LINCOLN NATIONAL CORP
Form 10-Q
October 30, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from to

Commission File Number: 1-6028

LINCOLN NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(484) 583-1400

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

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

Smaller reporting company

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

As of October 27, 2014, there were 259,789,727 shares of the registrant’s common stock outstanding.

Lincoln National Corporation

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	As of September 30, 2014 (Unaudited)	As of December 31, 2013
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2014 – $78,484; 2013 – $76,353)	$ 85,348	$ 80,078
Variable interest entities' fixed maturity securities (amortized cost: 2014 – $586; 2013 – $682)	598	697
Equity securities (cost: 2014 – $217; 2013 – $182)	234	201
Trading securities	2,134	2,282
Mortgage loans on real estate	7,466	7,210
Real estate	20	47
Policy loans	2,677	2,677
Derivative investments	1,439	881
Other investments	1,469	1,218
Total investments	101,385	95,291
Cash and invested cash	1,821	2,364
Deferred acquisition costs and value of business acquired	8,372	8,886
Premiums and fees receivable	448	420
Accrued investment income	1,129	1,029
Reinsurance recoverables	5,906	6,041
Funds withheld reinsurance assets	761	776
Goodwill	2,273	2,273
Other assets	3,414	2,730
Separate account assets	122,937	117,135
Total assets	$ 248,446	$ 236,945
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 19,553	$ 17,251
Other contract holder funds	74,893	74,548
Short-term debt	250	501
Long-term debt	5,186	5,320
Reinsurance related embedded derivatives	141	108
Funds withheld reinsurance liabilities	806	867

Deferred gain on business sold through reinsurance	190	245
Payables for collateral on investments	3,853	3,238
Variable interest entities' liabilities	17	27
Other liabilities	5,168	4,253
Separate account liabilities	122,937	117,135
Total liabilities	232,994	223,493
Contingencies and Commitments (See Note 8)		
Stockholders' Equity		
Preferred stock – 10,000,000 shares authorized	-	-
Common stock – 800,000,000 shares authorized; 259,786,446 and 262,896,701 shares issued and outstanding as of September 30, 2014, and December 31, 2013, respectively	6,696	6,876
Retained earnings	5,834	5,013
Accumulated other comprehensive income (loss)	2,922	1,563
Total stockholders' equity	15,452	13,452
Total liabilities and stockholders' equity	$ 248,446	$ 236,945

See accompanying Notes to Consolidated Financial Statements

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LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in millions, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues				
Insurance premiums	$ 741	$ 672	$ 2,236	$ 2,000
Fee income	1,216	1,032	3,448	2,973
Net investment income	1,212	1,180	3,627	3,543
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(6)	(22)	(21)	(61)
Portion of loss recognized in other comprehensive income	2	3	10	9
Net other-than-temporary impairment losses on securities recognized in earnings	(4)	(19)	(11)	(52)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	93	(9)	117	(53)
Total realized gain (loss)	89	(28)	106	(105)
Amortization of deferred gain on business sold through reinsurance	18	19	55	56
Other revenues	135	134	397	380
Total revenues	3,411	3,009	9,869	8,847
Expenses				
Interest credited	631	627	1,900	1,871
Benefits	1,117	945	3,275	2,894
Commissions and other expenses	995	928	2,929	2,721
Interest and debt expense	67	67	201	196
Total expenses	2,810	2,567	8,305	7,682
Income (loss) before taxes	601	442	1,564	1,165
Federal income tax expense (benefit)	162	105	398	272
Net income (loss)	439	337	1,166	893
Other comprehensive income (loss), net of tax	(277)	(143)	1,359	(2,058)
Comprehensive income (loss)	$ 162	$ 194	$ 2,525	$ (1,165)
Net Income (Loss) Per Common Share				
Basic	$ 1.69	$ 1.28	$ 4.45	$ 3.35
Diluted	1.65	1.23	4.34	3.24

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited, in millions, except per share data)

	For the Nine Months Ended September 30, 2014	2013
Common Stock		
Balance as of beginning-of-year	$ 6,876	$ 7,121
Stock compensation/issued for benefit plans	51	27
Retirement of common stock/cancellation of shares	(231)	(262)
Balance as of end-of-period	6,696	6,886
Retained Earnings		
Balance as of beginning-of-year	5,013	4,044
Net income (loss)	1,166	893
Retirement of common stock	(219)	(88)
Common stock dividends declared (2014 – $0.48; 2013 – $0.36)	(126)	(96)
Balance as of end-of-period	5,834	4,753
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	1,563	3,808
Other comprehensive income (loss), net of tax	1,359	(2,058)
Balance as of end-of-period	2,922	1,750
Total stockholders' equity as of end-of-period	$ 15,452	$ 13,389

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in millions)

	For the Nine Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income (loss)	$ 1,166	$ 893
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads deferrals and interest, net of amortization	(346)	(355)
Trading securities purchases, sales and maturities, net	223	90
Change in premiums and fees receivable	(28)	(47)
Change in accrued investment income	(100)	(96)
Change in future contract benefits and other contract holder funds	224	18
Change in reinsurance related assets and liabilities	10	(207)
Change in federal income tax accruals	198	262
Realized (gain) loss	(106)	105
Amortization of deferred gain on business sold through reinsurance	(55)	(56)
Other	(91)	(103)
Net cash provided by (used in) operating activities	1,095	504
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(6,127)	(8,719)
Sales of available-for-sale securities	498	800
Maturities of available-for-sale securities	3,607	4,772
Purchases of other investments	(2,843)	(1,867)
Sales or maturities of other investments	2,597	1,901
Increase (decrease) in payables for collateral on investments	615	(628)
Other	(69)	(73)
Net cash provided by (used in) investing activities	(1,722)	(3,814)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	(500)	-
Issuance of long-term debt, net of issuance costs	-	397
Deposits of fixed account values, including the fixed portion of variable	7,213	7,847
Withdrawals of fixed account values, including the fixed portion of variable	(4,162)	(3,910)
Transfers to and from separate accounts, net	(1,914)	(2,158)
Common stock issued for benefit plans and excess tax benefits	23	1
Repurchase of common stock	(450)	(350)
Dividends paid to common and preferred stockholders	(126)	(97)
Net cash provided by (used in) financing activities	84	1,730

Net increase (decrease) in cash and invested cash	(543)	(1,580)
Cash and invested cash as of beginning-of-year	2,364	4,230
Cash and invested cash as of end-of-period	$ 1,821	$ 2,650

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for the Securities and Exchange Commission ("SEC") Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, the information contained in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 ("2013 Form 10-K"), should be read in connection with the reading of these interim unaudited consolidated financial statements.

Certain GAAP policies, which significantly affect the determination of financial position, results of operations and cash flows, are summarized in our 2013 Form 10-K.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company's results. Operating results for the nine month period ended September 30, 2014, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2014. All material inter-company accounts and transactions have been eliminated in consolidation.

2. New Accounting Standards

Adoption of New Accounting Standards

Financial Services – Investment Companies Topic

In June 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-08, "Amendments to the Scope, Measurement, and Disclosure Requirements" ("ASU 2013-08"), which provides comprehensive accounting guidance for assessing whether an entity is an investment company. For a more detailed description of ASU 2013-08, see "Future Adoption of New Accounting Standards – Financial Services – Investment Companies Topic" in Note 2 of our 2013 Form 10-K. We adopted the requirements in ASU 2013-08 effective January 1, 2014, and evaluated all of our entities under the investment company criteria defined in ASU 2013-08. The adoption of ASU 2013-08 did not have an effect on our consolidated financial condition and results of operations.

Income Taxes Topic

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11") in order to explicitly define the financial statement presentation requirements in GAAP. For a more detailed description of ASU 2013-11, see "Future Adoption of New Accounting Standards – Income Taxes Topic" in Note 2 of our 2013 Form 10-K. We adopted the requirements of ASU 2013-11 effective January 1, 2014. The adoption of ASU 2013-11 did not have an effect on the deferred tax asset or liability classification on our balance sheet and did not result in any additional disclosures to our financial statements.

Other Expenses Topic

In July 2011, the FASB issued ASU No. 2011-06, "Fees Paid to the Federal Government by Health Insurers" ("ASU 2011-06") in order to address the question of how health insurers should recognize and classify fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act. For a more detailed description of ASU 2011-06, see "Future Adoption of New Accounting Standards – Other Expenses Topic" in Note 2 of our 2013 Form 10-K. We adopted the requirements of ASU 2011-06 effective January 1, 2014. The adoption of ASU 2011-06 did not have a material effect on our consolidated financial condition and results of operations.

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Future Adoption of New Accounting Standards

Investments – Equity Method and Joint Ventures Topic

In January 2014, the FASB issued ASU No. 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects" ("ASU 2014-01") in response to stakeholders' feedback that the presence of certain conditions in order to apply the effective yield method to investments in qualified affordable housing projects may be overly restrictive and could result in certain investments being accounted for under a method of accounting that may not fairly represent the economics of the investments. For a more detailed description of ASU 2014-01, see "Future Adoption of New Accounting Standards – Investments – Equity Method and Joint Ventures" in Note 2 of our 2013 Form 10-K. We will adopt the requirements of ASU 2014-01 effective January 1, 2015, and do not expect the adoption will have a material effect on our consolidated financial condition and results of operations.

Revenue from Contracts with Customers Topic

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09") in order to clarify the principles of recognizing revenue. ASU 2014-09 establishes the core principle of recognizing revenue to depict the transfer of promised goods or services in an amount that reflects the consideration the entity expects to be entitled in exchange for those goods or services. The FASB defines a five-step process that systematically identifies the various components of the revenue recognition process, culminating with the recognition of revenue upon satisfaction of an entity's performance obligation. By completing all five steps of the process, the core principles of revenue recognition will be achieved. The amendments in ASU 2014-09 are effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption prohibited. We will adopt the requirements of ASU 2014-09 effective January 1, 2017, and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

Transfers and Servicing Topic

In June 2014, the FASB issued ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures" ("ASU 2014-11") in order to eliminate a distinction in current accounting guidance related to certain repurchase agreements. The FASB noted that the distinction in the accounting guidance was not warranted because in all types of repurchase transactions the transferor retains exposure to the transferred financial assets and obtains important benefits from those assets through the term of the transaction. ASU 2014-11 amends current accounting guidance to require repurchase-to-maturity transactions and linked repurchase financings to be accounted for as secured borrowings, which is consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 includes new disclosure requirements related to transfers accounted for as sales that are economically similar to repurchase agreements, and information about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in ASU 2014-11 are effective for annual and interim reporting periods beginning after December 15, 2014, with early adoption prohibited. Changes in accounting for transactions outstanding on the effective date are reported as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The disclosures are not required to be presented for comparative periods before the effective date. We will adopt the requirements of ASU 2014-11 effective January 1, 2015, and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

3. Variable Interest Entities ("VIEs")

Consolidated VIEs

See Note 4 in our 2013 Form 10-K for a detailed discussion of our consolidated VIEs, which information is incorporated herein by reference.

The following summarizes information regarding the credit-linked note ("CLN") structures (dollars in millions) as of September 30, 2014:

	Amount and Date of Issuance	
	$400 December 2006	$200 April 2007
Original attachment point (subordination)	5.50%	2.05%
Current attachment point (subordination)	4.21%	1.48%
Maturity	12/20/2016	3/20/2017
Current rating of tranche	BBB-	Ba2
Current rating of underlying reference obligations	AA - BB	AAA - CCC
Number of defaults in	3	2

underlying reference obligations		
Number of entities	123	99
Number of countries	20	21

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The following summarizes the exposure of the CLN structures' underlying reference obligations by industry and rating as of September 30, 2014:

	AAA	AA	A	BBB	BB	B	CCC	Total
Industry								
Financial intermediaries	0.0%	2.1%	6.7%	1.7%	0.0%	0.0%	0.0%	10.5%
Telecommunications	0.0%	0.0%	4.0%	5.5%	1.4%	0.0%	0.0%	10.9%
Oil and gas	0.3%	2.1%	1.0%	4.6%	0.0%	0.0%	0.0%	8.0%
Utilities	0.0%	0.0%	2.6%	1.9%	0.0%	0.0%	0.0%	4.5%
Chemicals and plastics	0.0%	0.0%	2.3%	1.2%	0.3%	0.0%	0.0%	3.8%
Drugs	0.3%	2.2%	1.2%	0.0%	0.0%	0.0%	0.0%	3.7%
Retailers (except food and drug)	0.0%	0.0%	2.1%	0.9%	0.5%	0.0%	0.0%	3.5%
Industrial equipment	0.0%	0.0%	2.6%	0.7%	0.0%	0.0%	0.0%	3.3%
Sovereign	0.0%	0.7%	1.2%	1.4%	0.0%	0.0%	0.0%	3.3%
Conglomerates	0.0%	2.3%	0.9%	0.0%	0.0%	0.0%	0.0%	3.2%
Forest products	0.0%	0.0%	0.0%	1.6%	1.4%	0.0%	0.0%	3.0%
Other	0.0%	4.1%	15.5%	17.1%	4.6%	0.7%	0.3%	42.3%
Total	0.6%	13.5%	40.1%	36.6%	8.2%	0.7%	0.3%	100.0%

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

	As of September 30, 2014			As of December 31, 2013		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
Assets						
Fixed maturity securities:						
Asset-backed credit card loans	N/A	$ -	$ 598	N/A	$ -	$ 595
U.S. government bonds	N/A	-	-	N/A	-	102
Total return swap	1	402	-	1	361	-
Total assets (1)	1	$ 402	$ 598	1	$ 361	$ 697
Liabilities						
Non-qualifying hedges:						
Credit default swaps	2	$ 600	$ 17	2	$ 600	$ 27
Contingent forwards	2	-	-	2	-	-
Total liabilities (2)	4	$ 600	$ 17	4	$ 600	$ 27

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

For details related to the fixed maturity available-for-sale ("AFS") securities for these VIEs, see Note 4.

As described more fully in Note 1 of our 2013 Form 10-K, we regularly review our investment holdings for other-than-temporary impairment ("OTTI"). Based upon this review, we believe that the AFS fixed maturity securities were not other-than-temporarily impaired as of September 30, 2014.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Non-Qualifying Hedges				
Credit default swaps	$ (7)	$ 35	$ 10	$ 61
Contingent forwards	-	-	-	-
Total non-qualifying hedges (1)	$ (7)	$ 35	$ 10	$ 61

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

Unconsolidated VIEs

See Note 4 in our 2013 Form 10-K for a detailed discussion of our unconsolidated VIEs, which information is incorporated herein by reference.

Effective December 31, 2010, we issued a $500 million long-term senior note in exchange for a corporate bond AFS security of like principal and duration from a non-affiliated VIE. For a more detailed description of this transaction, see "Unconsolidated VIEs" in Note 4 of our 2013 Form 10-K. Effective September 30, 2014, we terminated our $500 million long-term senior note financing arrangement and entered into a new transaction with the same non-affiliated VIE whose primary activities are to acquire, hold and issue notes and loans, pay and collect interest on the notes and loans, and enter into derivative instruments. Under this new transaction, we issued a $697 million long-term senior note to the non-affiliated VIE in exchange for a corporate bond AFS security of like principal and duration that was assigned to one of our subsidiaries. The outstanding principal balance of this new long-term senior note is variable in nature, moving concurrently with any variability in the face amount of the corporate bond AFS security up to a maximum amount of $1.1 billion. We have concluded that we are not the primary beneficiary of the non-affiliated VIE because we do not have power over the activities that most significantly affect its economic performance. In addition, the terms of the senior note provide us with a set-off right with the corporate bond AFS security we purchased from the VIE; therefore, neither appears on our Consolidated Balance Sheets. The VIE has entered into a total return swap with an unaffiliated third party that supports any necessary principal funding of the corporate bond AFS security required by our subsidiaries while the security is outstanding.

We invest in certain limited partnerships ("LPs") that operate qualified affordable housing projects that we have concluded are VIEs. We receive returns from the LPs in the form of income tax credits that are guaranteed by creditworthy third parties, and our exposure to loss is limited to the capital we invest in the LPs. We are not the primary beneficiary of these VIEs as we do not have the power to direct the most significant activities of the LPs. Our maximum exposure to loss was $70 million and $77 million as of September 30, 2014, and December 31, 2013, respectively.

4. Investments

AFS Securities

See Note 1 in our 2013 Form 10-K for information regarding our accounting policy relating to AFS securities, which also includes additional disclosures regarding our fair value measurements.

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

	As of September 30, 2014				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value
Fixed maturity securities:					
Corporate bonds	$ 68,077	$ 6,175	$ 369	$ 85	$ 73,798
U.S. government bonds	365	38	1	-	402
Foreign government bonds	489	62	-	-	551
Residential mortgage-backed securities (“RMBS”)	4,063	267	-	21	4,309
Commercial mortgage-backed securities (“CMBS”)	607	29	-	14	622
Collateralized loan obligations (“CLOs”)	287	-	1	-	286
State and municipal bonds	3,709	716	5	-	4,420
Hybrid and redeemable preferred securities	887	110	37	-	960
VIEs' fixed maturity securities	586	12	-	-	598
Total fixed maturity securities	79,070	7,409	413	120	85,946
Equity securities	217	17	-	-	234
Total AFS securities	$ 79,287	$ 7,426	$ 413	$ 120	$ 86,180

	As of December 31, 2013				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value

Fixed maturity securities:					
Corporate bonds	$ 65,808	$ 4,374	$ 1,157	$ 90	$ 68,935
U.S. government bonds	355	26	14	-	367
Foreign government bonds	505	45	1	-	549
RMBS	4,135	256	10	31	4,350
CMBS	713	36	4	17	728
CLOs	232	-	1	6	225
State and municipal bonds	3,638	308	27	-	3,919
Hybrid and redeemable preferred securities	967	89	51	-	1,005
VIEs' fixed maturity securities	682	15	-	-	697
Total fixed maturity securities	77,035	5,149	1,265	144	80,775
Equity securities	182	19	-	-	201
Total AFS securities	$ 77,217	$ 5,168	$ 1,265	$ 144	$ 80,976

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) as of September 30, 2014, were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 2,338	$ 2,388
Due after one year through five years	17,352	18,852
Due after five years through ten years	22,426	23,467
Due after ten years	31,997	36,022
Subtotal	74,113	80,729
Mortgage-backed securities (“MBS”)	4,670	4,931
CLOs	287	286
Total fixed maturity AFS securities	$ 79,070	$ 85,946

Actual maturities may differ from contractual maturities because issuers may have the right to call or pre-pay obligations.

The fair value and gross unrealized losses, including the portion of OTTI recognized in other comprehensive income (loss) ("OCI"), of AFS securities (dollars in millions), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	As of September 30, 2014					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed maturity securities:						
Corporate bonds	$ 5,133	$ 90	$ 5,810	$ 364	$ 10,943	$ 454
U.S. government bonds	156	1	-	-	156	1
RMBS	403	3	293	18	696	21
CMBS	6	-	116	14	122	14
CLOs	34	-	81	1	115	1
State and municipal bonds	44	1	24	4	68	5
Hybrid and redeemable preferred securities	13	-	194	37	207	37
Total AFS securities	$ 5,789	$ 95	$ 6,518	$ 438	$ 12,307	$ 533
Total number of AFS securities in an unrealized loss position						1,057

	As of December 31, 2013					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed maturity securities:						
Corporate bonds	$ 16,918	$ 1,018	$ 1,258	$ 229	$ 18,176	$ 1,247
U.S. government bonds	163	14	-	-	163	14
Foreign government bonds	69	1	-	-	69	1
RMBS	488	17	267	24	755	41
CMBS	109	7	43	14	152	21
CLOs	136	2	50	5	186	7

State and municipal bonds	377	20	24	7	401	27
Hybrid and redeemable preferred securities	62	6	197	45	259	51
Total AFS securities	$ 18,322	$ 1,085	$ 1,839	$ 324	$ 20,161	$ 1,409
Total number of AFS securities in an unrealized loss position						1,484

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

We perform detailed analysis on the AFS securities backed by pools of residential and commercial mortgages that are most at risk of impairment based on factors discussed in Note 1 in our 2013 Form 10-K. Selected information for these securities in a gross unrealized loss position (in millions) was as follows:

	As of September 30, 2014		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$ 1,088	$ 1,024	$ 64
AFS securities backed by pools of commercial mortgages	148	134	14
Total	$ 1,236	$ 1,158	$ 78
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$ 790	$ 731	$ 59
AFS securities backed by pools of commercial mortgages	26	25	1
Total	$ 816	$ 756	$ 60

	As of December 31, 2013		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$ 1,261	$ 1,146	$ 115
AFS securities backed by pools of commercial mortgages	193	169	24
Total	$ 1,454	$ 1,315	$ 139
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$ 933	$ 833	$ 100
AFS securities backed by pools of commercial mortgages	29	24	5
Total	$ 962	$ 857	$ 105

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

	As of September 30, 2014			
	Fair	Gross Unrealized		Number of Securities
	Value	Losses	OTTI	(1)
Less than six months	$ 14	$ -	$ 7	3
Nine months or greater, but less than twelve months	1	-	-	3
Twelve months or greater	242	58	51	77
Total	$ 257	$ 58	$ 58	83

	As of December 31, 2013			
	Fair	Gross Unrealized		Number of Securities
	Value	Losses	OTTI	(1)
Less than six months	$ 1	$ 1	$ -	4
Six months or greater, but less than nine months	7	3	-	1
Nine months or greater, but less than twelve months	59	19	-	4
Twelve months or greater	349	92	81	92
Total	$ 416	$ 115	$ 81	101

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

We regularly review our investment holdings for OTTI. Our gross unrealized losses, including the portion of OTTI recognized in OCI, on AFS securities decreased by $876 million for the nine months ended September 30, 2014. As discussed further below, we believe the unrealized loss position as of September 30, 2014, did not represent OTTI as (i) we did not intend to sell the fixed maturity AFS securities; (ii) it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis; (iii) the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities; and (iv) we had the ability and intent to hold the equity AFS securities for a period of time sufficient for recovery.

Based upon this evaluation as of September 30, 2014, management believes we have the ability to generate adequate amounts of cash from our normal operations (e.g., insurance premiums and fees and investment income) to meet cash requirements with a prudent margin of safety without requiring the sale of our temporarily-impaired securities.

As of September 30, 2014, the unrealized losses associated with our corporate bond securities were attributable primarily to securities that were backed by individual issuer companies. For individual issuers, we performed detailed analysis of the financial performance of the issuer and determined that we expected to recover the entire amortized cost for each security.

As of September 30, 2014, the unrealized losses associated with our MBS and commercial real estate ("CRE") collateralized debt obligations ("CDOs") were attributable primarily to collateral losses and credit spreads. We assessed our MBS and CRE CDOs for credit impairment using a cash flow model that incorporates key assumptions including default rates, severities and prepayment rates. We estimated losses for a security by forecasting the underlying loans in each transaction. The forecasted loan performance was used to project cash flows to the various tranches in the structure, as applicable. Our forecasted cash flows also considered, as applicable, independent industry analyst reports and forecasts, sector credit ratings and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to our subordination or other credit enhancement, we expected to recover the entire amortized cost basis of each temporarily-impaired security.

As of September 30, 2014, the unrealized losses associated with our hybrid and redeemable preferred securities were attributable primarily to wider credit spreads caused by illiquidity in the market and subordination within the capital structure, as well as credit risk of specific issuers. For our hybrid and redeemable preferred securities, we evaluated the financial performance of the issuer based upon credit performance and investment ratings and determined that we expected to recover the entire amortized cost of each security.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance as of beginning-of-period	$ 389	$ 413	$ 404	$ 424
Increases attributable to:				

Credit losses on securities for which an OTTI was not previously recognized	1	6	2	26
Credit losses on securities for which an OTTI was previously recognized	4	16	12	37
Decreases attributable to:				
Securities sold	(17)	(16)	(41)	(68)
Balance as of end-of-period	$ 377	$ 419	$ 377	$ 419

During the nine months ended September 30, 2014 and 2013, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover the entire amortized cost basis of the debt security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

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

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

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

	As of September 30, 2014				
		Gross Unrealized			OTTI in
	Amortized Cost	Gains	Losses and OTTI	Fair Value	Credit Losses
Corporate bonds	$ 280	$ 34	$ 35	$ 279	$ 125
RMBS	472	27	10	489	187
CMBS	48	4	12	40	65
Total	$ 800	$ 65	$ 57	$ 808	$ 377

	As of December 31, 2013				
		Gross Unrealized			OTTI in
	Amortized Cost	Gains	Losses and OTTI	Fair Value	Credit Losses
Corporate bonds	$ 265	$ 18	$ 49	$ 234	$ 133
RMBS	550	18	18	550	184
CMBS	35	4	12	27	87
Total	$ 850	$ 40	$ 79	$ 811	$ 404

Mortgage Loans on Real Estate

See Note 1 in our 2013 Form 10-K for information regarding our accounting policy relating to mortgage loans on real estate.

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California and Texas, which accounted for 23% and 9%, respectively, of mortgage loans on real estate as of September 30, 2014, and December 31, 2013.

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

	As of September 30, 2014	As of December 31, 2013
Current	$ 7,457	$ 7,200
60 to 90 days past due	-	4
Greater than 90 days past due	8	3
Valuation allowance associated with impaired mortgage loans on real estate	(3)	(3)
Unamortized premium (discount)	4	6
Total carrying value	$ 7,466	$ 7,210

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

	As of September 30, 2014	As of December 31, 2013
Number of impaired mortgage loans on real estate	3	3
Principal balance of impaired mortgage loans on real estate	$ 27	$ 27
Valuation allowance associated with impaired mortgage loans on real estate	(3)	(3)
Carrying value of impaired mortgage loans on real estate	$ 24	$ 24

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

	As of September 30, 2014	As of December 31, 2013
Balance as of beginning-of-year	$ 3	$ 21
Additions	-	3
Charge-offs, net of recoveries	-	(21)
Balance as of end-of-period	$ 3	$ 3

The average carrying value on the impaired mortgage loans on real estate (in millions) was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Average carrying value for impaired mortgage loans on real estate	$ 24	$ 31	$ 24	$ 37
Interest income recognized on impaired mortgage loans on real estate	-	-	1	1
Interest income collected on impaired mortgage loans on real estate	-	-	1	1

As described in Note 1 in our 2013 Form 10-K, we use the loan-to-value and debt-service coverage ratios as credit quality indicators for our mortgage loans, which were as follows (dollars in millions):

	As of September 30, 2014			As of December 31, 2013		
	Carrying Value	% of Total	Debt-Service Coverage Ratio	Carrying Value	% of Total	Debt-Service Coverage Ratio
Less than 65%	$ 6,480	86.8%	1.86	$ 6,026	83.6%	1.78
65% to 74%	663	8.9%	1.54	744	10.3%	1.42
75% to 100%	292	3.9%	0.81	402	5.6%	0.83
Greater than 100%	31	0.4%	0.76	35	0.5%	0.78
Total mortgage loans on real estate	$ 7,466	100.0%		$ 7,207	100.0%	

Alternative Investments

As of September 30, 2014, and December 31, 2013, alternative investments included investments in 152 and 121 different partnerships, respectively, and the portfolio represented approximately 1% of our overall invested assets.

Realized Gain (Loss) Related to Certain Investments

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Fixed maturity AFS securities:				
Gross gains	$ 4	$ 5	$ 23	$ 17
Gross losses	(6)	(28)	(18)	(73)
Equity AFS securities:				
Gross gains	2	1	5	7
Gross losses	-	(1)	-	(2)
Gain (loss) on other investments	-	(2)	3	(3)
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(7)	(8)	(24)	(19)
Total realized gain (loss) related to certain investments, pre-tax	$ (7)	$ (33)	$ (11)	$ (73)

Details underlying write-downs taken as a result of OTTI (in millions) that were recognized in net income (loss) and included in realized gain (loss) on AFS securities above, and the portion of OTTI recognized in OCI (in millions) were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
OTTI Recognized in Net Income (Loss)				
Fixed maturity securities:				
Corporate bonds	$ (2)	$ (11)	$ (7)	$ (21)

RMBS	(1)	(10)	(4)	(25)
CMBS	-	(1)	(1)	(15)
CRE CDOs	(2)	-	(2)	(1)
Total fixed maturity securities	(5)	(22)	(14)	(62)
Equity securities	-	(1)	-	(1)
Gross OTTI recognized in net income (loss)	(5)	(23)	(14)	(63)
Associated amortization of DAC, VOBA, DSI and DFEL	1	4	3	11
Net OTTI recognized in net income (loss), pre-tax	$ (4)	$ (19)	$ (11)	$ (52)
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$ 2	$ 4	$ 11	$ 10
Change in DAC, VOBA, DSI and DFEL	-	(1)	(1)	(1)
Net portion of OTTI recognized in OCI, pre-tax	$ 2	$ 3	$ 10	$ 9

Determination of Credit Losses on Corporate Bonds and CDOs

As of September 30, 2014, and December 31, 2013, we reviewed our corporate bond and CDO portfolios for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. The factors used to determine the amount of credit loss for each individual security, include, but are not limited to, near term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers.

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service ("Moody's"), are generally considered by the rating agencies and market participants to be low credit risk. As of September 30, 2014, and December 31, 2013, 95% and 96%, respectively, of the fair value of our corporate bond portfolio was rated investment grade. As of September 30, 2014, and December 31, 2013, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $3.5 billion and $3.0 billion,

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respectively, and a fair value of $3.5 billion and $2.9 billion, respectively. As of September 30, 2014, and December 31, 2013, 96% and 94%, respectively, of the fair value of our CDO portfolio was rated investment grade. As of September 30, 2014, and December 31, 2013, the portion of our CDO portfolio rated below investment grade had an amortized cost of $12 million and $16 million, respectively, and fair value of $12 million and $13 million, respectively. Based upon the analysis discussed above, we believe as of September 30, 2014, and December 31, 2013, that we would recover the amortized cost of each fixed maturity security.

Determination of Credit Losses on MBS

As of September 30, 2014, and December 31, 2013, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between approximately 10% to 100% depending on loan type and severity of delinquency status. In addition, we estimate the potential contributions of currently performing loans that may become delinquent in the future based on the change in delinquencies and loan liquidations experienced in the recent history. Finally, we develop a default rate timing curve by aggregating the defaults for all loans in the pool (delinquent loans, foreclosure and real estate owned and new delinquencies from currently performing loans) and the associated loan-level loss severities.

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

Payables for Collateral on Investments

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

	As of September 30, 2014		As of December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable for derivative investments (1)	$ 1,276	$ 1,276	$ 638	$ 638
Securities pledged under securities lending agreements (2)	197	191	184	178
Securities pledged under repurchase agreements (3)	205	215	530	553
Securities pledged for Term Asset-Backed Securities				

Loan Facility ("TALF") (4)	-	-	36	49
Investments pledged for Federal Home Loan Bank of Indianapolis ("FHLBI") (5)	2,175	3,535	1,850	3,127
Total payables for collateral on investments	$ 3,853	$ 5,217	$ 3,238	$ 4,545

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

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

(3) Our pledged securities under repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount equal to 95% of the fair value of the securities, and our agreements with third parties contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received in our repurchase program is typically invested in fixed maturity AFS securities.

(4) Our pledged securities for TALF are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount that has typically averaged 90% of the fair value of the TALF securities. The cash received in these transactions is invested in fixed maturity AFS securities.

(5) Our pledged investments for FHLBI are included in fixed maturity AFS securities and mortgage loans on real estate on our Consolidated Balance Sheets. The FHLBI overcollateralization requirements for the assets that we pledge are generally 105% to 115% of the fair value for fixed maturity AFS securities and 165% to 175% of the unpaid principal balance for mortgage loans on real estate. The cash received in these transactions is primarily invested in cash and invested cash or fixed maturity AFS securities.

For information related to balance sheet offsetting of our securities lending and repurchase agreements, see Note 5.

Increase (decrease) in payables for collateral on investments (in millions) included on the Consolidated Statements of Cash Flows consisted of the following:

	For the Nine Months Ended September 30,	
	2014	2013
Collateral payable for derivative investments	$ 638	$ (1,610)
Securities pledged under securities lending agreements	13	(17)
Securities pledged under repurchase agreements	(325)	250
Securities pledged for TALF	(36)	(1)
Investments pledged for FHLBI	325	750
Total increase (decrease) in payables for collateral on investments	$ 615	$ (628)

Investment Commitments

As of September 30, 2014, our investment commitments were $1.1 billion, which included $525 million of LPs, $316 million of mortgage loans on real estate and $282 million of private debt investments.

Concentrations of Financial Instruments

As of September 30, 2014, and December 31, 2013, our most significant investments in one issuer were our investments in securities issued by the Federal Home Loan Mortgage Corporation with a fair value of $2.4 billion and $2.6 billion, respectively, or 2% and 3%, respectively, of our invested assets portfolio, and our investments in securities issued by Fannie Mae with a fair value of $1.4 billion and $1.7 billion, respectively, or 1% and 2%, respectively, of our invested assets portfolio. These investments are included in corporate bonds in the tables above.

As of September 30, 2014, and December 31, 2013, our most significant investments in one industry were our investment securities in the electric industry with a fair value of $9.7 billion and $8.7 billion, respectively, or 10% and 9%, respectively, of our invested assets portfolio, and our investment securities in the banking industry with a fair value of $5.0 billion, or 5% of our invested assets portfolio.

5. Derivative Instruments

We maintain an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk, equity market risk, default risk, basis risk and credit risk. See Note 1 in our 2013 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments. See Note 6 in our 2013 Form 10-K for a detailed discussion of our derivative instruments and use of them in our overall risk management strategy, which information is incorporated herein by reference. See Note 12 for additional disclosures related to the fair value of our derivative instruments and Note 3 for derivative instruments related to our consolidated VIEs.

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

	As of September 30, 2014			As of December 31, 2013		
	Notional	Fair Value		Notional	Fair Value	
	Amounts	Asset	Liability	Amounts	Asset	Liability
Qualifying Hedges						
Cash flow hedges:						
Interest rate contracts (1)	$ 3,678	$ 499	$ 151	$ 4,339	$ 562	$ 148
Foreign currency contracts (1)	610	36	32	615	32	46
Total cash flow hedges	4,288	535	183	4,954	594	194
Fair value hedges:						
Interest rate contracts (1)	875	175	-	875	92	33
Non-Qualifying Hedges						
Interest rate contracts (1)	52,185	519	418	45,620	215	744
Foreign currency contracts (1)	82	-	-	102	-	-
Equity market contracts (1)	22,522	921	175	19,917	957	193
Credit contracts (2)	126	-	1	126	-	2
Embedded derivatives:						
Guaranteed living benefit reserves (3) ("GLB")	-	592	-	-	1,244	-
GLB reserves (2)	-	-	79	-	-	-
Reinsurance related (4)	-	-	141	-	-	108
Indexed annuity and universal life contracts (5)	-	-	1,117	-	-	1,048
Total derivative instruments	$ 80,078	$ 2,742	$ 2,114	$ 71,594	$ 3,102	$ 2,322

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

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

	Remaining Life as of September 30, 2014					
	Less Than 1 Year	1 – 5 Years	6 – 10 Years	11 – 30 Years	Over 30 Years	Total

Interest rate contracts (1)	$ 2,340	$ 30,947	$ 11,023	$ 11,215	$ 1,213	$ 56,738
Foreign currency contracts (2)	108	156	250	178	-	692
Equity market contracts	12,082	5,072	5,345	21	2	22,522
Credit contracts	-	126	-	-	-	126
Total derivative instruments with notional amounts	$ 14,530	$ 36,301	$ 16,618	$ 11,414	$ 1,215	$ 80,078

(1) As of September 30, 2014, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 2067.

(2) As of September 30, 2014, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was August 2029.

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

	For the Nine Months Ended September 30,	
	2014	2013
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 256	$ 163
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period:		
Cash flow hedges:		
Interest rate contracts	(118)	175
Foreign currency contracts	23	(17)
Fair value hedges:		
Interest rate contracts	3	3
Change in foreign currency exchange rate adjustment	25	(12)
Change in DAC, VOBA, DSI and DFEL	2	6
Income tax benefit (expense)	23	(54)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate contracts (1)	(19)	(18)
Foreign currency contracts (1)	4	4
Fair value hedges:		
Interest rate contracts (2)	3	3
Associated amortization of DAC, VOBA, DSI and DFEL	1	1
Income tax benefit (expense)	4	4
Balance as of end-of-period	$ 221	$ 270

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Qualifying Hedges				
Cash flow hedges:				
Interest rate contracts (1)	$ (7)	$ (7)	$ (18)	$ (17)
Foreign currency contracts (1)	4	2	3	2
Total cash flow hedges	(3)	(5)	(15)	(15)
Fair value hedges:				
Interest rate contracts (2)	9	9	27	26
Non-Qualifying Hedges				
Interest rate contracts (3)	91	(113)	706	(775)
Foreign currency contracts (3)	3	6	4	(7)
Equity market contracts (3)	247	(381)	(164)	(959)
Equity market contracts (4)	(3)	11	6	26
Credit contracts (3)	-	4	-	7
Embedded derivatives:				
GLB reserves (3)	(365)	419	(704)	1,620
Reinsurance related (3)	14	10	(33)	94
Indexed annuity and universal life contracts (3)	6	(63)	(134)	(225)
Total derivative instruments	$ (1)	$ (103)	$ (307)	$ (208)

(1) Reported in net investment income on our Consolidated Statements of Comprehensive Income (Loss).
(2) Reported in interest and debt expense on our Consolidated Statements of Comprehensive Income (Loss).
(3) Reported in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).
(4) Reported in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).

Gains (losses) (in millions) on derivative instruments designated and qualifying as cash flow hedges were as follows:

	For the Three Months Ended	For the Nine Months Ended

	September 30,		September 30,	
	2014	2013	2014	2013
Gain (loss) recognized as a component of OCI with the offset to net investment income	$ (3)	$ (5)	$ (15)	$ (14)

As of September 30, 2014, $20 million of the deferred net losses on derivative instruments in accumulated OCI were expected to be reclassified to earnings during the next 12 months. This reclassification would be due primarily to interest rate variances related to our interest rate swap agreements.

For the nine months ended September 30, 2014 and 2013, there were no material reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged forecasted transactions that had not occurred by the end of the originally specified time period.

Gains (losses) (in millions) on derivative instruments designated and qualifying as fair value hedges were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Gain (loss) recognized as a component of OCI with the offset to interest expense	$ 1	$ 1	$ 3	$ 3

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

As of September 30, 2014

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
12/20/2016 (3)	(4)	(5)	BBB-	3	$ -	$ 68
3/20/2017 (3)	(4)	(5)	BBB-	3	(1)	58
				6	$ (1)	$ 126

As of December 31, 2013

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
12/20/2016 (3)	(4)	(5)	BBB-	3	$ (1)	$ 68
3/20/2017 (3)	(4)	(5)	BBB-	3	(1)	58
				6	$ (2)	$ 126

(1) Represents average credit ratings based on the midpoint of the applicable ratings among Moody's, S&P and Fitch Ratings, as scaled to the corresponding S&P ratings.

(2) Broker quotes are used to determine the market value of credit default swaps.

(3) These credit default swaps were sold to a counterparty of the consolidated VIEs discussed in Note 4 in our 2013 Form 10-K.

(4) Credit default swaps were entered into in order to generate income by providing default protection in return for a quarterly payment.

(5) Sellers do not have the right to demand indemnification or compensation from third parties in case of a loss (payment) on the contract.

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

	As of September 30, 2014	As of December 31, 2013
Maximum potential payout	$ 126	$ 126
Less: Counterparty thresholds	-	-
Maximum collateral potentially required to post	$ 126	$ 126

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. If these netting agreements were not in place, we would have been required to post $1 million as of September 30, 2014, after considering the fair values of the associated investments counterparties' credit ratings as compared to ours and specified thresholds that once exceeded result in the payment of cash.

Credit Risk

We are exposed to credit loss in the event of non-performance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or non-performance risk ("NPR"). The NPR is based upon assumptions for each counterparty's credit spread over the estimated weighted average life of the counterparty exposure less collateral held. As of September 30, 2014, the NPR adjustment was less than $1 million. The credit risk associated with such agreements is minimized by entering into agreements from financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring derivative contracts to be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of derivative contracts, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contracts. In certain transactions, we and the counterparty have entered into a credit support annex requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of September 30, 2014, our exposure was $42 million.

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

	As of September 30, 2014		As of December 31, 2013	
S&P Credit Rating of Counterparty	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)
AA-	$ 49	$ (4)	$ 34	$ (10)
A+	73	-	19	-
A	913	(64)	339	(183)
A-	213	-	468	(123)
BBB+	28	-	79	-
	$ 1,276	$ (68)	$ 939	$ (316)

Balance Sheet Offsetting

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

	As of September 30, 2014		
	Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	$ 2,109	$ 592	$ 2,701
Gross amounts offset	(670)	-	(670)
Net amount of assets	1,439	592	2,031
Gross amounts not offset:			
Cash collateral	(1,276)	-	(1,276)

Net amount	$ 163	$ 592	$ 755
Financial Liabilities			
Gross amount of recognized liabilities	$ 106	$ 1,337	$ 1,443
Gross amounts offset	(40)	-	(40)
Net amount of liabilities	66	1,337	1,403
Gross amounts not offset:			
Cash collateral	(68)	-	(68)
Net amount	$ (2)	$ 1,337	$ 1,335

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	As of December 31, 2013		
	Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	$ 1,805	$ 1,244	$ 3,049
Gross amounts offset	(924)	-	(924)
Net amount of assets	881	1,244	2,125
Gross amounts not offset:			
Cash collateral	(623)	-	(623)
Net amount	$ 258	$ 1,244	$ 1,502
Financial Liabilities			
Gross amount of recognized liabilities	$ 242	$ 1,156	$ 1,398
Gross amounts offset	(55)	-	(55)
Net amount of liabilities	187	1,156	1,343
Gross amounts not offset:			
Cash collateral	-	-	-
Net amount	$ 187	$ 1,156	$ 1,343

6. Federal Income Taxes

The effective tax rate is the ratio of tax expense over pre-tax income (loss). The effective tax rate was 27% and 25% for the three and nine months ended September 30, 2014, respectively. The effective tax rate was 24% and 23% for the three and nine months ended September 30, 2013, respectively. The effective tax rate on pre-tax income from continuing operations was lower than the prevailing corporate federal income tax rate. Differences in the effective rates and the U.S. statutory rate of 35% were the result of certain tax preferred investment income, separate account dividends-received deductions, foreign tax credits and other tax preference items.

7. Guaranteed Benefit Features

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

	As of September 30, 2014 (1)	As of December 31, 2013 (1)
Return of Net Deposits		
Total account value	$ 84,253	$ 79,391
Net amount at risk (2)	171	141
Average attained age of contract holders	62 years	61 years
Minimum Return		
Total account value	$ 137	$ 151
Net amount at risk (2)	26	27
Average attained age of contract holders	74 years	73 years
Guaranteed minimum return	5%	5%
Anniversary Contract Value		
Total account value	$ 25,932	$ 25,958
Net amount at risk (2)	623	570
Average attained age of contract holders	68 years	68 years

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

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

The determination of GDB liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates and mortality experience. The following summarizes the balances of and changes in the liabilities for GDBs (in millions), which were recorded in future contract benefits on our Consolidated Balance Sheets:

	For the Nine Months Ended September 30, 2014	2013
Balance as of beginning-of-year	$ 73	$ 104
Changes in reserves	26	(12)
Benefits paid	(13)	(16)
Balance as of end-of-period	$ 86	$ 76

Variable Annuity Contracts

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

	As of September 30, 2014	As of December 31, 2013
Asset Type		
Domestic equity	$ 48,446	$ 47,042
International equity	18,692	18,341
Bonds	26,487	24,547
Money market	12,345	10,926
Total	$ 105,970	$ 100,856
Percent of total variable annuity separate account values	99%	98%

Secondary Guarantee Products

Future contract benefits and other contract holder funds include reserves for our secondary guarantee products sold through our Life Insurance segment. These UL and VUL products with secondary guarantees represented 34% of total life insurance in-force reserves as of September 30, 2014, and 40% of total sales for the nine months ended September 30, 2014.

8. Contingencies and Commitments

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

LNC and its subsidiaries are involved in various pending or threatened legal or regulatory proceedings, including purported class actions, arising from the conduct of business both in the ordinary course and otherwise. In some of the matters, very large and/or indeterminate amounts, including punitive and treble damages, are sought. Modern pleading practice in the U.S. permits considerable variation in the assertion of monetary damages or other relief. Jurisdictions may permit claimants not to specify the monetary damages sought or may permit claimants to state only that the amount sought is sufficient to invoke the jurisdiction of the trial court. In addition, jurisdictions may permit plaintiffs to allege monetary damages in amounts well exceeding reasonably possible verdicts in the jurisdiction for similar matters. This variability in pleadings, together with the actual experiences of LNC in litigating or resolving through settlement numerous claims over an extended period of time, demonstrates to management that the monetary relief which may be specified in a lawsuit or claim bears little relevance to its merits or disposition value.

Due to the unpredictable nature of litigation, the outcome of a litigation matter and the amount or range of potential loss at particular points in time is normally difficult to ascertain. Uncertainties can include how fact finders will evaluate documentary evidence and the credibility and effectiveness of witness testimony, and how trial and appellate courts will apply the law in the context of the pleadings or evidence presented, whether by motion practice, or at trial or on appeal. Disposition valuations are also subject to the uncertainty of how opposing parties and their counsel will themselves view the relevant evidence and applicable law.

We establish liabilities for litigation and regulatory loss contingencies when information related to the loss contingencies shows both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require us to pay damages or make other expenditures or establish accruals in amounts that could not be estimated as of September 30, 2014. While the potential future charges could be material in the particular quarterly or annual periods in which they are recorded, based

on information currently known by management, management does not believe any such charges are likely to have a material adverse effect on LNC's financial condition.

See Note 13 in our 2013 Form 10-K and Note 8 in our Form 10-Q for the quarters ended March 31, 2014, and June 30, 2014, for additional discussion of commitments and contingencies, which information is incorporated herein by reference.

9. Shares and Stockholders' Equity

Common and Preferred Shares

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Series A Preferred Stock				
Balance as of beginning-of-period	-	4,164	-	9,532
Conversion of convertible preferred stock (1)	-	(450)	-	(5,818)
Redemption of convertible preferred stock	-	(3,714)	-	(3,714)
Balance as of end-of-period	-	-	-	-
Common Stock				
Balance as of beginning-of-period	260,831,708	264,316,340	262,896,701	271,402,586
Conversion of convertible preferred stock (1)	-	7,200	-	93,088
Stock issued for exercise of warrants	1,199,609	220,107	4,299,088	220,318
Stock compensation/issued for benefit plans	601,359	112,398	1,501,167	636,356
Retirement/cancellation of shares	(2,846,230)	(2,313,682)	(8,910,510)	(10,009,985)
Balance as of end-of-period	259,786,446	262,342,363	259,786,446	262,342,363
Common Stock as of End-of-Period				
Assuming conversion of preferred stock	259,786,446	262,342,363	259,786,446	262,342,363
Diluted basis	265,527,521	272,503,337	265,527,521	272,503,337

(1) Represents the conversion of Series A preferred stock into common stock.

Our common and Series A preferred stocks are without par value.

Average Shares

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Weighted-average shares, as used in basic calculation	260,371,956	263,546,308	261,785,387	266,701,799
Shares to cover exercise of outstanding warrants	3,485,992	9,920,368	4,929,079	10,073,503
Shares to cover conversion of preferred stock	-	1,455	-	99,716
Shares to cover non-vested stock	1,499,529	1,601,684	1,476,448	1,411,833
Average stock options outstanding during the period	3,863,508	3,206,314	3,810,763	2,511,175
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(689,803)	(2,199,597)	(1,026,460)	(2,911,005)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(2,720,155)	(2,191,630)	(2,657,408)	(1,792,019)
Shares repurchaseable from measured but unrecognized stock option expense	(63,286)	(190,894)	(84,600)	(138,683)
Average deferred compensation shares	1,037,370	-	1,036,683	-
Weighted-average shares, as used in diluted calculation	266,785,111	273,694,008	269,269,892	275,956,319

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

We have participants in our deferred compensation plans who selected LNC stock as the measure for the investment return attributable to their deferral amounts. For the three and nine months ended September 30, 2014, the effect of settling this obligation in LNC stock ("equity classification") was more dilutive than the scenario of settling it in cash ("liability classification"). Therefore, for our EPS calculation for this period, we added these shares to the denominator and adjusted the numerator to present net income as if the shares had been accounted for under equity classification by removing the mark-to-market adjustment included in net income attributable to these deferred units of LNC stock. The amount of this adjustment was $(2) million for the three and nine months ended September 30, 2014.

The income used in the calculation of our diluted EPS is our net income (loss) reduced by preferred stock dividends.

Accumulated OCI ("AOCI")

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

	For the Nine Months Ended September 30,	
	2014	2013
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	$ 1,609	$ 4,066
Unrealized holding gains (losses) arising during the period	3,120	(5,145)
Change in foreign currency exchange rate adjustment	(21)	10
Change in DAC, VOBA, DSI, future contract benefits and other contract holder funds	(983)	1,685
Income tax benefit (expense)	(742)	1,208
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	10	(51)
Associated amortization of DAC, VOBA, DSI and DFEL	(25)	(20)
Income tax benefit (expense)	5	25
Balance as of end-of-period	$ 2,993	$ 1,870
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	$ (78)	$ (107)
(Increases) attributable to:		
Gross OTTI recognized in OCI during the period	(11)	(10)
Change in DAC, VOBA, DSI and DFEL	1	1
Income tax benefit (expense)	4	3
Decreases attributable to:		
Sales, maturities or other settlements of AFS securities	35	51
Change in DAC, VOBA, DSI and DFEL	(7)	(6)
Income tax benefit (expense)	(9)	(16)
Balance as of end-of-period	$ (65)	$ (84)
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 256	$ 163
Unrealized holding gains (losses) arising during the period	(92)	161
Change in foreign currency exchange rate adjustment	25	(12)
Change in DAC, VOBA, DSI and DFEL	2	6
Income tax benefit (expense)	23	(54)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(12)	(11)
Associated amortization of DAC, VOBA, DSI and DFEL	1	1
Income tax benefit (expense)	4	4
Balance as of end-of-period	$ 221	$ 270

Foreign Currency Translation Adjustment		
Balance as of beginning-of-year	$ (5)	$ (4)
Foreign currency translation adjustment arising during the period	(5)	(1)
Balance as of end-of-period	$ (10)	$ (5)
Funded Status of Employee Benefit Plans		
Balance as of beginning-of-year	$ (219)	$ (310)
Adjustment arising during the period	2	17
Income tax benefit (expense)	-	(8)
Balance as of end-of-period	$ (217)	$ (301)

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

	For the Nine Months Ended September 30, 2014	2013	
Unrealized Gain (Loss) on AFS Securities			
Gross reclassification	$ 10	$ (51)	Total realized gain (loss)
Associated amortization of DAC, VOBA, DSI and DFEL	(25)	(20)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	(15)	(71)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	5	25	Federal income tax expense (benefit)
Reclassification, net of income tax	$ (10)	$ (46)	Net income (loss)
Unrealized OTTI on AFS Securities			
Gross reclassification	$ 35	$ 51	Total realized gain (loss)
Change in DAC, VOBA, DSI and DFEL	(7)	(6)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	28	45	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	(9)	(16)	Federal income tax expense (benefit)
Reclassification, net of income tax	$ 19	$ 29	Net income (loss)
Unrealized Gain (Loss) on Derivative Instruments			
Gross reclassifications:			
Interest rate contracts	$ (19)	$ (18)	Net investment income
Interest rate contracts	3	3	Interest and debt expense
Foreign currency contracts	4	4	Net investment income
Total gross reclassifications	(12)	(11)	
Associated amortization of DAC, VOBA, DSI and DFEL	1	1	Commissions and other expenses
Reclassifications before income tax benefit (expense)	(11)	(10)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	4	4	Federal income tax expense (benefit)
Reclassification, net of income tax	$ (7)	$ (6)	Net income (loss)

10. Realized Gain (Loss)

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Total realized gain (loss) related to certain investments (1)	$ (7)	$ (33)	$ (11)	$ (73)
Realized gain (loss) on the mark-to-market on certain instruments (2)	(18)	21	(31)	21
Indexed annuity and universal life net derivatives results: (3)				
Gross gain (loss)	21	(12)	(18)	(25)
Associated amortization of DAC, VOBA, DSI and DFEL	(6)	3	3	5
Variable annuity net derivatives results: (4)				
Gross gain (loss)	116	(4)	182	(29)
Associated amortization of DAC, VOBA, DSI and DFEL	(17)	(3)	(19)	(4)
Total realized gain (loss)	$ 89	$ (28)	$ 106	$ (105)

(1) See "Realized Gain (Loss) Related to Certain Investments" section in Note 4.

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

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

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

11. Stock-Based Compensation Plans

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

LNC stock-based awards granted were as follows:

	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2014
10-year LNC stock options	14,007	490,852
Performance shares	4,834	182,149
RSUs	11,555	447,012
Non-employee:		
SARs	-	62,887
Agent stock options	-	88,311
Director DSUs	7,754	24,035

12. Fair Value of Financial Instruments

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

	As of September 30, 2014		As of December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity securities	$ 85,348	$ 85,348	$ 80,078	$ 80,078
VIEs' fixed maturity securities	598	598	697	697
Equity securities	234	234	201	201
Trading securities	2,134	2,134	2,282	2,282
Mortgage loans on real estate	7,466	7,792	7,210	7,386
Derivative investments (1)	1,439	1,439	881	881
Other investments	1,469	1,469	1,218	1,218
Cash and invested cash	1,821	1,821	2,364	2,364
Other assets:				
GLB reserves embedded derivatives (2)	592	592	-	-
Reinsurance recoverable	79	79	-	-
Separate account assets	122,937	122,937	117,135	117,135
Liabilities				
Future contract benefits:				
Indexed annuity and universal life contracts embedded derivatives	(1,117)	(1,117)	(1,048)	(1,048)
GLB reserves embedded derivatives	-	-	1,244	1,244
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(741)	(741)	(809)	(809)
Account values of certain investment contracts	(29,506)	(31,803)	(29,078)	(30,574)
Short-term debt	(250)	(256)	(501)	(500)
Long-term debt	(5,186)	(5,711)	(5,320)	(5,762)
Reinsurance related embedded derivatives	(141)	(141)	(108)	(108)
VIEs' liabilities – derivative instruments	(17)	(17)	(27)	(27)
Other liabilities:				
Credit default swaps	(1)	(1)	(2)	(2)
Derivative liabilities (1)	(65)	(65)	(187)	(187)
GLB reserves embedded derivatives (2)	(79)	(79)	-	-

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

(2) Portions of our GLB reserves embedded derivatives are ceded to our third-party reinsurance counterparties. Refer to Note 5 for additional detail.

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

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

Mortgage Loans on Real Estate

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

Other Investments

The carrying value of our assets classified as other investments approximates fair value. Other investments includes primarily LPs and other privately held investments that are accounted for using the equity method of accounting and the carrying value is based on our proportional share of the net assets of the LPs. The inputs used to measure the fair value of our other investments are classified as Level 3 within the fair value hierarchy.

Other Contract Holder Funds

Other contract holder funds include remaining guaranteed interest and similar contracts and account values of certain investment contracts. The fair value for the remaining guaranteed interest and similar contracts is estimated using discounted cash flow calculations as of the balance sheet date. These calculations are based on interest rates currently offered on similar contracts with maturities that are consistent with those remaining for the contracts being valued. As of September 30, 2014, and December 31, 2013, the remaining guaranteed interest and similar contracts carrying value approximated fair value. The fair value of the account values of certain investment contracts is based on their approximate surrender value as of the balance sheet date. The inputs used to measure the fair value of our other contract holder funds are classified as Level 3 within the fair value hierarchy.

Short-Term and Long-Term Debt

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

Financial Instruments Carried at Fair Value

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of September 30, 2014, or December 31, 2013, and we noted no changes in our valuation methodologies between these periods.

The following summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the fair value hierarchy levels described in "Summary of Significant Accounting Policies" in Note 1 of our 2013 Form 10-K:

	As of September 30, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$ 62	$ 71,753	$ 1,983	$ 73,798
U.S. government bonds	382	20	-	402
Foreign government bonds	-	443	108	551
RMBS	-	4,308	1	4,309
CMBS	-	604	18	622
CLOs	-	32	254	286
State and municipal bonds	-	4,420	-	4,420
Hybrid and redeemable preferred securities	45	863	52	960
VIEs' fixed maturity securities	-	598	-	598
Equity AFS securities	7	69	158	234
Trading securities	-	2,065	69	2,134
Derivative investments (1)	-	952	1,198	2,150
Cash and invested cash	-	1,821	-	1,821
Other assets:				
GLB reserves embedded derivatives	-	-	592	592
Reinsurance recoverable	-	-	79	79
Separate account assets	977	121,960	-	122,937
Total assets	$ 1,473	$ 209,908	$ 4,512	$ 215,893
Liabilities				
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	$ -	$ -	$ (1,117)	$ (1,117)
Long-term debt	-	(1,203)	-	(1,203)
Reinsurance related embedded derivatives	-	(141)	-	(141)
VIEs' liabilities – derivative instruments	-	-	(17)	(17)
Other liabilities:				

Credit default swaps	-	-	(1)	(1)
Derivative liabilities (1)	-	(601)	(175)	(776)
GLB reserves embedded derivatives	-	-	(79)	(79)
Total liabilities	$ -	$ (1,945)	$ (1,389)	$ (3,334)

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	As of December 31, 2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$ 60	$ 67,164	$ 1,711	$ 68,935
U.S. government bonds	346	21	-	367
Foreign government bonds	-	470	79	549
RMBS	-	4,349	1	4,350
CMBS	-	708	20	728
CLOs	-	46	179	225
State and municipal bonds	-	3,891	28	3,919
Hybrid and redeemable preferred securities	40	899	66	1,005
VIEs’ fixed maturity securities	102	595	-	697
Equity AFS securities	3	37	161	201
Trading securities	-	2,230	52	2,282
Derivative investments (1)	-	340	1,518	1,858
Cash and invested cash	-	2,364	-	2,364
Separate account assets	1,767	115,368	-	117,135
Total assets	$ 2,318	$ 198,482	$ 3,815	$ 204,615
Liabilities				
Future contract benefits:				
Indexed annuity and universal life contracts embedded derivatives	$ -	$ -	$ (1,048)	$ (1,048)
GLB reserves embedded derivatives	-	-	1,244	1,244
Long-term debt	-	(1,203)	-	(1,203)
Reinsurance related embedded derivatives	-	(108)	-	(108)
VIEs’ liabilities – derivative instruments	-	-	(27)	(27)
Other liabilities:				
Credit default swaps	-	-	(2)	(2)
Derivative liabilities (1)	-	(912)	(252)	(1,164)
Total liabilities	$ -	$ (2,223)	$ (85)	$ (2,308)

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

The following summarizes changes to our financial instruments carried at fair value (in millions) and classified within Level 3 of the fair value hierarchy. This summary excludes any effect of amortization of DAC, VOBA, DSI and DFEL. The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	For the Three Months Ended September 30, 2014					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (2)(3)	Ending Fair Value
Investments: (4)						
Fixed maturity AFS securities:						
Corporate bonds	$ 2,204	$ 1	$ (33)	$ 51	$ (240)	$ 1,983
Foreign government bonds	108	-	-	-	-	108
RMBS	1	-	-	-	-	1
CMBS	19	-	1	(2)	-	18
CLOs	210	(2)	1	45	-	254
Hybrid and redeemable preferred securities	52	-	-	-	-	52
Equity AFS securities	158	-	-	-	-	158
Trading securities	67	1	(2)	8	(5)	69
Derivative investments	780	278	37	(72)	-	1,023
Other assets (5):						
GLB reserves embedded derivatives	932	(340)	-	-	-	592
Reinsurance recoverable	54	25	-	-	-	79
Future contract benefits – indexed annuity and universal life contracts embedded derivatives (5)	(1,167)	6	-	44	-	(1,117)
VIEs’ liabilities – derivative instruments (6)	(10)	(7)	-	-	-	(17)
Other liabilities:						
Credit default swaps (7)	(1)	-	-	-	-	(1)
GLB reserves embedded derivatives (5)	(54)	(25)	-	-	-	(79)
Total, net	$ 3,353	$ (63)	$ 4	$ 74	$ (245)	$ 3,123

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	For the Three Months Ended September 30, 2013					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (2)	Ending Fair Value
Investments: (4)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,792	$ 2	$ (2)	$ 14	$ (126)	$ 1,680
Foreign government bonds	75	-	1	20	-	96
RMBS	1	-	-	-	-	1
CMBS	28	1	(1)	(1)	(8)	19
CLOs	143	-	1	29	-	173
State and municipal bonds	30	-	(1)	-	-	29
Hybrid and redeemable preferred securities	93	-	2	(11)	(18)	66
Equity AFS securities	147	(1)	1	-	-	147
Trading securities	53	-	(3)	(2)	7	55
Derivative investments	1,823	(368)	24	(73)	-	1,406
Future contract benefits: (5)						
Indexed annuity and universal life contracts embedded derivatives	(875)	(63)	-	14	-	(924)
GLB reserves embedded derivatives	292	419	-	-	-	711
VIEs' liabilities – derivative instruments (6)	(101)	34	-	-	-	(67)
Other liabilities – credit default swaps (7)	(8)	3	-	-	-	(5)
Total, net	$ 3,493	$ 27	$ 22	$ (10)	$ (145)	$ 3,387

	For the Nine Months Ended September 30, 2014					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Purchases, Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (2)(3)	Ending Fair Value
Investments: (4)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,711	$ 9	$ 41	$ 202	$ 20	$ 1,983
Foreign government bonds	79	-	4	-	25	108
RMBS	1	-	-	-	-	1
CMBS	20	-	1	(9)	6	18
CLOs	179	(3)	5	69	4	254
State and municipal bonds	28	-	1	-	(29)	-
Hybrid and redeemable preferred securities	66	-	1	(5)	(10)	52
Equity AFS securities	161	3	(1)	(5)	-	158
Trading securities	52	4	4	10	(1)	69
Derivative investments	1,266	128	250	(195)	(426)	1,023
Other assets(5):						
GLB reserves embedded derivatives	-	(652)	-	-	1,244	592
Reinsurance recoverable	27	52	-	-	-	79
Future contract benefits: (5)						
Indexed annuity and universal life contracts embedded derivatives	(1,048)	(134)	-	65	-	(1,117)
GLB reserves embedded derivatives	1,244	-	-	-	(1,244)	-
VIEs’ liabilities – derivative instruments (6)	(27)	10	-	-	-	(17)
Other liabilities:						
Credit default swaps (7)	(2)	1	-	-	-	(1)
GLB reserves embedded derivatives (5)	(27)	(52)	-	-	-	(79)
Total, net	$ 3,730	$ (634)	$ 306	$ 132	$ (411)	$ 3,123

	For the Nine Months Ended September 30, 2013					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Purchases, Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (2)	Ending Fair Value
Investments: (4)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,505	$ (1)	$ (12)	$ (26)	$ 214	$ 1,680
U.S. government bonds	1	-	-	(1)	-	-
Foreign government bonds	46	-	-	50	-	96
RMBS	3	-	-	(2)	-	1
CMBS	27	1	4	(5)	(8)	19
CLOs	154	(1)	2	18	-	173
State and municipal bonds	32	-	(3)	-	-	29
Hybrid and redeemable preferred securities	118	-	2	(11)	(43)	66
Equity AFS securities	87	(1)	3	58	-	147
Trading securities	56	1	(8)	(3)	9	55
Derivative investments	2,026	(616)	93	(97)	-	1,406
Future contract benefits: (5)						
Indexed annuity and universal life contracts embedded derivatives	(732)	(225)	-	33	-	(924)
GLB reserves embedded derivatives	(909)	1,620	-	-	-	711
VIEs' liabilities – derivative instruments (6)	(128)	61	-	-	-	(67)
Other liabilities – credit default swaps (7)	(11)	6	-	-	-	(5)
Total, net	$ 2,275	$ 845	$ 81	$ 14	$ 172	$ 3,387

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

(2) Transfers in or out of Level 3 for AFS and trading securities are displayed at amortized cost as of the beginning-of-period. 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 prior periods.

(3) Transfers in or out of Level 3 for GLB reserves embedded derivatives represent reclassifications between future contract benefits, other assets and other liabilities on our Consolidated Balance Sheets.

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

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

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

(7) The changes in fair value of the credit default swaps and contingency forwards 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 September 30, 2014					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 144	$ (17)	$ (13)	$ (9)	$ (54)	$ 51
CMBS	-	-	-	(2)	-	(2)
CLOs	79	-	-	(34)	-	45
Trading securities	8	-	-	-	-	8
Derivative investments	45	(106)	(11)	-	-	(72)
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(11)	-	-	55	-	44
Total, net	$ 265	$ (123)	$ (24)	$ 10	$ (54)	$ 74

	For the Three Months Ended September 30, 2013					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 51	$ (6)	$ -	$ (9)	$ (22)	$ 14
Foreign government bonds	20	-	-	-	-	20
CMBS	-	-	-	-	(1)	(1)
CLOs	34	-	-	(5)	-	29
Hybrid and redeemable preferred securities	-	(11)	-	-	-	(11)
Trading securities	-	(1)	-	(1)	-	(2)
Derivative investments	45	(27)	(91)	-	-	(73)
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(14)	-	-	28	-	14
Total, net	$ 136	$ (45)	$ (91)	$ 13	$ (23)	$ (10)

	For the Nine Months Ended September 30, 2014					
	Issuances	Sales	Maturities	Settlements	Calls	Total

Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 521	$ (74)	$ (86)	$ (41)	$ (118)	$ 202
CMBS	-	-	-	(9)	-	(9)
CLOs	110	-	-	(41)	-	69
Hybrid and redeemable preferred securities	-	(5)	-	-	-	(5)
Equity AFS securities	-	(5)	-	-	-	(5)
Trading securities	14	-	-	(4)	-	10
Derivative investments	124	(50)	(269)	-	-	(195)
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(60)	-	-	125	-	65
Total, net	$ 709	$ (134)	$ (355)	$ 30	$ (118)	$ 132

	For the Nine Months Ended September 30, 2013					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 113	$ (41)	$ (4)	$ (40)	$ (54)	$ (26)
U.S. government bonds	-	-	-	(1)	-	(1)
Foreign government bonds	50	-	-	-	-	50
RMBS	-	-	-	(2)	-	(2)
CMBS	-	-	-	(3)	(2)	(5)
CLOs	35	-	-	(17)	-	18
Hybrid and redeemable preferred securities	-	(11)	-	-	-	(11)
Equity AFS securities	63	(5)	-	-	-	58
Trading securities	-	(1)	-	(2)	-	(3)
Derivative investments	119	17	(233)	-	-	(97)
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(53)	-	-	86	-	33
Total, net	$ 327	$ (41)	$ (237)	$ 21	$ (56)	$ 14

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 September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Derivative investments (1)	$ 262	$ (343)	$ 84	$ (533)
Embedded derivatives: (1)				
Indexed annuity and universal life contracts	20	5	(19)	25
GLB reserves	(175)	508	(247)	1,825
VIEs' liabilities – derivative instruments (2)	(7)	35	10	61
Credit default swaps (1)	-	4	1	6
Total, net	$ 100	$ 209	$ (171)	$ 1,384

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

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

	For the Three Months Ended September 30, 2014			For the Three Months Ended September 30, 2013		
	Transfers In to Level 3	Transfers Out of Level 3	Total	Transfers In to Level 3	Transfers Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 40	$ (280)	$ (240)	$ 71	$ (197)	$ (126)
CMBS	-	-	-	-	(8)	(8)
Hybrid and redeemable preferred securities	-	-	-	-	(18)	(18)
Trading securities	-	(5)	(5)	7	-	7
Total, net	$ 40	$ (285)	$ (245)	$ 78	$ (223)	$ (145)

	For the Nine Months Ended September 30, 2014			For the Nine Months Ended September 30, 2013		
	Transfers In to Level 3	Transfers Out of Level 3	Total	Transfers In to Level 3	Transfers Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 444	$ (424)	$ 20	$ 257	$ (43)	$ 214
Foreign government bonds	25	-	25	-	-	-
CMBS	6	-	6	-	(8)	(8)
CLOs	8	(4)	4	-	-	-
State and municipal bonds	-	(29)	(29)	-	-	-
Hybrid and redeemable preferred securities	12	(22)	(10)	5	(48)	(43)
Trading securities	10	(11)	(1)	9	-	9
Derivative investments	-	(426)	(426)	-	-	-
Other assets – GLB reserves embedded derivatives	1,244	-	1,244	-	-	-
Future contract benefits – GLB reserves embedded derivatives	-	(1,244)	(1,244)	-	-	-

Total, net	$ 1,749	$ (2,160)	$ (411)	$ 271	$ (99)	$ 172

Transfers in 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 nine months ended September 30, 2014 and 2013, our investments transfers in and out were attributable primarily to the securities' observable market information no longer being available or becoming available. Transfers in and out for GLB reserves embedded derivatives represent reclassifications between future contract benefits and other assets. Transfers in 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 nine months ended September 30, 2014 and 2013, 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 September 30, 2014:

	Fair Value	Valuation Technique	Significant Unobservable Inputs	Assumption or Input Ranges
Assets				
Investments:				
Fixed maturity AFS and trading securities:				
Corporate bonds	$ 1,291	Discounted cash flow	Liquidity/duration adjustment (1)	0.7 % - 12.4 %
Foreign government bonds	80	Discounted cash flow	Liquidity/duration adjustment (1)	1.8 % - 3.0 %
Hybrid and redeemable preferred securities	21	Discounted cash flow	Liquidity/duration adjustment (1)	1.8 % - 1.8 %
Equity AFS and trading securities	28	Discounted cash flow	Liquidity/duration adjustment (1)	4.3 % - 5.8 %
Other assets – GLB reserves embedded derivatives and reinsurance recoverable	671	Discounted cash flow	Long-term lapse rate (2)	1 % - 30 %
			Utilization of guaranteed withdrawals (3)	90 % - 100 %
			Claims utilization factor (4)	60 % - 100 %
			Premiums utilization factor (4)	70 % - 140 %
			NPR (5)	0.02 % - 0.36 %
			Mortality rate (6)	(8)
			Volatility (7)	1 % - 29 %
Liabilities				
Future contract benefits – indexed annuity and universal life contracts				

embedded derivatives	(1,117)	Discounted cash flow	Lapse rate (2)	1 %	- 15 %
			Mortality rate (6)		(9)
Other liabilities – GLB reserves					
embedded derivatives	(79)	Discounted cash flow	Long-term lapse rate (2)	1 %	- 30 %
			Utilization of guaranteed withdrawals (3)	90 %	- 100 %
			Claims utilization factor (4)	60 %	- 100 %
			Premiums utilization factor (4)	70 %	- 140 %
			NPR (5)	0.02 %	- 0.36 %
			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 universal life 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.

(9) Based on the "Annuity 2000 Mortality Table" developed by the Society of Actuaries Committee on Life Insurance Research that was adopted by the National Association of Insurance Commissioners in 1996 for our mortality input.

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

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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 universal life contracts embedded derivatives – An increase in the lapse rate or mortality rate inputs would result in a decrease in the fair value measurement.
- GLB reserves embedded derivatives – Assuming our GLB reserves 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 guarantee 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 on-going 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 2013 Form 10-K.

13. Segment Information

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. See Note 22 of our 2013 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 of securities;
  - § 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 accounted for at fair value, net of the change in the fair value of the derivatives we own to hedge them; and
  - § 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;

· 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; and
· Income (loss) from the initial adoption of new accounting standards.

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 rate of 35% 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 September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues				
Operating revenues:				
Annuities	$ 944	$ 842	$ 2,779	$ 2,436
Retirement Plan Services	272	269	813	800
Life Insurance	1,446	1,301	4,146	3,827
Group Protection	598	561	1,829	1,685
Other Operations	103	100	315	304
Excluded realized gain (loss), pre-tax	47	(65)	(15)	(208)
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	1	1	2	2
Amortization of DFEL associated with benefit ratio unlocking, pre-tax	-	-	-	1
Total revenues	$ 3,411	$ 3,009	$ 9,869	$ 8,847

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Net Income (Loss)				
Income (loss) from operations:				
Annuities	$ 245	$ 198	$ 688	$ 551
Retirement Plan Services	40	33	118	108
Life Insurance	150	140	418	387
Group Protection	8	23	29	60
Other Operations	(29)	(27)	(80)	(104)
Excluded realized gain (loss), after-tax	31	(43)	(10)	(135)
Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	-	-	1	1
Benefit ratio unlocking, after-tax	(6)	13	2	25
Net income (loss)	$ 439	$ 337	$ 1,166	$ 893

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 September 30, 2014, compared with December 31, 2013, and the results of operations for the three and nine months ended September 30, 2014, compared with the corresponding periods in 2013 of Lincoln National Corporation and its consolidated subsidiaries. Unless otherwise stated or the context otherwise requires, "LNC," "Company," "we," "our" or "us" refers to Lincoln National Corporation and its consolidated subsidiaries. The MD&A is provided as a supplement to, and should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements ("Notes") presented in "Part I – Item 1. Financial Statements"; our Form 10-K for the year ended December 31, 2013 ("2013 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 reports on Form 10-Q filed in 2014; and our current reports on Form 8-K filed in 2014.

In this report, in addition to providing consolidated revenues and net income (loss), we also provide segment operating revenues and income (loss) from operations because we believe they are meaningful measures of revenues and the profitability of our operating segments. Financial information that follows is presented in conformity with accounting principles generally accepted in the United States of America ("GAAP"), unless otherwise indicated. See Note 1 in our 2013 Form 10-K for a discussion of GAAP.

Operating revenues and income (loss) from operations are the financial performance measures we use to evaluate and assess the results of our segments. Accordingly, we define and report operating revenues and income (loss) from operations by segment in Note 13. Our management believes that operating revenues and income (loss) from operations explain the results of our ongoing businesses in a manner that allows for a better understanding of the underlying trends in our current businesses because the excluded items 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.

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 i 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, or otherwise affect our ability to conduct business, including changes to statutory reserve requirements related to secondary guarantee universal life and annuities; regulations regarding captive reinsurance arrangements; restrictions on revenue sharing and 12b 1 payments; and the potential for U.S. federal tax reform;
- 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 rules and regulations to be promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") on us and the economy and 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, including convergence with International Financial Reporting Standards ("IFRS"), 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;
- 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 changes in the demographics of their client base, as aging baby-boomers move from the asset-accumulation stage to the asset-distribution stage of life; and
- Loss of key management, financial planners or wholesalers.

The risks included here are not exhaustive. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other documents filed with the Securities and Exchange Commission ("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 include fixed and indexed annuities, variable annuities, universal life insurance ("UL"), variable universal life insurance ("VUL"), linked-benefit UL, indexed UL, 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 2013 Form 10-K.

For information on how we derive our revenues, see the discussion in results of operations by segment below.

Our current market conditions, significant operational matters, industry trends, issues and outlook are described in "Introduction – Executive Summary" of our 2013 Form 10-K.

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 2013 Form 10-K.

Critical Accounting Policies and Estimates

The MD&A included in our 2013 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 2013 Form 10-K and, accordingly, should be read in conjunction with the "Critical Accounting Policies and Estimates" discussed in our 2013 Form 10-K.

DAC, VOBA, DSI and DFEL

Unlocking

As discussed in our 2013 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 with living benefit and death benefit guarantees in the third quarter of each year. As a result of this review, we recorded unlocking on an annual basis that resulted in increases or decreases to the carrying values of these items. See "DAC, VOBA, DSI and DFEL" in Note 1 of our 2013 Form 10-K for a detailed discussion of our unlocking process.

Details underlying the effect to income (loss) from continuing operations from our unlocking as a result of our annual comprehensive review (in millions) were as follows:

	For the Three Months Ended September 30,		
	2014	2013	Change
Income (loss) from operations:			
Annuities	$ 12	$ 2	NM
Retirement Plan Services	1	(4)	125%
Life Insurance	(16)	17	NM
Excluded realized gain (loss)	25	(7)	NM
Income (loss) from continuing operations	$ 22	$ 8	175%

Unlocking was driven primarily by the following:

2014

- For Annuities, we modified our long-term volatility and policyholder behavior assumptions, partially offset by modifying our separate account fees and interest margin assumptions;
- For Retirement Plan Services, we modified our separate account fees, maintenance expenses and policyholder behavior assumptions, substantially offset by lowering our interest margin assumption;
- For Life Insurance, we modified our mortality/morbidity and premium persistency assumptions and other items, partially offset by modifying our assumptions related to interest margin, policyholder behavior and maintenance expenses; and
- For excluded realized gain (loss), we modified our long-term volatility and policyholder behavior assumptions for GLB riders.

2013

- For Annuities, we modified our policyholder behavior and variable annuity mortality assumptions, partially offset by modifying our interest margin assumptions and other items;
- For Retirement Plan Services, we modified our interest margin assumptions;
- For Life Insurance, we modified our amortization period and mortality assumptions, partially offset by lowering our early duration portfolio yield assumptions; and
- For excluded realized gain (loss), we modified our policyholder behavior assumptions for GLB riders.

Reversion to the Mean ("RTM")

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 RTM process, as discussed in our 2013 Form 10-K.

Our long-term variable fund growth rate assumption, which is used in the determination of DAC, VOBA, DSI and DFEL amortization for the variable component of our variable annuity and VUL products, is an immediate drop of approximately 14% followed by growth going forward of 7% to 9% depending on the block of business and reflecting differences in contract holder fund allocations between fixed-income and equity-type investments. If we had unlocked our RTM assumption as of September 30, 2014, we would have recorded a favorable unlocking of approximately $280 million, pre-tax, for Annuities, approximately $25 million, pre-tax, for Retirement Plan Services, and approximately $40 million, pre-tax, for Life Insurance.

Investments

Investment Valuation

The following summarizes our available-for-sale ("AFS") and trading securities and derivative investments carried at fair value by pricing source and fair value hierarchy level (in millions) as of September 30, 2014:

	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	$ 496	$ 72,548	$ -	$ 73,044
Priced by independent broker quotations	-	-	2,246	2,246
Priced by matrices	-	12,978	-	12,978
Priced by other methods (1)	-	-	1,420	1,420
Total	$ 496	$ 85,526	$ 3,666	$ 89,688
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 2013 Form 10-K and Note 12 herein.

As of September 30, 2014, we evaluated the markets that our securities trade in and concluded that none were inactive. We will continue to re-evaluate this conclusion, as needed, based on market conditions. We use unobservable inputs to measure the fair value of securities trading in less liquid or illiquid markets with limited or no pricing information. We obtain broker quotes for securities such as synthetic convertibles, index-linked certificates of deposit and collateralized debt obligations ("CDOs") when sufficient security structure or other market information is not available to produce an evaluation. For broker-quoted only securities, non-binding quotes from market makers or broker-dealers are obtained from sources recognized as market participants. Broker-quoted securities are based solely on receipt of updated quotes from a single market maker or a broker-dealer recognized as a market participant. Our broker-quoted only securities are generally classified as Level 3 of the fair value hierarchy. As of September 30, 2014, we used broker quotes for 66 securities as our final price source, representing approximately 1% of total securities owned.

Derivatives

Our accounting policies for derivatives and the potential effect on interest spreads in a falling rate environment are discussed in Note 5 of this report and "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2013 Form 10-K.

GLB

Within our individual annuity business, approximately 71% of our variable annuity account values contained GLB features as of September 30, 2014. Declines in the equity markets increase our exposure to potential benefits with the GLB features, leading to an increase in our existing liability for those benefits. For example, 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 September 30, 2014 and 2013, 4% and 5%, respectively, of all in-force contracts with a GLB feature were "in the money," and our exposure, after reinsurance, as of September 30, 2014 and 2013, was $291 million and $387 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, which could result from sudden changes that may occur in equity markets, interest rates and implied market volatilities, see our discussion in "Part I – Item 2. Management's Discussion and Analysis of Critical Accounting Policies and Estimates – Derivatives – Guaranteed Living Benefits ("GLB")" in our Form 10-Q for the quarter ended March 31, 2014.

Acquisitions and Dispositions

For information about acquisitions and divestitures, see Note 3 in our 2013 Form 10-K.

RESULTS OF CONSOLIDATED OPERATIONS

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
Net Income (Loss)						
Income (loss) from operations:						
Annuities	$ 245	$ 198	24%	$ 688	$ 551	25%
Retirement Plan Services	40	33	21%	118	108	9%
Life Insurance	150	140	7%	418	387	8%
Group Protection	8	23	-65%	29	60	-52%
Other Operations	(29)	(27)	-7%	(80)	(104)	23%
Excluded realized gain (loss), after-tax	31	(43)	172%	(10)	(135)	93%
Income (expense) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	-	-	NM	1	1	0%
Benefit ratio unlocking, after-tax	(6)	13	NM	2	25	