than $1 million for our financial instruments carried at fair value.

The following summarizes the fair value (in millions), valuation techniques and significant unobservable inputs of the Level 3 fair value measurements as of June 30, 2018:

	Fair Value	Valuation Technique	Significant Unobservable Inputs	Assumption or Input Ranges
Assets				
Investments:				
Fixed maturity AFS and trading securities:				
Corporate bonds	$ 2,470	Discounted cash flow	Liquidity/duration adjustment (1)	0.6 % - 23.4 %
ABS	23	Discounted cash flow	Liquidity/duration adjustment (1)	3.0 % - 3.0 %
Foreign government bonds	78	Discounted cash flow	Liquidity/duration adjustment (1)	1.7 % - 3.0 %
Hybrid and redeemable preferred securities	4	Discounted cash flow	Liquidity/duration adjustment (1)	1.8 % - 1.8 %
Equity securities	21	Discounted cash flow	Liquidity/duration adjustment (1)	4.5 % - 5.3 %
Other assets:				
GLB direct and ceded embedded derivatives	1,289	Discounted cash flow	Long-term lapse rate (2)	1 % - 30 %
			Utilization of guaranteed withdrawals (3)	85 % - 100 %
			Claims utilization factor (4)	60 % - 100 %
			Premiums utilization factor (4)	80 % - 115 %
			NPR (5)	0.02 % - 0.31 %
			Mortality rate (6)	(8)
			Volatility (7)	1 % - 29 %
Indexed annuity ceded embedded derivatives	29	Discounted cash flow	Lapse rate (2)	1 % - 9 %
			Mortality rate (6)	(8)
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	$ (1,400)	Discounted cash flow	Lapse rate (2)	1 % - 9 %

			Mortality rate (6)	(8)
Other liabilities – GLB ceded embedded derivatives	(131)	Discounted cash flow	Long-term lapse rate (2)	1 % - 30 %
			Utilization of guaranteed withdrawals (3)	85 % - 100 %
			Claims utilization factor (4)	60 % - 100 %
			Premiums utilization factor (4)	80 % - 115 %
			NPR (5)	0.02% - 0.31%
			Mortality rate (6)	(8)
			Volatility (7)	1 % - 29 %

(1) The liquidity/duration adjustment input represents an estimated market participant composite of adjustments attributable to liquidity premiums, expected durations, structures and credit quality that would be applied to the market observable information of an investment.

(2) The lapse rate input represents the estimated probability of a contract surrendering during a year, and thereby forgoing any future benefits. The range for indexed annuity and IUL contracts represents the lapse rates during the surrender charge period.

(3) The utilization of guaranteed withdrawals input represents the estimated percentage of contract holders that utilize the guaranteed withdrawal feature.

(4) The utilization factors are applied to the present value of claims or premiums, as appropriate, in the GLB reserve calculation to estimate the impact of inefficient withdrawal behavior, including taking less than or more than the maximum guaranteed withdrawal.

(5) The NPR input represents the estimated additional credit spread that market participants would apply to the market observable discount rate when pricing a contract.

(6) The mortality rate input represents the estimated probability of when an individual belonging to a particular group, categorized according to age or some other factor such as gender, will die.

(7) The volatility input represents overall volatilities assumed for the underlying variable annuity funds, which include a mixture of equity and fixed-income assets. Fair value of the variable annuity GLB embedded derivatives would increase if higher volatilities were used for valuation.

(8) The mortality rate is based on a combination of company and industry experience, adjusted for improvement factors.

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

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

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

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

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

15. Segment Information

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. As discussed in Note 3, we completed the acquisition of Liberty Life. Related results are included within the Group Protection segment. We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. See Note 21 of our 2017 Form 10-K for a brief description of these segments and Other Operations.

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

- Realized gains and losses associated with the following ("excluded realized gain (loss)"):
  - Sales or disposals and impairments of securities;
  - Changes in the fair value of derivatives, embedded derivatives within certain reinsurance arrangements and trading securities;
  - Changes in the fair value of the derivatives we own to hedge our GDB riders within our variable annuities;
  - Changes in the fair value of the embedded derivatives of our GLB riders reflected within variable annuity net derivative results accounted for at fair value;
  - Changes in the fair value of the derivatives we own to hedge our GLB riders reflected within variable annuity net derivative results;
  - Changes in the fair value of the embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products accounted for at fair value; and
  - Changes in the fair value of equity securities;
- Changes in reserves resulting from benefit ratio unlocking on our GDB and GLB riders;
- Income (loss) from reserve changes, net of related amortization, on business sold through reinsurance;
- Gains (losses) on early extinguishment of debt;
- Losses from the impairment of intangible assets;
- Income (loss) from discontinued operations;
- Acquisition and integration costs related to mergers and acquisitions; and
- Income (loss) from the initial adoption of new accounting standards, regulations, and policy changes including the net impact from the Tax Cuts and Jobs Act.

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

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

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

Segment information (in millions) was as follows:

	For the Three Months Ended June 30, 2018	2017	For the Six Months Ended June 30, 2018	2017
Revenues				
Operating revenues:				
Annuities	$ 1,106	$ 1,076	$ 2,180	$ 2,138
Retirement Plan Services	292	290	584	571
Life Insurance	1,680	1,655	3,340	3,260
Group Protection	937	541	1,490	1,082
Other Operations	58	67	125	155
Excluded realized gain (loss), pre-tax	(53)	(52)	(89)	(132)
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	-	-	-	1
Amortization of DFEL associated with benefit ratio unlocking, pre-tax	-	-	(1)	2
Total revenues	$ 4,020	$ 3,577	$ 7,629	$ 7,077

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net Income (Loss)				
Income (loss) from operations:				
Annuities	$ 275	$ 251	$ 542	$ 532
Retirement Plan Services	43	37	86	74
Life Insurance	150	133	294	263
Group Protection	45	35	74	42
Other Operations	(59)	(37)	(101)	(51)
Excluded realized gain (loss), after-tax	(41)	(34)	(69)	(85)
Gain (loss) on early extinguishment of debt, after-tax	-	-	(19)	-
Benefit ratio unlocking, after-tax	7	26	(3)	71
Net impact from the Tax Cuts and Jobs Act	-	-	(13)	-
Acquisition and integration costs related to mergers and acquisitions, after-tax	(35)	-	(39)	-
Net income (loss)	$ 385	$ 411	$ 752	$ 846

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Revenue from Contracts with Customers

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

	For the Three Months Ended June 30, 2018					
	Annuities	Retirement Plan Services	Life Insurance	Group Protection	Other Operations	Total
Revenue from Contracts with Customers						
Fee income	$ 133	$ 42	$ 6	$ -	$ -	$ 181
Other revenues	119	5	2	27	-	153
Total revenue from contracts with customers	$ 252	$ 47	$ 8	$ 27	$ -	$ 334
Timing of Revenue Recognition						
Satisfaction of performance obligation:						
Transferred at a point in time	$ 18	$ 2	$ 2	$ -	$ -	$ 22
Transferred over time	234	45	6	27	-	312
Total revenue from contracts with customers	$ 252	$ 47	$ 8	$ 27	$ -	$ 334

	For the Six Months Ended June 30, 2018					
	Annuities	Retirement Plan Services	Life Insurance	Group Protection	Other Operations	Total
Revenue from Contracts with Customers						
Fee income	$ 266	$ 84	$ 11	$ -	$ -	$ 361
Other revenues	239	9	5	32	-	285
Total revenue from contracts with customers	$ 505	$ 93	$ 16	$ 32	$ -	$ 646
Timing of Revenue Recognition						
Satisfaction of performance obligation:						
Transferred at a point in time	$ 36	$ 3	$ 4	$ -	$ -	$ 43
Transferred over time	469	90	12	32	-	603
Total revenue from contracts with customers	$ 505	$ 93	$ 16	$ 32	$ -	$ 646

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

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

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

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the financial condition as of June 30, 2018, compared with December 31, 2017, and the results of operations for the three and six months ended June 30, 2018, compared with the corresponding periods in 2017 of Lincoln National Corporation and its consolidated subsidiaries. Unless otherwise stated or the context otherwise requires, "LNC," "Company," "we," "our" or "u refers to Lincoln National Corporation and its consolidated subsidiaries. On May 1, 2018, we completed our acquisition of Liberty Life. Beginning on May 1, 2018, the results of operations and financial condition of Liberty Life Assurance Company of Boston ("Liberty Life"), were consolidated with LNC. Accordingly, all financial information presented herein for the three and six months ended June 30, 2018, includes the accounts of LNC for these periods and the accounts of Liberty Life since May 1, 2018.

The MD&A is provided as a supplement to, and should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements ("Notes") presented in "Part I – Item 1. Financial Statements"; our Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K"), including the sections entitled "Part I – Item 1A. Risk Factors," "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II – Item 8. Financial Statements and Supplementary Data"; our quarterly report on Form 10-Q filed in 2018; and our current reports on Form 8-K filed in 2018. For more detailed information on the risks and uncertainties associated with the Company's business activities, see the risks described in "Part I – Item 1A. Risk Factors" in our 2017 Form 10-K as updated by "Part II – Item 1A. Risk Factors" in our first quarter 2018 Form 10-Q and below.

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

FORWARD-LOOKING STATEMENTS – CAUTIONARY LANGUAGE

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

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

- Deterioration in general economic and business conditions that may affect account values, investment results, guaranteed benefit liabilities, premium levels, claims experience and the level of pension benefit costs, funding and investment results;
- Adverse global capital and credit market conditions could affect our ability to raise capital, if necessary, and may cause us to realize impairments on investments and certain intangible assets, including goodwill and the valuation allowance against deferred tax assets, which may reduce future earnings and/or affect our financial condition and ability to raise additional capital or refinance existing debt as it matures;
- Because of our holding company structure, the inability of our subsidiaries to pay dividends to the holding company in sufficient amounts could harm the holding company's ability to meet its obligations;
- Legislative, regulatory or tax changes, both domestic and foreign, that affect: the cost of, or demand for, our subsidiaries' products; the required amount of reserves and/or surplus; our ability to conduct business and our captive reinsurance arrangements as well as restrictions on the payment of revenue sharing and 12b 1 distribution fees; the impact of recently enacted U.S. federal tax reform legislation on our business, earnings and capital; and the effect of the Fifth Circuit Court of Appeal's decision vacating the Department of Labor's fiduciary regulation as well as any "best interest" standards of care adopted by the Securities and Exchange Commission ("SEC") or other state regulators;
- Actions taken by reinsurers to raise rates on in-force business;
- Declines in or sustained low interest rates causing a reduction in investment income, the interest margins of our businesses, estimated gross profits ("EGPs") and demand for our products;
- Rapidly increasing interest rates causing contract holders to surrender life insurance and annuity policies, thereby causing realized investment losses, and reduced hedge performance related to variable annuities;

- Uncertainty about the effect of continuing promulgation and implementation of rules and regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act on us, the economy and the financial services sector in particular;
- The initiation of legal or regulatory proceedings against us, and the outcome of any legal or regulatory proceedings, such as: adverse actions related to present or past business practices common in businesses in which we compete; adverse decisions in significant actions including, but not limited to, actions brought by federal and state authorities and class action cases; new decisions that result in changes in law; and unexpected trial court rulings;
- A decline in the equity markets causing a reduction in the sales of our subsidiaries' products; a reduction of asset-based fees that our subsidiaries charge on various investment and insurance products; an acceleration of the net amortization of deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("DFEL"); and an increase in liabilities related to guaranteed benefit features of our subsidiaries' variable annuity products;
- Ineffectiveness of our risk management policies and procedures, including various hedging strategies used to offset the effect of changes in the value of liabilities due to changes in the level and volatility of the equity markets and interest rates;
- A deviation in actual experience regarding future persistency, mortality, morbidity, interest rates or equity market returns from the assumptions used in pricing our subsidiaries' products, in establishing related insurance reserves and in the net amortization of DAC, VOBA, DSI and DFEL, which may reduce future earnings;
- Changes in GAAP that may result in unanticipated changes to our net income;
- Lowering of one or more of our debt ratings issued by nationally recognized statistical rating organizations and the adverse effect such action may have on our ability to raise capital and on our liquidity and financial condition;
- Lowering of one or more of the insurer financial strength ratings of our insurance subsidiaries and the adverse effect such action may have on the premium writings, policy retention, profitability of our insurance subsidiaries and liquidity;
- Significant credit, accounting, fraud, corporate governance or other issues that may adversely affect the value of certain investments in our portfolios, as well as counterparties to which we are exposed to credit risk, requiring that we realize losses on investments;
- Inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others;
- Interruption in telecommunication, information technology or other operational systems or failure to safeguard the confidentiality or privacy of sensitive data on such systems from cyberattacks or other breaches of our data security systems;
- The effect of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including the successful implementation of integration strategies or the achievement of anticipated synergies and operational efficiencies related to an acquisition;
- The adequacy and collectability of reinsurance that we have purchased;
- Acts of terrorism, a pandemic, war or other man-made and natural catastrophes that may adversely affect our businesses and the cost and availability of reinsurance;
- Competitive conditions, including pricing pressures, new product offerings and the emergence of new competitors, that may affect the level of premiums and fees that our subsidiaries can charge for their products;
- The unknown effect on our subsidiaries' businesses resulting from evolving market preferences and the changing demographics of our client base; and
- The unanticipated loss of key management, financial planners or wholesalers.

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

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

INTRODUCTION

Executive Summary

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

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations. These segments and Other Operations are described in “Part I – Item 1. Business” of our 2017 Form 10-K. We provide information about our segments’ and Other Operations’ operating revenue and expense line items and realized gain (loss), key drivers of changes and historical details underlying the line items below. As discussed in Note 3, on May 1, 2018, we completed our acquisition of 100% of the capital stock of Liberty Life, which operates a group benefits business and individual life and individual and group annuity business in a transaction accounted for under the acquisition method of accounting. We ceded insurance policies relating to individual life and individual and group annuity business to third-party reinsurers. The operating results of Liberty Life are included in our Group Protection segment beginning on May 1, 2018. The acquisition enables us to increase our market share within the group protection marketplace. For factors that could cause actual results to differ materially from those set forth, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2017 Form 10-K as updated by “Part II – Item 1A. Risk Factors” in our first quarter 2018 Form 10-Q and below.

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

Critical Accounting Policies and Estimates

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

DAC, VOBA, DSI and DFEL

Unlocking

As stated in “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical

Accounting Policies and Estimates – Unlocking” in our 2017 Form 10-K, we conduct our annual comprehensive review of the

assumptions and projection models underlying the amortization of DAC, VOBA, DSI, DFEL, embedded derivatives and reserves for life

insurance and annuity products in the third quarter of each year.

Reversion to the Mean

As variable fund returns do not move in a systematic manner, we reset the baseline of account values from which EGPs are projected, which we refer to as our reversion to the mean ("RTM") process, as discussed in our 2017 Form 10-K. If we had unlocked our RTM assumption as of June 30, 2018, we would have recorded a favorable unlocking of approximately $200 million, pre-tax, for Annuities, approximately $45 million, pre-tax, for Life Insurance and approximately $25 million, pre-tax, for Retirement Plan Services.

Investments

Investment Valuation

The following summarizes our fixed maturity available-for-sale ("AFS") securities, trading securities and derivative investments carried at fair value by pricing source and fair value hierarchy level (in millions) as of June 30, 2018:

	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	$ 698	$ 78,490	$ -	$ 79,188
Priced by independent broker quotations	-	-	1,093	1,093
Priced by matrices	-	12,188	-	12,188
Priced by other methods (1)	-	-	2,596	2,596
Total	$ 698	$ 90,678	$ 3,689	$ 95,065
Percent of total	1%	95%	4%	100%

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

For more information about the valuation of our financial instruments carried at fair value, see “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Investments – Investment Valuation” in our 2017 Form 10-K and Note 15 herein.

Derivatives

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

Guaranteed Living Benefits

Within our individual annuity business, 65% of our variable annuity account values contained guaranteed living benefits ("GLB") features as of June 30, 2018 and 2017. Underperforming equity markets increase our exposure to potential benefits with the GLB features. A contract with a GLB feature is "in the money" if the contract holder's account balance falls below the present value of guaranteed withdrawal or income benefits, assuming no lapses. As of June 30, 2018 and 2017, 7% of all in-force contracts with a GLB feature were "in the money," and our exposure, after reinsurance, as of June 30, 2018 and 2017, was $475 million and $474 million, respectively. However, the only way the contract holder can realize the excess of the present value of benefits over the account value of the contract is through a series of withdrawals or income payments that do not exceed a maximum amount. If, after the series of withdrawals or income payments, the account value is exhausted, the contract holder will continue to receive a series of annuity payments. The account value can also fluctuate with equity market returns on a daily basis resulting in increases or decreases in the excess of the present value of benefits over account value.

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

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

Acquisitions and Dispositions

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

RESULTS OF CONSOLIDATED OPERATIONS

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net Income (Loss)				
Income (loss) from operations:				
Annuities	$ 275	$ 251	$ 542	$ 532
Retirement Plan Services	43	37	86	74
Life Insurance	150	133	294	263
Group Protection	45	35	74	42
Other Operations	(59)	(37)	(101)	(51)
Excluded realized gain (loss), after-tax	(41)	(34)	(69)	(85)
Gain (loss) on early extinguishment of debt, after-tax	-	-	(19)	-
Benefit ratio unlocking, after-tax	7	26	(3)	71
Net impact from the Tax Cuts and Jobs Act	-	-	(13)	-
Acquisition and integration costs related to mergers and acquisitions, after-tax	(35)	-	(39)	-
Net income (loss)	$ 385	$ 411	$ 752	$ 846

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Deposits				
Annuities	$ 2,983	$ 1,991	$ 5,509	$ 4,008
Retirement Plan Services	2,217	1,978	4,577	4,229
Life Insurance	1,517	1,543	3,051	2,959

Total deposits	$ 6,717	$ 5,512	$ 13,137	$ 11,196
Net Flows				
Annuities (1)	$ (126)	$ (887)	$ (732)	$ (1,643)
Retirement Plan Services (1)	499	421	962	562
Life Insurance	1,084	1,101	2,160	2,025
Total net flows (1)	$ 1,457	$ 635	$ 2,390	$ 944

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

	As of June 30,	
	2018	2017
Account Values		
Annuities	$ 136,556	$ 131,029
Retirement Plan Services	69,183	62,568
Life Insurance	49,814	47,180
Total account values	$ 255,553	$ 240,777

Comparison of the Three and Six Months Ended June 30, 2018 to 2017

Net income decreased due primarily to the following:

- Losses on variable annuity net derivatives results.
- Acquisition and integration costs incurred as part of our recent acquisition and higher strategic digitization expense.
- Less favorable investment income on alternative investments and lower prepayment and bond make-whole premiums.
- No amortization of deferred gain on business sold through reinsurance in 2018 as the gain was fully amortized during the second quarter of 2017.

· Spread compression due to average new money rates trailing our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates.

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

· Growth in average account values and business in force.
· Lower federal income tax expense.
· The acquisition of Liberty Life effective May 1, 2018

Additionally, when comparing the six months ended June 30, 2018 to 2017, the decrease in net income was also due to the loss on the early extinguishment of debt.

RESULTS OF ANNUITIES

Income (Loss) from Operations

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues				
Insurance premiums (1)	$ 109	$ 106	$ 180	$ 230
Fee income	587	553	1,173	1,086
Net investment income	244	263	493	519
Operating realized gain (loss) (2)	48	45	96	90
Other revenues (3)	118	109	238	213
Total operating revenues	1,106	1,076	2,180	2,138
Operating Expenses				
Interest credited	144	145	291	292
Benefits (1)	183	174	329	366
Commissions and other expenses	457	447	925	890
Total operating expenses	784	766	1,545	1,548
Income (loss) from operations before taxes	322	310	635	590
Federal income tax expense (benefit)	47	59	93	58
Income (loss) from operations	$ 275	$ 251	$ 542	$ 532

(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 June 30, 2018 to 2017

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

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

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

- Lower net investment income, net of interest credited, driven by less favorable investment income on alternative investments within our surplus portfolio and lower prepayments and bond make-whole premiums.
- Higher commissions and other expenses due to higher average account values, resulting in higher trail commissions.

Comparison of the Six Months Ended June 30, 2018 to 2017

Income from operations for this segment increased due primarily to higher fee income driven by higher average daily variable account values.

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

- Higher commissions and other expenses due to an increase in amortization expense as a result of higher actual gross profits and higher average account values, resulting in higher trail commissions.
- Lower net investment income, net of interest credited, driven by spread compression due to average new money rates trailing our current portfolio yields, less favorable investment income on alternative investments within our surplus portfolio and lower prepayments and bond make-whole premiums.
- Higher federal income tax expense in 2018 (see “Additional Information” below for more information).

Additional Information

For the six months ended June 30, 2018, the federal income tax expense was primarily impacted by the lower marginal corporate income tax rate and tax law changes to the separate account dividends-received deduction (“DRD”) as a result of the Tax Act and other items. For the six months ended June 30, 2017, the federal income tax expense was driven by one-time and run-rate adjustments primarily associated with our separate account DRD.

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

The other component of net flows relates to the retention of the business. An important measure of retention is the reduction in account values caused by full surrenders, deaths and other contract benefits. These outflows as a percentage of average account values were 9% for the three and six months ended June 30, 2018 and 2017.

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

Fee Income

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

	For the Three	For the Six

	Months Ended June 30,		Months Ended June 30,	
	2018	2017	2018	2017
Fee Income				
Mortality, expense and other assessments	$ 581	$ 546	$ 1,159	$ 1,072
Surrender charges	8	8	16	17
DFEL:				
Deferrals	(10)	(9)	(19)	(19)
Amortization, net of interest	8	8	17	16
Total fee income	$ 587	$ 553	$ 1,173	$ 1,086

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	As of or For the Three Months Ended June 30,		As of or For the Six Months Ended June 30,	
	2018	2017	2018	2017
Variable Account Value Information				
Variable annuity deposits (1)	$ 1,312	$ 1,167	$ 2,597	$ 2,249
Increases (decreases) in variable annuity account values:				
Net flows (1)(2)	(1,094)	(1,109)	(2,327)	(2,265)
Change in market value (1)(2)	1,682	3,377	1,508	8,486
Contract holder assessments (1)	(619)	(589)	(1,236)	(1,168)
Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products	771	373	1,517	729
Variable annuity account values (1)	113,802	108,698	113,802	108,698
Average daily variable annuity account values (1)	114,076	107,988	114,869	106,760
Average daily S&P 500 (3)	2,704	2,396	2,718	2,360

(1) Excludes the fixed portion of variable.

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

(3) We generally use the Standard & Poor's ("S&P") 500 index as a benchmark for the performance of our variable account values. The account values of our variable annuity contracts are invested by our policyholders in a variety of investment options including, but not limited to, domestic and international equity securities and fixed income, which do not necessarily align with S&P 500 index performance. See Note 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 account values are driven by net flows and variable fund returns. Charges on GLB riders are assessed based on a contractual rate that is applied either to the account value or the guaranteed amount. In addition, for our fixed annuity contracts and for some variable contracts, we collect surrender charges when contract holders surrender their contracts during their surrender charge periods to protect us from premature withdrawals. Fee income includes charges on both our variable and fixed annuity products, but excludes the attributed fees on our GLB riders; see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)" in our 2017 Form

10-K for discussion of these attributed fees.

Net Investment Income and Interest Credited

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net Investment Income				
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 204	$ 210	$ 410	$ 422
Commercial mortgage loan prepayment and bond make-whole premiums (1)	7	11	11	16
Surplus investments (2)	33	42	72	81
Total net investment income	$ 244	$ 263	$ 493	$ 519
Interest Credited				
Amount provided to contract holders	$ 147	$ 142	$ 297	$ 284
DSI deferrals	(11)	(3)	(23)	(5)
Interest credited before DSI amortization	136	139	274	279
DSI amortization	8	6	17	13
Total interest credited	$ 144	$ 145	$ 291	$ 292

(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 June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Interest Rate Spread				
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	3.84%	3.99%	3.85%	4.03%
Commercial mortgage loan prepayment and bond make-whole premiums	0.13%	0.20%	0.11%	0.15%

Net investment income yield on reserves	3.97%	4.19%	3.96%	4.18%
Interest rate credited to contract holders	2.23%	2.37%	2.27%	2.40%
Interest rate spread	1.74%	1.82%	1.69%	1.78%

	As of or For the Three Months Ended June 30,		As of or For the Six Months Ended June 30,	
	2018	2017	2018	2017
Fixed Account Value Information				
Fixed annuity deposits (1)	$ 1,671	$ 824	$ 2,912	$ 1,759
Increases (decreases) in fixed annuity account values:				
Net flows (1)(2)	968	222	1,595	622
Contract holder assessments (1)	(9)	(8)	(17)	(14)
Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products	(771)	(373)	(1,517)	(729)
Reinvested interest credited (1)	195	192	293	434
Fixed annuity account values (1)	22,754	22,331	22,754	22,331
Average fixed account values (1)	22,665	22,333	22,663	22,230
Average invested assets on reserves	18,472	18,352	18,471	18,254

(1) Includes the fixed portion of variable.

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

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

Benefits

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

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Commissions and Other Expenses

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Commissions and Other Expenses				
Commissions:				
Deferrable	$ 119	$ 84	$ 224	$ 167
Non-deferrable	146	138	285	279
General and administrative expenses	99	106	202	206
Inter-segment reimbursement associated with reserve financing and LOC expenses (1)	1	1	2	2
Taxes, licenses and fees	7	8	18	19
Total expenses incurred, excluding broker-dealer	372	337	731	673
DAC deferrals	(134)	(98)	(254)	(194)
Total pre-broker-dealer expenses incurred, excluding amortization, net of interest	238	239	477	479
DAC and VOBA amortization, net of interest	104	99	216	200
Broker-dealer expenses incurred	115	109	232	211
Total commissions and other expenses	$ 457	$ 447	$ 925	$ 890
DAC Deferrals				
As a percentage of sales/deposits	4.5%	4.9%	4.6%	4.8%

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

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

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 June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues				
Fee income	$ 64	$ 62	$ 129	$ 121
Net investment income	222	224	444	441
Other revenues (1)	6	4	11	9
Total operating revenues	292	290	584	571
Operating Expenses				
Interest credited	137	134	274	265
Benefits	-	-	1	1
Commissions and other expenses	104	106	210	207
Total operating expenses	241	240	485	473
Income (loss) from operations before taxes	51	50	99	98
Federal income tax expense (benefit)	8	13	13	24
Income (loss) from operations	$ 43	$ 37	$ 86	$ 74

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

Comparison of the Three and Six Months Ended June 30, 2018 to 2017

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

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

The increase in income from operations was partially offset by lower net investment income, net of interest credited, driven by less favorable investment income on alternative investments within our surplus portfolio, lower prepayment and bond make-whole premiums and spread compression due to average new money rates trailing our current portfolio yields.

Additional Information

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

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect current period income from operations, they can significantly impact future income from operations. The other component of net flows relates to the retention of the business. An important measure of retention is the reduction in account values caused primarily by plan sponsor terminations and participant withdrawals. These outflows as a percentage of average account values were 10% and 11% for the three and six months ended June 30, 2018, respectively, compared to 10% and 12% for the corresponding periods in 2017.

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 24% and 27% as of June 30, 2018 and 2017, respectively. Due to this expected overall shift in business mix toward products with lower returns, new deposit production continues to be necessary to maintain earnings at current levels.

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

Fee Income

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

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Fee Income				
Annuity expense assessments	$ 48	$ 46	$ 96	$ 90
Mutual fund fees	16	16	32	31
Total expense assessments	64	62	128	121
Surrender charges	-	-	1	-
Total fee income	$ 64	$ 62	$ 129	$ 121

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net Flows By Market (1)				
Small market	$ 12	$ 137	$ (67)	$ (230)
Mid – large market	730	536	1,564	1,285
Multi-Fund® and other	(243)	(252)	(535)	(493)
Total net flows	$ 499	$ 421	$ 962	$ 562

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

	As of or For the Three Months Ended June 30,		As of or For the Six Months Ended June 30,	
	2018	2017	2018	2017
Variable Account Value Information				
Variable annuity deposits (1)	$ 456	$ 460	$ 919	$ 918
Increases (decreases) in variable annuity account values:				
Net flows (1)(2)	(90)	(80)	(268)	(634)
Change in market value (1)(2)	396	464	348	1,219
Contract holder assessments (1)	(40)	(38)	(80)	(74)
Variable annuity account values (1)	16,023	14,930	16,023	14,930
Average daily variable annuity account values (1)	16,052	14,797	16,166	14,638
Average daily S&P 500	2,704	2,396	2,718	2,360

(1) Excludes the fixed portion of variable.

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

	As of or For the Three Months Ended June 30,		As of or For the Six Months Ended June 30,	
	2018	2017	2018	2017
Mutual Fund Account Value Information				
Mutual fund deposits	$ 1,367	$ 961	$ 2,805	$ 2,044
Mutual fund net flows	638	371	1,340	890
Mutual fund account values (1)	34,114	29,225	34,114	29,225

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

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

Net Investment Income and Interest Credited

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net Investment Income				
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 199	$ 195	$ 400	$ 389
Commercial mortgage loan prepayment and bond make-whole premiums (1)	6	8	10	12
Surplus investments (2)	17	21	34	40
Total net investment income	$ 222	$ 224	$ 444	$ 441
Interest Credited	$ 137	$ 134	$ 274	$ 265

(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 June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Interest Rate Spread				

Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	4.25%	4.30%	4.27%	4.33%
Commercial mortgage loan prepayment and bond make-whole premiums	0.12%	0.17%	0.10%	0.13%
Net investment income yield on reserves	4.37%	4.47%	4.37%	4.46%
Interest rate credited to contract holders	2.90%	2.91%	2.90%	2.92%
Interest rate spread	1.47%	1.56%	1.47%	1.54%

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	As of or For the Three Months Ended June 30, 2018	2017	As of or For the Six Months Ended June 30, 2018	2017
Fixed Account Value Information				
Fixed annuity deposits (1)	$ 394	$ 557	$ 853	$ 1,267
Increases (decreases) in fixed annuity account values:				
Net flows (1)(2)	(49)	130	(110)	306
Reinvested interest credited (1)	138	133	273	269
Contract holder assessments (1)	(3)	(2)	(5)	(5)
Fixed annuity account values (1)	19,046	18,413	19,046	18,413
Average fixed account values (1)	18,929	18,302	18,860	18,143
Average invested assets on reserves	18,813	18,137	18,755	17,995

(1) Includes the fixed portion of variable.

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

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

Benefits

Benefits for this segment include changes in benefit reserves and our expected costs associated with purchases of derivatives used to hedge our benefit ratio unlocking.

Commissions and Other Expenses

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Commissions and Other Expenses				
Commissions:				
Deferrable	$ 2	$ 2	$ 3	$ 6
Non-deferrable	19	17	37	32
General and administrative expenses	79	85	157	162
Taxes, licenses and fees	4	4	10	10
Total expenses incurred	104	108	207	210
DAC deferrals	(6)	(8)	(10)	(15)
Total expenses recognized before amortization	98	100	197	195
DAC and VOBA amortization, net of interest	6	6	13	12
Total commissions and other expenses	$ 104	$ 106	$ 210	$ 207
DAC Deferrals				
As a percentage of annuity sales/deposits	0.7%	0.8%	0.6%	0.7%

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. Certain types of commissions, such as trail commissions that are based on account values, are expensed as incurred rather than deferred and amortized. Distribution expenses associated with the sale of mutual fund products are expensed as incurred.

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 June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues				
Insurance premiums (1)	$ 205	$ 199	$ 401	$ 384
Fee income	819	778	1,624	1,538
Net investment income	650	672	1,308	1,329
Operating realized gain (loss) (2)	(2)	(3)	(2)	(7)
Other revenues	8	9	9	16
Total operating revenues	1,680	1,655	3,340	3,260
Operating Expenses				
Interest credited	351	349	705	698
Benefits	840	807	1,690	1,604
Commissions and other expenses	304	305	588	577
Total operating expenses	1,495	1,461	2,983	2,879
Income (loss) from operations before taxes	185	194	357	381
Federal income tax expense (benefit)	35	61	63	118
Income (loss) from operations	$ 150	$ 133	$ 294	$ 263

(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 and Six Months Ended June 30, 2018 to 2017

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

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

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

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

Strategies to Address Statutory Reserve Strain

Our insurance subsidiaries have statutory surplus and risk-based capital ("RBC") levels above current regulatory required levels. Term products and UL products containing secondary guarantees require reserves calculated pursuant to the Valuation of Life Insurance Policies Model Regulation ("XXX") and Actuarial Guideline 38 ("AG38"). For information on strategies we use to reduce the statutory reserve strain caused by XXX and AG38, see "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow – Insurance Subsidiaries' Statutory Capital and Surplus" below.

Additional Information

During the second quarter of 2018, mortality was in line relative to our expectations for claims seasonality.

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

Insurance Premiums

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

Fee Income

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Fee Income				
Cost of insurance assessments	$ 521	$ 493	$ 1,038	$ 983
Expense assessments	369	371	744	712
Surrender charges	13	14	23	28
DFEL:				
Deferrals	(197)	(187)	(392)	(345)
Amortization, net of interest	113	87	211	160
Total fee income	$ 819	$ 778	$ 1,624	$ 1,538

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Sales by Product				
UL	$ 10	$ 14	$ 19	$ 31
MoneyGuard®	57	80	115	139
IUL	14	16	28	34
VUL	46	50	104	86

Term	29	28	54	55
Total individual life sales	156	188	320	345
Executive Benefits	6	9	16	33
Total sales	$ 162	$ 197	$ 336	$ 378
Net Flows				
Deposits	$ 1,517	$ 1,543	$ 3,051	$ 2,959
Withdrawals and deaths	(433)	(442)	(891)	(934)
Net flows	$ 1,084	$ 1,101	$ 2,160	$ 2,025
Contract Holder Assessments	$ 1,197	$ 1,160	$ 2,395	$ 2,281

	As of June 30,	
	2018	2017
Account Values		
General account	$ 36,262	$ 35,720
Separate account	13,552	11,460
Total account values	$ 49,814	$ 47,180
In-Force Face Amount		
UL and other	$ 341,663	$ 337,971
Term insurance	388,475	366,628
Total in-force face amount	$ 730,138	$ 704,599

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.

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

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

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

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

Net Investment Income and Interest Credited

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net Investment Income				
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 593	$ 581	$ 1,181	$ 1,162
Commercial mortgage loan prepayment and bond make-whole premiums (1)	8	14	15	20
Alternative investments (2)	10	33	32	62
Surplus investments (3)	39	44	80	85
Total net investment income	$ 650	$ 672	$ 1,308	$ 1,329
Interest Credited	$ 351	$ 349	$ 705	$ 698

(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 June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Interest Rate Yields and Spread				
Attributable to interest-sensitive products:				
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	4.98%	5.05%	4.98%	5.08%
Commercial mortgage loan prepayment and bond make-whole premiums	0.07%	0.12%	0.07%	0.09%
Alternative investments	0.09%	0.32%	0.14%	0.30%
Net investment income yield on reserves	5.14%	5.49%	5.19%	5.47%
Interest rate credited to contract holders	3.80%	3.82%	3.81%	3.83%
Interest rate spread	1.34%	1.67%	1.38%	1.64%

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Averages				
Attributable to interest-sensitive products:				
Invested assets on reserves	$ 43,705	$ 41,797	$ 43,458	$ 41,544
General account values	36,630	36,105	36,588	36,056
Attributable to traditional products:				
Invested assets on reserves	4,125	4,384	4,106	4,359

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

Benefits

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Benefits				
Death claims direct and assumed	$ 1,071	$ 1,254	$ 2,186	$ 2,421
Death claims ceded	(424)	(608)	(830)	(1,084)
Reserves released on death	(145)	(154)	(311)	(339)
Net death benefits	502	492	1,045	998
Change in secondary guarantee life insurance product reserves	160	168	325	335
Change in MoneyGuard® reserves	95	76	184	145
Other benefits (1)	83	71	136	126
Total benefits	$ 840	$ 807	$ 1,690	$ 1,604
Death claims per $1,000 of in-force	2.76	2.81	2.88	2.86

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

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

Commissions and Other Expenses

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Commissions and Other Expenses				
Commissions	$ 166	$ 190	$ 345	$ 365
General and administrative expenses	131	146	264	283
Expenses associated with reserve financing	23	23	45	46
Taxes, licenses and fees	44	39	89	78
Total expenses incurred	364	398	743	772
DAC and VOBA deferrals	(193)	(219)	(397)	(418)
Total expenses recognized before amortization	171	179	346	354
DAC and VOBA amortization, net of interest	132	125	240	221
Other intangible amortization	1	1	2	2
Total commissions and other expenses	$ 304	$ 305	$ 588	$ 577
DAC and VOBA Deferrals				
As a percentage of sales	119.1%	111.2%	118.2%	110.6%

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 and six months ended June 30, 2018, to the corresponding periods in 2017, the increase was primarily a result of changes in sales mix to products with higher commission rates.

RESULTS OF GROUP PROTECTION

Income (Loss) from Operations

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues				
Insurance premiums	$ 846	$ 494	$ 1,354	$ 988
Net investment income	63	43	103	87
Other revenues (1)	28	4	33	7
Total operating revenues	937	541	1,490	1,082
Operating Expenses				
Interest credited	1	-	2	1
Benefits	617	326	943	676
Commissions and other expenses	262	162	451	341
Total operating expenses	880	488	1,396	1,018
Income (loss) from operations before taxes	57	53	94	64
Federal income tax expense (benefit)	12	18	20	22
Income (loss) from operations	$ 45	$ 35	$ 74	$ 42

(1) Consists of revenue from third-parties for administrative services performed, which has a corresponding partial offset in commissions and other expenses.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Income (Loss) from Operations by Product Line				
Life	$ 28	$ 15	$ 37	$ 12

Disability	20	20	41	30
Dental	(3)	-	(5)	-
Total non-medical	45	35	73	42
Medical	-	-	1	-
Income (loss) from operations	$ 45	$ 35	$ 74	$ 42

Comparison of the Three and Six Months Ended June 30, 2018 to 2017

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

- The acquisition of Liberty Life effective May 1, 2018 (see "Additional Information" below for more information).
- Lower federal income tax expense due to the change in the marginal corporate income tax rate as a result of the Tax Act.

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

Additional Information

Income from operations for the three and six months ended June 30, 2018, includes two months of activity from Liberty Life due to the acquisition closing on May 1, 2018. The acquisition resulted in increases in all pre-tax line items presented in the table above. For more information about our acquisition, see Note 24 in our 2017 Form 10-K and Note 3 herein.

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

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

Insurance Premiums

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Insurance Premiums by Product Line				
Life	$ 307	$ 206	$ 510	$ 412
Disability	464	226	696	451
Dental	75	62	148	125
Total insurance premiums	$ 846	$ 494	$ 1,354	$ 988
Sales by Product Line				
Life	$ 31	$ 28	$ 53	$ 51
Disability	38	32	59	55
Dental	25	28	37	39
Total sales	$ 94	$ 88	$ 149	$ 145

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

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

Net Investment Income

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

Benefits and Interest Credited

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Benefits and Interest Credited by Product Line				
Life	$ 209	$ 136	$ 337	$ 285
Disability	354	147	498	303
Dental	55	43	110	89
Total benefits and interest credited	$ 618	$ 326	$ 945	$ 677
Loss Ratios by Product Line				
Life	68.0%	66.1%	66.1%	69.3%
Disability	76.4%	65.4%	71.6%	67.1%
Dental	73.4%	68.7%	74.0%	71.0%
Total	73.1%	66.1%	69.8%	68.5%

Generally, we have higher mortality in the first quarter of the year due to the seasonality of claims.

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Commissions and Other Expenses

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Commissions and Other Expenses				
Commissions	$ 83	$ 62	$ 149	$ 125
General and administrative expenses	152	86	241	169
Taxes, licenses and fees	24	13	40	27
Total expenses incurred	259	161	430	321
DAC deferrals	(17)	(13)	(30)	(27)
Total expenses recognized before amortization	242	148	400	294
DAC and VOBA amortization, net of interest	19	14	50	47
Other intangible amortization	1	-	1	-
Total commissions and other expenses	$ 262	$ 162	$ 451	$ 341
DAC Deferrals				
As a percentage of insurance premiums	2.0%	2.6%	2.2%	2.7%

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized 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 June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues				
Insurance premiums (1)	$ 5	$ 2	$ 8	$ 5
Net investment income	53	60	117	123
Amortization of deferred gain on business sold through reinsurance	-	4	-	21
Other revenues	-	1	-	6
Total operating revenues	58	67	125	155
Operating Expenses				
Interest credited	14	18	29	36
Benefits	28	27	47	54
Other expenses	7	8	16	18
Interest and debt expense	68	63	136	127
Strategic digitization expense	16	14	31	23
Total operating expenses	133	130	259	258
Income (loss) from operations before taxes	(75)	(63)	(134)	(103)
Federal income tax expense (benefit)	(16)	(26)	(33)	(52)
Income (loss) from operations	$ (59)	$ (37)	$ (101)	$ (51)

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

Comparison of the Three and Six Months Ended June 30, 2018 to 2017

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

- Less favorable federal income tax benefit due to the change in the marginal corporate income tax rate as a result of the Tax Act.
- No amortization of deferred gain on business sold through reinsurance in 2018 as the gain was fully amortized during the second quarter of 2017.
- Higher interest and debt expense driven by an increase in the average balance of outstanding debt.
- Higher strategic digitization expense as part of our strategic digitization initiative.

Additional Information

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

Net Investment Income and Interest Credited

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

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

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

Benefits

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

Other Expenses

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
General and administrative expenses:				
Legal	$ -	$ -	$ 1	$ -
Branding	11	12	19	17
Other (1)	2	1	7	11
Total general and administrative expenses	13	13	27	28
Taxes, licenses and fees	(3)	(2)	(5)	(4)
Inter-segment reimbursement associated with reserve financing and LOC expenses (2)	(3)	(3)	(6)	(6)
Total other expenses	$ 7	$ 8	$ 16	$ 18

(1) Includes expenses that are corporate in nature including charitable contributions, the portion of our deferred compensation plan expense attributable to participants’ selection of LNC stock as the measure for their investment return and other expenses not allocated to our business segments.

(2)

Consists of reimbursements to Other Operations from the Life Insurance segment for the use of proceeds from certain issuances of senior notes that were used as long-term structured solutions, net of expenses incurred by Other Operations for its use of LOCs.

Interest and Debt Expense

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

REALIZED GAIN (LOSS) AND BENEFIT RATIO UNLOCKING

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Components of Realized Gain (Loss), Pre-Tax				
Total operating realized gain (loss)	$ 46	$ 42	$ 94	$ 83
Total excluded realized gain (loss)	(53)	(52)	(89)	(132)
Total realized gain (loss), pre-tax	$ (7)	$ (10)	$ 5	$ (49)
Reconciliation of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax				
Total excluded realized gain (loss)	$ (41)	$ (34)	$ (69)	$ (85)
Benefit ratio unlocking	7	26	(3)	71
Excluded realized gain (loss) net of benefit ratio unlocking, after-tax	$ (34)	$ (8)	$ (72)	$ (14)
Components of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax				
Realized gain (loss) related to certain investments	$ (10)	$ (12)	$ (27)	$ (20)
Gain (loss) on the mark-to-market on certain instruments	19	(1)	21	5
Variable annuity net derivatives results:				
Hedge program performance, including unlocking for GLB reserves hedged	(42)	17	(67)	27
GLB NPR component	2	(8)	7	(18)
Total variable annuity net derivatives results	(40)	9	(60)	9
Indexed annuity forward-starting option	(3)	(4)	(6)	(8)
Excluded realized gain (loss) net of benefit ratio unlocking, after-tax	$ (34)	$ (8)	$ (72)	$ (14)

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

Comparison of the Three and Six Months Ended June 30, 2018 to 2017

We had higher realized losses due primarily to the following:

- Unfavorable variable annuity net derivatives results attributable to unfavorable hedge program performance due to more volatile capital markets, partially offset by favorable GLB non-performance risk ("NPR") component due to widening of our credit spread.

The higher realized losses were partially offset by gains on the mark-to-market on certain instruments due to an increase in interest rates.

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

Operating Realized Gain (Loss)

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

Realized Gain (Loss) Related to Certain Investments

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

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

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

Variable Annuity Net Derivatives Results

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

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

	As of June 30, 2018	As of March 31, 2018	As of December 31, 2017	As of September 30, 2017	As of June 30, 2017
Variable annuity hedge program assets (liabilities)	$ 1,094	$ 1,194	$ 1,307	$ 1,526	$ 1,766
Variable annuity reserves – asset (liability):					
Embedded derivative reserves, pre-NPR (1)	$ 1,288	$ 1,179	$ 1,029	$ 743	$ 480
NPR	(131)	(135)	(142)	(127)	(97)
Embedded derivative reserves	1,157	1,044	887	616	383
Insurance benefit reserves	(781)	(734)	(665)	(656)	(649)
Total variable annuity reserves – asset (liability)	$ 376	$ 310	$ 222	$ (40)	$ (266)
10-year credit default swap ("CDS") spread	1.24%	1.19%	1.05%	1.08%	1.30%
NPR factor related to 10-year CDS spread	0.18%	0.18%	0.14%	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 2017 Form 10-K.

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

Indexed Annuity Forward-Starting Option

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

CONSOLIDATED INVESTMENTS

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

	As of June 30, 2018	As of December 31, 2017	Percentage of Total Investments As of June 30, 2018	As of December 31, 2017
Investments				
AFS securities:				
Fixed maturity	$ 93,060	$ 94,840	83.1%	83.9%
Equity	-	246	0.0%	0.2%
Total AFS securities	93,060	95,086	83.1%	84.1%
Trading securities	1,450	1,620	1.3%	1.4%
Equity securities	112	-	0.1%	0.0%
Mortgage loans on real estate	12,217	10,762	10.9%	9.5%
Real estate	11	11	0.0%	0.0%
Policy loans	2,508	2,399	2.2%	2.1%
Derivative investments	584	915	0.5%	0.8%
Alternative investments	1,572	1,459	1.4%	1.3%
Other investments	493	837	0.5%	0.8%
Total investments	$ 112,007	$ 113,089	100.0%	100.0%

Investment Objective

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

Investment Portfolio Composition and Diversification

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

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

Fixed Maturity and Equity Securities Portfolios

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

	As of June 30, 2018				
		Gross Unrealized			%
	Amortized Cost	Gains	Losses and OTTI (1)	Fair Value	Fair Value
Fixed Maturity AFS Securities					
Industry corporate bonds:					
Financial services	$ 12,897	530	$ 260	$ 13,167	14.1%
Basic industry	4,971	191	95	5,067	5.5%
Capital goods	6,470	293	126	6,637	7.1%
Communications	4,553	210	114	4,649	5.0%
Consumer cyclical	5,604	214	134	5,684	6.1%
Consumer non-cyclical	13,772	648	340	14,080	15.1%
Energy	6,472	296	135	6,633	7.1%
Technology	3,709	92	51	3,750	4.0%
Transportation	3,065	106	79	3,092	3.3%
Industrial other	1,164	27	26	1,165	1.3%
Utilities	12,956	835	165	13,626	14.7%
Government related entities	2,376	163	48	2,491	2.7%
Collateralized mortgage and other obligations ("CMOs"):					
Agency backed	1,658	47	71	1,634	1.8%
Non-agency backed	803	52	(21)	876	0.9%
Mortgage pass through securities ("MPTS"):					
Agency backed	856	20	12	864	0.9%
Commercial mortgage-backed securities ("CMBS"):					
Agency backed	22	-	-	22	0.0%
Non-agency backed	737	5	17	725	0.8%
Asset-backed securities ("ABS"):					
Collateralized loan obligations ("CLOs")	1,107	-	7	1,100	1.2%
Commercial real estate ("CRE") collateralized debt obligations (“CDOs”)	14	-	(5)	19	0.0%
Credit card	78	17	1	94	0.1%

Equipment receivables	38	-	-	38	0.1%
Home equity	548	21	(13)	582	0.6%
Manufactured housing	16	1	-	17	0.0%
Student loans	39	-	-	39	0.0%
Other	245	5	2	248	0.3%
Municipals:					
Taxable	4,394	745	14	5,125	5.5%
Tax-exempt	115	8	-	123	0.1%
Government:					
United States	396	29	3	422	0.5%
Foreign	430	41	-	471	0.5%
Hybrid and redeemable preferred securities	578	65	23	620	0.7%
Total AFS securities	90,083	4,661	1,684	93,060	100.0%
Trading Securities (2)	1,304	154	8	1,450	
Equity Securities	110	4	2	112	
Total AFS, trading and equity securities	$ 91,497	$ 4,819	$ 1,694	$ 94,622	

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

Total AFS securities	87,240	8,233	387	95,086
Trading Securities (2)	1,425	203	8	1,620
Total AFS and trading securities	$ 88,665	$ 8,436	$ 395	$ 96,706

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

(2) Certain of our trading securities support our modified coinsurance arrangements ("Modco"), and the investment results are passed directly to the reinsurers. Refer to "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Consolidated Investments – Fixed Maturity and Equity Securities Portfolios – Trading Securities" in our 2017 Form 10-K for further details.

AFS Securities

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

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

	Rating Agency	As of June 30, 2018			As of December 31, 2017		
NAIC Designation (1)	Equivalent Designation (1)	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total
Investment Grade Securities							
1	AAA / AA / A	$ 48,107	$ 50,589	54.4%	$ 46,455	$ 51,494	54.3%
2	BBB	38,301	38,911	41.8%	36,703	39,518	41.7%
Total investment grade securities		86,408	89,500	96.2%	83,158	91,012	96.0%
Below Investment Grade Securities							
3	BB	2,653	2,614	2.8%	2,785	2,840	3.0%
4	B	901	846	0.9%	768	743	0.8%
5	CCC and lower	112	85	0.1%	271	229	0.2%
6	In or near default	9	15	0.0%	11	16	0.0%
Total below investment grade securities		3,675	3,560	3.8%	3,835	3,828	4.0%
Total fixed maturity AFS securities		$ 90,083	$ 93,060	100.0%	$ 86,993	$ 94,840	100.0%
Total securities below investment grade as a percentage of total fixed maturity AFS securities		4.1%	3.8%		4.4%	4.0%	

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

equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings. The average credit quality was A- as of June 30, 2018.

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

As of June 30, 2018, and December 31, 2017, 95% and 88%, respectively, of the total fixed maturity AFS securities in an unrealized loss position were investment grade. Our gross unrealized losses, including the portion of OTTI recognized in other comprehensive income (loss) ("OCI"), on fixed maturity AFS securities as of June 30, 2018, increased by $1.3 billion since December 31, 2017. As more fully described in Note 1 in our 2017 Form 10-K, we regularly review our investment holdings for OTTI. We believe the unrealized loss position as of June 30, 2018, does not represent OTTI as: (i) we do not intend to sell the debt securities; (ii) it is not more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis; and (iii) the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities. For further information on our unrealized losses on AFS securities, see "Composition by Industry Categories of our Unrealized Losses on AFS Securities" below.

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

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

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

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

As reported on our Consolidated Balance Sheets, we had $113.8 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 $104.4 billion as of June 30, 2018. If it were necessary to liquidate fixed maturity AFS securities prior to maturity or call to meet cash flow needs, we would first look to those fixed maturity AFS securities that are in an unrealized gain position, which had a fair value of $55.3 billion as of June 30, 2018, rather than selling fixed maturity AFS securities in an unrealized loss position. The amount of cash that we have on hand at any point in time takes into account our liquidity needs in the future, other sources of cash, such as the maturities of investments, interest and dividends we earn on our investments and the ongoing cash flows from new and existing business.

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

As of June 30, 2018, and December 31, 2017, the estimated fair value for all private placement securities was $15.2 billion, representing 14% and 13%, respectively, of total invested assets.

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

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

Our ABS home equity and RMBS had a market value of $4.0 billion and a net unrealized gain of $93 million as of June 30, 2018.

The market value of AFS and trading securities backed by subprime loans was $486 million and represented approximately 1% of our total investment portfolio as of June 30, 2018. AFS securities represented $480 million, or 99%, and trading securities represented $6 million, or 1%, of the subprime exposure as of June 30, 2018. The table below summarizes our investments in AFS securities backed by pools of residential mortgages (in millions) as of June 30, 2018:

	Agency		Prime		Alt-A		Subprime/ Option ARM (1)		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Type										
RMBS	$ 2,491	$ 2,506	$ 285	$ 265	$ 259	$ 239	$ 339	$ 307	$ 3,374	$ 3,317
ABS home equity	1	2	57	54	104	97	420	395	582	548
Total by type (2)(3)	$ 2,492	$ 2,508	$ 342	$ 319	$ 363	$ 336	$ 759	$ 702	$ 3,956	$ 3,865
Rating										
AAA	$ 2,292	$ 2,306	$ 8	$ 8	$ -	$ -	$ 17	$ 16	$ 2,317	$ 2,330
AA	190	192	1	1	1	1	14	14	206	208
A	9	9	-	-	7	7	78	76	94	92
BBB	-	-	29	28	30	30	31	30	90	88
BB and below	1	1	304	282	325	298	619	566	1,249	1,147
Total by rating (2)(3)(4)	$ 2,492	$ 2,508	$ 342	$ 319	$ 363	$ 336	$ 759	$ 702	$ 3,956	$ 3,865
Origination Year										
2008 and prior	$ 542	$ 502	$ 342	$ 319	$ 362	$ 335	$ 759	$ 702	$ 2,005	$ 1,858
2009	204	194	-	-	-	-	-	-	204	194
2010	270	260	-	-	-	-	-	-	270	260
2011	163	162	-	-	-	-	-	-	163	162
2012	47	49	-	-	-	-	-	-	47	49
2013	259	268	-	-	-	-	-	-	259	268
2014	67	67	-	-	-	-	-	-	67	67
2015	143	150	-	-	-	-	-	-	143	150
2016	500	551	-	-	1	1	-	-	501	552
2017	220	228	-	-	-	-	-	-	220	228
2018	77	77	-	-	-	-	-	-	77	77
Total by origination										

year (2)(3)	$ 2,492	$ 2,508	$ 342	$ 319	$ 363	$ 336	$ 759	$ 702	$ 3,956	$ 3,865
Total AFS securities backed by pools of residential mortgages a percentage of total AFS Securities									4.3%	4.3%
Total prime, Alt-A and subprime/option ARM as a percentage of total AFS securities									1.6%	1.5%

(1) Includes the fair value and amortized cost of option adjustable rate mortgages ("ARM") within RMBS, totaling $279 million and $249 million, respectively.

(2) Does not include the fair value of trading securities totaling $88 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $88 million in trading securities consisted of $79 million prime, $3 million Alt-A and $6 million subprime.

(3) Does not include the amortized cost of trading securities totaling $86 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $86 million in trading securities consisted of $78 million prime, $3 million Alt-A and $5 million subprime.

(4) Based upon the rating designations determined and provided by the major credit rating agencies (Fitch, Moody's and S&P). For securities where the ratings assigned by the major credit rating agencies are not equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings.

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

The following summarizes our investments in AFS securities backed by pools of commercial mortgages (in millions) as of June 30, 2018:

	Multiple Property		Single Property		CRE CDOs		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Type								
CMBS	$ 731	$ 745	$ 16	$ 14	$ -	$ -	$ 747	$ 759
CRE CDOs	-	-	-	-	19	14	19	14
Total by type (1)(2)	$ 731	$ 745	$ 16	$ 14	$ 19	$ 14	$ 766	$ 773
Rating								
AAA	$ 659	$ 677	$ -	$ -	$ -	$ -	$ 659	$ 677
AA	4	4	9	8	-	-	13	12
A	52	51	7	6	3	3	62	60
BBB	-	-	-	-	-	-	-	-
BB and below	16	13	-	-	16	11	32	24
Total by rating (1)(2)(3)	$ 731	$ 745	$ 16	$ 14	$ 19	$ 14	$ 766	$ 773
Origination Year								
2008 and prior	$ 37	$ 31	$ 14	$ 12	$ 19	$ 14	$ 70	$ 57
2010	48	47	2	2	-	-	50	49
2011	11	11	-	-	-	-	11	11
2012	27	27	-	-	-	-	27	27
2013	158	160	-	-	-	-	158	160
2015	10	10	-	-	-	-	10	10
2016	81	87	-	-	-	-	81	87
2017	290	302	-	-	-	-	290	302
2018	69	70	-	-	-	-	69	70
Total by origination year (1)(2)	$ 731	$ 745	$ 16	$ 14	$ 19	$ 14	$ 766	$ 773
Total AFS securities backed by pools of commercial mortgages as a percentage of total AFS securities							0.8%	0.9%

(1) Does not include the fair value of trading securities totaling $2 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $2 million in trading securities consisted of CMBS.

(2) Does not include the amortized cost of trading securities totaling $2 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $2 million in trading securities consisted of CMBS.

(3) Based upon the rating designations determined and provided by the major credit rating agencies (Fitch, Moody's and S&P). For securities where the ratings assigned by the major credit agencies are not equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the

ratings disclosed upon internal ratings.

As of June 30, 2018, the fair value and amortized cost of our AFS exposure to monoline insurers was $376 million and $350 million, respectively.

Composition by Industry Categories of our Unrealized Losses on AFS Securities

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

The composition by industry categories of all securities in an unrealized loss position (in millions) as of June 30, 2018, was as follows:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Gross Unrealized Losses and OTTI	% Gross Unrealized Losses and OTTI
Banking	$ 3,283	8.7%	$ 3,430	8.7%	$ 147	8.4%
Food and beverage	2,136	5.7%	2,255	5.7%	119	6.8%
Electric	2,704	7.1%	2,816	7.1%	112	6.4%
Pharmaceuticals	1,704	4.5%	1,796	4.6%	92	5.3%
Chemicals	1,738	4.6%	1,815	4.6%	77	4.4%
Healthcare	1,728	4.6%	1,805	4.6%	77	4.4%
Diversified manufacturing	1,446	3.8%	1,510	3.8%	64	3.7%
Technology	1,874	5.0%	1,925	4.9%	51	2.9%
Media – entertainment	834	2.2%	883	2.3%	49	2.8%
Midstream	959	2.5%	1,001	2.5%	42	2.4%
Transportation services	1,155	3.1%	1,197	3.0%	42	2.4%
Independent	909	2.4%	950	2.4%	41	2.3%
Retailers	753	2.0%	792	2.0%	39	2.2%
MBS	417	1.1%	454	1.1%	37	2.1%
Property and casualty	668	1.8%	703	1.8%	35	2.0%
Railroads	488	1.3%	523	1.3%	35	2.0%
Oil field services	296	0.8%	328	0.8%	32	1.8%
Life	574	1.5%	605	1.5%	31	1.8%
Consumer products	566	1.5%	597	1.5%	31	1.8%
Industries with unrealized losses less than $30 million	13,525	35.8%	14,122	35.8%	597	34.1%
Total by industry	$ 37,757	100.0%	$ 39,507	100.0%	$ 1,750	100.0%
Total by industry as a percentage of total AFS securities	40.6%		43.9%		100.0%	

As of June 30, 2018, the fair value and amortized cost of securities subject to enhanced analysis and monitoring for potential changes in unrealized loss position was $96 million and $124 million, respectively.

Mortgage Loans on Real Estate

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

	As of June 30, 2018		As of December 31, 2017	
	Carrying Value	%	Carrying Value	%
Credit Quality Indicator				
Current	$ 12,213	100.0%	$ 10,760	100.0%
Delinquent (1)	2	0.0%	-	0.0%
Foreclosure (2)	2	0.0%	2	0.0%
Total mortgage loans on real estate	$ 12,217	100.0%	$ 10,762	100.0%

(1) As of June 30, 2018, and December 31, 2017, there were 12 and zero mortgage loans on real estate that were delinquent, respectively.

(2) As of June 30, 2018, and December 31, 2017, there was one mortgage loan on real estate that was in foreclosure.

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As of June 30, 2018, and December 31, 2017, there were two and three impaired mortgage loans on real estate, respectively, or less than 1% of the total dollar amount of mortgage loans on real estate. The total outstanding principal and interest on the mortgage loans on real estate that were two or more payments delinquent as of June 30, 2018, and December 31, 2017, was $5 million and $4 million, respectively. See Note 1 in our 2017 Form 10-K for more information regarding our accounting policy relating to the impairment of mortgage loans on real estate.

	As of June 30, 2018	As of December 31, 2017
By Segment		
Annuities	$ 3,538	$ 3,244
Retirement Plan Services	3,399	3,141
Life Insurance	3,700	3,628
Group Protection	1,029	332
Other Operations	551	417
Total mortgage loans on real estate	$ 12,217	$ 10,762

	As of June 30, 2018 Carrying Value	%		As of June 30, 2018 Carrying Value	%
Property Type			State Exposure		
Apartment	$ 4,016	32.9%	CA	$ 2,663	21.8%
Office building	3,086	25.3%	TX	1,502	12.3%
Retail	2,357	19.3%	MD	603	4.9%
Industrial	2,128	17.4%	FL	573	4.7%
Other commercial	423	3.5%	OH	520	4.3%
Mixed use	130	1.1%	NY	519	4.2%
Hotel/motel	77	0.5%	TN	485	4.0%
Total	$ 12,217	100.0%	VA	475	3.9%
Geographic Region			PA	467	3.8%
Pacific	$ 3,361	27.5%	GA	455	3.7%
South Atlantic	2,757	22.6%	WA	420	3.4%
West South Central	1,597	13.1%	NC	375	3.1%
East North Central	1,368	11.2%	WI	329	2.7%
Middle Atlantic	1,031	8.4%	IL	280	2.3%

Mountain	690	5.6%	AZ	280	2.3%
East South Central	647	5.3%	OR	278	2.3%
West North Central	479	3.9%	MA	256	2.1%
New England	287	2.4%	Other states under 2%	1,737	14.2%
Total	$ 12,217	100.0%	Total	$ 12,217	100.0%

	As of June 30, 2018			As of June 30, 2018	
	Principal Amount	%		Principal Amount	%
Origination Year			Future Principal Payments		
2013 and prior	$ 3,485	28.5%	2018	$ 359	2.9%
2014	1,311	10.7%	2019	518	4.2%
2015	1,915	15.6%	2020	490	4.0%
2016	2,079	17.0%	2021	879	7.2%
2017	2,086	17.1%	2022	804	6.6%
2018	1,360	11.1%	2023 and thereafter	9,186	75.1%
Total	$ 12,236	100.0%	Total	$ 12,236	100.0%

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

Alternative Investments

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Annuities	$ 3	$ 8	$ 9	$ 14
Retirement Plan Services	2	4	5	7
Life Insurance	13	40	41	75
Group Protection	2	2	4	5
Other Operations	-	1	2	3
Total (1)	$ 20	$ 55	$ 61	$ 104

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

As of June 30, 2018, and December 31, 2017, alternative investments included investments in 238 and 224 different partnerships, respectively, and the portfolio represented approximately 1% of our overall invested assets. The partnerships do not represent off-balance sheet financing and generally involve several third-party partners. Some of our partnerships contain capital calls, which require us to contribute capital upon notification by the general partner. These capital calls are contemplated during the initial investment decision and are planned for well in advance of the call date. The capital calls are not material in size and are not material to our liquidity. Alternative investments are accounted for using the equity method of accounting and are included in other investments on our Consolidated Balance Sheets.

Non-Income Producing Investments

The carrying amount of fixed maturity securities, mortgage loans on real estate and real estate that were non-income producing as of June 30, 2018, and December 31, 2017, was $8 million and $9 million, respectively.

Net Investment Income

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net Investment Income				
Fixed maturity AFS securities	$ 1,045	$ 1,045	$ 2,087	$ 2,083
Equity AFS securities	-	2	-	5
Trading securities	20	23	43	47
Equity securities	-	-	1	-
Mortgage loans on real estate	122	109	236	219
Real estate	-	1	-	1
Policy loans	34	34	67	67
Invested cash	5	3	11	4
Commercial mortgage loan prepayment and bond make-whole premiums (1)	24	37	42	54
Alternative investments (2)	20	55	61	104
Consent fees	2	1	2	2
Other investments	5	-	8	-
Investment income	1,277	1,310	2,558	2,586
Investment expense	(45)	(48)	(93)	(87
Net investment income	$ 1,232	$ 1,262	$ 2,465	$ 2,499

(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 June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Interest Rate Yield				
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	4.46%	4.57%	4.48%	4.59%
Commercial mortgage loan prepayment and bond make-whole premiums	0.09%	0.14%	0.08%	0.10%
Alternative investments	0.08%	0.21%	0.12%	0.20%
Net investment income yield on invested assets	4.63%	4.92%	4.68%	4.89%

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Average invested assets at amortized cost	$ 106,436	$ 102,556	$ 105,407	$ 102,132

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

Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums

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

Realized Gain (Loss) Related to Certain Investments

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Fixed maturity AFS securities: (1)				
Gross gains	$ 1	$ 3	$ 16	$ 11
Gross losses	(12)	(13)	(45)	(25)
Equity AFS securities:				
Gross gains	-	-	-	1
Gain (loss) on other investments (2)	4	(2)	6	(5)
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(6)	(6)	(11)	(13)
Total realized gain (loss) related to certain investments, pre-tax	$ (13)	$ (18)	$ (34)	$ (31)

(1) These amounts are represented net of related fair value hedging activity. See Note 6 for more information.
(2) Includes market adjustments on equity securities still held of $2 million for the three and six months ended June 30, 2018.

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

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

We consider economic factors and circumstances within 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, the security is written down to estimated recovery value. In instances where declines are considered temporary, the security will continue to be carefully monitored. See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Investments – Write-downs for OTTI and Allowance for Losses" in our 2017 Form 10-K for additional information on our portfolio management strategy.

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

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

	2018	2017	2018	2017
OTTI Recognized in Net Income (Loss)				
Fixed maturity AFS securities:				
Corporate bonds	$ (1)	$ (4)	$ (3)	$ (5)
ABS	-	-	-	(1)
RMBS	-	-	-	(1)
State and municipal bonds	-	-	-	(1)
Gross OTTI recognized in net income (loss)	(1)	(4)	(3)	(8)
Associated amortization of DAC, VOBA, DSI and DFEL	-	-	-	-
Net OTTI recognized in net income (loss), pre-tax	$ (1)	$ (4)	$ (3)	$ (8)

The $3 million of impairments recognized in net income taken during the first six months of 2018 were all credit-related impairments. The decrease in write-downs for OTTI when comparing the first six months of 2018 to the corresponding period in 2017 was primarily attributable to the stabilization of certain corporate and municipal bond holdings as well as gradual recovery of RMBS and ABS investments. We recognized less than $1 million of OTTI in OCI for the three and six months ended June 30, 2018 and 2017.

REVIEW OF CONSOLIDATED FINANCIAL CONDITION

Liquidity and Capital Resources

Sources of Liquidity and Cash Flow

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash from its normal operations to meet cash requirements with a prudent margin of safety. Our principal sources of cash flow from operating activities are insurance premiums and fees and investment income, while sources of cash flows from investing activities result from maturities and sales of invested assets. Our operating activities provided cash of $632 million and $202 million for the six months ended June 30, 2018 and 2017, respectively. When considering our liquidity and cash flow, it is important to distinguish between the needs of our insurance subsidiaries and the needs of the holding company, LNC. As a holding company with no operations of its own, LNC derives its cash primarily from its operating subsidiaries.

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Dividends from Subsidiaries				
The Lincoln National Life Insurance Company	$ -	$ 244	$ -	$ 454
First Penn-Pacific	-	20	-	20
Lincoln National Management Corporation	-	-	-	65
Total dividends from subsidiaries	$ -	$ 264	$ -	$ 539

Loan Repayments and Interest from Subsidiaries				
Interest on inter-company notes	$ 30	$ 29	$ 61	$ 80
Other Cash Flow Items				
Amounts received from (paid for taxes on) stock option exercises and restricted stock, net	$ 1	$ 4	$ 2	$ 42

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

Insurance Subsidiaries' Statutory Capital and Surplus

Our regulatory capital levels are also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator. Our term products and UL products containing secondary guarantees require reserves calculated pursuant to XXX and AG38, respectively. As discussed in "Part I – Item 1A. Risk Factors – Legislative, Regulatory, and Tax – Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and result of operations" in our 2017 Form 10-K, our insurance subsidiaries employ strategies to reduce the strain caused by XXX and AG38 by reinsuring the business to insurance captives. Our captive reinsurance and reinsurance subsidiaries provide a mechanism for financing a portion of the excess reserve amounts in a more efficient manner. We use long-dated LOCs and debt financing as well as other financing strategies to finance those reserves. Included in the LOCs issued as of June 30, 2018, was approximately $2.3 billion of long-dated LOCs issued to support inter-company reinsurance arrangements for UL products containing secondary guarantees ($350 million will expire in 2019 and $1.9 billion relates to arrangements that will expire by 2031). For information on the LOCs, see the credit facilities table in Note 12 in our 2017 Form 10-K. Our captive reinsurance and reinsurance subsidiaries have also issued long-term notes of $3.1 billion to finance a portion of the excess reserves as of June 30, 2018; of this amount, $2.0 billion involve exposure to VIEs. For information on these long-term notes issued by our captive reinsurance and reinsurance subsidiaries, see Note 4 in our 2017 Form 10-K.

We have also used the proceeds from senior note issuances of $875 million to execute long-term structured solutions supporting reinsurance of UL products containing secondary guarantees. LOCs and related capital market solutions lower the capital effect of term products and UL products containing secondary guarantees. An inability to obtain appropriate capital market solutions could affect our returns on our in-force term products and UL products containing secondary guarantees. However, we believe that we have sufficient capital to support the increase in statutory reserves, based on our current reserve projections, if such structures were no longer available.

Our captive reinsurance and reinsurance subsidiaries free up capital the insurance subsidiaries can use for any number of purposes, including paying dividends to the holding company. The NAIC's adoption of the new Valuation Manual that defines a principles-based reserving framework for newly issued life insurance policies was effective January 1, 2017. Principles-based reserving places a greater weight on our past experience and anticipated future experience as well as considers current economic conditions in calculating life insurance product reserves in accordance with statutory accounting principles. We adopted the new framework for our newly issued term business in 2017 and will phase in the framework prior to January 1, 2020, for all other newly issued life insurance products. We believe that these changes may reduce our future use of captive reinsurance and reinsurance subsidiaries for reserve financing transactions for our life insurance business. For more information on principles-based reserving, see "Part I – Item 1. Business – Regulatory – Insurance Regulation" in our 2017 Form 10-K.

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

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

Financing Activities

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

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

Details underlying debt and financing activities (in millions) for the six months ended June 30, 2018, 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	$ 450	$ -	$ (450)	$ -	$ -	$ -
Long-Term Debt						
Senior notes	$ 3,687	$ 1,100	$ (287)	$ (76)	$ (5)	$ 4,419
Bank borrowing (2)	-	200	-	-	-	200
Capital securities (3)	1,207	-	-	-	-	1,207
Total long-term debt	$ 4,894	$ 1,300	$ (287)	$ (76)	$ (5)	$ 5,826

(1) Includes the net increase (decrease) in commercial paper, non-cash reclassification of long-term debt to current maturities of long-term debt, accretion (amortization) of discounts and premiums and amortization of debt issuance costs, as applicable.

(2) We refinanced a $250 million floating rate loan that was scheduled to mature on June 6, 2018, into a $200 million floating rate loan maturing on June 6, 2023.

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

On February 12, 2018, we completed the issuance and sale of $150 million aggregate principal amount of our 4.00% senior notes due 2023 and $450 million aggregate principal amount of our 4.35% senior notes due 2048. We used these proceeds to repurchase $200 million of our 7.00% senior notes due 2018 and $287 million of our 8.75% senior notes due 2019. In addition, on February 12, 2018, we completed the issuance and sale of $500 million aggregate principal amount of our 3.80% senior notes due 2028. We used these proceeds, together with cash on hand and other arrangements, to fund our recent acquisition as described in Note 3. As of June 30, 2018, the holding company had available liquidity of $484 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.

For more information about our short-term and long-term debt and our credit facilities and LOCs, see Notes 12 and 24 in our 2017 Form 10-K as updated by Note 9 in our first quarter 2018 Form 10-Q.

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

If current credit ratings or claims-paying ratings were downgraded in the future, terms in our derivative agreements may be triggered, which could negatively affect overall liquidity. For the majority of our counterparties, there is a termination event with respect to LNC if its long-term senior debt ratings drop below BBB-/Baa3 (S&P/Moody's); or with respect to Lincoln National Life Insurance Company ("LNL") if its financial strength ratings drop below BBB-/Baa3 (S&P/Moody's). Our long-term senior debt held a rating of A-/Baa1 (S&P/Moody's) as of June 30, 2018. In addition, contractual selling agreements with intermediaries could be negatively affected, which could have an adverse effect on overall sales of annuities, life insurance and investment products. See "Part I – Item 1A. Risk Factors – Liquidity and Capital Position – A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings" and "Part I – Item 1A. Risk Factors – Covenants and Ratings – A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors" in our 2017 Form 10-K for more information. See "Part I – Item 1. Business – Financial Strength Ratings" in our 2017 Form 10-K for additional information on our current financial strength ratings.

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

Alternative Sources of Liquidity

In order to manage our capital more efficiently, we have an inter-company cash management program where certain subsidiaries can lend to or borrow from the holding company to meet short-term borrowing needs. The cash management program is essentially a series of demand loans between LNC and participating subsidiaries that reduces overall borrowing costs by allowing LNC and its subsidiaries to access internal resources instead of incurring third-party transaction costs. As of June 30, 2018, the holding company had a net outstanding receivable (payable) of $125 million from (to) certain subsidiaries resulting from loans made by subsidiaries in excess of amounts placed (borrowed) by the holding company and subsidiaries in the inter-company cash management account. Any change in holding company cash management program balances is offset by the immediate and equal change in holding company cash and invested cash. Loans under the cash management program are permitted under applicable insurance laws subject to certain restrictions. For our Indiana-domiciled insurance subsidiaries, the borrowing and lending limit is currently 3% of the insurance company's admitted assets as of its most recent year end. For our New York-domiciled insurance subsidiary, it may borrow from LNC less than 2% of its admitted assets as of the last year end but may not lend any amounts to LNC.

Our insurance subsidiaries, by virtue of their general account fixed-income investment holdings, can access liquidity through securities lending programs and repurchase agreements. Our primary insurance subsidiary, LNL, is a member of the Federal Home Loan Bank of Indianapolis ("FHLBI"). Membership allows LNL access to the FHLBI's financial services, including the ability to obtain loans and to issue funding agreements as an alternative source of liquidity that are collateralized by qualifying mortgage-related assets, agency securities or U.S. Treasury securities. LNL had an estimated maximum borrowing capacity of $5.0 billion under the FHLBI facility as of June 30, 2018. Borrowings under this facility are subject to the FHLBI's discretion and require the availability of qualifying assets at LNL. As of June 30, 2018, our insurance subsidiaries had investments with a carrying value of $4.2 billion out on loan or subject to repurchase agreements. The cash received in our securities lending programs and repurchase agreements is typically invested in cash equivalents, short-term investments or fixed maturity securities. For additional details, see "Payables for Collateral on Investments" in Note 5.

Cash Flows from Collateral on Derivatives

Our cash flows associated with collateral received from and posted with counterparties change as the market value of the underlying derivative contract changes. As the value of a derivative asset decreases (or increases), the collateral required to be posted by our counterparties would also decrease (or increase). Likewise, when the value of a derivative liability decreases (or increases), the collateral we are required to post to our counterparties would also decrease (or increase). During 2018, our collateral payable for derivative investments decreased due primarily to increasing interest rates that decreased the fair values of our associated 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 6.

Uses of Capital

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

Return of Capital to Common Stockholders

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Dividends to common stockholders	$ 72	$ 65	$ 144	$ 131
Repurchase of common stock	100	200	100	400
Total cash returned to stockholders	$ 172	$ 265	$ 244	$ 531
Number of shares repurchased	1.456	3.030	1.456	5.894
Average price per share	$ 68.71	$ 68.00	$ 68.71	$ 68.90

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

Other Uses of Capital

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Debt service (interest paid)	$ 69	$ 64	$ 141	$ 126
Capital contribution to subsidiaries	500	-	502	60
Total	$ 569	$ 64	$ 643	$ 186

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.

We made an investment in our Group business through our acquisition of Liberty Life, a subsidiary of LNL, which impacted our liquidity and capital position. For additional information on our acquisition, see "Introduction – Executive Summary" above and Note 3 herein.

Significant Trends in Sources and Uses of Cash Flow

As stated above, LNC's cash flow, as a holding company, is largely dependent upon the dividend capacity of its insurance company subsidiaries as well as their ability to advance funds to it through inter-company borrowing arrangements, which may be affected by factors influencing the insurance subsidiaries' RBC and statutory earnings performance. We currently expect to be able to meet the holding company's ongoing cash needs and to have sufficient capital to offer downside protection in the event that the capital and credit markets experience another period of extreme volatility and disruption. A decline in capital market conditions, which reduces our insurance subsidiaries' statutory surplus and RBC, may require them to retain more capital and may pressure our subsidiaries' dividends to the holding company, which may lead us to take steps to preserve or raise additional capital. For factors that could affect our expectations for liquidity and capital, see "Part I – Item 1A. Risk Factors" in our 2017 Form 10-K as updated by "Part II – Item 1A. Risk Factors" in our first quarter 2018 Form 10-Q and below.

For factors that could cause actual results to differ materially from those set forth in this section, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2017 Form 10-K as updated by “Part II – Item 1A. Risk Factors” in our first quarter 2018 Form 10-Q and below.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We analyze and manage the risks arising from market exposures of financial instruments, as well as other risks, in an integrated asset-liability management process that considers diversification. We have exposures to several market risks including interest rate risk, equity market risk, credit risk and, to a lesser extent, foreign currency exchange risk. As of June 30, 2018, there have been no material changes in our economic exposure to these market risks since December 31, 2017. For information on these market risks, see “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our 2017 Form 10-K.

Item 4. Controls and Procedures

Conclusions Regarding Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We acquired Liberty Life Assurance Company of Boston (“Liberty Life”) on May 1, 2018, and have not yet included Liberty Life in our assessment of the effectiveness of our internal control over financial reporting. Accordingly, pursuant to the SEC's general guidance that an assessment of a recently acquired business may be omitted from the scope of an assessment in the year of acquisition, the scope of our assessment of the effectiveness of our disclosure controls and procedures does not include Liberty Life. See Note 3 for additional information.

A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will be met. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Legislative, Regulatory and Tax

Federal Regulation

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

In 2016, the Department of Labor ("DOL") released the DOL Fiduciary Rule, which became effective on June 9, 2017, and substantially expanded the range of activities considered to be fiduciary investment advice under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. On March 15, 2018, the U.S. Court of Appeals for the Fifth Circuit (the "Fifth Circuit") issued an opinion in the case Chamber of Commerce v. the U.S. Department of Labor vacating the DOL Fiduciary Rule and related applicable exemptions. The DOL and the Department of Justice did not appeal the Fifth Circuit's decision to the U.S. Supreme Court, and on June 21, 2018, the Fifth Circuit issued a mandate stating that the original definition of "fiduciary," including the original five-part test, will apply going forward.

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

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

Finally, the SEC proposed interpretative guidance providing clarity on an investment adviser's fiduciary obligation under the Advisers Act. The guidance indicates that investment advisers have a fiduciary duty to their clients that includes both a duty of care and a duty of loyalty and provides additional clarification of an investment adviser's responsibilities under these fiduciary duties. Investment advisers and broker-dealers would also need to disclose their registration status with the SEC in certain retail investor communications. The comment period on the proposals is expected to close on August 7, 2018.

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

It is uncertain at this point, how the original DOL definition of "fiduciary" will work in conjunction with any final rules adopted by the SEC, the NAIC or any individual state. While we continue to monitor and evaluate the various proposals, we cannot predict what other proposals may be made, what legislation or regulation may be introduced or become law. Therefore, until such time as final rules or laws are in place, the potential impact on our business is uncertain.

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

(c) The following table summarizes purchases of equity securities by the Company during the quarter ended June 30, 2018 (dollars in millions, except per share data):

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Approximate Dollar Value of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (2)(3)
4/1/18 – 4/30/18	-	$ -	-	$ 961
5/1/18 – 5/31/18	1,455,895	68.71	1,455,895	861
6/1/18 – 6/30/18	-	-	-	861

(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 June 30, 2018, there were 1,455,895 shares purchased as part of publicly announced plans or programs.

(2) On November 9, 2017, our Board of Directors authorized an increase in our securities repurchase authorization, bringing the total aggregate repurchase authorization to $1.0 billion. As of June 30, 2018, our remaining security repurchase authorization was $861 million. The security repurchase authorization does not have an expiration date. The amount and timing of share repurchase depends on key capital ratios, rating agency expectations, the generation of free cash flow and an evaluation of the costs and benefits associated with alternative uses of capital. Our stock repurchases may be effected from time to time through open market purchases or in privately negotiated transactions and may be made pursuant to a Rule 10b5-1 plan.

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

Item 6. Exhibits

The Exhibits included in this report are listed in the Exhibit Index beginning on page 95, which is incorporated herein by reference.

LINCOLN NATIONAL CORPORATION

Exhibit Index for the Report on Form 10-Q

For the Quarter Ended June 30, 2018

12	Historical Ratio of Earnings to Fixed Charges.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

SIGNATURES

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

	LINCOLN NATIONAL CORPORATION	
	By:	/s/ RANDAL J. FREITAG Randal J. Freitag Executive Vice President and Chief Financial Officer
	By:	/s/ CHRISTINE A. JANOFSKY Christine A. Janofsky Senior Vice President and Chief Accounting Officer
Dated: August 2, 2018		